Managing Fee Complexity (Fee Code) & Buy-Side Trading Disclosure

Eurex Derivatives Focus Call 4 May 2022 Webinar

EUREX **Architects of trusted markets**

Managing Fee Complexity

Fee Identification Code

Eurex Focus Call 04 May 2023

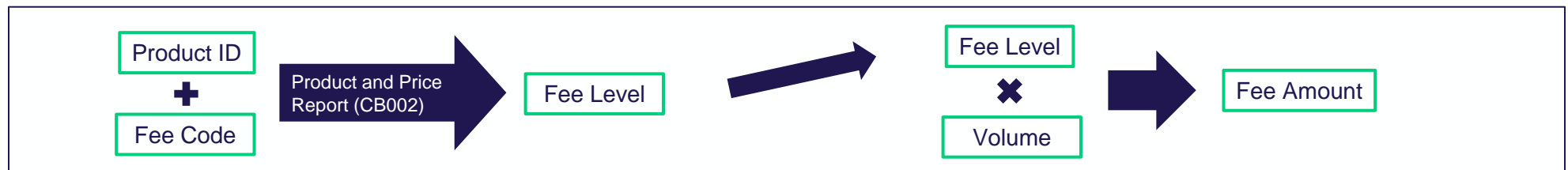# Introduction of new Fee Identification Code field in order to better manage fee complexity

Background	▪ The **number of fee differentiations** and therefore parameters relevant for the transaction fee calculation **increased** over the last years with introduction of new services ▪ The fee relevant parameters are realized as valid value extensions of already existing fields (e.g., trade type valid value extension for Eurex EnLight) or as implementation of a new field (e.g., disclosure flag for non-disclosure fee which is in place for selected products) ▪ The incorporation of new fee differentiations leads to **operational efforts** and requires **lead time for implementation** both on Eurex as well as members' side.
Solution	▪ Introduce a **new field "Fee Identification Code" in C7** containing **all fee-relevant information** ▪ It reduces information required for a fee calculation as **fee level** can be identified **by Product ID and Fee Identification Code** in combination with the new **product and price report** (CB002 Product and Price Report - Fee Identification Code) ▪ The information is captured in a **fixed structure** and a **predefined set of valid values** will be established to decode each information block (fee qualifier)
Next Steps	▪ **Launch** of the new Fee Identification Code in C7 is scheduled for C7 Release 9.1 (22 May 2023) ▪ **Buy Side Trade Disclosure Go-Live** is scheduled for **Q1 2024** ▪ **Decommissioning** of the legacy billing report **CB001** – date to be determined **(not in 2023)**

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Fee Code Structure & Fee Calculation

Fee Code Structure

No	Information block / fee qualifier	Functionality/Service: Valid values of fee qualifiers	Used / envisaged flag
1.	Fee Sub Product Qualifier	S = standard, I = IPS, 2 = 2-year Bundle,…	used
2.	Fee Maturity Qualifier	S = short dated (<13 month to expiration), R = remaining	used
3.	Buy-Side Trading Disclosure Qualifier	D = disclosed, N = non-disclosed	envisaged
4.	Fee Trade Originator Qualifier	A = A-accounts, P = P-accounts, M = M-accounts	used
5.	Fee Trade Type Qualifier	C = CLOB, T = TES, E = Eurex EnLight,…	used
6.	Fee Trade Publication Qualifier	R = real-time disclosed, D = deferred disclosed	used
7	Fee Member-specific Qualifier	A = alternative fee currency usage, R= remaining	used
8.-10.	Empty Fee Qualifier (trading-related)	X = n.a.	
11.	Fee Post-Trade Qualifier	S = standard, A = average price merge,…	used
12.	Fee Position Event Qualifier	E = exercise, A = assignment, C = cash settlement,…	used
13.-15.	Empty Fee Qualifier (clearing-related)	X = n.a.	

