

London Stock Exchange Derivatives Market

Designated Market Maker Programme
2017/18:

Request For Proposal

CurveGlobal Products Trading on LSEDM

August 2017



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1. Introduction

1.1. Designated Market Maker (DMM) Programme:

Following the successful implementation of the Designated Market Maker (DMM) Programme (2016/17) for CurveGlobal Products, the London Stock Exchange Derivatives Market (LSEDM) is contacting all current and prospective Members to inform them of the new DMM programme for CurveGlobal products for the period of October 2017 – October 2018.

This Request for Proposal (RFP) invites all interested parties to tender for this new programme. Please note that all DMMs currently in the 2016/17 DMM Programme will be required to submit a competitive tender in accordance with the Application Process as set out in this document to be considered for the 2017/18 DMM Programme.

1.2. Invitation to apply for the DMM Programme (2017/18) for CurveGlobal Products:

The DMM Programme (2016/17) covered both Short Term (STIR) and Long Term Interest Rate (LTIR) CurveGlobal products.

LSEDM is seeking to establish a new DMM programme (DMM Programme (2017/18)) again covering both the STIR and LTIR products.

Note that any interested party that is not a Member of LSEDM must submit its proposal through an LSEDM Member, or apply to become an LSEDM Member themselves.

1.3. Products Applicable for the New Designated Market Maker Programme:

The DMM Programme (2017/18) covers the following CurveGlobal Products traded on LSEDM:

STIR Futures:

- a) Contracts based on Euribor[®] : White – Purple (Q1 – Q24 and 1st 4 serials)
- b) Contracts based on Short Sterling : White – Purple (Q1 – Q24 and 1st 2 serials)

LTIR Futures:

- c) German 10Yr Bund (6%)
- d) German 5Yr Bobl (6%)
- e) German 2Yr Schatz (6%)
- f) UK 10Yr Gilts (4%)

2. Benefits of the DMM Programme

Subject to fulfilling the agreed obligations the appointed DMMs in STIR and LTIR Products listed above shall benefit from:

- 3.1 Zero execution fees for the 12 month duration of this DMM Programme;
- 3.2 Zero clearing fees for the 12 month duration of this DMM Programme;
- 3.3 A contribution towards their identifiable direct costs associated with this DMM Programme via a fixed quarterly payment.

3. Application Process

3.1. Invitation

Current and prospective DMMs for CurveGlobal Products traded on LSEDM are invited to submit competitive tenders to be appointed as a DMM.

3.2. Closing Date for Submission

Tenders should be submitted to LSE Membership (membership@lseg.com) by no later than the 5pm London Time on 1 September 2017.

3.3. Duration of Programme

This programme will have a term of 12 months from the 2 October 2017, with the possibility of renewal at the end of the 12 month period.

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

3.4. Eligibility

The programme is open to all LSEDM Members and their clients. Tenders for this DMM programme are therefore invited from all current Members, and clients of current Members, provided that any applications by a client are submitted through an LSEDM Member.

3.5. Compliance

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

3.6. Application Criteria Required

LSEDM will require that the tender clearly shows the following details for each product listed in Section 1.3 above:

(See also Guidelines Section 4.1 below)

- i) The tightest Bid/Ask quote spreads in basis points, and the associated symmetrical volumes that the DMM will commit to for the greatest percentage of the normal trading day (time is in London time).
 - a) 07:00 – 21:00 Euribor[®] outrights and calendar spreads;
 - b) 07:30 – 18:00 Short Sterling outrights and calendar spreads;
 - c) 07:00 – 21:00 Schatz, Bobl, Bund, outrights and calendar roll;
 - d) 08:00 – 18:00 Long Gilt outrights and calendar roll.
- ii) The number of products, outright expiries and calendar spreads to be quoted by the DMM.
- iii) LSEDM will consider tiered quoting obligations (i.e. several quotes of wider spread and increasing volume by the DMM) up to a spread of 2 basis points in assessing the submitted tenders for STIRs contracts only – and up to 4 basis points for Schatz, Bobl, Bund and Long Gilt.
- iv) A breakdown of the identifiable direct costs associated with performing the proposed obligations pursuant to this DMM scheme ("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.

3.7. Appointment of DMMs

The selected DMMs will be appointed by LSEDM following assessment of the tenders submitted under this competitive tender process. The decision by LSEDM to select and appoint DMMs shall be final. The appointed DMMs will be engaged by LSEDM under the terms of the Designated Market Maker Agreement.

The DMM's benefits and obligations shall commence on the 2nd October 2017.

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

Notification of the details of the DMM Obligations for each selected DMM will be available on the LSEDM website in the DMM Obligations document. Unless instructed otherwise by the successful applicant, names of successful applicants will be disclosed.

4. Assessment Criteria

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

- 5.1 Maximum volume of contracts in the symmetrical Bid and Ask of the quotes;
- 5.2 Minimum size of spread between Bid and Ask prices;
- 5.3 The requested contribution to costs offering most value to LSEDM for the range of market making activities tendered;
- 5.4 Most number of products, expiries and spreads to be quoted;
- 5.5 Highest percentage of the normal trading day meeting quoting obligations;
- 5.6 LSEDM will also consider tiered or layered quoting, recognizing all quotes made by a DMM in the Order Book up to a maximum spread of 2 basis points for STIRs.

