X-pand into the Future

eurex circular 213/13

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Recipients: All Trading Participants of Eurex Deutschland and Eurex Zürich and Vendors
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⚠ **High priority**

HFT Act: Implementation of Order to Trade Ratio (OTR)

Related Eurex circulars: 052/13, 070/13, 073/13, 077/13, 099/13, 164/13

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Content may be most important for:	**Attachment:**
Ü All departments	Updated sections of the Exchange Rules for Eurex Deutschland and Eurex Zürich

Summary:

As announced in Eurex circular 164/13, the two-month testing phase for the Order to Trade Ratio (OTR) will start on **1 October 2013**. On **1 December 2013**, the OTR will come into effect. This circular provides a brief description of the OTR and further relevant information.

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HFT Act: Implementation of Order to Trade Ratio (OTR)

On 27 September 2013 the Exchange Council of Eurex Deutschland approved the new § 17 b of the Exchange Rules for Eurex Deutschland and Eurex Zürich on the Order to Trade Ratio (OTR). Eurex Exchange will introduce the OTR with effect from 1 December 2013. The limits are set on the volume of all order entries (ordered volume) per product and per month generated by orders and quotes sent by the Participants to T7. For calculation of the ordered volume all types of orders and/or quotes are considered. This includes any/all of the following: add, modify and delete. Please note that aggregation of volume is done on a monthly basis.

At the end of a month, if the value of an OTR for a particular product for a particular Participant is greater than one, such instance is considered to be a violation. Such a violation may trigger sanctions against the Participant.

Participants will be informed about the current preliminary value of the OTR per product on a daily basis. This calculation will be based on month-to-date ordered volume and pro-rata floor. However, the conclusion whether the OTR is violated can be drawn only at the end of a month.

OTR calculation

The OTR is calculated using the following equation:

OTR = [ordered volume] / [volume limit]

The ordered volume is the sum of:

- the number of contracts generated by orders and quotes that are accepted by the matching engine and entered in the order book and
- the number of contracts that the Participant deletes from the matching engine and thus have not been executed.

A modify of an order or quote is treated as a "delete" followed by an "add". Thus, the original order and the new order will both be counted towards the ordered volume. This process applies regardless of which attribute of the order and/or quote is changed.

The volume limit is comprised of two components:

- A volume component, which is calculated by multiplying the volume in the order book by a predefined volume factor, and
- A monthly floor, which is defined for each Participant regardless of any traded volume in the order book. A Market Maker can receive a higher floor, depending on its Market-Making performance.

A concept paper describing the OTR concept in detail including the various parameters that are considered for the calculation of the OTR and an example showing step-by-step calculation is available on the Eurex website www.eurexchange.com under the following path:

Technology > Order to Trade Ratio

Limit parameters

The following table shows the parameters used to calculate the OTR.

Please note: The limit is based on the product type of the product.

Product group*	Product type	Grace factor	Volume factor	Non-MM floor (in mil)	Spread quality	MM base (in mil)
Singe Stock Futures	FSTK	0,25	500	50	0,0	3
					0,2	4
					0,3	5
					0,4	10
Equity Index Futures Volatility Index Futures Hurricane Futures	FINX FVOL FCRD	0,25	500	50	0,0	3
					0,2	6
					0,3	7
					0,4	8
Equity Index Options Equity Index Dividend Options	OINX OFIX	0,25	500	1.000	0,0	500
					0,2	600
					0,3	800
					0,4	1.000
Equity Options	OSTK	0,25	500	200	0,0	100
					0,2	150
					0,3	200
					0,4	300
Fixed Income Futures Money Market Futures	FBND FINT	0,25	500	50	0,0	2
					0,2	5
					0,3	10
					0,4	15
Options on Fixed Income Futures Options on Money Market Futures	OFBD OFIT	0,25	500	50	0,0	40
					0,2	60
					0,3	80
					0,4	100
New Asset Classes	New Asset Classes	0,25	500	1.000	0,0	500
					0,2	600
					0,3	800
					0,4	1.000

* The table contains only the main product group per product type. The list of the product group names shown above in the table is not exhaustive.

A list of all products including their product types is published on the Eurex website www.eurexchange.com. It can be downloaded under the following link:

Products > Product Overview > Complete list of all Eurex products in csv format

Reports

As of 1 October 2013, the following reports will be available for the Participants on the Common Report Engine:

- CB069 (Daily Transaction Mix): Enhanced report, which will be generated on a daily basis,
- TD981 (Order to Trade Ratio): New report which, will be generated on a daily basis.

