

SUBJECT TO REGULATORY APPROVALS AND CONTRACT

London Stock Exchange Derivatives Market

Designated Market Maker Programme: Request For Proposal CurveGlobal Products Trading on LSEDM

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



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2. Introduction

2.1. Invitation to apply for Designated Market Maker (DMM) Status

This Request for Proposal (RFP) advises all interested parties of the introduction of a Designated Market Maker (DMM) Programme relating to the CurveGlobal Products trading on LSEDM. The Exchange 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 a LSEDM Member or prospective Member.

2.2. Products Applicable to the DMM Programme:

The DMM Programme covers the following CurveGlobal Products which will be admitted to trading on LSEDM (subject to regulatory approval and appropriate licences),

Short Term Interest Rates (STIR) Futures:

- a) Three month Euribor® Futures : White – Purple (Q1 – Q24 and 1st 4 serials)
- b) Three month Sterling Futures: White – Purple (Q1 – Q24 and 1st 2 serials)

Long Term Interest Rates (LTIR) Futures:

- a) Schatz Futures
- b) Bobl Futures
- c) Bund Futures
- d) Long Gilt Futures

3. Benefits of the DMM Programme

Subject to fulfilling the agreed obligations the appointed DMMs in CurveGlobal's Products listed above shall receive a contribution towards their identifiable direct costs associated with this DMM Programme via a fixed monthly contribution to costs. Additionally, fee incentives may also be offered as part of the programme (to be confirmed and if relevant published before the market launch).

4. Application Process

4.1. Invitation

Prospective Designated Market Makers for CurveGlobal Products to be traded on LSEDM are invited to submit competitive tenders to be appointed as a DMM.

4.2. Closing Date for Submission

Tenders should be submitted to LSE Membership by no later than 5pm London Time on 27 May 2016.

4.3. Duration of Programme

This programme will have a term of 12 months from the date of launch of the CurveGlobal Products traded on LSEDM (subject to regulatory approval and appropriate licences), with the possibility of renewal of the DMM Programme subject to regulatory approval.

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

4.4. Eligibility

Tenders for this DMM 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 Designated Market Maker Agreement until successfully admitted to Membership. In cases where a client of a Member or prospective Member is accepted into the DMM Programme, the relevant Member firm of the client will be deemed to be the DMM and accordingly must sign the Designated Market Maker Agreement and then delegate its obligations to its client.

4.5. 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 programme.

4.6. Application Criteria Required

LSEDM will require that the tender application clearly shows the following details for each contract listed in Section 2.2 above they wish to market make:

- i) The maximum Bid/Ask quote spreads in basis points, and the associated symmetrical volumes that the DMM will commit to for the greatest percentage of the Trading Day as defined in the LSEDM Trading Calendar:
 - a) Euribor® and Short Sterling, outright and calendar spreads;
 - b) Bund, Bobl, Schatz and Long Gilt outright and calendar roll;
- ii) The number of products, outright expiries, calendar spreads and strategies 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 3 basis points for STIRs and up to 5 basis points for Schatz, Bobl, Bund and Long Gilt futures in assessing the submitted tenders.
- iv) A breakdown of the identifiable direct costs associated with performing the proposed obligations pursuant to this DMM 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.
- v) LSEDM will also consider applications from members where the DMM would receive only the potential fee incentives* but without receiving a contribution to costs as detailed in section 3. This could include applications where the proposed quoting obligations provide for wider spreads.

4.7. 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 shall be notified within 5 Business Days of LSEDM receiving regulatory approval of admitting to trading CurveGlobal Products on LSEDM or on 6 June 2016, whichever comes later. 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 at the launch of the CurveGlobal Products for trading on LSEDM.

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

Notification of the details of the Designated Market Making Obligations for each selected DMM will be available on the LSEDM website in the Designated Market Maker Obligations Document. Unless instructed otherwise by the successful applicant, names of successful applicants will be disclosed. In the case where the DMM has delegated its obligations to a DMM client, only the name of the DMM client will be disclosed.

*Details of potential fee incentives to be confirmed and if relevant announced prior to market launch.

5. Assessment Criteria

The individual tenders shall be assessed by the Exchange 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 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 3 basis points for STIRs and Schatz futures, and up to a maximum of 5 basis points for Bobl, Bund and Long Gilt futures.

6. 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 admission of CurveGlobal Products for trading on LSEDM;
- 6.2 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 DMM. 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 ;
- 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 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 on the Normal Trading Day will be:

- a) Three month Euribor® Futures, Schatz, Bobl, Bund Futures 07:00 – 21:00;
- b) Three month Sterling Futures 07:30 – 18:00;
- c) Long Gilt Futures 08:00 – 18:00.

