

XONTRO[®]

XONTRO Newsletter

Financial Institutes

No. 23

Within XONTRO, the following modifications will be introduced:

As of September 25th, 2006: Smallest transferable resp. tradeable unit
(in Frankfurt only)

Please regard the announcement on the last page as well.

Smallest transferable resp. tradeable unit

1. Requirements

Up until now, the tradeable amounts of a specific security were defined using the "Minimum Contract Size" ("Mindestschluss") and multiple amounts of this size.

Nowadays, however, types of securities have been issued for which, according to the issuer's demands, a "Minimum Contract Size" (e.g. 50,000 €) in combination with smaller steps (e.g. 1,000 €) for larger amounts have been set up. According to this set up, amounts of (e.g.) 50,000 €, 51,000 €, 52,000 €, ... are allowed for trading, whereas amounts of 1,000 €, 2,000 €, ... 49,000 € are not.

"Amounts traded" are defined as:

- Nominal amounts of orders entered,
- Nominal amounts of "half trades" entered by an intermediary (on behalf of a customer's request),
- Nominal amounts taken over by the regulator as "overlapping positions" resulting from price fixings, and
- Direct (OTC) trades' nominal amounts entered by banks.

In other words: Each and every nominal amount entered or taken over by a member must comply with the conditions outlined above. By means of so called "Allocation Routines" or other mechanisms, however, there are chances that trading amounts "basically" not allowed may result (cf. below 3.2.).

In order to allow trading in both types of securities, the "basic" instrument and quotation data, as well as the XONTRO programmes, were adapted accordingly.

2. WM / WSS Master Data in XONTRO

2.1. Basic instrument data ("Transferable Unit")

For trade entries not being order-driven – normally off-exchange trades – i.e. for direct (OTC) trades using the dialog transactions BxEG EW or EK, or for the message type MT511, as well as for all broker-mediated trades entered outside the price fixing realm, XONTRO accesses the basic instrument data within the "WSS Master Data Stock Exchange". XONTRO hereby verifies if the nominal amount entered complies with the basic instrument data in WM/WSS.

For this purpose, the WM/WSS fields using the following combinations have been set up:

	"Traditional" Instruments using multiples	"New" Instruments
GD455A Transferable Unit: Smallest Amount	50,000	1,000
GD455D Transferable Unit: Minimum Amount	(empty)	50,000
GD455E Transferable Unit: Increment	1	2

These fields are considered instrument-specific, and they are basically valid at all German exchange locations equally, since they are to comply with the conditions set up by the issuer.

"Increment = 1" corresponds to the "traditional" multiple logic. In this case, the field "Transferable Unit: Minimum Amount" is not filled by WM, because it is identical to the "Transferable Unit: Smallest Amount". For these instruments, no changes apply within all Germany, i.e. for all Germany, nominal amounts of 50,000 €, 100,000 €, 150,000 €, ... are allowed.

"Increment = 2" corresponds to the "new" logic. By means of new procedures implemented, however, XONTRO makes sure that, for exchange locations outside Frankfurt, only the "Minimum Amount" and multiples of it are allowed to be entered. Thus, using the above example, outside Frankfurt only trades having amounts of 50,000 €, 100,000 €, 150,000 €, etc. are allowed. Therefore, strictly factually¹ speaking, at exchange locations outside Frankfurt, there will be no special new features even for instruments having "Increment = 2". Thus, the new logic only applies for trades executed in Frankfurt; here, using the above example, trades having amounts of 50,000 €, 51,000 €, 52,000 €, ... are allowed, whereas amounts of 1,000 €, 2,000 €, ..., 49,000 € are not.

¹ Technically speaking, however, for exchange locations outside Frankfurt, it should be regarded that, for the basic instrument data, if "Increment = 2", then the nominal amount allowed is not the "Smallest Amount" and multiples of it, but the "Minimum Amount" and multiples of it!

