

## LIFFE INFO-FLASH NO. LO14/67

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### EURO SWAPNOTE® FUTURES

#### REVISION OF MARKET MAKER PROGRAMMES INTO LIQUIDITY PROVIDER PROGRAMMES

##### Executive Summary

This Info-Flash informs Members of the revision of the existing Market Maker programmes in each of the Two Year, Five Year and Ten Year Euro Swapnote® Futures Contracts into Liquidity Provider Programmes, and invites Members and appropriate clients of Members to apply to the new Programmes.

#### 1. Introduction

- 1.1 London Info-Flash No. [LO12/44](#), issued on 21 June 2012, informed Members of the introduction of new Market Maker Programmes in each of the Two Year, Five Year and Ten Year Euro Swapnote® futures contracts (the “Contracts”).
- 1.2 This Info-Flash informs Members of a revision to the Market Maker programmes, which shall now be referred to as Liquidity Provider Programmes, with each Programme operating independently for each of the Contracts.
- 1.3 The terms of the Liquidity Provider Programmes will supersede the terms of the Market Maker programmes on and from 1 September 2014. Appropriate Members and clients of Members are invited to apply.
- 1.4 Subject to the completion of revised Legal Agreements, participants currently registered on the market maker programmes will be deemed to continue as participants of the Liquidity Provider Programme in the relevant Contract(s) on and from 1 September 2014, unless the Exchange is notified otherwise.

#### 2. Overview of the Programmes

- 2.1 Participants approved on any of the Programmes may be eligible for a share of up to 25 percent of future Exchange and Clearing fee revenues generated in the relevant Contract.
- 2.2 The revenue share that each participant may earn will be determined by their relative volume traded in the associated Contract.
- 2.3 The Programmes will commence on and from 1 September 2014. The Term of the Programme will be split into a Growth Period and Support Period:
  - (a) **Growth Period:** The Programmes commence with the Growth Period which will last for two calendar years, or until the Growth Volume Measure (as set-out in Section 5) reaches 100%, whichever is sooner.

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- (b) If by the end of the Growth Period, the average daily volume as measured over a rolling retrospective 63 business days (“ADV”) has not exceeded 20,000 lots in the relevant Contract, the associated Programme will be terminated.
- (c) **Support Period:** Immediately upon the Growth Volume Measure reaching 100%, or following the end of the two year Growth Period if the ADV is at least 20,000 lots in the relevant Contract, the respective Programme will enter the Support Period. The Support Period will operate until close of business 30 August 2019, during which time participants will be eligible for a share of up to 25 percent of the Exchange and Clearing Fee revenue generated in the associated contract.

### 3. Eligibility Criteria and Participation on the Programmes

- 3.1 The Programmes will be open to Members and clients of Members who wish to participate as a Liquidity Provider (as defined in the Rules), up to a maximum of ten participants per Programme.
- 3.2 For the purpose of the Programmes, activities of a Liquidity Provider can include, but are not limited to: the frequent submission of orders into the Universal Trading Platform (“UTP”) to attract and satisfy customer order flow; trading activity which contributes to price discovery; and/or activity which facilitates the orders of buyers and sellers via wholesale services.
- 3.3 In the event that a greater number of applicants apply for a Programme than there are available places, selection will be made with reference primarily to each applicant’s access to the Interest Rate Swap market, and secondly to the applicant’s track record in other liquidity provision programmes operated by the Exchange.
- 3.4 Applications will remain open until the maximum number of participants is reached. If any participant withdraws from the Programme during the Growth Period, their position may be filled subject to the maximum of ten. No applications will be accepted during the Support Period.
- 3.5 The Exchange’s decision with respect to participation will be final.

### 4. Benefits of the Programmes

- 4.1 Registered participants will be eligible for the following benefits:
- (a) a full Exchange and Clearing Fee rebate<sup>1</sup> on Assigned Volume transacted during the Growth Period in the relevant Contract; and
- (b) a share of Exchange and Clearing Fee revenues (“Revenue Pool”) generated during the Support Period in the relevant Contract, calculated as follows:
- the Exchange and Clearing Fee;
  - multiplied by two (2) (buy side and sell side of transaction);
  - multiplied by the monthly volume for that calendar month (single sided as published by the Exchange)<sup>2</sup>;
  - less any rebates paid to Liquidity Providers;
  - multiplied by 25% (the revenue share allocated to the Programme);

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<sup>1</sup> For the avoidance of doubt, Exchange and Clearing fee rebates do not include Settlement Fees.

<sup>2</sup> If the Support Period commences mid-way through a calendar month, then the volume for that calendar month will be measured on and from the first day of the Support Period until the last business day of the calendar month.

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- multiplied by the Growth Volume Measure (detailed in Section 5 below).