Continuous trading session on the Half Trading Day will be:

- d) Three month Euribor® Futures, Schatz, Bobl, Bund Futures 07:00 – 12:00;
- e) Three month Sterling Futures 07:30 – 12:00;
- f) Long Gilt Futures 08:00 – 12:00.

All times London time

- 6.6 DMMs appointed for LTIR products shall be obliged to quote the roll for 3 weeks prior to the Last Trading Day (LTD) for the near month in the case of the Schatz, Bobl and Bund Futures. DMMs shall be obliged to quote the roll for 2 weeks before and 1 week after the First Notice Day in the case of the Long Gilt Futures contracts, in the same volume as their obligations for the front month.
- 6.7 The agreed incentives accruing to and obligations undertaken by Member DMMs shall be subject to a written agreement between LSEDM and the respective DMM. London Stock Exchange Derivatives Market reserves the right to terminate the Designated Market Maker Agreement if the Member fails to meet the obligations set out in the Designated Market Making Agreement.
- 6.8 Mandatory response to RFQs (within 5 secs) in expiry months of products where they have DMM status and there is not a two way market at the time of the RFQ (i.e. no simultaneous Bid and Offer).

7. Qualifying Business

- 7.1 Both orders and/or quotes submitted by the DMM on the Order book from their DMM account will count towards the DMM's quoting obligations.
- 7.2 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.
- 7.3 Should the Exchange confirm fee incentives under this programme before launch:
 - a) Only transactions concluded in the account nominated in the Market Making Agreement will be eligible to receive them.
 - b) LSEDM will not under any circumstances consider providing any fee incentives that may otherwise have been due to a DMM if incorrect information was supplied by the DMM in their application for, and agreement to be appointed as a DMM.

8. Supervision of Designated Market Maker Performance

- 8.1 LSEDM shall monitor the Order book activity of the DMMs to ensure compliance with their obligations. Block trading and Manual Trade Reporting will not be considered for this DMM 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 Trading Day will contribute towards satisfying the DMM quoting obligations.

9. Failure of Designated Market Makers to Fulfil Obligations

- 9.1 In the case that a DMM fails to meet its obligations, LSEDM shall reserve the right to terminate the Designated Market Making Agreement by serving written notice upon the DMM.
- 9.2 The Exchange reserves the right to terminate this Agreement with immediate effect where:
 - a) The Exchange reasonably believes that the Designated Market Maker is in breach of any of the Rules;
 - b) The Designated Market Maker ceases to conduct business as required in the Rules and the Market Making Obligations Document;
 - c) The Exchange reasonably believes that the Market Maker is in breach of any term of the Designated Market Maker Agreement and fails to remedy such breach within five working days of receiving a notice requiring it to do so;
 - d) The Exchange considers that the Designated Market Maker has abused its position; or
 - e) It has served one month's written notice, including by issuing a Market Notice, to the Designated Market Maker of its intention to do so.
- 9.3 The Exchange may modify or suspend the obligations of the Market Maker where extreme market conditions arise, i.e. a "Fast Market". In the event of a change in ongoing obligations, the Exchange would issue a Market Notice. For the avoidance of doubt, where obligations are suspended, the Designated Market Maker shall not be deemed to be in breach of this Agreement in case quotes/orders are not made for the duration of the suspension.
- 9.4 If a DMM fails to fulfil their contractual obligations for their contracted percentage of the Trading Day for any given Trading Day of the month, then the Exchange 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 DMM 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 the Exchange decided to exercise its right, the DMM 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).

10. Potential Fee Incentives* and Contribution to Costs

- 10.1 LSEDM shall monitor a DMM's performance against its obligations and accordingly:
- a) Contribution to costs will be calculated monthly but reviewed and paid quarterly in March, June, September and December, once an invoice is received.
 - b) Should the Exchange confirm fee incentives under this programme before launch, such incentives will be calculated and paid the month after fees are invoiced.
- 10.2 LSEDM will pay contribution to costs (and if relevant fee incentives) to the Member, including where the DMM obligations are being fulfilled by a client of the Member.
- 10.3 Should the Exchange confirm fee incentives under this programme before launch, 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:
- a) withhold fee incentives due under the other scheme(s);
 - b) withhold fee incentives due under this DMM Programme;
 - c) re-charge some or all of the fee incentives previously made under the other schemes or this DMM Programme.
- 10.4 LSEDM reserves the right to terminate this DMM Programme by way of Market Notice, as governed by the terms of the Designated Market Making Agreement.
- 10.5 LSEDM reserves the right to launch additional market maker programmes in the future, which may include the products in this scheme.

* Details of potential fee incentives to be confirmed and if relevant announced prior to market launch.

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