X-pand into the Future

eurex circular 164/13

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

HFT Act: Further information on implementation of various elements

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

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

Summary:

This circular provides an update on various elements in the German HFT Act, such as the Excessive System Usage Fee, Order-to-Trade Ratio, Algo Flagging, and associated timelines for the implementation, as well as the definition of “High Frequency Trading technique”.

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HFT Act: Further information on implementation of various elements

This circular provides an update on various elements in the German HFT Act, such as the Excessive System Usage Fee, Order-to-Trade Ratio, Algo Flagging, and associated timelines for the implementation, as well as updates on the High Frequency Trading definition details.

Order-to-Trade Ratio and Excessive System Usage Fee

As announced in Eurex circular 077/13, Eurex is in the process of implementing the Order-to-Trade Ratio and the Excessive Usage Fee. Provisions covering both elements will be incorporated into the Eurex Rules and Regulations and will come into effect on 1 December 2013 - subject to approval by the Exchange Council and by the Exchange Supervisory Authority of the State of Hesse. Prior to this, there will be a two-month testing phase in October and November 2013 for trading participants in order to take necessary actions to stay within the defined limits of the Excessive Usage Fee and Order-to-Trade Ratio. There will be no penalties for trading participants during this testing phase. The final rules will be applied as of 1 December 2013. It is planned to publishthe model and parameters for the Excessive Usage Fee and the Order-to-Trade Ratio after approval by the Exchange Council at the end of September 2013. Eurex is in close dialogue with the Exchange Supervisory Authority regarding the necessary changes of the rules and regulations.

Flagging of algorithmically generated orders

As announced in Eurex Circular 070/13 a 4-byte numeric description field (i.e. Regulatory ID) for the regulatory algorithm identifier will be available for each trading participant. The Regulatory ID will be introduced to trace trading strategies within order and quote flow that is algorithmically generated (i.e. Algo Flagging).

The Regulatory ID field will be available with T7 Release 2.0 in simulation from 23 September 2013 and in production from 25 November 2013, onward.

Appropriate provisions will be incorporated into the Exchange Rules for Eurex Deutschland and Eurex Zürich. The Management Board of the Eurex Exchanges will propose to the Exchange Council that those provisions should entail a transition period for their application by the trading participants. The transition period shall end at a specific date in the first quarter of 2014. Trading participants would therefore only be obliged to apply the rules regarding Algo-Flagging at the end of the transition period. Such planned provisions are subject to approval by the Exchange Council and by the Exchange Supervisory Authority of the State of Hesse and by the Swiss Financial Market Supervisory Authority (FINMA).

Definition of a High-frequency Trading Technique

Further, under section 1 (1a) sentence 2 no. 4d of the German Banking Act, a high frequency algorithmic trading technique is characterised by infrastructures that intend to minimize latency, as well as system determination of order initiation, generating, routing or execution without human intervention for individual trades or orders and by high intraday message rates which constitute orders, quotes or cancellations.

With respect to the latter one, the German Federal Financial Supervisory Authority (BaFin) has now updated its FAQ website with respect to the calculation methodology of intraday message rates which can be retrieved from the following link:

http://www.bafin.de/EN/DataDocuments/FAQ/HFT-Gesetz/hft-gesetz_node.html

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