e u r e x *b o n d s circular 19/14*

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Recipients: All Trading Participants of Eurex Bonds
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Information on implementation of single elements of the German High Frequency Trading Act

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Content may be most important for:	**Attachments:**
Ü Front Office/Trading **Ü** Middle + Backoffice **Ü** Auditing/Security Coordination	none

Summary:

This circular provides information about implementation of the following elements of the German High Frequency Trading (HFT) Act on the Eurex Bonds trading platform:

1. Flagging of algorithmically generated orders and quotes ("Algo Flagging")
2. Order To Trade Ratio
3. Excessive system usage fee

The relevant provisions will be included in the Terms and Conditions for Participation and Trading on Eurex Bonds (hereafter: Terms and Conditions). Trading participants will be informed in due course by Eurex Bonds circular about the coming into effect of the amended Terms and Conditions.

The new provisions for flagging of algorithmically generated orders and quotes and for calculation of the Order to Trade Ratio will be reflected in §§ 10a and 10b of the Terms and Conditions. These provisions will come into effect for all participants on **1 September 2014**, in accordance with the temporary provision in § 23 of the Terms and Conditions.

Please contact Eurex Bonds Customer Support on tel. +49-69-211-1 22 22 for any questions you may have.

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Information on implementation of single elements of the German High Frequency Trading Act

This circular provides information about implementation of the following elements of the German High Frequency Trading (HFT) Act on the Eurex Bonds trading platform:

1. Flagging of algorithmically generated orders and quotes ("Algo Flagging")
2. Order to Trade Ratio
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1. Flagging of transactions ("Algo Flagging")

By means of the German HFT Act, section 31f para. 1 no. 11 was included in the "Wertpapierhandelsgesetz" (WpHG, the German Securities Trading Act). According to this regulation, operators of a multilateral trading system must stipulate rules for the flagging of orders which were generated through algorithmic trading and identification of the trading algorithms used.

In accordance with this requirement, the new regulation in § 10a of the Terms and Conditions requires the market participants to flag orders and quotes generated, modified or deleted by means of algorithms and identify the trading algorithms used.

§ 10 a Identification of Algorithmic Orders and of Trading Algorithms

(1) Market Participants are obliged to mark the orders or quotes generated by them through algorithmic trading within the meaning of § 33 paragraph 1a clause 1 of the Securities Trading Act and to identify the trading algorithms used in each case.

(2) The orders or quotes must be marked when they are entered into the System and when they are modified or deleted. The trading algorithms used in each case must be identified when orders or quotes resulting from the trading algorithms are entered into the System 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 System. 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 System or the modification or deletion of such orders or quotes was effected.

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

This flagging must be made utilising the appropriate input options of the EDP System of Eurex Bonds, precisely by using the field "regulatoryId" that was provided with Xetra Release 14.0 on 28 October 2013 and has since been available. Please note that the 4-byte field "regulatoryId" of type signed integer differs slightly from the 4-byte field in Eurex Exchange's T7, which is of type unsigned integer.

The specification of field “regulatoryId” can be retrieved from the following documents:

- Xetra Release 14.0 Functional Description
- VALUES API Member Front End Development Guide, Volume 5 - Xetra Application Requests and Subscriptions, No. 7.350
- Enhanced Transaction Solution Specification, No. 4.154.

It is the responsibility of the market participant when entering orders or quotes, or modifying or deleting orders or quotes in the EDP system of Eurex Bonds, to flag such orders and quotes accordingly.

The field “regulatoryId” is available to the market participants of Eurex Bonds in the simulation environment and in production.

2. Order to Trade Ratio (OTR)

With section 31f para. 1 no. 9 of the WpHG, the German HFT Act introduced the requirement that operators of multilateral trading systems have provisions for the Order to Trade Ratio (OTR). The provisions in accordance with this requirement stipulate that market participants guarantee an appropriate ratio of orders entered, changed or deleted by them to the trades actually executed (OTR) in order to prevent risks for orderly trading in multilateral trading systems.

For this purpose, the OTR is to be calculated separately for each financial instrument and in relation to the volume-based orders and trades within one month. In particular, an appropriate OTR is deemed to exist if it is economically comprehensible with regard to the liquidity of the financial instrument in question, the current market situation or the function of the company performing the trading activity.

The new regulation in § 10b of the Terms and Conditions governs calculation of the OTR as follows:

§ 10 b Order to Trade Ratio

(1) Market Participants are obliged to ensure an adequate ratio between the entries, modifications and deletions of orders and quotes (order entries) and the trades executed (Order to Trade Ratio).

(2) The Order to Trade Ratio is determined by dividing the sum of the nominal values of the order entries of a Market Participant 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 modification of an order or a quote is counted as a deletion of the previous order and an entry of a new order or a new quote.

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

a) The volume component is the sum of the nominal values of the trades executed by a Market Participant in a product in the order book within one calendar month multiplied by the Volume Factor. The Volume Factor is 10 million.

b) The floor is 20 thousand million. The floor is available to a Market Participant irrespective of the number of trades executed.

(5) Under exceptional market conditions, the volume component and the floor may be raised by Management Board in order to adequately adjust the Order to Trade Ratio to the respective exceptional market conditions. Exceptional market conditions can in particular be characterized by rapid and significant changes in market activity, extraordinary volatility or rapid and significant interest rate fluctuations.

Eurex Bonds provides the daily report “TL100 OTR Report” for the market participants showing the OTRs and underlying information for all securities traded. This report serves for reconciliation of market participants' own calculations.

“TL100 OTR Report” is available in the Common Report Engine and on the MISS servers in XML and TXT format in the Eurex Bonds simulation and production environments.

3. Fee for excessive system usage

With section 31f para. 1 no. 7 of the WpHG, the German HFT Act introduced the requirement for operators of multilateral trading systems to charge separate fees for excessive usage of the multilateral trading system by market participants. The fee amounts are to be selected in a way as to effectively prevent excessive usage and the associated negative impact on system stability or market integrity.

The fee for excessive system usage will be included in the Price List for Eurex Bonds with effect from 1 September 2014.

Calculation and parameters of the excessive system usage fee will be communicated by Eurex Bonds circular in the form of amendments to the Eurex Bonds Price List in due course prior to the introduction.

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