

NASDAQ OMX NLX Market Notice: 011-14

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INVITATION TO TENDER FOR DESIGNATED MARKET MAKER STATUS IN STIR AND LTIR FUTURES, AND TED SPREADS

Introduction

NASDAQ OMX NLX (“NLX”) has decided to introduce a new Designated Market Maker (“DMM”) scheme (“this Market Maker scheme”) which will run for a period of 6 months from Monday 1st December 2014 (“the Commencement Date”) to Friday 29th May 2015. This Market Maker scheme will replace the previously announced scheme.

NLX therefore invites participants of the NLX market to submit tenders for DMM status in NLX’s STIR and LTIR futures, and TED spreads, as defined in section 1, below (“the Products”). The tenders received will be assessed on several metrics covering volume, spread, number of expiries and the stipend required. Metrics Guidance is provided at Appendix A. The appointed DMMs shall receive an execution fee rebate for the duration of this Market Maker scheme (as outlined in section 2, below), and a monthly stipend to contribute towards the direct costs associated with providing the Market Maker service.

1. Schedule of Products available

STIR Futures:

- EURIBOR®: 1st White – 4th Purple (Q1 – Q24)
- Short Sterling: 1st White – 4th Purple (Q1 – Q24)

LTIR Futures:

- UK 10 Yr Gilt (4%)
- German 10 Yr Bund (6%)
- German 5 Yr Bobl (6%)
- German 2 Yr Schatz (6%)

TED Spreads:

- White TED: 4 x Q4 EURIBOR[®] for 5 Schatz
- Red TED: 4 x Q5 EURIBOR[®] for 5 Schatz
- Rose TED: (2 x Q4) + (2 x Q5) EURIBOR[®] for 5 Schatz

2. Benefits of DMM status

The appointed DMMs in this Market Maker scheme shall receive:

- 100% rebate of their execution fees on those lots executed on the Individual Trader Representatives (“ITRs”) designated by the DMM as for the sole purpose of market making, and arising from its market maker service, except where the DMM wishes that ITR to count towards other incentives, rebates or other schemes; and
- A contribution towards their identifiable direct costs associated with this Market Making scheme with a fixed monthly stipend.

3. Obligations of DMMs

DMMs will be required to enhance the NLX market depth and liquidity by:

- Being an active participant and able to quote, trade and execute on the NLX market on the Commencement Date of this Market Maker scheme;
- Making continuous symmetrical quotes (equal volume on the bid and offer order of the quote) in the Central Order Book (“COB”) of the Products in which they have been appointed as a DMM;
- Quoting in a minimum volume of the Products;
- Quoting at or better than a defined maximum bid/ask spread;
- Quoting for the majority of the Normal Trading Day for the Product, and in particular at the open and at 16:15, when the Daily Settlement Price is established.

For avoidance of doubt, the “Normal Trading Day” is:

- EURIBOR[®], Bund, Bobl and Schatz 07:00 – 18:00
 - Sterling 07:30 – 18:00
 - UK 10 Yr Gilt 08:00 – 18:00
- The DMMs appointed for LTIR products being obliged to quote the calendar spread (“the Roll”) for two weeks prior to (but excluding) the Last Trading Day (“LTD”), for the near month in the case of the Bund, Bobl & Schatz futures, and for two weeks prior to (but excluding) the first Notice Day in the case of the Gilt futures products, in the same volume as their obligations for the front month.

The benefits accruing to and obligations undertaken by the DMMs shall be subject to a binding agreement between NLX and the respective DMM, which will provide for the immediate termination of the agreement at NLX's discretion should a DMM fail to meet its obligations.

4. Assessment Metrics

The individual tenders shall be assessed by NLX in its absolute discretion, considering the following metrics:

- Maximum size of spread between Bid and Ask price;
- Minimum volume of the products in the symmetrical Bid and Ask of the quotes;
- The stipend offering most value to the NLX market for the range of market maker activities tendered;
- Highest session presence in terms of the percentage of the Normal Trading Day meeting quoting obligations;
- NLX will also consider tiered or layered quoting recognising all quotes made by a DMM in the COB up to a maximum spread of three basis points for STIRs and the Schatz, and up to a maximum of five basis points for Bobl, Bund and Gilt products.

Further Metric Guidance is provided at Appendix A.

5. Supervision of Market Maker Performance

NLX shall monitor the COB activity of the DMMs to ensure compliance of the obligations under this Market Maker scheme and the Agreement. Please note the following:

- In the case of the volume of a quote being asymmetrical (the volume on the Bid and Ask not being equal), then the lower volume will be the measured volume of the quote;
- The percentage of the Normal Trading Day spent meeting quoting obligations will not carry over from one day to the next, but must be met discretely on each and every trading day of the month;
- Only COB quotes during the normal trading day will contribute towards satisfying the market maker obligations;
- In the case that a DMM fails to meet its obligations, NLX shall reserve the right to terminate the agreement with that DMM with immediate effect.

