



eurex circular 082/17

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Recipients: All Trading Participants of Eurex Deutschland and Eurex Zürich and Vendors
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Redesign of Eurex Market-Making in the context of MiFID II

Related Eurex circular: 040/17

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Content may be most important for:

➡ All departments

Attachments:

none

Summary:

With the inclusion of Market-Making in the German MiFID II Implementation Act, 2. FiMaNoG, new German BörsG §26c (1)) a new regulatory requirement has been introduced.

As of **January 2018**, Market-Making at Eurex Deutschland and Eurex Zürich (collectively: the Eurex Exchanges) will be redesigned. The following two changes are planned:

- 1) Retention of the existing, commercial Market-Making with changes in the contractual framework, renaming to Liquidity Provider (LP) and introduction of incentives for quotation during Stressed Market Conditions and
- 2) Introduction of a Regulatory Market-Making (RMM) governed by the Exchange Rules of Eurex Deutschland and Eurex Zürich due to new MiFID II requirements.

The approval of the draft changes outlined in this circular by the relevant bodies, such as the Exchange Council, the Board of Directors and the competent authorities, as well as further detailing of the changes are in preparation and are expected for November 2017.

The circular contains a description of the planned changes to the Eurex Market-Making concept.



Redesign of Eurex Market-Making in the context of MiFID II

Introduction

With the inclusion of Market Making in the German MiFID II implementation Act, the 2. FiMaNoG (new German BörsG §26c (1)), a new regulatory requirement has been introduced.

As of January 2018, Market-Making at Eurex Deutschland and Eurex Zürich (collectively: the Eurex Exchanges) will be redesigned. The following two changes are planned:

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The approval of the draft changes outlined in this circular by the relevant bodies, such as the Exchange Council, the Board of Directors and the competent authorities, as well as further detailing of the changes are in preparation and are expected for November 2017.

The current and envisaged future Market-Making models are explained in detail in our Market-Making video on slide 10, 11:00 min. The video is available on the Eurex website www.eurexexchange.com, accessible via the following link:

[MiFID II Market Making and Liquidity Provisioning: Regulatory Requirements and Eurex Implementation](#)

1. Market-Making according to MiFID II

All Trading Participants who satisfy the requirement of the Commission Delegated Regulation (CDR) (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") as of January 2018. The CDR is available under the following link:

<http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=OJ:L:2017:087:TOC>.

CDR (EU) 2017/578 distinguishes between the qualification criteria (set out in Article 1) and the ongoing obligations (set out in Article 2). These are considered in the following.

i) Qualifying criteria:

Article 1(1) defines the qualifying criteria for a Regulatory Market Maker, if a Market-Making strategy is pursued where, at a trading venue, during half of the trading days over a one month period, in execution of the Market-Making strategy, they:

- a) post firm, simultaneous two-way quotes of comparable size and competitive prices
- b) deal on their own account in at least one financial instrument on one trading venue for at least 50 percent of the daily trading hours of continuous trading at the respective trading venue, 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 under the rules of a trading venue can be matched against an opposite order or quote;
- 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 by more than 50% from each other;

- d) quotes shall be deemed to have competitive prices where they are posted at or within the maximum bid-ask range set by the trading venue and imposed upon every investment firm that has signed a Market-Making agreement with the trading venue.

ii) **Ongoing obligations (maintenance criteria):**

Once admitted as Regulatory Market Makers, Trading Participants will need to continue quotation behaviour, ensuring the fulfilment of Market Maker performance requirements. The ongoing (maintenance) criteria are listed in Article 2(1). The minimum obligations in terms of presence, size and spread shall require at least:

- a) posting firm, simultaneous two-way quotes
- b) of comparable size and
- c) competitive prices
- d) in at least one financial instrument on the trading venue
- e) for at least 50 percent of daily trading hours
- f) of during which continuous trading takes place excluding opening and closing auctions and
- g) calculated for each trading day.

Market Makers according to MiFID II will have to comply with the obligations listed under point ii). Details about the envisaged Market Model according to MiFID II can be retrieved from our aforementioned Market-Making video on slide 10, 11:30 min., and slide 11, 15:30 min.

2. Commercial Market-Making

As of January 2018, Eurex Frankfurt AG plans to keep the current commercial Market-Making in place with a few changes. It is planned to rename the current commercial Market-Making to “Liquidity Provisioning” (LP) and to introduce changes to the contractual framework.

