



eurex circular 102/17

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Recipients: All Trading Participants of Eurex Deutschland and Eurex Zürich and Vendors
Authorized by: Randolph Roth

Introduction of Regulatory Market-Making and introduction of Eurex Liquidity Provider Framework

Related Eurex circulars: 040/17, 050/17, 056/17, 082/17

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Content may be most important for:

Ü All departments

Attachments:

1. Draft Application for Admission as Regulatory Market Maker at Eurex
2. Eurex Liquidity Provider Agreement
3. General Supplement

Summary:

With Eurex circular 082/17, Eurex Deutschland and Eurex Zürich (collectively: the Eurex Exchanges) have announced the redesign of Eurex Market-Making in the context of MiFID II, effective January 2018. This circular contains information on the changes with respect to the following topics:

1. Introduction of Regulatory Market-Making (RMM)
2. Introduction of Eurex Liquidity Provider Framework
3. Relationship between Regulatory Market-Making and Liquidity Provisioning
4. Introduction of Market Conditions
5. Introduction of Requirements and Incentives for Liquidity Providers for quotation under Stressed Market Conditions.

The items under 1. and 4. will be introduced on **3 January 2018**, subject to approval of the Exchange Council of Eurex Deutschland and the Board of Directors of Eurex Zürich AG and the competent authorities.

The items under 2. and 5. will be introduced on **1 January 2018**.

The respective parameters of the models as well as the rebate levels will be announced at a later stage.



Introduction of Regulatory Market-Making and introduction of Eurex Liquidity Provider Framework

With Eurex circular 082/17, Eurex Deutschland and Eurex Zürich (collectively: the Eurex Exchanges) have announced the redesign of Eurex Market-Making in the context of MiFID II, effective January 2018. This circular contains information on the changes with respect to the following topics:

1. Introduction of Regulatory Market-Making (RMM)
2. Introduction of Eurex Liquidity Provider Framework
3. Relationship between Regulatory Market-Making and Liquidity Provisioning
4. Introduction of Market Conditions
5. Introduction of Requirements and Incentives for Liquidity Providers for quotation under Stressed Market Conditions.

The items under 1. and 4. are subject to approval of the Exchange Council of Eurex Deutschland and the Board of Directors of Eurex Zürich AG and the competent authorities, which are expected for November/December 2017.

1. Introduction of Regulatory Market-Making (RMM)

All Trading Participants who satisfy the requirement of the Commission Delegated Regulation (EU) 2017/578 (former RTS 8) Article 1 need to undergo a formal admission process and become a Market Maker in the sense of the Regulation (in the following: "Regulatory Market Maker", RMM). The qualifying requirements are outlined in subsection 1.1.

After admission as Regulatory Market Maker, the Eurex Participant has to fulfil a set of requirements. These will be included in the Exchange Rules of Eurex Deutschland and Eurex Zürich (Exchange Rules) and are covered in subsection 1.2.

Eurex Trading Participants that fulfil the requirements of Commission Delegated Regulation (EU) 2017/578 Article 1 are required to provide an initial admission request to the Eurex Exchanges after approval of the Exchange Rules (expected in November/December 2017) until the end of February 2018, at the latest. A draft admission form is provided in attachment 1. After the admission as RMM, Participants will be able to select the products for their Market-Making activities. For this purpose, RMM will be granted access to the eListing Tool in the Member Section of the Eurex website www.eurexchange.com. In addition, the Participant will be listed on the Eurex website along with the selected products. No incentives are provided if RMM requirements are fulfilled.

All changes introduced in this section will become effective on 3 January 2018, subject to approval of the Exchange Council of Eurex Deutschland and the Board of Directors of Eurex Zürich and the competent authorities. The Eurex Exchanges will communicate the details of the registration process in Q4/2017.

1.1. Qualification as RMM

Eurex Participants who fulfil the following requirements are obliged to seek admission as RMM with the Eurex Exchanges if they pursue a Market-Making strategy during half of the trading days over a one-month period whereby, according to Commission Delegated Regulation (EU) 2017/578 Article 1, they:

- a) post firm, simultaneous two-way quotes of comparable size and competitive prices and
- b) deal on their own account in at least one financial instrument for at least 50 percent of the daily trading hours of continuous trading, excluding opening and closing auctions.