6. Tender Process and appointment of DMM's

- **Invitation** – NLX participants are invited to submit competitive tenders to be appointed as a DMM in the suite of Products listed in Section 1 above, via tender forms which will be provided upon request to interested participants.
- **Eligibility** - Tenders for this Market Maker scheme are invited from all Participants of the NLX market, including clients of Participants, provided that the Participant accepts responsibility for their client and endorses the client's tender and application for this Market Maker scheme.

- **Tender Closes** - Tenders should be submitted to NLX no later than the close of business (18:00 UK) on Wednesday 19th November 2014.
- **Compliance** - This Market Maker scheme may constitute an incentive scheme under applicable regulatory requirements or expectations. The Participant should therefore ensure that its compliance officer is aware of its commitments and obligations under this Market Maker scheme. The compliance officer shall acknowledge this in the tender submission. The DMM's are also required to provide evidence of the approval and consent of their Clearing Participant to participate in this Market Maker scheme, by completing the relevant form (Confirmation of Clearing and Settlement Arrangements) and returning it with the completed tender. Tenders will not be considered without NLX first receiving that approval and consent.
- **Metrics** - NLX will require that the tender application clearly shows the following details for each product:
 - The maximum Bid/Ask quote spreads in basis points (for avoidance of doubt, 0.005, 0.01, 0.015), and the associated symmetrical volumes that the Participant will commit to for the greatest percentage of the Normal Trading Day;
 - The number of products, outright expiries and calendar spreads to be quoted by the Participant;
 - NLX will consider tiered quoting obligations (i.e. several quotes of wider spread and increasing volume by the DMM) up to a spread of three basis points for STIRs and Schatz, and up to five basis points for Bobl, Bund and Gilt in assessing the submitted tenders; and
 - A breakdown of the identifiable direct costs constituting the requested stipend.
- **Trader list** - A list of the ITRs who will be responsible for quoting and executing trades under this Market Maker scheme.
- **Appointment** - The selected DMMs will be appointed by NLX following assessment of the tenders submitted under this competitive tender process. The decision by NLX to select and appoint DMMs shall be final. NLX will maintain a reserve list ("Reserve DMMs") that will be used in the case DMMs fails to meet their obligations. The appointed DMMs and reserve DMMs shall be notified of their appointed status on or around Wednesday 26th November 2014. The appointed DMMs will be engaged by NLX under the terms of the NLX Market Maker agreement, with the DMMs benefits and obligations commencing thereafter on the Commencement Date, Monday 1st December 2014.

7. Qualifying Business

Only quotes made by the DMM in the NLX COB from an ITR of the DMM listed in the NLX Market Maker agreement as designated for market maker business, will count towards the quoting obligation. If a quote is asymmetrical, with unequal volume on the Bid and Ask side of the quote, then the lower volume will be used by NLX in assessing quoting obligations.

If a DMM fails to quote for its contracted percentage of the Normal Trading Day for any given day of the month, then the stipend will be reduced by the proportion of the day that it fell short of the quoting

obligation on that day. For clarity, if the DMM is contracted to quote 90% of the Normal Trading Day, and managed 85% on one day and 95% on the next day, the two days would not average out to 90%, but the DMM would forfeit a pro-rata amount of its stipend i.e. $\text{forfeit} = 5/90 \times 1/22 \times \text{stipend}$ (assuming 22 trading days in the month), to reflect the 85% realised quoting on the first day.

If a DMM makes any changes to its trading or clearing arrangements, whether it be their ITRs, Clearing Participant or any other detail reasonably required by NLX to manage this Market Maker scheme, then it is the responsibility of the DMM to notify NLX of those changes in advance of the effective date to ensure continuity of the DMM benefits. NLX will not, under any circumstances, consider rebating any fees that may have been due to a DMM, but were not processed as a result of incorrect information supplied by the DMM in their application for, or agreement to be appointed as a DMM.

8. Administration of Exchange and Clearing Fee Charges, Rebates and Stipend payments

Participants will be charged the headline clearing and execution fees monthly in arrears by the Clearing Participants. NLX shall monitor DMMs performance against its obligations, and subsequently calculate the rebates and stipends due in accordance with this Market Maker scheme in the following month. NLX will pay the DMM execution fee rebates and stipends to the Participant firm (or its client firm) designated as a DMM. Upon request, NLX will provide invoice breakdown to Participant ITR level, but will not settle rebate or stipend payments directly with ITR's.