Fee Calculation

Product ID + Fee Code → Product and Price Report (CB002) → Fee Level

Fee Level × Volume → Fee Amount

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Fee Code example (OESX)

Example: Order book A-account trade in EURO STOXX 50® Index Options of 2,000 contracts

Information required for fee calculation

Product ID	OESX
Fee Code	SRNACRRXXXSXXXX
Volume	2,000

SRNACRRXXXSXXXX = S for standard instrument, R for remaining, N for Buy-Side non-disclosed, A for A-account, C for Order book trade, R for real-time trade disclosure, R for remaining, X for not available or not relevant, S for standard

Respective entry in new product and price report

...	Product ID	Fee Type	Fee Code	...	Currency	Standard Fee	...
	OESX	On Exch. Trade	SRNACRRXXXSXXXX		EUR	0.36	

Fee Amount = 2,000 * 0.36 EUR = 720 EUR
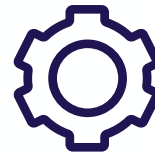
T7 Technical Implementation

T7 GUI changes

- Field "Fee Identification Code" will be displayed in T7 Trader GUI Window "Own Trade Window" containing all trading relevant fee qualifiers

Report changes

Report name	New field
TE810 Daily Trade Confirmation	*FeeIdntCode*
TE812 Daily Prevented Self Matches	*FeeIdntCode*

ETI & FIX LF changes

"*FeeIdntCode*"

- ETI Trade Notification
- ETI TES Broadcast
- FIX LF Trade Capture Report

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C7 Technical Implementation

C7 GUI changes

- Transaction Overview window and transaction details (such as transaction separation/adjustment, act transfer, O/C adjust, merge, give up)
- VBAP Group Overview window (Fee identification Code shown at transaction level only)
- Give-up/Take-up Overview Window

Report changes

Report name	New field
CB012 Account Statement	*FeeIdntCode*
CB165 Eurex Fee Statement	*FeeIdntCode*
CB715 Average Pricing	*FeeIdntCode*
CB750 Give-Up Trades Overview	*FeeIdntCode*
CB751 Take-Up Trades Overview	*FeeIdntCode*
CB716 Value Based Average Pricing - Group Overview	New report

FIXML changes

"*FeeIdntCode*"

- Trade Capture Report (TrdCaptRpt)
- Position maintenance Report (PosMntRpt)
- Allocation Report Message (AllocRpt)

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Implementation Approach for Simulation and Production Launch

Implementation Approach	**Simulation**	• **Simulation start** on **04 April 2023** • Currently, the Fee Identification Code and the new product and price report (CB002) are up and running **in simulation**
	Production	• **Production launch** is scheduled for the **22 May 2023** • A **transition period** is required until the Fee Identification Code is fully supported by T7 and C7 • The Fee Identification Code will be technically **published** starting on **22 May 2023**. At this point in time the code will be **functionally invalid** • Starting on the **29 May** it will be **functionally valid** for all newly executed trades • C7 **Transaction Adjustments** performed on transactions **executed before** the 29 May 2023 will return an **invalid Fee Identification Code**, i.e., no conversion of historical transactions • **New Product and Price Report CB002** will be launched on **05 June 2023**

Eurex Buy-Side Trading Disclosure Program

Voluntary Buy-Side Disclosure in ETD Trading

Eurex Focus Call 4 May 2023

Voluntary Buy-Side Disclosure program for automated trading business

Topic

- Today, Eurex can observe trading flow only with its exchange members

- Trading flow of non-members (such Buy-Side Firms like Hedge Funds, CTAs etc.) is only observed as anonymous A-Account flow

- Eurex would like to increase its transparency of A-Account flow to:
    - Allow for benchmarking of buy side firms against their peers
    - Perform better market development based on improved transparency
    - Increase its supervision capabilities
- In order to achieve this, and in partnership with you, Eurex aims to introduce a voluntary Disclosure program for non-members in trading

Focus

- Disclosure program is aimed at firms that trade electronically via DMA/ORS setups.
- Program will be accessible for firms located in certain jurisdictions.[1]
- Participants will agree to disclose their complete Eurex trading activity to Eurex
- Eurex will not publish any information about individual firms' trading activity. Trade data to be made available in aggregated and anonymized form per type[2] of Buy-Side Firm.
- Incentive to start in Q1/24

[1] Available jurisdictions: EU & EEA, Andorra, Australia, Bahamas, Bermuda, British Virgin Islands, Canada, Cayman Islands, Guernsey, Hong Kong, Jersey, Mauritius, Puerto Rico, Singapore, South Korea, Switzerland, Taiwan, Turkey, United Arab Emirates, UK, USA.

