

# NASDAQ NLX Market Notice: 003-16

**Issue Date: 9 May 2016**

**Effective Date: 9 May 2016**

## Invitation to Tender for Designated Market Makers in STIR & LTIR Futures and TED Spreads

### Introduction

NASDAQ NLX (“NLX”) has decided to renew its current Designated Market Maker (“DMM”) scheme (“this Market Maker Scheme”), which will run for a period of 6 months from Wednesday 1<sup>st</sup> June 2016 (“the Commencement Date”) to Wednesday 30<sup>th</sup> November 2016. This Market Maker Scheme will replace the previously announced Market Maker Scheme. This tender closes at 18:00 (UK) on Monday 23<sup>rd</sup> May 2016.

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 in Appendix A. The appointed DMMs shall receive an execution fee rebate for the duration of this Market Maker Scheme 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® : 1<sup>st</sup> White – 4<sup>th</sup> Purple (Q1 – Q24)
- Short Sterling : 1<sup>st</sup> White – 4<sup>th</sup> 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<sup>®</sup> for 5 Schatz Q1
- Red TED: 4 x Q5 Euribor<sup>®</sup> for 5 Schatz Q1
- Rose TED: (2 x Q4) + (2 x Q5) Euribor<sup>®</sup> for 5 Schatz Q1

## 2. Benefits of DMM status

The appointed DMMs in this Market Maker Scheme shall receive:

- A 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 or a later mutually agreed commencement date;
- Making continuous symmetrical quotes (equal volume on the bid and ask 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<sup>®</sup>, 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 prices
- Minimum volume of the Products in the symmetrical bid and ask of the quotes
- Highest session presence in terms of the percentage of the Normal Trading Day meeting quoting obligations
- Proven experience of providing liquidity in the fixed income derivatives markets and their resilience to fulfil their obligations in volatile market conditions
- 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 contracts.
- The stipend offering most value to the NLX market for the range of market maker activities tendered

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 with 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;
- No daily contribution to the overall monthly stipend is allocated to the Market Maker where the Market Maker does not perform at or above the following daily minimum requirements:

<b>Product</b>	<b>Session Presence</b>
LTIRs	25%
STIRs	30%

- 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 DMMs

- **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 Excel tender forms which will be provided upon request to interested participants. Please note that only the tenders submitted using the provided tender Excel template will be considered.
- **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 Monday 23rd May 2016.
- **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 DMMs 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, which is included in the Excel template) 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 futures price ticks expressed as price 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. The appointed DMMs shall be notified of their appointed status on or around Wednesday 25<sup>th</sup> May 2016. 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, Wednesday 1<sup>st</sup> June 2016, or the mutually agreed commencement date.

## 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 ITRs.

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.

The Operator may review the effectiveness of the Market Maker Scheme (the "Tender Review"). After completion of the Tender Review, where the Operator considers it beneficial to the Market to amend the Market Maker Commitments or accept into the scheme new Market Makers, the Operator may choose, at its discretion, to re-open the Market Maker Scheme for new or revised tenders. In determining whether or not to re-open the Market Maker Scheme to tenders, the Operator shall request, where relevant, that the Market Maker revise the Market Maker Commitments on the basis that the Market Maker Commitments and rewards be similar to those at the beginning of this Agreement with the Operator reserving the right to re-tender. New tenders will be assessed on the same grounds as prior tenders and in all cases a tender or re-tender will be open, transparent, and non-discriminatory.

## 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 discrete subsets.

METRICS GUIDANCE FOR NLX DMM TENDER APPLICATIONS					
Product STIRs	Delivery Month	Tier	Maximum Bid/Ask Spread(bps)	Minimum Order Size (lots)	Session Presence (%) *
Euribor®	Whites (Q1 - Q4)	Tier 1	0.5	75	90%
		Tier 2	1.5	250	90%
	Front Reds (Q5 – Q6)	Tier 1	0.5	50	90%
		Tier 2	1.5	200	90%
	Back Reds (Q7 - Q8)	Tier 1	0.5	50	90%
		Tier 2	1.5	150	90%
	Greens (Q9 - Q12)	Tier 1	1.0	50	90%
		Tier 2	2.0	100	90%
Euribor® THREE MONTH SPREAD	Whites – Greens (Q1 – Q12)	Tier 1	0.5	250	90%
		Tier 2	1.0	500	90%
* - Market Making Session commences at 7:00 and ends at 18:00 (London Time)					
STERLING	White (Q1 - Q4)	Tier 1	1.0	150	90%
		Tier 2	2.0	250	90%
	Front Red (Q5 - Q6)	Tier 1	1.0	150	90%
		Tier 2	2.0	250	90%
	Back Reds (Q7 - Q8)	Tier 1	1.0	100	90%
		Tier 2	2.0	200	90%
	Greens (Q9 - Q12)	Tier 1	2.0	50	90%
		Tier 2	3.0	100	90%
STERLING SIX MONTH SPREAD	Whites (Q1 - Q4)	Tier 1	1.0	200	90%
		Tier 2	2.0	400	90%
* - Market Making Session commences at 7:30 and ends at 18:00 (London Time)					
WHITE TED SPREAD	4xQ4 Euribor®/ 5xQ1 Schatz	Tier 1	0.5	20	90%
		Tier 2	1.0	20	90%
		Tier 3	1.5	20	90%
* - Market Making Session commences at 7:00 and ends at 18:00 (London Time)					

<b>METRICS GUIDANCE FOR NLX DMM TENDER APPLICATIONS</b>					
<b>Product LTIRs</b>	<b>Delivery Month</b>	<b>Tier</b>	<b>Maximum Bid/Ask Spread(bps)</b>	<b>Minimum Order Size (lots)</b>	<b>Session Presence (%) *</b>
SCHATZ	Q1	Level 1	0.50	50	90%
		Level 2	1.50	150	90%
BOBL	Q1	Level 1	1.00	50	90%
		Level 2	2.00	75	90%
BUND	Q1/Q2	Level 1	1.00	30	90%
		Level 2	3.00	50	90%
<b>* - Market Making Session commences at 7:00 and ends at 18:00 (London Time)</b>					
LONG GILT	Q1	Level 1	2.00	15	90%
		Level 2	3.00	30	90%
<b>* - Market Making Session commences at 8:00 and ends at 18:00 (London Time)</b>					

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<sup>®</sup> and Schatz future contracts is 0.5 Price Basis Points.

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

Vishal Mewasingh:

Tel: +44 (0) 203 753 2125

Email: [vishal.mewasingh@nlx.co.uk](mailto:vishal.mewasingh@nlx.co.uk)

Alex Reynolds:

Tel: +44 (0) 203 753 2126

Email: [alex.reynolds@nlx.co.uk](mailto:alex.reynolds@nlx.co.uk)