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Eurex Market-Making and Pricing Roadmap for 2017

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Content may be most important for:	**Attachments:**
➲ All departments	none

Summary:

Eurex Deutschland and Eurex Zürich (collectively the Eurex Exchanges) hereby announces its Eurex Market-Making and Pricing Roadmap which will be implemented in 2017 in two steps. This circular contains information on changes in the Eurex Market-Making and Eurex pricing model with respect to the following topics:

1. Introduction of Liquidity Classes applicable to Market-Making and volume rebates
2. Changes to Eurex' Market-Making model in options and related Market-Making rebates
3. Adjustment of volume rebates in options and futures
4. Extension of product scope for brokerage functionality
5. Fee changes in Equity Index benchmark futures and EURO STOXX® 50 Options

All changes related to futures products will come into effect on **3 July 2017**.

All changes related to options products will come into effect on **2 October 2017**.

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Eurex Market-Making and Pricing Roadmap for 2017

Eurex Deutschland and Eurex Zürich (collectively the Eurex Exchanges) hereby announces its Eurex Pricing Roadmap which will be implemented in 2017 in two steps. This circular contains information on changes in the Eurex Market-Making and Eurex pricing model with respect to the following topics:

1. Introduction of Liquidity Classes applicable to Market-Making and volume rebates
2. Changes to Eurex' Market-Making model in options and related Market-Making rebates
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		Equity Index Futures	Interest Rate Futures	Other Futures	Equity Index Options	Equity Options	Interest Rate Options	Other Options
1	Introduction of Liquidity Classes	✓	✓		✓	✓	✓	
2	Changes to Market Making				✓	✓	✓	✓
3	Volume Rebate Changes	✓	✓		✓	✓	✓	
4	Extension of Brokerage Functionality	✓	✓	✓	✓	already implemented	already implemented	✓
5	Fee Changes	✓			✓			
		3 July 2017			2 October 2017			

1. Introduction of Liquidity Classes applicable to Market-Making and volume rebates

All Equity Index, Equity and Interest Rate Options as well as all Equity Index and Interest Rate Futures will be assigned to Liquidity Classes ("LC") to differentiate rebate levels according to the liquidity of each product incentivising less liquid products more that require support to grow. This is realised by introducing three LCs: LC1, LC2 and LC3, whereby LC1 represents liquid products and LC3 represents the least liquid products.

The assignment of products is as follows:

	Equity Index Options	Equity Options	Interest Rate Options	Equity Index Futures	Interest Rate Futures
Liquidity Class 1	OESX	Selected highly liquid options	OGBL	FESX	FGBL, FGBM
Liquidity Class 2	ODAX, OESB, OSMI	Selected liquid options	OGBM, OGBS	FDAX, FESB	FGBS
Liquidity Class 3	Others (incl. weeklies)	Others (incl. weeklies)	Others (incl. weeklies)	Others	Others

Liquidity Class 1

Product ID	Product Name
BAS	BASF Options
CBK	Commerzbank Options
DAI	Daimler Options
DBK	Deutsche Bank Options
DPW	Deutsche Post Options
DTE	Deutsche Telekom Options
EOA	E.ON Options
LHA	Lufthansa Options
NESN	Nestlé Options
NOVN	Novartis Options
RWE	RWE Options
UBSN	UBS Options
ZURN	Zurich Insurance Group Options

Liquidity Class 2

Product ID	Product Name
ABBN	ABB Options
ALV	Allianz Options
BAY	Bayer Options
BMW	BMW Options
CSGN	Credit Suisse Group Options
IFX	Infineon Options
ISPA	Arcelor Mittal Options
NOA3	Nokia Options
ROG	Roche Holding Options
SAP	SAP Options
SIE	Siemens Options
TKA	ThyssenKrupp Options
VO3	VW pref. Options

The assignment of all futures products listed above will come into effect on 3 July 2017 and the assignment of all options products listed above will come into effect on 2 October 2017.

The concept of Liquidity Classes is applied to Market-Making rebates in options as well as to volume rebates in options and futures.

A comprehensive list of all products and the respective Liquidity Classes (where applicable) is available on the Eurex website www.eurexchange.com under:

Products > Product Information

2. Changes to Eurex' Market-Making model in options and related Market-Making rebates

All changes in this chapter will come into effect on 2 October 2017.

Renaming Advanced Market-Making (AMM) into Package Building Block Market-Making and Permanent Market-Making (PMM) into Basis Building Block Market-Making

The current PMM model will be renamed into Basis Building Block Market-Making. The current AMM model will be renamed into Package Building Block Market-Making. The current "Response to quote requests in option strategies (complex instruments) – SWMM"-Market-Making will be renamed into Strategy Building Block Market-Making.