In the event that any Qualifying Business (defined in section 7, above) under this Market Maker scheme may also be recognised for any benefit under any other NLX incentive scheme, whether it be liquidity provision, market maker or any other programme or arrangement (irrespective of whether such a scheme is regarded as an incentive scheme under applicable rules, regulations or expectations), NLX will, in its absolute discretion, take any or all of the following steps to avoid the participant from benefitting more than once for the same activity (i.e. double counting):

- withhold the amounts due under any other scheme(s);
- withhold the rebates due under this Market Maker scheme; and/or
- re-charge some or all of the rebates or amounts previously made under the other schemes or this Market Maker scheme.

NLX reserves the right in its absolute discretion to terminate this Market Maker scheme by way of Market Notice or Memo, and may announce other market maker schemes in the future that may include the Products in this Market Maker scheme.

APPENDIX A – Metrics Guidance

This Appendix is intended as guidance only. Potential DMMs are encouraged to tender for DMM status covering the products, expiries and calendar spreads for which they feel competent and where they feel they can offer particular value to the NLX marketplace.

Potential DMMs who tender for a large range of market maker activities should submit their tender in a modular form, as NLX may not want to accept the tender in its entirety, but rather discreet subsets.

| METRICS GUIDANCE FOR NLX DMM TENDER APPLICATIONS | | | | | |
|--|--------------------|---------|---------------------------------------|--------------|--------------------|
| Product STIRS | Expiries | Tiers | Quote Spread (Price bps) ¹ | Quote Volume | % Session Presence |
| EURIBOR® Outright | White Q1 - Q4 | Level 1 | 0.50 | 75 | 90% |
| | | Level 2 | 1.50 | 250 | 90% |
| | Front Red Q5 & 6 | Level 1 | 0.50 | 50 | 90% |
| | | Level 2 | 1.50 | 200 | 90% |
| | Back Reds Q7 & 8 | Level 1 | 0.50 | 50 | 90% |
| | | Level 2 | 1.50 | 150 | 90% |
| | Greens Q9 - Q12 | Level 1 | 1.00 | 50 | 90% |
| | | Level 2 | 2.00 | 100 | 90% |
| EURIBOR® Spreads | Min 5 spreads | Level 1 | 0.50 | 250 | 90% |
| | | Level 2 | 1.00 | 500 | 90% |
| Sterling Outright | White Q1 - Q4 | Level 1 | 1.00 | 150 | 90% |
| | | Level 2 | 2.00 | 250 | 90% |
| | Front Red Q5 & 6 | Level 1 | 1.00 | 150 | 90% |
| | | Level 2 | 2.00 | 250 | 90% |
| | Back Reds Q7 & 8 | Level 1 | 1.00 | 100 | 90% |
| | | Level 2 | 2.00 | 200 | 90% |
| | Greens Q9 - Q12 | Level 1 | 2.00 | 50 | 90% |
| | | Level 2 | 3.00 | 100 | 90% |
| Sterling Spreads | Min 5 spreads | Level 1 | 1.00 | 200 | 90% |
| | | Level 2 | 2.00 | 400 | 90% |
| TED Spreads | White/Red/Rosé TED | Level 1 | 0.50 | 20 | 90% |
| | | Level 2 | 1.00 | 20 | 90% |
| | | Level 3 | 1.50 | 20 | 90% |

| METRICS GUIDANCE FOR NLX DMM TENDER APPLICATIONS | | | | | |
|--|----------|---------|---------------------------------------|--------------|--------------------|
| Product LTIR | Expiries | Tiers | Quote Spread (Price bps) ¹ | Quote Volume | % Session Presence |
| Schatz 2 Yr 6% | | Level 1 | 0.50 | 50 | 90% |
| | | Level 2 | 1.50 | 150 | 90% |
| Bobl 5 Yr 6% | | Level 1 | 1.00 | 50 | 90% |
| | | Level 2 | 2.00 | 75 | 90% |
| Bund 10 Yr 6% | | Level 1 | 1.00 | 30 | 90% |
| | | Level 2 | 3.00 | 50 | 90% |
| Gilt 10 Yr 4% | | Level 1 | 2.00 | 15 | 90% |
| | | Level 2 | 3.00 | 30 | 90% |

Tiered quotes up to a spread of three price basis points for STIRs and Schatz, and up to five price basis points for Bobl, Bund and Gilt will be recognized by NLX for the purposes of quoting obligations.

LTIR rolls: front month and calendar roll for two weeks prior to Last Trading Day of the front month for Bund, Bobl & Schatz, and two weeks prior to, the first notice day of the Gilt.

For the avoidance of ambiguity we wish to define the size of the quote spreads in PRICE BASIS POINTS, defined as 0.01. Accordingly the minimum tick size in EURIBOR[®] and Schatz future products is 0.5 Price Basis Points.

For further information in relation to this Market Notice, please contact:

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