In this context, Article 1(2) considers that

- a) a quote shall be deemed to be a firm quote where it includes orders and quotes that can be matched against an opposite order or quote in the order book;
- b) quotes shall be deemed simultaneous two-way quotes if they are posted in such a way that both the bid and the ask-price are present in the order book at the same time;
- c) two quotes shall be deemed of comparable size when their sizes do not diverge from each other by more than 50 percent;
- d) quotes shall be deemed to have competitive prices where they are posted at or within the maximum bid-ask range that is determined by the Management Board of Eurex Deutschland and the Executive of Eurex Zürich AG. These will be communicated at a later date.

A new report (TD983) will be available on the Common Report Engine by December 2017, which will provide an indication about the fulfilment of these criteria (see subsection 1.4).

1.2. RMM requirements

The Eurex Exchanges will amend the Exchange Rules in order to adapt the requirements of Commission Delegated Regulation (EU) 2017/578. In this context, provisions regarding the admission of RMMs and their respective quotation behaviour will be introduced. The changes will include the following requirements for admitted RMMs:

- RMMs will have to provide firm quotes in at least one product during 50 percent of daily trading hours on a monthly average. The required quotation time will exclude opening and closing auctions, volatility interruptions and Exceptional Circumstances according to Commission Delegated Regulation (EU) 2017/578 Article 3 a), b), c) and e), which will be decided and published by the Management Board of Eurex Deutschland and the Executive Board of Eurex Zürich AG. The maximum bid-ask spreads and the required quote sizes will be determined by the Management Board of Eurex Deutschland and the Executive Board of of Eurex Zürich AG and communicated at a later date.
- RMMs are required to flag orders and quotes – that are deployed in the context of their Market-Making strategy – with the Liquidity Provision Flag (see Eurex circular 082/17, section 6).
- RMMs are obliged to inform the Management Board of Eurex Deutschland and the Executive Board of Eurex Zürich AG about the start and end of Exceptional Circumstances according to Commission Delegated Regulation (EU) 2017/578 Article 3 d) without undue delay and provide further information to the Management Board of Eurex Deutschland and the Executive Board of Eurex Zürich AG upon their request.
- RMMs are obliged to be attainable at all times during the trading hours of products for which they deploy the Market-Making strategy.
- RMMs are obliged to maintain records of firm quotes and transactions relating to their Market-Making activities, which are clearly distinguished from other trading activities, to make those records available to the Management Board of Eurex Deutschland and the Executive Board of Eurex Zürich AG and keep these records for at least five years.
- RMMs must deploy effective systems and controls to ensure that they fulfil their RMM requirements at all times.

1.3. Registration of products for RMM

Upon confirmation of admission, RMMs will be granted access to the eListing Tool that is available in the Member Section of the Eurex website www.eurexchange.com.

The eListing Tool enables RMMs to register the products for which they deploy a Market-Making strategy. The tool will be available in the course of Q4/2017.

1.4. New Report TD983: Regulatory Market-Making

A new report TD983 “Regulatory Market-Making” will be available as of December 2017. It will outline the performance of each Trading Participant for all quoted products.

This report will include the information about whether the Trading Participant has fulfilled the Market-Making criteria on product level in the sense of Commission Delegated Regulation (EU) 2017/578.

The new report TD983 will be described in the Eurex XML Report Reference Manual, which will be available as of November 2017.

1.5. Non-fulfilment of requirements

If Eurex participants do not register as RMM although they fulfil the requirements stated in Commission Delegated Regulation (EU) 2017/578 Article 1, or if admitted Regulatory Market Makers do not fulfil the requirements as stated in section 1.2, sanctions against the participants may be triggered.

1.6. Publication on Eurex website

Commission Delegated Regulation (EU) 2017/578 Article 7 (1) requires the publication of the terms of the Market-Making schemes, the names of the firms that are admitted as market makers under each of those schemes and the products covered by these agreements.

This information will be published on the Eurex website www.eurexexchange.com.