Detailed information on all reports is contained in the document “Eurex XML Reports - Reference Manual“ which is available on the Eurex website www.eurexchange.com under the link:

Technology > Eurex Exchange’s T7 > System documentation > Release 2.0 >
Eurex Reports > Eurex XML Reports - Reference Manual

Timeline

There will be a two-month testing phase in October and November 2013 for Participants in order to take necessary actions to stay within the defined limits of the OTR. There will be no penalties for breaches of the OTR during this testing phase. The final rules of the OTR will be applied from 1 December 2013 onwards:

- 1 October 2013: Start of the two-month testing phase
- 1 December 2013: The OTR comes into effect

27 September 2013

Fifth Amendment Ordinance to the Exchange Rules for Eurex Deutschland and Eurex Zürich

Article 1 Amendment to the Exchange Rules for Eurex Deutschland and Eurex Zürich in the version dated 1 August 2011, as amended by the Fourth Amendment Ordinance dated 11 June 2013

The Exchange Rules for Eurex Deutschland and Eurex Zürich will be amended as follows:

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AMENDMENTS ARE MARKED AS FOLLOWS:

INSERTIONS ARE UNDERLINED

DELETIONS ARE CROSSED OUT

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Exchange Rules for Eurex Deutschland and Eurex Zürich

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III. Section General Conditions

1. Sub-Section Exchange Trading

[…]

§ 17 Market Integrity

Exchange Participants are obligated to use the installations of the Eurex Exchanges in accordance with the Exchange-related legal provisions in order to guarantee an orderly implementation of the trading and the Exchange transaction settlement (hereinafter “orderly futures and options trading”).

In order to guarantee an orderly futures and options trading, the Exchange Participant or several Exchange Participants acting upon mutual consultation may not – when concluding transactions at the Eurex Exchanges or entering orders respectively quotes in the system of the Eurex Exchanges – influence in an erroneous or misleading way bid, ask or price of products traded at the Eurex Exchanges or effect a price not in line with the market or an artificial price level without being in compliance with a common market practice in accord with the orderly implementation of trading pursuant to the Exchange-related legal provisions.

§ 17 a Identification of algorithmic orders and of trading algorithms

(1) Exchange Participants are obligated to mark the orders and firm quotes generated through algorithmic trading within the meaning of § 33 para. 1a sentence 1 of the Securities Trading Act and to identify the trading algorithms used in each case. This shall also apply in the event that orders are being transmitted via an Order Routing System.

(2) The orders or quotes must be marked when they are entered into the EDP-System of the Eurex Exchanges. The trading algorithms used in each case must be identified when orders or quotes resulting from the trading algorithms are entered into the EDP-System of the Eurex Exchanges and when such orders or quotes are modified or deleted. The marking of the orders or quotes generated and the identification of the trading algorithms used in each case must be made using the appropriate input options of the EDP-System of the Eurex Exchanges. The marking of the orders or quotes generated and the identification of the algorithms

used in each case must be comprehensible, definite and consistent. Trading algorithms must be identified by setting out the complete automated decision-making process by which the entry of orders or quotes into the EDP-System of the Eurex Exchanges or the modification or deletion of such orders or quotes was effected.

(3) The Management Boards of the Eurex Exchanges may issue further provisions on the structure and format of the marks and identifications.

§ 17 b Order to Trade Ratio

(1) Exchange Participants are obligated to ensure an adequate ratio between order- and quote-entries, -modifications and -deletions (order-entries) and contracts traded.

(2) The Order to Trade Ratio is determined by dividing the numerical volume of the order-entries of an admitted enterprise per product within one calendar month by a limit as defined in paragraph 4. The Order to Trade Ratio is adequate if it is less than or equal to 1 at the end of the last trading day of a calendar month.

(3) The numerical volume of an order-entry is the number of contracts to which the order-entry relates. A modification of an order is counted as a deletion of the previous order and an entry of a new order.

(4) The limit is the sum of a volume component and a floor.

1. The volume component is the number of contracts traded by the admitted enterprise in a product in the order book within one calendar month multiplied by the Volume Factor. The Volume Factor is a number specified per product pursuant to the Appendix to § 17 b.