4.1. Guidelines for Application

LSEDM would like to ensure the effectiveness of the DMM programme(s) for CurveGlobal products continues. Applicants are, therefore, advised that the following attributes will be looked upon favourably when assessing the value to LSEDM of the market making activities tendered:

- At a minimum obligations should cover Quarterlies in Whites, Reds, Greens and Blues
- More weighting will be awarded to size offered at the tightest possible Bid and Ask Spread.
Expected spreads are as follows:
 - Euribor[®] (Whites & Reds - 0.5 bps; Greens & Blues – 1.0 bps)
 - Short Sterling (Whites, Reds, Greens and Blues - 1.0 bps)
- More weighting will be awarded to layered Quotes (i.e. second level quotes not at the Best Bid and Offer) that meet the minimum block trade threshold size
- More weighting will be awarded to presence commitments that exceed 70%

5. Obligations of Designated Market Makers

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

- 6.1 By being able to actively quote, trade and execute on LSEDM on the start date of the DMM Programme;
- 6.2 By making continuous symmetrical quotes (equal volume on the bid and offer order of the quote) on the LSEDM Order Book on the products in which they have been appointed as a DMM;
- 6.3 In a minimum volume of contracts;
- 6.4 At or better than a defined bid/ask spread;
- 6.5 For the agreed percentage of the normal Trading Day for the product, and in particular at the start of the Continuous Trading Period and at 16:15 (London time), when the Daily Settlement Price is established. The normal trading day will be:
 - a) Euribor[®] 07:00 – 21:00;
 - b) Short Sterling 07:30 – 18:00;All times London time
- 6.6 The agreed incentives accruing to and obligations undertaken by DMMs shall be subject to a written agreement between LSEDM and the respective DMM. LSEDM reserves the right to terminate the DMM Agreement if the DMM fails to meet the obligations set out in the DMM Agreement.

Mandatory response to RFQs (within 5 secs) in expiry months of underlying products where they have DMM status and there is not a two way market at the time of the RFQ (i.e. no Bid or no Offer).

6. Qualifying Business

- 7.1 Only order and /or quotes submitted by the DMM on the Order Book from their DMM account, and by the nominated Registered Trader of the DMM listed in the DMM Agreement, will count towards the DMM's quoting obligation.
- 7.2 If an order and/or quote results in an asymmetrical Bid and Ask, i.e. with unequal volume on the Bid and Ask side of the quote, then the lower volume will be used by LSEDM in assessing quoting obligations.
- 7.3 Only transactions concluded by the nominated Registered Trader and in the account nominated in the DMM Agreement will be eligible for the execution and clearing fee discounts under this programme.
- 7.4 LSEDM will not, under any circumstances, consider discounting 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, and agreement, to be appointed as a DMM.

7. Supervision of DMM Performance

- 8.1 LSEDM shall monitor the Order Book activity of the DMMs to ensure compliance with their obligations under this programme. Bilaterally Negotiated Trades will not be considered for this programme.
- 8.2 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.
- 8.3 Only Order Book orders and/or quotes during the normal Trading Day will contribute towards satisfying the DMM quoting obligations.

8. Failure of DMMs to Fulfil their Obligations

- 9.1 In the case that a DMM fails to meet its obligations, LSEDM shall reserve the right to terminate the DMM Agreement by serving written notice upon the DMM.
- 9.2 The Exchange reserves the right to terminate the DMM Agreement with immediate effect where:
 - a) LSEDM reasonably believes that the DMM is in breach of any of the Rules;
 - b) The DMM ceases to conduct business as required in the Rules and the Market Making Obligations document;
 - c) LSEDM reasonably believes that the DMM is in breach of any term of the DMM Agreement and fails to remedy such breach within thirty calendar days of receiving a notice requiring it to do so;
 - d) LSEDM considers that the DMM has abused its position; or
 - e) It has served one month's written notice, including by issuing a Market Notice, to the DMM of its intention to do so.
- 9.3 LSEDM may modify or suspend the obligations of the DMM where extreme market conditions arise, i.e. a "Fast Market" (or from 3 January 2018, "Exceptional Market Circumstances" or "Stressed Market Conditions"). In such an event, LSEDM would issue a Market Notice.
- 9.4 If a DMM fails to fulfil their contractual obligations for their contracted percentage of the normal Trading Day for any given Trading Day of the month, then their contribution to costs for the month in question will be reduced in proportion to the number of days that they fell short of their quoting obligation.

For clarity, if the DMM was contracted to quote 80% of the normal Trading Day, and managed 72% on one day and above 80% for all other trading days of the month the DMM would forfeit a pro-rata amount of their contribution to costs .e.g. Forfeit = 100% x 1/22 x contribution to costs (assuming 22 Trading Days in the month).

9. Programme Payments

- 10.1 Contribution to costs will be calculated monthly but reviewed and paid quarterly.
- 10.2 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:
 - a) withhold payments due under the other scheme(s);
 - b) withhold payments due under this DMM programme;

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© August 2017

London Stock Exchange Group plc, 10 Paternoster Square, London EC4M 7LS.



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