Introduction of new Building Block Market-Making logic for determining Market-Making performance in products

A new logic for determining the fulfilment of Market-Making performance is introduced for options and all Daily Futures on options, except for those products where rebates have been communicated via circular and which deviate from rebates in the Price List of Eurex Clearing AG ("non-affected products").

The new logic is called Building Block Market-Making. The Building Block Market-Making consists of five Building Blocks:

- Basis
- Package
- Strategy
- Larger Size
- Tighter Spread.

The two new Building Blocks “Larger Size” and “Tighter Spread” are introduced in order to incentivise Market Maker contribution towards the order book quality.

For options and all Daily Futures on options the respective requirements of the Basis Building Block are set to be equal to the requirements of the respective PMM scheme.

For options and all Daily Futures on options except for non-affected products, the following applies:

- The requirements of the Package Building Block are set to be equal to the requirements of the respective AMM programme.
- The requirements of the Strategy Building Block are set to be equal to the respective requirements of the “Response to quote requests in option strategies (complex instruments) – SWMM”-Market Making. The Strategy Building Block is available to products assigned to Liquidity Class 1 and Liquidity Class 2.
- The Larger Size Building Block is available to Equity Index Options, Equity Options, and Interest Rate Options.
- The Tighter Spread Building Block is available to Equity Index Options, Equity Options, and Interest Rate Options.

It is envisaged that the Building Block Market-Making will be introduced to non-affected products at a later stage.

For the fulfilment of the requirements of the individual Building Blocks the following applies:

- Fulfilment of Basis Building Block requirements: The Basis Building Block requirement per product is fulfilled if the current PMM requirement is fulfilled.
- Fulfilment of Package Building Block requirements: the Package Building Block requirement per product is fulfilled if the current AMM requirement is fulfilled.
- Fulfilment of Strategy Building Block requirements: The Strategy Building Block requirement per product is fulfilled if both the Basis Building Block requirement in that product is fulfilled and the current “Response to quote requests in option strategies (complex instruments) – SWMM”-Market Making requirement is fulfilled.
- Fulfilment of Larger Size Building Block requirements: The Larger Size Building Block requirements per product are fulfilled if the Basis Building Block requirement in that product is fulfilled whereas a valid quote counts into the performance only if it features a size that is equal to or greater than the size required by the minimum size of the Basis Building Block – multiplied by a factor – on both legs of the quote. The respective factors may differ per Liquidity Class and are displayed in the table below.
- Fulfilment of Tighter Spread Building Block requirements: The Tighter Spread Building Block requirements per product are fulfilled if the Basis Building Block requirement in that product is fulfilled whereas a valid quote counts into the performance only if it features a spread that is equal to or smaller than the spread required by the maximum spread of the Basis Building Block – multiplied by

a factor – on both legs of the quote. The respective factors may differ per liquidity class and are displayed in the table below.

Introduction of Size Factors and Spread Factors

The following factors for the fulfilment of the Larger Size Building Block and Tighter Spread Building Block are introduced per product group and Liquidity Class. These are multiplied with the Basis Building Block requirements in order to obtain the relevant size and spread requirements.

Product Group	Building Block	LC1	LC2	LC3
Equity Index Options	Size Factor	1,4	1,3	1,1
	Spread Factor	0,65	0,75	1,0
Equity Options	Size Factor	1,2	1,2	1,1
	Spread Factor	0,75	0,80	1,0
Interest Rate Options	Size Factor	2,0	2,0	1,1
	Spread Factor	0,65	0,65	1,0

Multiplication factors for Size Building Block and Spread Building Block

The size requirement in Interest Rate Options is based on the PMM Basis requirement.

Discontinuation of RMM schemes for all products except for euro-denominated Money Market options

Market-Making on request, respectively Regular Market-Making (RMM) schemes will be discontinued for all products except for euro-denominated Money Market options.

Market-Making rebates

Market-Making rebates for options and all Daily Futures on options, except for those products where rebates have been communicated via circular and which deviate from rebates in the Price List ("non-affected products"), are aligned with the new Building Block Market-Making logic. In addition, Market- Making rebates for non-affected products are aligned with the renaming of PMM and AMM schemes.

The following Market-Making rebate levels applicable to all Equity Index, Equity and Interest Rate Options, which do not belong to non-affected products, are subject to the new Building Block Market-Making logic and the respective Liquidity Class of each product.