4.2 Each participant's individual share of the Revenue Pool will be calculated in accordance with Section 6.

### 5. Determination of the Revenue Pool - Growth Volume Measure

5.1 For each business day during the Growth Period, the average (defined as the arithmetic mean as measured over a rolling retrospective 63 business day period) business transacted via the central order book (Average COB), business transacted via the wholesale facility including Bclear (Average Wholesale) and open interest (Average OI) will be determined by the Exchange.

5.2 The figures will be measured relative to a Target Average Daily Volume ("Target ADV") (100,000 lots) and Target Open Interest ("Target OI") (200,000 lots) in accordance with the following Growth Volume Measure formula:

$$GVM = \min \left( 1, 0.5 * \left( \min \left[ 1, 0.5 * \left\{ \frac{\text{Average COB}}{\text{Target ADV} * 0.5} + \min \left\{ 1, \frac{\text{Average Wholesale}}{\text{Target ADV} * 0.5} \right\} \right] + \frac{\text{Average OI}}{\text{Target OI}} \right) \right) \right)$$

*GVM = Growth Volume Measure*

5.3 The Growth Volume Measure determines the extent to which the Target OI and the Target ADV is met, given that the Average COB proportion of the Target ADV should be at least 50%. The extent to which the Average COB proportion of Target ADV is less than 50% is reflected accordingly in the calculation of the measure.

5.4 The Growth Volume Measure will be used in the calculation of the Revenue Pool as set out in section 4.1(b).

### 6. Determination of each participant's share of the Revenue Pool

6.1 For each calendar month (t) during the Growth Period, each participant's monthly volume, ("Individual Monthly Volume") will be determined, based on the higher of Assigned Volume (as set-out in Section 7) and Executed Volume (as set-out in Section 8) during that period.

6.2 The Monthly Volume Score determines each participant's Individual Monthly Volume as a percentage of all participants Individual Monthly Volume as set-out in the formula below:

$$MV_{nt} = \frac{V_{nt}}{\sum_{r=1}^N V_{rt}}$$

*MV = Monthly Volume Score*

*N = Number Participants*

*t = Month*

*V = Individual Monthly Volume*

6.3 If the Growth Period concludes before the end of the 2 years in accordance with section 2.3(a), the Monthly Volume Score for the final month will be calculated based on Individual Monthly Volume up to and including the day on which, after the close of business, the Growth Volume Measure reaches 100%.

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- 6.4 At the start of the Support Period, the total number of months ( $T$ ) over which the Growth Period operated will determine each participant's Total Volume Score. The Total Volume Score is calculated as the average of the Monthly Volume Score, in accordance with the following formula:

$$TV_n = \frac{\sum_{t=1}^T MV_{nt}}{T}$$

$TV$  = Total Volume Score

- 6.5 Each participant's Total Volume Score will determine the share of the Revenue Pool received each month during the Support Period.
- 6.6 Participants are required to maintain a Monthly Volume Score to a Minimum Performance Level. The Minimum Performance Level will require participants to maintain a Monthly Volume Score greater than or equal to 5%.

## 7. Assigned Volume

- 7.1 Assigned Volume is volume which satisfies the following criteria:

- (a) volume transacted in the relevant Euro Swapnote® Futures Contracts via the Central Order Book and/or Wholesale Facility including Bclear;
- (b) assigned to the Account Reference(s) of a registered participant in the Universal Clearing Platform ("UCP") at the close of business on the same day;
- (c) own/proprietary business of the participant, and not client business;
- (d) excludes Single Trader Cross Transactions, Cross by Allocation and any business assigned to the participant on a day subsequent to the day on which the business was transacted; and
- (e) in the case of business transacted through the Wholesale Facility and where both the buy and sell side are assigned to the participant under a registered UCP Account Reference, only one side of the transaction will be identified as Assigned Volume for that participant.

## 8. Executed Volume

- 8.1 Executed Volume is volume which satisfies the following criteria:

- (a) business transacted in the relevant Euro Swapnote® Futures Contracts;
- (b) executed on the UTP and/or Bclear through an Individual Trader Mnemonic ("ITM") registered with the Exchange on the Programme and used solely for the purposes of providing liquidity in the relevant Contract(s);
- (c) excludes Single Trader Cross Transactions; and
- (d) in the case of business transacted through the Wholesale Facility and where both the buy and sell side are executed by a registered participant only one side of the transaction will be identified as Executed Volume for that participant.