Within WSS, the new fields have already been implemented; the following “WSS-Online Master Data Stock Exchange” table (1st page) gives an example using “Increment = 2”:

WSS-Online		deutsch	Terminate	Version: 3.7.024	 DEUTSCHE BÖRSE GROUP
Display Master Data Stock Exchange					
ISIN XS0108826487 15 CICAL 00/00MTH SFT 15.06.G AKV EO WKN 107030					
Custody Type	15.06.G	Broker Fee	S. TAB-F02 SCHL. 2B		
Quotation Unit	%	Index Flag			
Transferable Unit		Depot / Settlement Currency	EO / EUR		
- Smallest Amount	1000	Settlement Currency / ISO	EUR		
- Minimum Amount	50000	BÖGA Settlement Currency	EUR		
- Increment	üb. Mindbetr. hinaus	Substitute Parities			
Nominal Value per Unit					
no-Par-Value Share:					
- No-Par Security		Exchange Admission Status	Admission Date		
- Calculated Nominal Value		Xetra			
- Number Issued Stocks		Eurex			
Segmentation		CCP-Compliant from / till	-		
Warrant categorie		Home / Foreign Exchange	099		
Bearer / Registered Securities	INHABERPAPIER	BÖGA-Status	FREIGEgeben 03/02/2000		
Valid from	06/14/2000	until	06/14/2000		

Note: “üb(er) Mind(est)betr(ag) hinaus“ translates “exceeding beyond minimum amount“.

2.2. Quotation data ("Tradeable amount")

With regard to the order-driven „on-exchange“ trading and price fixing procedures, XONTRO accesses the “quotation data” (= “OHC Data” at WM), based upon the respective exchange location selected. This means that, within this area, the data stored here will be used exclusively, because the exchanges have the right to set up different (i.e. numerically higher) conditions with respect to order entries and price fixings, than do the securities’ issuers.

For this purpose, the WM fields using the following combinations have been set up:

	“Traditional” Instruments using multiples	"New" Instruments
XD524W Single Price Quotation: Smallest tradeable amount	50.000	1.000
XD524A Single Price Quotation: Minimum tradeable amount	50.000	50.000
XD527W Single Price Quotation: Increment Single Price / Auction	1	2
XD525W Variable Quotation: Smallest tradeable amount	100.000	100.000
XD525A Variable Quotation: Minimum tradeable amount	100.000	1.000.000
XD528W Variable Quotation: Increment Continuous Trading	1	2


These fields are set up for each exchange location separately; hence, they can vary from one exchange location to the other. All these fields are always mandatory, even if “Increment = 1”

“Increment = 1” corresponds to the established “multiple logic” here, too. The fields “Minimum tradeable amount” are still filled by WM, although they are identical to “Smallest tradeable amount”. For these instruments, no changes will be introduced for all Germany.

“Increment = 2” corresponds to the new logic. In the example above it is assumed that, for the Single Price Quotation, the instrument issuer’s requirements (Minimum 50,000 €, and then upwise in 1,000 € steps) have been taken over; for the Variable Market, however, larger amounts are to be valid. “Increment = 2” will only be maintained for Frankfurt within the OHC data realm.

From the concurrence of system, instrument, and quotation data, it follows that, for all exchange locations outside Frankfurt, there will be no factual changes to be regarded.²

The quotation data fields have already been set up in the “WSS-Online Master Data Stock Exchange” table (3rd page), too:

WSS-Online									
deutsch		Terminate		Version: 3.7.024					
Display Master Data Stock Exchange									
ISIN XS0108826487 15 CISAL 00/00MTN SFT 15.06.G AKV EO									
WKN 107030									
	Berlin	Nasdaq Ger	Dusseldorf	Frankfurt	Hamburg	Hanover	Munich	Stuttgart	
Single Price Quot.	N	N	J	J	N	N	N	N	
Smallest trad. amt.			50000	1000					
Minimum trad. amt.			50000	50000					
Increment Single Price/Auction			VF	MK					
Variable Quotation	N	N	J	J	N	N	N	N	
Smallest trad. amt.			100000	100000					
Minimum trad. amt.			100000	1000000					
Increment Continuous Trading			VF	MK					
Valid from 06/14/2000 until 06/14/2000									

“Increment = 1“ is shown as “VF“, “Increment = 2” as “MK”.