2. Introduction of Eurex Liquidity Provider Framework

As announced in Circular 082/17, Eurex will keep the current commercial Market-Making in place with a few changes. The commercial Market Making model will be renamed to “Liquidity Provision”. A new contractual framework (the “Eurex Liquidity Provider Framework”) will replace all current commercial Market Maker provisions and govern all issues regarding Liquidity Provider (LP) requirements and incentives (e.g., rebates). Eurex trading participants who wish to continue receiving commercial Market Making rebates in the future are required to sign up to the new contractual framework until the end of 2017. Other, non-Market Making related rebates, e.g., the volume rebate, are not affected by this provision.

All changes presented in this subsection will become effective on 1 January 2018.

2.1. The Eurex Liquidity Provider Framework

The Eurex Liquidity Provider Framework provides a new contractual architecture between Eurex and their Trading Participants. It consists of the following four elements:

1. **Liquidity Provider Agreement (LPA):** The LPA represents a tri-party contract involving the Trading Participant (Liquidity Provider), Eurex Frankfurt AG (EFAG) and Eurex Clearing AG (ECAG). It contains all private-law based General Terms and Conditions that are relevant for Liquidity Providers (the former (Commercial) Market Makers), EFAG and ECAG. The LPA needs to be signed by all three parties. It will rarely be subject to change, as it contains high-level provisions that regulate the general relationship between the signing parties, such as the nature of the requirements and incentives for Liquidity Provisioning and usual legal provisions such as Liabilities, Force Majeure or Confidentiality issues. The LPA will be valid until cancelled by either party, given prior notice.
2. **General Supplement (GS):** The GS is an Appendix to the LPA and forms an integral part of it. The GS states the general requirements for Liquidity Providers that need to be fulfilled in order to be entitled for incentives. This document does not require a signature. It is expected to be changed from time to time (more frequently than the LPA), as the structure of the requirements and incentives may change over time.

3. Product Specific Supplements (PSS): The PSS will contain provisions that are specific to the individual product and thus cannot be covered by the LPA or the GS. The PSS contain more specific requirements (such as maximum spreads, minimum sizes and coverage ratios), incentives (such as rebate levels, if they deviate from standard rebate levels as stated in the Price List of Eurex Clearing AG (Price List)) and other provisions. A PSS will be concluded if the LP selects the respective product in the eListing Tool (see subsection 2.2). Consequently, the PSS will be terminated if LP de-selects the product. The provisions stated in the PSS may overwrite the provisions stated in the LPA or the GS. The PSS will change quite frequently; often, they might be issued with a termination date (e.g., for one year).
4. Price List: The Price List of Eurex Clearing AG (Price List) contains, among other things, standard rebate levels that are applicable for LPs. It will contain a reference to the LPA and a statement that LP rebates are granted only if a Eurex Participant has signed the LPA.

The LPA is available in attachment 2 and the GS in attachment 3. The respective PSS and the changed Price List will be communicated in Q4/2017.

2.2. Registration of products for Liquidity Provisioning

Liquidity Provider rebates will only be granted for products that an LP has selected via the eListing Tool. Upon conclusion of the LPA, the LP will be granted access to the eListing Tool that is available in the Member Section of the Eurex website www.eurexexchange.com.

The eListing Tool enables the LP to register the products where they deploy Liquidity Provision. Once the LP selects a specific product in the eListing Tool, the Product Specific Supplement will be concluded, as outlined in subsection 2.1.

The tool will be available in the course of Q4/2017.

2.3. Publication on Eurex website

As stated in subsection 1.5, Commission Delegated Regulation (EU) 2017/578 Article 7 (1) requires the publication of Market-Making schemes on the exchange's website. Thus the Liquidity Provider Framework along with the names of Liquidity Providers and the selected products will be published on the Eurex website www.eurexexchange.com.

2.4. Building Block Liquidity Provisioning and existing Market-Making schemes

The renaming of the former models PMM/AMM into "Building Blocks" have been announced with Eurex circular 050/17. In this context, the former Market-Making models in Futures products will be renamed as follows:

- "(Commercial) Market-Making" will be renamed to "Liquidity Provisioning". "(Commercial) Market Makers" will be renamed to "Liquidity Providers".
- "Designated Market-Making" (DMM) will be renamed to "Basis Building Block" (BBB) Liquidity Provision;
- "Advanced Designated Market-Making" (ADM) will be renamed to "Package Building Block" (PBB) Liquidity Provision.

