

London Stock Exchange Derivatives Market

Designated Liquidity Provider Programme
2018/19:

Request For Proposal

CurveGlobal Products Trading on LSEDM

June 2019



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1. Introduction

This Request for Proposal (RFP) advises all interested parties of an extension to the existing Designated Liquidity Provider (DLP) Programme, relating to the trading of CurveGlobal products on the London Stock Exchange Derivatives Market (LSEDM).

LSEDM invites all current and prospective Members, and their clients, to apply.

Any interested party that is not a Member of LSEDM must submit its proposal through an LSEDM Member or prospective Member.

The extension to the DLP Programme covers the following CurveGlobal Products, admitted to trading on LSEDM on 29th July 2019:

STIR Futures:

- a) CurveGlobal® One month SONIA Futures: Aqua and 12 serial months
- b) The Inter-Commodity Spread (ICS) between CurveGlobal® Three month SONIA Futures and the CurveGlobal® One month SONIA Futures

2. Benefits of the DLP Programme

Subject to fulfilling a set of agreed obligations, appointed DLPs in the CurveGlobal Products listed may qualify to receive a contribution towards their identifiable direct costs associated with this DLP Programme via a fixed monthly contribution to costs.

Additionally, fee incentives will be offered as part of the programme (as specified in the LSEDM Tariff Schedule).

3. Application Process

3.1. Invitation

The application process for the current DLP Programme is being re-opened in light of the extension of the DLP Programme to include the new products outlined in Section 1. Prospective, and existing, DLPs are invited to submit competitive tenders to the LSEDM Product team (LSEDerivativesProduct@lse.com) to be appointed as a DLP for the CurveGlobal Products listed at Section 1.

3.2. Closing Date for Submission

Tenders should be submitted to the LSEDM Product team no later than 5pm London Time on 2nd July 2019.

3.3. Duration of Programme

This programme has a term of 12 months. This 12 month period commenced on 1st October 2018, with the possibility of renewal at the end of the 12 month period.

LSEDM reserves the right to appoint additional DLPs from the original tender or to re-open the tender process in the case where a DLP fails to fulfil their market making obligations.

LSEDM may review the effectiveness of the DLP Programme at any time. LSEDM may at its discretion choose to re-open the DLP application process or accept new DLPs in order to improve market quality. Any change or new proposals shall follow the application process as defined in this section 3.

3.4. Eligibility

Tenders for this DLP Programme are invited from all current Members, prospective Members, and clients of current or prospective Members, provided that any applications by a client is submitted through an LSEDM Member or prospective Member.

A prospective Member will not be able to sign the DLP Agreement until successfully admitted to Membership. In cases where a client of a Member or prospective Member is accepted into the DLP Programme, the relevant Member firm of the client will be deemed to be the DLP and accordingly must sign the DLP Agreement and then delegate its obligations to its client.

3.5. Compliance

The applicant should ensure that their compliance officer is aware of the applicant's commitments and obligations under this DLP Programme. The compliance officer shall acknowledge this in the tender submission. The applicants appointed as DLPs are required to provide evidence of having in place appropriate clearing arrangements and internal controls to monitor their compliance with the DLP programme.

3.6. Application Criteria Required

LSEDM will require that the tender application clearly shows the following details for each Product listed in Section 1 for which they wish to become a DLP:

1. The maximum Bid/Ask quote spreads in minimum tick increments, and the associated symmetrical volumes that the DLP will commit to for the greatest percentage of the Trading Day as defined in the LSEDM Trading Calendar:
 - a. 07:30 – 18:00 CurveGlobal® One month SONIA outrights and strategies (Aqua and 12 monthly serials);
 - b. 07:30 – 18:00 CurveGlobal® Three month SONIA and CurveGlobal® One month SONIA Inter Commodity Spreads.
2. The number of products, outright expiries and strategies to be quoted by the DLP.
3. In assessing the submitted tenders LSEDM will consider tiered quoting obligations (i.e. several quotes of wider spread and increasing volume by the DLP), up to a spread of 3 minimum tick increments for STIRs (including the Inter Commodity Spreads) contracts, and up to 3 minimum tick increments for LTIRs.
4. A breakdown of the identifiable direct costs associated with performing the proposed obligations pursuant to this DLP programme ("contribution to costs"). LSEDM reserves the right to request additional supporting documentation, including original costed documents, or any other evidence it deems necessary to assess an application and satisfy regulatory requirements.
5. LSEDM will also consider applications from Members where the DLP would receive only the potential fee incentives* but without receiving a contribution to costs as detailed in section 2. This could include applications where the proposed quoting obligations provide for wider spreads.

3.7. Appointment of DLPs

The selected DLPs will be appointed by LSEDM following assessment of the tenders submitted under this competitive tender process. The appointed DLPs will be engaged by LSEDM under the terms of the DLP Agreement.

DLPs and prospective DLPs will be appointed by 19th July 2019. The DLP's benefits and obligations shall commence on 29th July 2019.

Subject to the regulatory requirements applying to LSEDM, the selection of the DLPs for the programme will be at the sole discretion of LSEDM and LSEDM retains the right to select or decline applications to the DLP Programme.

4. Assessment Criteria

The individual tenders shall be assessed by LSEDM at its absolute discretion, which shall include consideration of the following criteria:

1. Maximum volume of contracts in the symmetrical Bid and Ask of the quotes;
2. Minimum size of spread between Bid and Ask prices;
3. The requested contribution to costs, offering most value to LSEDM for the range of market making activities tendered;
4. Most number of products, expiries and strategies to be quoted;
5. Minimum percentage of the trading day meeting quoting obligations; and
6. LSEDM will also consider tiered or layered quoting, recognising all quotes made by a DLP in the order book.