The level of granted Market-Making rebates is subject to the fulfilment of the Building Blocks as defined above. The fulfilment of the Market Maker requirements in the Basis Building Block per product is a prerequisite for any Market-Making rebates to be granted. The Package Building Block is exempted from this. If the Market Maker requirements have been fulfilled in the respective package, all products within this package are granted the Basis as well as the Package rebate level, irrespective of the fulfilment of the Basis Building Block requirements in the individual products within the package. Upon fulfilling the Basis Building Block, the fulfilment of further Building Blocks (Strategy, Larger Size, Tighter Spread) increases the Basis rebate level by the rebate level allocated to the respective Building Block. All further Building Blocks can be fulfilled independently of each other. The sum of all eligible Building Block rebate levels defines the total rebate level per product to be granted.

The two newly introduced Building Blocks Larger Size and Tighter Spread are only available in order book trading. The respective rebate levels for these Building Blocks in the order book define the difference between overall possible rebates in the order book and the off-book.

The Market-Making rebate levels per execution type and product group are as follows:

Equity Index Options:

Execution Type	Building Blocks	Liquidity Class 1	Liquidity Class 2	Liquidity Class 3
Order book	Basis	20%	25%	55%
	Package	20%	20%	20%
	Strategy	15%	15%	0%
	Larger Size	15%	15%	15%
	Tighter Spread	10%	10%	0%
	Total	**80%**	**85%**	**90%**
Off-book	Basis	20%	25%	45%
	Package	20%	20%	20%
	Strategy	15%	15%	0%
	Total	**55%**	**60%**	**65%**

Equity Options with Group ID ending in "11", "12" or "13" as assigned in Annex B of the Eurex Contract Specifications:

Execution Type	Building Blocks	Liquidity Class 1	Liquidity Class 2	Liquidity Class 3
Order book	Basis	20%	25%	55%
	Package	20%	20%	20%
	Strategy	15%	15%	0%
	Larger Size	15%	15%	15%
	Tighter Spread	10%	10%	0%
	Total	**80%**	**85%**	**90%**
Off-book	Basis	20%	25%	45%
	Package	20%	20%	20%
	Strategy	15%	15%	0%
	Total	**55%**	**60%**	**65%**

Interest Rate Options:

Execution Type	Building Blocks	Liquidity Class 1	Liquidity Class 2	Liquidity Class 3
Order book	Basis	40%	40%	65%
	Package	20%	20%	20%
	Strategy	15%	15%	0%
	Larger Size	5%	5%	5%
	Tighter Spread	10%	10%	0%
	Total	**90%**	**90%**	**90%**
Off-book	Basis	40%	40%	55%
	Package	20%	20%	20%
	Strategy	15%	15%	0%
	Total	**75%**	**75%**	**75%**

For all other options and Daily Futures on options for which Building Block Market-Making is introduced and which do not belong to non-affected products, Market-Making rebates follow the same Building Block Market-Making rebate logic as described for Equity Index, Equity and Interest Rate Options with respect to Basis and Package Building Blocks. Neither further Building Blocks nor Liquidity Classes with respect to Market-Making rebates will apply to these products. The respective Market-Making rebate levels do not change compared to current rebate levels and are stated in the following tables considering the translation into the new Market-Making Building Block logic:

Product / Product Group	Building Blocks	Order book	Off-book
Options on Bloomberg Indices	Basis	50%	50%
	Package	n. a.	n. a.
	Total	**50%**	**50%**
FX-Options	Basis	0%	0%
	Package	50%	50%
	Total	**50%**	**50%**
ETF Options	Basis	50%	50%
	Package	25%	25%
	Total	**75%**	**75%**
Xetra-Gold®-Options	Basis	50%	n. a.
	Package	n. a.	n. a.
	Total	**50%**	**n. a.**

Product / Product Group	Building Blocks	Order book	Off-book
Eurex Daily Futures Contracts on KOSPI 200 Options	Basis	50%	50%
Eurex Daily Futures Contracts on TAIEX Options	Basis	50%	50%

For all non-affected products, PMM rebates will be named Basis Building Block rebates and AMM rebates will be named Package Building Block rebates. However, the new Building Block Market Making rebate logic described for the products above does not apply to non-affected products even if they normally fall into one of the aforementioned product groups. For clarification: upon fulfilment of the Basis Building Block requirements, the defined Basis Building Block rebate is granted; and upon fulfilment of the Package Building Block requirements, only the defined Package Building Block rebate is granted. Furthermore, no Liquidity Classes with respect to Market Making rebates apply to these products.