As of 1 January 2018, the new Building Block Liquidity Provisioning logic will be extended to all remaining products for which they have not been introduced with Eurex circular 050/17.

2.5. Flagging of liquidity provision activity

As outlined in Eurex circulars 047/17 and 082/17, Eurex will provide a Liquidity Provision Flag. The flag may be used by the LP for all orders and quotes submitted in the context of their Liquidity Provisioning activity, as outlined in the General Supplement, section 2.4.

The same flag is also to be used by the RMM, as outlined in subsection 1.2.

3. Relationship between Regulatory Market-Making and Liquidity Provisioning

This section covers the relationship between Regulatory Market Makers and Liquidity Providers. These roles are independent from each other: For Eurex Trading Participants it is possible to take either the role of Regulatory Market Maker, or Liquidity Provider, both, or none.

All possible combinations between the RMM status and the LP status are displayed in the following table. They define the Trading Participant's role. The selected role is applicable for all products of the Eurex Participant. Details are explained below:

		Regulatory Market Maker (RMM)	
		Yes	No
Liquidity Provider (LP)	Yes	(A)	(B)
	No	(C)	(D)

Table 1: Roles of Eurex Participants as Regulatory Market Maker and/or Liquidity Provider

- (A) Participant type (A) is both an RMM and an LP. This is the typical case for a Market Maker/Liquidity Provider as expected by the Eurex Exchanges. Participants will need to fulfill the requirements of CDR (EU) 2017/578 in order to meet their regulatory obligation. If Participants wish to receive LP incentives, they will need to fulfil the requirements as stated in the ELPF and sign the LPA. Participants will use the eListing Tool for both roles. Any product selected by Participant type (A) in the eListing Tool will always be relevant for both RMM and LP. There will be no possibility to distinguish between the two roles on product level. For example, if a Participant type (A) has selected 100 products in the eListing Tool, then all of these 100 products will be valid for RMM and LP.
- (B) Participant type (B) is an LP, but is not an RMM. This is usually the case if the Participant does not fulfil the RMM criteria to provide liquidity in 50 percent of the trading day. After signing the LPA, Participants may qualify for rebates if the requirements of the respective LP programme are fulfilled. This will typically be the case for LP programmes which require a time coverage that is significantly shorter than a full trading day (e.g., liquidity provider requirements for Participants in the American time zones where trading starts at 15:30 CET and presence is required until the end of the trading day).
- (C) Participant type (C) is an RMM, but is not an LP. This is usually the case if the Participant does not enjoy the commercial Liquidity Provider incentives, but executes a Market-Making strategy in the sense of CDR (EU) 2017/578 and thus satisfies the RMM criteria. This Participant will need to fulfil the RMM criteria following his admission, but will not sign the LPA and thus will not receive monetary LP incentives.
- (D) Participant type (D) are Participants that do not fulfil the RMM criteria of CDR (EU) 2017/578 – and as a result are not admitted as RMM – and that have not signed an LPA. These are typically the usual Eurex Trading Participants that do not implement a Market-Making strategy or receive LP incentives. There are no Regulatory Market Maker follow-up requirements, nor are there any LP incentives.

4. Introduction of Market Conditions

The requirement to introduce new market conditions was outlined in Eurex circular 082/17.

Market Conditions are:

- Normal Trading Conditions
- Stressed Market Conditions (SMC)
- Exceptional Circumstances.

The status Normal Trading Conditions is defined as a status of the market, which is neither a market in a “Stressed Market Condition” nor a market under “Exceptional Circumstances”. SMC are characterised by significant short-term changes in price and volume. In addition, the resumption of trading after volatility interruptions is considered as SMC. Exceptional Circumstances are determined exhaustively by the legislator according to Commission Delegated Regulation (EU) 2017/578, Article 3.

The Eurex Exchanges implementation of SMC and Exceptional Circumstances will be outlined in the following.