[2] Each client firm classifies themselves in one of the categories: Corporate / Treasury, Insurance, Pension Fund, Private Wealth Manager, Traditional Asset (Money) Manager or Mutual Fund, Alternative Investment Fund Manager or Hedge Fund, CTA (Commodity Trading Advisor), Prop Trading / Algo Trading, Bank, Other.

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Voluntary disclosure program incentivized through reduced fees in main products

Reduced A-Account Fee for Disclosed Trades

- Disclosed trades of participating firms will be subject to a lower A-Account fee compared to undisclosed trades. This introduction represents a change of our current fee structure.
- The non-member firm is expected to disclose their total flow vis-à-vis Eurex. Differentiated fee will be applied to around twenty Eurex products; i.e., the most actively traded ones.
- Disclosed and undisclosed fees will be published in the price list of Eurex Clearing AG and will be applied towards the respective Eurex Clearing Member of the non-member firm.

Benefits for the Broker

- Disclosure of non-member clients follows industry trend and allows the broker to support their non-member client in program participation.
- The support is expected to generate more business from existing clients
- The ability for peer comparisons will enable the broker to tailor marketing activity towards their non-member clients and offer new advanced analytical tools to their customers
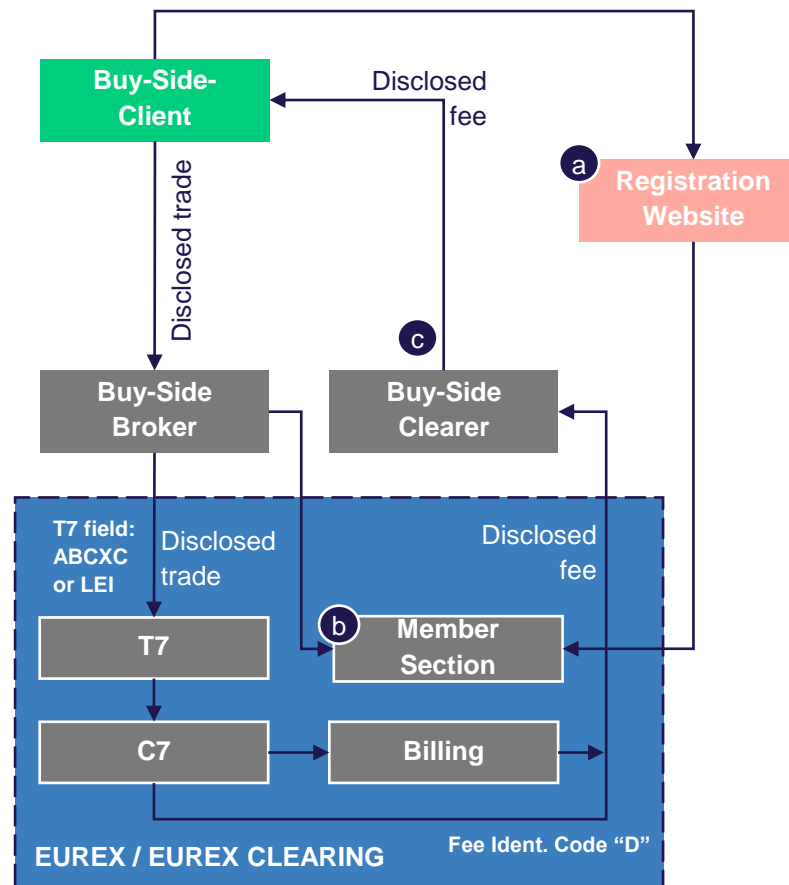
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Web-based registration of non-member firm followed by ID-tagging of all orders and trades in new T7 field

