



## Eurex Circular 027/19

# Passive Liquidity Protection: pilot phase and setup information

### Summary

With this circular, we would like to inform you about the upcoming pilot phase of the Passive Liquidity Protection (PLP) which will start on **3 June 2019**.

In this pilot phase, PLP will be activated for all German and French equity options (Group IDs DE/FR11, DE/FR12, DE/FR13, DE/FR14) traded in the Eurex T7 system. The deferral times for the German and French segment will be set in accordance with the respective latency characteristics of each segment.

PLP will be available in the Eurex simulation for the same product segments with production-like deferral time starting **8 March 2019**.

### Attachments:

- none

**Date:** 8 March 2019

### Recipients:

All Trading Participants of Eurex Deutschland and Vendors

### Authorized by:

Randolf Roth

### Target group:

- Front Office/Trading

### Related Eurex circular:

096/18

### Contact:

Your Key Account Manager Trading

## Passive Liquidity Protection: pilot phase and setup information

With the Passive Liquidity Protection (PLP), Eurex Exchange is targeting to further improve the liquidity picture and price discovery process of its Central Limit Order Books in products where price discovery is significantly driven by underlying or exogenous markets. In such specific products, market participants providing passive liquidity to the order book spend a high amount of resources to prevent adverse hits in case of short-term underlying movements, or decide to not even provide competitive prices in the orderbook at all and only provide liquidity off-book.

To address this, Eurex Exchange developed PLP, which is a model to move markets to electronic trading, ideally to the central limit order book. It creates an environment with more diversity and liquidity that attracts end clients with an improved order book liquidity picture. The motivation and objectives of PLP have been communicated to the market already in the very early stages. Eurex Exchange discussed the model with many market participants, incorporating all feedback and sharing the motivation to complement the existing market models.

In 2018 it was agreed with the market to test these beneficial effects in a pilot phase. Based on an extensive Participant consultation, Eurex Exchange has decided that the PLP pilot will be activated for **all German and French equity options** traded in the Eurex T7 system (Group IDs DE/FR11, DE/FR12, DE/FR13, DE/FR14) on **3 June 2019**.

With the activation of PLP, all aggressive order transactions, i.e. order transactions that are executable upon arrival at the matching engine, will be delayed by a segment-specific deferral time before they are able to interact with the order book. Participants will be informed in the response messages whether their corresponding transaction has been deferred. Non-aggressive order transactions (i.e. order transactions that are not executable upon entry also denoted as passive order transactions) will directly impact the order book without deferral. Quote transactions are assumed to be passive by default and, consequently, will be treated like a Book-or-Cancel transactions with the consequence that the entire quote will be deleted, if aggressive. For more information on the PLP functionality as well as impact on Eurex interfaces, please refer to the respective Eurex Release Notes available on the Eurex website [www.eurexchange.com](http://www.eurexchange.com) under the following link:

### **[Technology > T7 Trading architecture > System documentation > Release 7.0](#)**

On the setup of the deferral time, it was agreed that it needs to be carefully adjusted and reflect the distinct latency characteristics of the respective product segment, i.e. in case affiliated products like the underlying is traded at the same venue the option is traded or not.

Subsequently and in line with the feedback received by the Participants, the deferral times for the pilot segments are set to:

Product scope	Deferral time (production)
All German equity options incl. weeklies	1 millisecond
All French equity options incl. weeklies	3 milliseconds

Eurex Exchange will constantly monitor trading activity changes and order book dynamics in order to evaluate the appropriateness of the deferral time and may change them after transparent communication in case empirical results provide evidence that require a change. The same applies to the length of the pilot phase, which is currently planned for at least six months.

To allow all Participants to get familiar to the PLP order handling in the respective segments, PLP will be activated in the Eurex simulation environment for the German and French equity options with production-like deferral times starting 8 March 2019.

## PLP parameters in the Reference Data Interface

Already with Release 7.0, the PLP functionality was technically introduced into the T7 infrastructure. Starting on 3 June 2019, PLP will be activated for all German and French equity options (Group IDs DE/FR11, DE/FR12, DE/FR13 and DE/FR14) traded in the Eurex T7 system. The activation information can be found in the respective Instrument Attribute Type (tag 871) of the Reference Data Interface. The following information are provided here:

Value	Description	Valid values
123	Has PLP	Boolean, Y/N
124	PLP Deferral Time	Integer, denominated in microseconds

If you have any questions or require further information, please contact your Key Account Manager Trading.

8 March 2019