Changes to Market-Making rebates on exercises and on taken-up volume in Interest Rate Options

As of 2 October 2017, Eurex will not grant Market-Making rebates on exercises anymore.

Furthermore, volume in Interest Rate Options which has been taken up is not eligible for Market-Making rebates anymore. The differentiation between Interest Rate Options and other product groups will be discontinued, i.e. taken-up volume in Interest Rate Options will be treated like all other product groups. However, Market Making rebates can still be obtained by using the Brokerage Functionality.

3. Adjustment of volume rebates in options and futures

In order to apply the concept of Liquidity Classes to volume rebates in (a) futures and (b) options and to keep the balance between Market-Making and volume rebates in options, the current volume rebate model will be adjusted.

Eurex Clearing introduces different rebate levels for each Liquidity Class and aligns the methodology for calculating the amount of rebates granted. The following describes this methodology in more detail.

Volume, which is eligible for rebates (Eligible Volume), is accumulated per product group within one calendar month. If this accumulated Eligible Volume exceeds the Tier 1 threshold stated below, volume rebates are granted according to the following methodology:

- Eligible Transaction Fees, which originate from accumulated Eligible Volume up to the Tier 1 threshold, are not rebated.
- Eligible Transaction Fees, which originate from accumulated Eligible Volume between thresholds of two consecutive Tiers, are rebated with the respective rebate levels stated below for the lower of the two Tiers.

- Eligible Transaction Fees, which originate from accumulated Eligible Volume above the highest Tier, are rebated with the rebate levels defined for the highest Tier.

The rebate level referred to above is subject to the respective Liquidity Class of each product. Despite the application of Liquidity Classes, Eligible Volume is first accumulated per product group and then allocated to the tiers as described. Afterwards, the Liquidity Class per product is used to determine the applicable rebate level for this product.

a) Volume rebates in futures:

Volume rebates in futures will be calculated based on the following criteria:

- Volume thresholds apply to order book transactions (unchanged)
- Volume is accumulated per product group (unchanged)
- Different rebate levels with respect to each Liquidity Class are introduced (new)

The changes to volume rebates in futures will come into effect on 3 July 2017.

The thresholds and rebate levels per execution type and product group are listed in the following tables.

Equity Index Futures:

Execution Type		Tier 1	Tier 2	Tier 3	Tier 4
Order book	Threshold	300,000	600,000	900,000	1,200,000
	Rebate Level LC 1	10%	15%	20%	25%
	Rebate Level LC 2	15%	20%	25%	30%
	Rebate Level LC 3	20%	25%	30%	35%

Interest Rate Futures:

Execution Type		Tier 1	Tier 2	Tier 3	Tier 4
Order book	Threshold	250,000	500,000	750,000	1,000,000
	Rebate Level LC 1	10%	15%	20%	25%
	Rebate Level LC 2	15%	20%	25%	30%
	Rebate Level LC 3	20%	25%	30%	35%

b) Volume rebates in options:

Volume rebates in options will be calculated based on the following criteria:

- Separate volume thresholds apply to order book and off-book transactions (new)
- Volume is accumulated per product group (new in Equity Index Options)
- Different rebate levels with respect to each Liquidity Class are introduced (new)

The changes to volume rebates in options will come into effect on 2 October 2017.

The thresholds and rebate levels per execution type and product group are listed in the following tables.

Equity Index Options:

Execution Type		Tier 1	Tier 2	Tier 3	Tier 4	Tier 5
Order book	Threshold	100,000	200,000	400,000	600,000	800,000
	Rebate Level LC 1	15%	30%	45%	60%	75%
	Rebate Level LC 2	20%	35%	50%	65%	80%
	Rebate Level LC 3	25%	40%	55%	70%	85%
Off-book	Threshold	100,000	200,000	400,000	800,000	1,200,000
	Rebate Level LC 1	15%	25%	30%	35%	40%
	Rebate Level LC 2	20%	30%	35%	40%	45%
	Rebate Level LC 3	25%	35%	40%	45%	50%

Equity Options:

Execution Type		Tier 1	Tier 2	Tier 3	Tier 4	Tier 5
Order book	Threshold	50,000	100,000	200,000	400,000	600,000
	Rebate Level LC 1	15%	30%	45%	60%	75%
	Rebate Level LC 2	20%	35%	50%	65%	80%
	Rebate Level LC 3	25%	40%	55%	70%	85%
Off-book	Threshold	100,000	200,000	400,000	600,000	800,000
	Rebate Level LC 1	15%	25%	30%	35%	40%
	Rebate Level LC 2	20%	30%	35%	40%	45%
	Rebate Level LC 3	25%	35%	40%	45%	50%