All changes introduced in this section will become effective on 3 January 2018, subject to approval of the Management Board of Eurex Deutschland and the Executive Board of Eurex Zürich AG and the competent authorities. The Eurex Exchanges will communicate further details in Q4/2017.

4.1. Stressed Market Conditions

According to Commission Delegated Regulation (EU) 2017/578 Articles 5 and 6, trading venues are required to have Market-Making schemes in place for

- equity index derivatives and
- derivatives on equities and exchange traded funds that have a liquid underlying.

Market-Making schemes in these products shall include provisions for normal trading conditions and stressed market conditions. Trading venues shall set out the parameters to identify stressed market conditions in terms of significant short-term changes of price and volume.

The implementation of SMC at the Eurex Exchanges will include the following elements:

- Two types of SMC will exist:
 - SMC-Fast: This is the current Fast Market, which will remain unchanged in terms of functionality and parameters – except for the new name.
 - SMC-Auto: This is the SMC as required by MiFID II.
- SMC-Auto is triggered automatically upon significant changes of price and volume, after volatility interruptions and after Exceptional Circumstances.
- SMC-Auto is eligible for Equity Index Futures and Options, and for Futures and Options on equities and ETFs with liquid underlyings. The respective products are identified by a respective T7 flag as described in the T7 Release 6.0 System Documentation.
- SMC-Auto is triggered as follows:
 - Equity Index Futures and selected Equity and ETF Futures: SMC-Auto is invoked, if pre-defined price and volume thresholds are triggered It is also invoked after Volatility Interruptions, and after Exceptional Circumstances.
 - Equity Index Options and selected Equity & ETF Options: SMC-Auto is invoked, if the corresponding Future product is in SMC-Auto (e.g., for OESX the corresponding future is the FESX).
- The duration per SMC-Auto event is ten minutes, except after an Exceptional Circumstance, in which case the duration of SMC-Auto is two hours. The SMC-Auto duration may be prolonged if the SMC-Auto trigger is invoked again during the SMC.

- SMC-Auto will be communicated via EMDI market data stream, EOBI order-by-order market data stream, the Newsboard and the GUI.
- During SMC, the LP quotation requirement will continue to exist (analogous to the existing Fast Market provisions), whereas the quotation parameters of the Basis Building Block (BBB) during SMC will be relaxed: The minimum size requirement that is valid for the BBB will be halved and the maximum spread requirement that is valid for the BBB will be doubled. These quotation parameters will be valid for all Building Blocks that are applicable to a product. In the case of the Larger Size Building Block (LBB) and Tighter Spread Building Block (TBB), the following applies:
 - LBB: the corresponding minimum size requirement for LBB (e.g., factor 1.4 for Equity Index Options in Liquidity Class 1) will be halved so that the SMC requirement for LBB equals 0.7 ($= \frac{1}{2} * 1.4$) times the BBB requirement under Normal Trading Conditions.
 - TBB: the corresponding maximum spread requirement for TBB (e.g., factor 0.65 for Equity Index Options in Liquidity Class 1) will be doubled so that the SMC requirement for TBB equals 1.3 ($= 2 * 0.65$) times the BBB requirement under Normal Trading Conditions.
- Quotation activity during SMC alone is not mandatory. In other words: Not fulfilling the performance requirements during SMC is not a violation of the Exchange Rules, however, the economic incentives for participation in SMC may not be received. For the avoidance of doubt: The RMM requirement is considered to be fulfilled if the 50% coverage requirement for the combined market states Normal Trading Conditions and Stressed Market Conditions is fulfilled on a monthly average basis. The only consequence of not fulfilling the SMC quotation requirements is that the participant may not receive LP incentives (see section 5.2) for SMC.
- A new report TD954 will display the performance during SMC phases (see subsection 5.3).

4.2. Exceptional Circumstances

Exceptional Circumstances for the cases outlined in Commission Delegated Regulation (EU) 2017/578 Article 3 (a), (b), (c) and (e) will be decided by the Management Board of Eurex Deutschland and the Executive Board of Eurex Zürich AG and announced via Newsboard Message. By default, Exceptional Circumstances will be valid for one hour. The condition may be extended until the end of the trading day.