2. The floor depends on the function of the admitted enterprise. It is either a Market-Maker-Floor (MM Floor), which corresponds to the function as a market maker or a Non-Market Maker Floor (Non-MM Floor) for any other exchange participant. The floor is available to an admitted enterprise independent of the number of traded contracts.

   a) The Non-MM Floor is a number specified per product pursuant to the Appendix to § 17 b.

   b) The MM Floor is applicable if the Quote Performance of the exchange participant in a product is greater than the multiplication of the Grace Factor and the minimum quoting requirement of the Market Maker Obligations as determined by the Management Boards of the Eurex Exchanges (Market Maker Obligations).

The MM Floor results per product from the multiplication of the Market-Maker-Base (MM Base), the Quote Performance and the Average Quote Size.

- Pursuant to the Appendix to § 17 b, the MM Base depends on the Spread Quality. The Spread Quality results from the average quoted Spread Quality compared to the maximum spread as set out in the Market Maker Obligations.
- The Quote Performance is the quoted proportion of the maximum possible quote time as defined in the Market Maker Obligations.
- The Average Quote Size is the time-weighted average volume of quotes.

The Quote Performance, Spread Quality and Average Quote Size are measured based on the values captured by the Eurex Exchanges at the end of the respective calendar month. Limit-orders are treated as quotes in case this is provided in the Market Maker Obligations. Only those quotes and limit-orders which meet the minimum requirements of the Market Maker Obligations are considered in the calculation of the MM Floor.

If the MM Floor is lower than the Non-MM Floor, then the Non-MM Floor is applied.

(5) The parameters for the calculation of the Order to Trade Ratio can be changed by the Management Boards of the Eurex Exchanges under exceptional market conditions in order to adequately adjust the Order to Trade Ratio to the respective exceptional market conditions. Exceptional market conditions can be characterized by rapid and significant changes in market activity, extraordinary volatility or rapid and significant interest rate fluctuations.

[...]

V. Section Access to the Exchange-EDP

[...]

2. Sub-Section Access to the Exchange-EDP by Individuals

§ 55 Application for Access Codes

(1) In order to access the Electronic Trading System, each company admitted as Exchange Participant shall be assigned at least one user ID by the Board of Management; such ID may only be used by the respective company. The Board of Management may in particular, without limitation, assign several user IDs if an exchange participant settles different futures and options transactions through different Clearing Members in accordance with § 27 Paragraph 1 No 1. In such case, the Board of Management shall assign one user ID with respect to each instructed Clearing Member. Based on this user ID, the Exchange Participant shall, upon application, be assigned personal user IDs and codes for all persons supposed to get access to the system of the Eurex Exchanges. The Board of Management shall be notified of the names of the persons as well as user IDs.

(2) Exchange traders as well as other persons using the electronic trading system (e.g. back-office personnel, safety officers) may be allowed access to the Electronic Trading System. Personal user IDs and codes may only be used for entries into to the Exchange-EDP by the persons they have been assigned to. Codes may not be disclosed to third persons. The person to whom the personal user ID and code has been assigned to must ensure that no third person uses them in order to make entries into the Exchange-EDP.

(3) Only admitted Exchange traders of the Exchange Participant utilizing the personal user ID and code which has been assigned to them shall be permitted to use the system of the Eurex Exchanges to transfer orders for conclusion of futures and options transactions.

[...]

VII. Section Final Provisions

[...]

§ 69 Transitional rules

(1) The obligations of the Exchange Participants regarding the marking of orders and quotes generated through algorithmic trading and the identification of the trading algorithms used in each case under § 17 b apply as of 1 April 2014.

(2) The obligations of the Exchange Participants regarding the Order to Trade Ratio under § 17 b apply as of 1 December 2013.

Appendix to § 17 b Order to Trade Ratio

Product Type	Grace Factor	Volume Factor	Non-MM Floor (in mil)	Spread Quality	MM Base (in mil)
FSTK	0.25	500	50	0.0	3
				0.2	4
				0.3	5
				0.4	10
FINX FVOL FCRD	0.25	500	50	0.0	3
				0.2	6
				0.3	7
				0.4	8
OINX OFIX	0.25	500	1,000	0.0	500
				0.2	600
				0.3	800
				0.4	1,000
OSTK	0.25	500	200	0.0	100
				0.2	150
				0.3	200
				0.4	300
FBND FINT	0.25	500	50	0.0	2
				0.2	5
				0.3	10
				0.4	15
OFBD OFIT	0.25	500	50	0.0	40
				0.2	60
				0.3	80
				0.4	100
New Asset Classes	0.25	500	1,000	0.0	500
				0.2	600
				0.3	800
				0.4	1,000

Article 2 Effectiveness

Article 1 will be effective as of 1 October 2013.