Interest Rate Options:

Execution Type		Tier 1	Tier 2	Tier 3	Tier 4	Tier 5
Order book	Threshold	50,000	100,000	200,000	300,000	400,000
	Rebate Level LC 1	30%	45%	60%	75%	90%
	Rebate Level LC 2	30%	45%	60%	75%	90%
	Rebate Level LC 3	30%	45%	60%	75%	90%
Off-book	Threshold	100,000	200,000	400,000	600,000	800,000
	Rebate Level LC 1	20%	30%	40%	50%	60%
	Rebate Level LC 2	20%	30%	40%	50%	60%
	Rebate Level LC 3	20%	30%	40%	50%	60%

4. Extension of product scope for brokerage functionality

With T7 Release 4.0 in November 2016, a new TES role “TES broker” was introduced which allows the entry of a bilateral or multilateral TES trade without being involved in the TES trade as a counterparty (brokerage functionality). It allows Trading Participants to enter bilateral or multilateral TES trades directly in the account of the Trading Participants who are involved in the trade. Furthermore, brokers will have no execution risk as no open position is held at any point in time. All participants remain anonymous to each other.

Currently, the TES role “TES broker” as well as the possibility to enter multilateral TES trades is only available to Equity Options, Fixed Income Options, MSCI Futures and a few other products. In order to fully utilise the brokerage functionality for bilateral and multilateral TES trades, the product scope for this functionality shall be extended to all futures products with effect from 3 July 2017 and to all options products with effect from 2 October 2017.

For further information regarding the brokerage functionality, please refer to the following two documents on the Eurex website:

Technology > Eurex Exchange's T7 > System documentation > Release 4.0 > Functional Reference v.4.0.2 (Chapter 8.1)

Technology > Eurex Exchange's T7 > System documentation > Release 4.0 > Eurex Trader and Admin GUI - User Manual v.4.0.4 (Chapter 4.10)

5. Fee changes in Equity Index benchmark futures and EURO STOXX® 50 Options

Eurex continues to differentiate fees between proprietary trading and agency business in selected Equity Index benchmark futures, which is already the case for newly launched products. Fees will change as of 3 July 2017 as follows:

Product	Order Book		Off Book	
	P-/M-Account	A-Account	P-/M-Account	A-Account
Euro STOXX 50® Futures (FESX)	0.30 EUR	↑ ~~0.30~~ 0.35 EUR	0.45 EUR	↑ ~~0.45~~ 0.50 EUR
STOXX® Europe 50 Futures (FSTX)	0.30 EUR	↑ ~~0.30~~ 0.35 EUR	0.45 EUR	↑ ~~0.45~~ 0.50 EUR
DAX Futures (FDAX)	0.50 EUR	↑ ~~0.50~~ 0.60 EUR	0.75 EUR	0.75 EUR
Mini-DAX Futures (FDXM)	0.20 EUR	0.25 EUR	0.30 EUR	↓ ~~0.37~~ 0.35 EUR
SMI Futures (FSMI)	0.40 CHF	↑ ~~0.40~~ 0.50 CHF	0.60 CHF	0.60 CHF
Euro STOXX® Banks Futures (FESB)	↓ ~~0.30~~ 0.25 EUR	0.30 EUR	↓ ~~0.45~~ 0.40 EUR	0.45 EUR
STOXX® Europe 600 Banks Futures (FSTB)	↓ ~~0.30~~ 0.25 EUR	0.30 EUR	↓ ~~0.45~~ 0.40 EUR	0.45 EUR

In addition, the second threshold for the reduced fee on the P-Account in EURO STOXX® 50 options will be reduced to 8,000 contracts in accordance with a lowering of the fee level for contracts above this threshold:

Product	Order Book & Off Book (P-Account)		
	Standard Fee	Reduced Fee (contract volume > threshold)	Threshold (number of contracts)
Euro STOXX 50® Options (OESX)	0.30 EUR	0.15 EUR	2,000
		↓ ~~0.075~~ 0.045 EUR	↓ ~~10,000~~ 8,000

As of the effective dates 3 July and 2 October 2017, the updated Price List of Eurex Clearing will be published on the Eurex website www.eurexchange.com under the following link:

Resources > Rules and Regulations > Price list

For any questions you may have or any further information you may require, please contact the Eurex Pricing team via e-mail: eurex.pricing@eurexchange.com.

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