Structure of Disclosure program

- Disclosure component on trading level creates a **monetary incentive** for non-member firms to disclose their orders and trades.
- Only non-member firms operating in a **DMA / ORS set-up** will be able to participate
- Incentive through an **A-Account fee differentiation** for top products
- Disclosed non-member firms will be exposed to **lower A-Account fees** than today
- Undisclosed non-member firms will be exposed to **higher A-Account fees** than today
- To participate in this incentive program, non-member firms need to **register** with Eurex and
- Execution Brokers and CMs need to support the program as well
- The illustration provides a high-level overview of the envisioned registration process
- In order to deliver this incentive program, **3 implementation levels** need to be considered

  - (a) Registration process: non-member client
  - (b) Registration process: Broker
  - (c) Billing

High level overview of registration process

- (a) **Interested non-member client registers via Website by accepting T&C.**
  - Initial scope: non-member firm accessing Eurex via DMA/ORS
  - Firm registers and selects available Broker(s) (see below)
  - Eurex generates unique Eure**x** Buy-Side **c**lient ID (e.g., ABCXC)
  - Eurex performs basic KYC check.

- (b) **Interested Brokers (Eurex Members) need to register for participation via Member Section by accepting T&C:**
  - Must be DMA / ORS Provider
  - Must support non-member firm disclosure via new T7 trade field entry (LEI or ABCXC in each trade)
  - Broker to accept or reject the flagging of that client's flow by new process in Member Section

- (c) **Clearers (Clearing Members) implement fee differentiation via Fee Identification Code**
  - Able to differentiated disclosed Vs. undisclosed transactions via Fee Identification Code
  - Pass on the disclosed fee to Eurex non-member firm.

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Broker with two options to enter Buy-Side Client ID

T7 Release 11.1 (May 2023)

End Client ID: ☐ ☐ ☐ **X** **C**

— NEW —

(5 alphanumeric character)

CHANGE ➡

T7 Release 12.0 Enhancement (November 2023):

End Client ID: ☐☐☐☐☐ ☐☐☐☐☐ ☐☐☐☐☐ ☐☐☐☐☐

— EXISTING — ———————— NEW ————————

(20 character alphanumeric)

Option for populating Eurex Buy-Side Client ID:	5-character string	Legal Entity Identifier
Description	Client ID resembles Eurex member ID	Client ID is the LEI
Number of characters	5	20
Special provisions	Last two chars: "XC" (EUREX CLIENT)	Last two chars: checksum digits
Example	ABCXC	529900UT4DG0LG5R9O07
Characteristics	- Chosen by client, subject to availability - Client identity encoded ("ABCXC" = ?)	- Already available, independent from Eurex identifier - Client identity not encoded (529900UT4DG0LG5R9O07 = Eurex Frankfurt AG)
Set-up	The broker defines a default value to use out of the two alternatives. The default can be overwritten per client and per trading day.	
GOOD TO KNOW:	Implementing the field with T7 Release 11.1 means that the field will have to be changed with Release 12.0, possibly involving additional efforts. **Implementing the field in a one-off exercise with Release 12.0** could possibly result in avoiding double implementation work.	

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No changes to current trading and clearing process

Process

- No exchange membership for the non-member firm (Eurex)

- No clearing membership for the non-member firm (Eurex Clearing)

- Trading process remains 'as is' today: Execution broker and clearing broker continue to process the orders and trades as usual

- No different account set-up required

- Disclosure and ID tagging is only additional information needed compared to today's workflows, setups and processes

Implications

- Participation in the model is voluntary for both clients and brokers (Eurex members)

- Registration for the service will be available in the Eurex Member Section

- Broker will register by accepting Terms & Conditions

- Eurex member firm will see the clients that have selected them as brokers; Broker will have to accept or reject the ID-tagging.

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Disclosure program by selected execution brokers and clearing firms

What do I need to do as broker?