5. Obligations of Designated Liquidity Providers

DLPs will be required to reliably and consistently enhance market depth and liquidity:

1. By being able to actively quote, trade and execute on LSEDM on the start date;
2. By making continuous symmetrical quotes/orders (equal volume on the bid and offer) on the LSEDM order book on the products in which they have been appointed as a DLP. If an order and/or quote is asymmetrical, with unequal volume on the Bid and Ask side of the order and/or quote, then the lower volume will be considered;
3. In a minimum volume of contracts;
4. At or better than a defined bid/ask spread; and
5. For the agreed percentage of the Trading Day for the product, and in particular at the start of the Continuous Trading Period and at 16:15 on a Normal Trading Day and at midday on a Half Trading Day.

Continuous trading session details are listed in the CurveGlobal Contract Specification document and Derivatives Trading Calendar, as below:

CurveGlobal Contract Specification:

<https://www.lseg.com/derivatives/document-library>

Derivatives Trading Calendar:

<https://www.lseg.com/derivatives/document-library>

All times are London times.

6. The agreed incentives accruing to, and obligations undertaken by DLPs, shall be subject to a written agreement between LSEDM and the respective DLP. LSEDM reserves the right to terminate the DLP Agreement if the Member fails to meet the obligations set out in the DLP Agreement.
7. Mandatory response to RFQs (within 5 secs) in expiry months of products where they have DLP status and there is not a two way market at the time of the RFQ (i.e. no simultaneous Bid and Offer).

6. Qualifying Business

Both orders and/or quotes submitted by the DLP on the order book from their DLP account will count towards the DLP's quoting obligations.

If an order and/or quote is asymmetrical, with unequal volume on the Bid and Ask side of the order and/or quote, then the lower volume will be used by LSEDM in assessing quoting obligations.

Where fee incentives apply under this programme:

- Only transactions concluded in the account nominated in the DLP Agreement will be eligible to receive them.
- LSEDM will not under any circumstances consider providing any fee incentives that may otherwise have been due to a DLP if incorrect information was supplied by the DLP.

7. Supervision of Designated Liquidity Provider's Performance

LSEDM shall monitor the order book activity of the DLPs to ensure compliance with their obligations. Bilaterally Negotiated Trades will not be considered for this DLP Programme.

In the case of the volume of an order and/or quote being asymmetrical (the volume on the Bid and Ask not being equal), then the lower volume will be the measured volume of the order and/or quote.

Only order book orders and/or quotes during the Trading Day will contribute towards satisfying the DLP quoting obligations.

8. Failure of Designated Liquidity Providers to Fulfil Obligations

In the case that a DLP fails to meet its obligations, LSEDM shall reserve the right to terminate the DLP Agreement by serving written notice upon the DLP.

LSEDM reserves the right to terminate this Agreement with immediate effect where:

- LSEDM reasonably believes that the DLP is in breach of any of the Rules of the London Stock Exchange Derivatives Market ("the Rules");
- The DLP ceases to conduct business as required in the Rules and the Liquidity Provider Obligations Document;
- LSEDM reasonably believes that the Liquidity Provider is in breach of any term of the DLP Agreement and fails to remedy such breach within five working days of receiving a notice requiring it to do so;
- LSEDM considers that the DLP has abused its position; or

- It has served one month's written notice, including by issuing a Market Notice, to the DLP of its intention to do so.

A DLP may modify or suspend the obligations of the Liquidity Provider where extreme market conditions arise. In the event of a change in ongoing obligations, LSEDM would issue a Market Notice. For the avoidance of doubt, where obligations are suspended, the DLP shall not be deemed to be in breach of this Agreement in case quotes/orders are not made for the duration of the suspension.

If a DLP fails to fulfil their contractual obligations for their contracted percentage of the Trading Day for any given Trading Day of the month, then LSEDM reserves the right to reduce their contribution to costs for the month in question in proportion to the number of days that they fell short of their quoting obligation.

For example, assume a DLP was contracted to quote 80% of the Trading Day and managed 72% on one day and above 80% for all other trading days of the month. If LSEDM decided to exercise its right, the DLP would forfeit a pro-rata amount of their contribution to costs. eg. Forfeit = 100% x 1/22 x contribution to costs (assuming 22 Trading Days in the month).

9. Fee Incentives* and Contribution to Costs

LSEDM shall monitor a DLP's performance against its obligations and accordingly:

- Contribution to costs will be calculated monthly but reviewed and paid quarterly in March, June, September and December, once an invoice is received.
- Fee incentives will be calculated and applied monthly to the invoiced fees.

Subject to meeting its Obligations, and where specifically provided for in the DLP Agreement, LSEDM will pay contribution to costs to the Member, including where the DLP obligations are being fulfilled by a client of the Member.

Where fee incentives apply, and in the event that any qualifying business under this programme may also be recognised for any benefit under any other LSEDM incentive scheme, whether it be liquidity provision, market making or any other programme or arrangement (irrespective of whether such a scheme is regarded as an incentive scheme under applicable rules or regulations), LSEDM will, in its absolute discretion, take any or all of the following steps to avoid double counting:

- withhold fee incentives due under the other scheme(s);
- withhold fee incentives due under this DLP Programme;
- re-charge some or all of the fee incentives previously made under the other schemes or this DLP Programme.

LSEDM reserves the right to terminate this DLP Programme by way of Market Notice, as governed by the terms of the DLP Agreement.

LSEDM reserves the right to launch additional Liquidity Provider programmes in the future, which may include the products in this scheme.

**Details of fee incentives are listed within the LSEDM Tariff Schedule.*

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