There will be no quotation requirement during Exceptional Circumstances. In other words: The required quotation time will be reduced by the time of Exceptional Circumstances. However, if an RMM or an LP continues to quote during Exceptional Circumstances, the quotation time will positively count towards their performance. The quotation parameters during Exceptional Circumstances will be equal to the parameters that are valid during SMC.

Occurrences of Exceptional Circumstances will be communicated via the Newsboard and GUI, and per news messages on ETI. Exceptional Circumstances will not be communicated via EMDI nor via EOBI, as in almost all cases Exceptional Circumstances will be valid for all products. Thus, announcing the state Exceptional Circumstances for every product/instrument would put additional load to the trading system in a situation where the message load will presumably already be very high. This design option avoids unnecessary system load and enables faster message throughput during critical times.

During Exceptional Circumstances, it might occur that the condition SMC is automatically invoked by the T7 system in a product and communicated to the market. This might happen due to the aforementioned design option. For the avoidance of doubt, in such cases the general rule is that the state Exceptional Circumstances always trumps the state of SMC.

Exceptional Circumstances according to Commission Delegated Regulation (EU) 2017/578 Article 3 (d), where the Eurex participant's ability to maintain prudent risk management practices is prevented are not announced via Newsboard Message. In these cases, the LP declares Exceptional Circumstances to Eurex

Frankfurt AG and provides further information as outlined in the General Supplement (GS). On these grounds, Eurex Frankfurt AG decides whether the performance requirement of LP will be suspended.

5. Introduction of Requirements and Incentives for Liquidity Providers for quotation under Stressed Market Conditions

The Introduction of the Eurex “Building Block” Market-Making was announced in Eurex circular 050/17. In the context of this circular, the existing Building Blocks will be extended by the introduction of a new Building Block. This will be the “Stress Presence Building Block” which will require a dedicated quotation performance during SMC, along with corresponding incentives.

All changes introduced in this section will become effective on 1 January 2018.

5.1. Liquidity Provider Requirements for SMC

The new Building Block “Stress Presence” will require quotation performance of LP during SMC per product. For that purpose, relaxed quotation obligations (the minimum size requirement will be halved and the maximum spread requirement will be doubled) and a reduced coverage requirement will apply.

The requirement will exist on

- a daily basis (for non-monetary incentives)
- a monthly basis (for monetary incentives).

For the monthly requirement, a fixed monthly threshold SMC duration will exist per product. If the total SMC time per product is below the threshold, then the monthly requirement in that product is fulfilled, regardless of the actual LP performance.

The Stress Presence Building Block will be available for all Equity Index Futures and Options and for Futures and Options on selected equity and ETF underlyings that are flagged with the Market-Making Obligation flag.

The coverage requirements will be defined at a later stage.

5.2. Liquidity Provider Incentives for SMC

Fulfilling the Stress Presence Building Block will qualify the LP for Monetary and Non-Monetary Incentives per product.

Monetary Incentives are rebates granted for all Equity Index Options and for options on selected equity and ETF underlyings (ESMA liquid products), if the Stress Presence Building Block is fulfilled on a monthly basis, subject to fulfilment of the Basis Building Block in a product or the fulfilment of the package block. The level of granted LP rebates will be defined at a later stage.

Non-Monetary Incentives take the form of increased limits for the Excessive System Usage (ESU) fee and are granted for all Equity Index Options and Futures and for Options and Futures on selected equity and ETF underlyings (ESMA liquid products), if the Stress Presence Building Block is fulfilled on a daily basis. The calculation methodology will be outlined at a later stage.

5.3. New Report TD954: Stressed Market Conditions

A new report TD954 “Stressed Market Conditions” will be available in December 2017. It will outline the performance of each trading participant for all quoted products flagged with the “Market Making Obligation” (MMO) flag. This report will include the information on whether the Trading Participant has fulfilled the defined LP criteria during Stressed Market Conditions on a daily and monthly basis.

The new report TD954 will be described in the Eurex XML Report Reference Manual which will be available in November 2017.

6. Contact

If you have any questions or require further information, please contact your Global Key Account Manager Trading or send an e-mail to: customer.readiness@deutsche-boerse.com.

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