To participate in the Disclosure program, brokers will need to:
- Register on the Member Section,
- For each non-member client that selects you as broker, you will need to:
  - accept or decline that you will ID-tag the orders and trades
  - if accepted, tag all orders and trades with the client ID in the respective new T7 field (in T7 Release 11.1, to be enhanced to include LEI in T7 Release 12.0)

What do I need to do as clearer?

The Fee Identification Code model will be the basis for supporting Clearing Members to consume the differentiated fee information in real time. Technically, the Fee Identification Code will be available from mid-2023, differentiated fee to start in Q1/24.

The differentiated fee will be processed via fee code information block "Buy-Side Trading Disclosure Qualifier" in the transaction message flow.

What is the timeline?

All necessary functionalities to be available in the course of 2023.

Disclosure program (fee differentiation) to start in Q1/24

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Thank you

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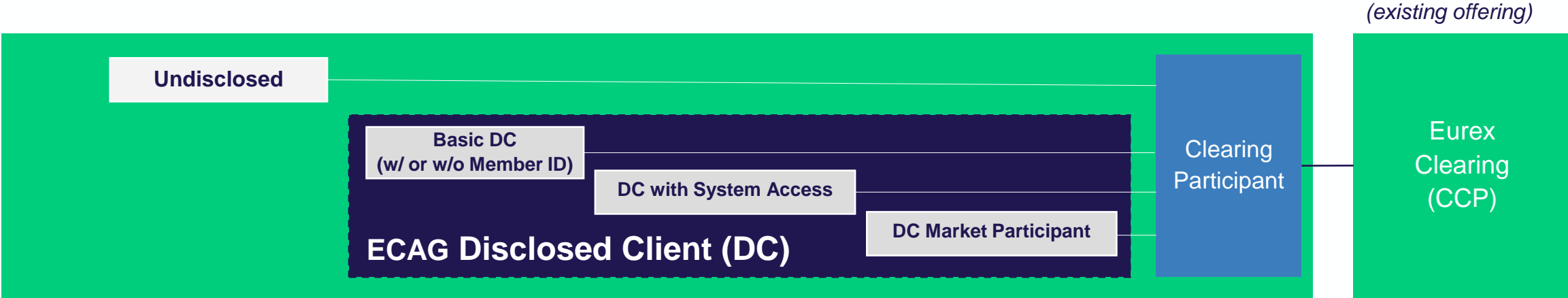M: +49 172 619 9893
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Backup

Eurex Disclosed Clients: Trading & Clearing offerings

Focus of this presentation

(available Q1/24)

Undisclosed[1]		
	Eurex Buy-Side Client (EBSC)	Trading Participant

Eurex Deutschland (Exchange)

[1] This is how indirect clients trade Eurex today: In the A-Account of a Eurex Market Participant. They are not known to Eurex today.

(existing offering)

Undisclosed

Basic DC (w/ or w/o Member ID)		
	DC with System Access	
		DC Market Participant

ECAG Disclosed Client (DC)

Clearing Participant

Eurex Clearing (CCP)

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Disclosed Client Type Overview

Commercial and Operational benefits

	DC Basic w/o Member ID	DC Basic with Member ID	DC System Access	Buy-Side Trading Disclosed Client
Lower fees possible	No	Yes, P-Fee possible	Yes, P-Fee possible	Yes, lower A-Fee
Liquidity provision rebates High volume incentives	No	No	No	No
Average Pricing Functionality	Yes	Yes	Yes	Yes
Individual fund disclosure for lower fee necessary	n/a	Yes	Yes	No
Lowest Latency Access	No	No	No	No
T7 GUI Access	No	No	No	No
C7 GUI Access	No	No	Yes	No
Access to Reports (CRE)	Yes *(optional)*	Yes (optional)	Yes	No
Porting available in default scenario	Yes	Yes	Yes	No
Asset protection via various segregation models	Yes	Yes	Yes	No
On-boarding / registration time	4 to 6 days	4 to 6 days	Several month	Less than 4 days

CLEARING layer - existing offer

TRADING layer - available Q1/24

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