² Cf., however, footnote 1!

3. Adaptations in XONTRO

XONTRO makes sure that no trades with “illegal” nominal amounts will occur.

3.1. Nominal amount entries

XONTRO takes care that, nowhere within the system, „illegal“ nominal amounts may be entered, i.e. neither along with order entries nor along with trade entries.

For banks, this condition is essentially achieved by a plausibility check along with the order entry (against the “quotation data”), as well as along with the direct (OTC) trade entry (against the “basic instrument data”).

For the intermediaries, all dialog entry masks and all messages delivered will be checked against the nominal amounts entered. The base rule applied today and in future reads: In all order-related cases the check is done against the “quotation data”; in all other cases the check is done against the “basic instrument data”.

3.2. “Illegal remainders“ and further special features in Frankfurt

For securitites with “Increment = 2” there are, however, further conditions yet to be checked, especially for the intermediaries’ transactions. Thus, an entry *per se* considered legal may in some cases result in “basically” illegal remainders; similarly, “automated procedures”, such as the allocation routines used along with the price fixings, or on occasion of the automated closure of “Aufgaben” (“pending trades”) may in some cases also lead to illegal nominal amounts.

1) Price fixing without overhang

The following orders are assumed to have been placed in the orderbook:

Buy orders		Sell orders
58.000	58.000	59.000
51.000	1.000	50.000
	50.000	
<hr/>		
109.000		109.000

This situation can be regarded as a straightforward “paid” („bezahlt“) price. Yet, by means of the allocation routine – aside from the 58,000 € trade³ and the 50,000 € trade – there arises another 1,000 € trade that „basically“ could not be settled. Splits like this one, however, that are purely based upon the processing (allocation) techniques applied, are still considered legal. Due to logical reasons, splits like this one can never be smaller than the “Smallest tradeable amount” as derived from the WM OHC Data, or a multiple amount of it.

Note concerning the cancellation of trades:

Assuming that, due to a typing error done by the intermediary, the 59,000 € sell order above contained the wrong order issuer. Then, theoretically, the two 58,000 € and 1,000 € trades should be cancelled and then be entered anew using the correct issuer and exactly these nominal amounts. Based upon the assumptions outlined above, however, trades having an amount of 1,000 € cannot be entered. Therefore, the 50,000 € trade must also be cancelled (although it is essentially correct), and then all four orders must be entered anew as “half trades”, using the original nominal amounts. In the extreme case this could mean that all trades resulting from a given price fixing must be cancelled, and afterwards the entire original orderbook has to be “re-built” by entering the original orders / half trades again.

2) Price fixing including overhang

The following orders are assumed to be in the orderbook; the orderbook situation is not balanced:

Buy orders	Sell orders
58.000	59.000
52.000	50.000
<hr/>	
110.000	109.000

Taking this slightly more realistic example, the intermediary can only create a “paid” (“bezahlt“) price by taking the 1,000 € position as an “Aufgabe” (“pending trade”). Applying the rule “blind-foldedly”, however, the intermediary could never “close” this pending position against his custodian bank or any other bank.

³ “Trade” in a XONTRO-technical sense: Position within the intermediary’s diary, buy and sell contract notes, delivery position in LION

Therefore, on the occasion of an “Aufgabe Closing” by means of an “Intermediary’s Proprietary Trade” (using the “EG” flag), in this case also nominal amounts smaller than the Minimum Amount are accepted. If the *Aufgabe* resulted from a price fixing, then, due to logical reasons, such a position must always comply with the “Smallest tradeable amount” derived from the WM OHC Data, or a multiple amount of it.