**9. Application process**

- 9.1 Members who wish to apply for participation in any of the Programmes, either themselves or on behalf of their clients should contact the Fixed Income Derivatives Team at the following address: [rates@nyx.com](mailto:rates@nyx.com).
- 9.2 A Review Panel comprising members of the Exchange's executive will examine applications for approval in the Programmes. No Panel member will have a material interest in any applicant, for example by way of personal or financial connection. The Review Panel's decision shall be final.
- 9.3 Participation in the Programme(s) will supersede any existing arrangements between the participant and the Exchange in the relevant Contract (i.e. in relation to the existing Euro Swapnote<sup>®</sup> Market Maker Programme detailed in London Info-Flash No. [LO12/44](#)).
- 9.4 The Programmes are open to all Members with the appropriate trading rights. A non-member may undertake the liquidity providing activities through a Member. However, in such cases the activities of the participant in relation to the Programme remains the responsibility of the Member and, as such, applications must be made to the Exchange with the full understanding and agreement of the Member.
- 9.5 The appointment of a participant will be subject to a binding contract ("the Liquidity Provider Agreement") between the participant and the Exchange. Successful participation on the Programme(s), and therefore the periods for which the participant is eligible to receive financial benefits, will not be deemed to have commenced until such Liquidity Provider Agreement is completed, signed, received and countersigned by the Exchange. All participant appointments will be subject to standard contractual terms.
- 9.6 Each Programme constitutes an incentive scheme under the FCA Recognition Requirements. The Member should ensure the Member's compliance officer is aware of the Member's commitments under the Programme and the compliance officer will be required to acknowledge this in the Liquidity Provider Agreement.

**10. Identification of Assigned and Executed Volume**

- 10.1 Once a participant has been registered on the Programme its:
- Assigned Volume will be identified through the Client Info Field (a field that translates into a single Account Reference in the UCP used exclusively by the participant for the purposes of the Programme(s)).
  - Executed Volume will be identified through the ITM used exclusively by the participant for the purposes of the Programme(s).
- 10.2 Applicants should be aware that after a trade enters UCP, the Account Reference field can be amended through UCP post trade processing any time up until 21:30 hours (London time) on the same business day. As such, applicants should ensure that they submit in their application the final Account References based on market assigned trades for the Exchange to identify Assigned Volume accurately.
- 10.3 It is essential that submitted ITMs and Account References are accurate as a simple error will result in Assigned Volume or Executed Volume not being identified. For example, if Account Reference

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“ABC1” was submitted as “ABC”, no Assigned Volume would be identified and no Exchange and Clearing Fee rebates and/or Revenue Pool would be awarded. Or if ITM “AB1” was submitted as “AB1”, no Executed Volume would be identified and no Revenue Pool would be awarded.

- 10.4 The Exchange stresses that any underpayment of Exchange and Clearing Fee rebates and Revenue Pool resulting from inaccurate application/registration details will not be corrected retrospectively by the Exchange.
- 10.5 If a registered participant decides to make changes to the trading and/or clearing arrangements which were detailed in the application, particularly those used by the Exchange to identify Assigned and Executed Volume (e.g. Clearer, Member, ITM(s) and Account Reference details), it is the responsibility of the participant to provide the Exchange with formal notification of such amendments in a timely manner, ideally in advance and in all cases by no later than close of business on the last business day of the month in which the change occurred. If this is not done, then only volumes transacted during the calendar month in which the notification of changes was received by the Exchange will be eligible for the benefits specified in section 4.

### 11. Billing and Rebate Information

- 11.1 Exchange and Clearing Fees will be billed (as they are currently) to Clearing Members at the beginning of the following calendar month. This initial bill will be calculated on the basis of standard fees as published on the website. The Exchange will then calculate the rebates on Assigned Volume for approved participants and make rebates to Clearing Members during the following calendar month. For example, rebates for Assigned Volume transacted in September 2014 will be calculated in October 2014 for payment to Clearing Members at the beginning of November 2014. The payment of rebates will be subject to a binding agreement (the “Clearing Member Services Agreement”) between the participant, the Member (where the participant is not a Member of the Exchange), the Clearing Member and the Exchange.
- 11.2 In the event that any business which may give rise to a benefit under the terms of the Programmes may also qualify as business undertaken by the participant giving rise to a benefit under any other Exchange liquidity provision, market making or other similar programme or arrangement (“Other Arrangement”) (regardless of whether such programme or arrangement is an “incentive scheme” within the FCA’s guidance), the Exchange may re-charge some or all of the rebates and withhold the credit of any further rebates otherwise due under the Other Arrangements.
- 11.3 During the Support Period, any share of the Revenue Pool that the participant has accumulated during the Growth Period will be paid at the end of each calendar month to the bank account specified by the participant.
- 11.4 Members or clients who would like additional information about the Programmes should contact the Fixed Income Derivatives team at Liffe. Further information in relation to the Programme Performance calculations, Agreement and Clearing Member Agreement are available on request.

For further information in relation to this Info-Flash, Members should contact:

Fixed Income Derivatives

+ 44 (0)20 7429 4640

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