Details about the envisaged changes can be retrieved from our aforementioned Market-Making video on slide 10, 14:00 min., and slide 11, 28:10 min.

3. Assignment of products for Regulatory Market Makers and Liquidity Provisioning (E-Listing Tool)

As of today, incentives for liquidity provision are handled separately:

- In options products, there is no dedicated assignment of Participants to products, nor are there separate contracts necessary in order to receive current Market Maker rebates.
- In futures products, individual agreements need to be signed by the Participant in order to participate in respective monetary incentives for Market-Making.

As of January 2018, the Eurex Exchanges envisage to change this procedure: It is planned that all Regulatory Market-Making activities and all Liquidity Provider activities will require prior registration of products via an automated tool. This “E-Listing Tool” will be available in the Eurex Member Section.

Details about the E-Listing Tool can be retrieved from our aforementioned Market-Making video on slide 14, 41:30 min.

4. Definition of three different market conditions

CDR (EU) 2017/578 defines three market conditions: Normal Trading Conditions according to Article 6(1)(a), Stressed Market Conditions according to Article 6(1)(b) and Exceptional Circumstances according to Articles 3 and 4. The Eurex Exchanges will implement these conditions as follows:

a. Normal Trading Conditions

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”.

b. Stressed Market Conditions

“Stressed Market Conditions” are characterised by significant short-term changes in price and volume. In addition, the resumption of trading after volatility interruptions is considered as Stressed Market Condition.

Details about the Stressed Market Conditions concept can be retrieved from our aforementioned Market-Making video on slide 15, 44:45 min.

c. Exceptional Circumstances

In CDR (EU) 2017/578 Article 3, Exceptional Circumstances are defined as follows:

- (a) a situation of extreme volatility triggering volatility mechanisms for the majority of financial instruments or underlyings of financial instruments traded on a trading segment within the trading venue in relation to which the obligation to sign a market making agreement applies;
- (b) war, industrial action, civil unrest or cyber sabotage;
- (c) disorderly trading conditions where the maintenance of fair, orderly and transparent execution of trades is compromised, and evidence of any of the following is provided:
 - (i) the performance of the trading venue's system being significantly affected by delays and interruptions;
 - (ii) multiple erroneous orders or transactions;
 - (iii) the capacity of a trading venue to provide services becoming insufficient;
- (d) where the investment firm's ability to maintain prudent risk management practices is prevented by any of the following:
 - (i) technological issues, including problems with a data feed or other system that is essential to carry out a market making strategy;
 - (ii) risk management issues in relation to regulatory capital, margining and access to clearing,
 - (iii) the inability to hedge a position due to a short selling ban;
- (e) for non-equity instruments, during the suspension period referred to in Article 9(4) of Regulation (EU) No 600/2014 of the European Parliament and of the Council.

Details about the Eurex Exchanges' envisaged implementations of the Exceptional Circumstances concept can be retrieved from our aforementioned Market-Making video on slide 17, 48:15 min.

5. Quotation requirements during the different market conditions

According to CDR (EU) 2017/578 Article 6(1), trading venues are required to have market-making schemes in place. These schemes shall offer incentives to Participants under:

- Normal Trading Conditions where the incentives are offered under such conditions and
- Stressed Market Conditions, taking into account the additional risks under such conditions.

The Eurex Exchanges plan to offer respective schemes as of January 2018. Details about the envisaged schemes and incentives can be retrieved from our aforementioned Market-Making video on slide 18, 52:45 min. and will be further specified in additional circulars.

6. Liquidity Provision flag

As outlined in Eurex circular 040/17, Eurex will provide a flag for "Liquidity Provision Activity". This flag shall be used if:

- I. an order is submitted to a trading venue by a Participant as part of a market-making strategy pursuant to CDR (EU) 2017/578 Article 2(1) (f);
- II. an order is submitted to a trading venue by a Participant as part of any other liquidity provision activity carried out on the basis of terms pre-determined either by the issuer of the instrument, which is the subject of the order or by that trading venue.

- **General format**

"0" or "1": 0 decodes no liquidity provision activity, 1 decodes a liquidity provision activity.

The liquidity provision indicator is a mandatory field for order and quote entries.

- **Submission method**

Via a new field in the trading system.

- **Submission deadline**

Immediately with the entry of orders or quotes.

Further details will be announced in a separate Eurex circular. All changes contained in this circular are subject to regulatory approval, and approval of the Exchange Council of Eurex Deutschland and the Board of Directors of Eurex Zürich.

7. 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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