3) No partial executions permitted

If a 51,000 € order would be partially executed using 50,000 €, then the remaining order would have an illegal amount of 1,000 €. If, at the latest, the remaining order expires and the issuer would like to re-enter the 1,000 € order again, then this would cause a problem. Therefore, partial executions will be technically prevented for all instruments bearing the “Increment = 2” tag in the WM OHC Data. In these cases, the only options that remain for the pricing intermediary are to: a) fix a “paid” (“bezahlt”) price, b) take the overhang as an *Aufgabe*, c) fix a price with no transaction volume, or d) just do no price fixing at all.

4) Freelance broker orders

For all Instruments bearing the “Increment = 2” tag in the WM Quotation Data, freelance broker orders are forbidden. This means specifically:

- Banks may only send orders to XONTRO that either contain the pricing intermediary’s account number as the “intermediary’s address” of the order, or no “intermediary’s address” at all.
- Intermediaries are only allowed to enter orders on behalf of banks if they are the pricing intermediary for the instrument traded.

3.3. Service functions

In case the instrument quotation data described in 2.2. are subject to modifications, the existent “Single Price Quotation” orders are checked if they can be modified into “Variable Quotation” (and vice versa). If, due to the new numerical conditions, this is not feasible, then these orders are deleted.

3.4. Error messages

In connection with the smallest tradeable resp. transferable unit, the following new or textually modified error messages can be created:

Code	Text
BC4870F	EMPFAENGER FREIMAKLER BEI GATTUNG MIT INKREMENT = 2 NICHT MOEGlich (Freelance broker’s address not allowed along with instrument bearing “Increment = 2”)

Code	Text
BC1200F	RESTNOMINALE IST KLEINER KLEINSTE-HANDELBARE-EINHEIT *) (Remaining nominal amount is smaller than smallest tradeable amount)
BC1200F	RESTNOMINALE IST KLEINER ALS DER MINDESTBETRAG (Remaining nominal amount is smaller than minimum amount)
BC4260F	NOMINALE IST KEIN VIELFACHES DES MINDESTBETRAGS (Nominal amount is not a multiple of the minimum amount)
BC7010F	NOMINALE BEI GATTUNG MIT INKREMENT = 2 NICHT NACH REGEL (Nominal amount along with instrument bearing "Increment = 2" not according to the rule)
BC7020F	NOMINALE IST KLEINER ALS DER MINDESTBETRAG (Nominal amount is smaller than minimum amount)
BC4410F	UMSATZ IST KLEINER KLEINSTE-HANDELBARE-EINHEIT *) (Transaction volume is smaller than smallest tradeable amount)
BC4410F	UMSATZ IST KLEINER ALS DER MINDESTBETRAG (Transaction volume is smaller than minimum amount)

*) "old" message with textual adaptations

3.5. Treatment of stock below minimum amount of transferable unit

Theoretically, by means of selling parts of a stock, it is possible to retain a residual stock amount which cannot be sold on the market without prior additional purchases in adequate heights.

If, e.g., a credit institute buys 60,000 shares of an instrument bearing a minimum amount of 50,000 shares for the transferable unit, and then, in a first step, sells 50,000 shares of this stock, a residual stock of 10,000 shares remains. Without any further transactions (e.g. a further purchase of 50,000 shares), this residual stock cannot be sold on the market, because it is smaller than the minimum amount. Therefore, it lies within the bank's responsibility to "govern" their instrument stocks using adequate measures.

Announcement

Using this communication path, we would like to indicate again that, since the beginning of June 2006, we do not produce any microfiches for those order history datasets that had been removed from the online display any longer. Since this date, these data can be obtained using our Internet File Service.

In case you have not yet applied for this service, we kindly ask you to forward the Internet File Service application request sheet to us. This request sheet, along with the handbooks necessary to use this service, may be found on our home page www.xontro.de; please go to "Produkte – XONTRO – Fileservice".