XONTRO.®

XONTRO Newsletter

Financial Institutes

No. 35

(English Version)

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Gesellschaft für Börsensysteme mbH

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Within XONTRO, the following modifications will be introduced:

As of November 24th, 2008:   Smallest transferable resp. tradeable unit
(in Frankfurt only)

Adaptations in XONTRO due to the Xetra Release 9.1

Note:

Please do also regard the note concerning the modified field assignment within the MT595 and MT596 within the so called "System Connection for Banks" ("SAKI") along with the deletion of Xetra orders, which can be found on the last page of this newsletter.

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1. Smallest transferable resp. tradeable unit

1.1. Requirements

Up until now, the tradeable amounts of a specific security have been 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).

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.

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1.2. WM / WSS Master Data checks in XONTRO

1.2.1. Quotation data ("Tradeable amount")

With regard to the order-driven „on-exchange" trading and price fixing procedures, XON-TRO accesses the "quotation data" (= "OHC Data" at WM), based upon the respective exchange location selected. This means that, for the entry of orders by banks as well as by intermediaries, the data stored here will be used exclusively.

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	50,000	1,000
XD525A Variable Quotation: Minimum tradeable amount	50,000	50,000
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. "Increment = 2" will only be maintained for Frankfurt within the OHC data realm. All these fields are always mandatory, even if "Increment = 1"

"Increment = 1" corresponds to the established "multiple logic". 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. With regard to the example, orders are allowed for 50,000 €, 100,000 €, 150,000 € and so on.
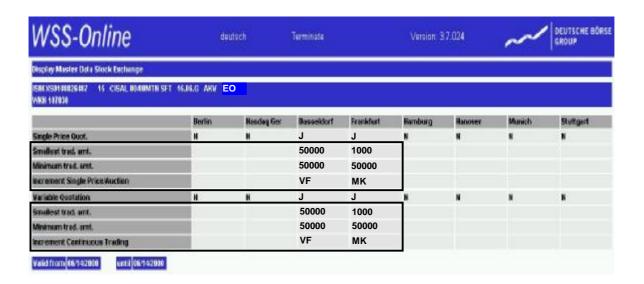
"Increment = 2" corresponds to the new logic. In the example above it is assumed that, for the Single Price Quotation and for the Variable Market, the instrument issuer's requirements (Minimum 50,000 €, and then upwise in 1,000 € steps) have been taken over; therefore, orders are allowed for 50,000 €, 51,000 €, 52,000 €, and so on.

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

"Increment = 1" is shown as "VF","Increment = 2" as "MK".

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1.2.2.   Instrument data ("Transferable Unit")

For trade entries not being order-driven – normally off-exchange trades – i.e. for direct (OTC) trades between banks 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 instrument data within the "WSS Master Data Stock Exchange".

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.

"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. Here, however, XONTRO makes a distinction between Frankfurt and exchange locations outside Frankfurt. For direct trades between banks the following rules apply:

- For Frankfurt:
  Minimum transferable amount and then smallest transferable amount are allowed, using the above example, trades having amounts of 50,000 €, 51,000 €, 52,000 € and so on.

- For locations outside Frankfurt:
  Minimum transferable amount and multiples of it are allowed, using the above example trades having amounts of 50,000 €, 100,000 €, 150,000 € and so on.

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":

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

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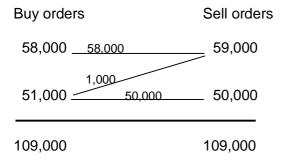XONTRO / Financial Institutes

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1.3. Special features in Frankfurt

1.3.1. "Basically" illegal remainders

For securitites with "Increment = 2" 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.

Example

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

Buy orders		Sell orders
58,000	58,000	59,000
	1,000	
51,000	50,000	50,000
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 € trade [1] 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.

If, after a cancellation, such a trade must be entered anew, it must also be allowed to enter amounts smaller than 50,000 €, in the example 1,000 €.

Although banks only are allowed to enter orders of 50,000 €, 51,000 € and so on, they can receive trade confirmations ("Schlussnoten") with amounts lower than 50,000 € – especially as a result of the price fixing procedure.

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[1] "Trade" in a XONTRO-technical sense: Position within the intermediary's diary, buy and sell contract notes, delivery position in LION

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1.3.2.   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.

1.4.   Service functions

In case the instrument quotation data described in 1.2.1. 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.

1.5.   Error messages

In connection with the smallest tradeable resp. transferable unit, the following new or text-ually modified error messages have been created:

Code	Text
BC5920F	NICHT AUSGEGL. KURSZUSATZ BEI GATTUNG MIT INKREMENT = 2 NICHT MOEGLICH
	(Unbalanced price addition not allowed along with instrument bearing "Increment = 2")
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)
BC7080F	NOMINALE DES UEBERHANGS FUER REGULIERER NICHT NACH REGEL **)
	(Backlog nominal amount for regulator not according to the rule)
BC4410F	UMSATZ IST KLEINER KLEINSTE-HANDELBARE-EINHEIT *)
	(Transaction volume is smaller than smallest tradeable amount)
BC4410F	UMSATZ IST KLEINER ALS DER MINDESTBETRAG
	(Transction volume is smaller than minimum amount)

*): "old" message with textual adaptations
**): only *online* terminal

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2.   XONTRO Modifications for the Xetra Release 9.1

Along with the introduction of the Xetra Release 9.1 scheduled for 24 November 2008, amongst other modifications, three new features will be introduced to the Xetra based platforms that will have implications for the XONTRO processing, too:

- Introduction of new settlement currencies (unequal Euro) on Xetra

- Introduction of the CCP on Xetra Frankfurt 2

- Introduction of the "Midpoint Order" on Xetra

2.1.   New Settlement Currencies on Xetra

Along with the new Xetra Release 9.1, the Xetra trading platforms Xetra Frankfurt and Xetra Frankfurt 2 will be enabled to handle trades in foreign currencies (unequal Euro), for certain instruments. This regulation will explicitly apply for Xetra based trading platforms only, not for XONTRO. Hence, at a first glimpse, basically no changes will occur for the XONTRO processing.

With respect to the way these foreign currency instruments will be set up in WSS resp. WM, the following rule shall apply: For those instruments for which the issuer has demanded a foreign trading resp. settlement currency in Xetra, there will still be only one ISIN. This ISIN wil be traded and settled on Xetra using the foreign settlement currency (unlike Euro); on the remaining XONTRO exchange locations – except for the Frankfurt Floor – trading and settlement will continue to be conducted in Euro. If the issuer decides in favour of a currency unlike Euro for the Xetra based trading platforms, then no more entries whatsoever – on-exchange ones as well as off-exchange ones – will furtheron be allowed on the Frankfurt Floor for this instrument.

However, order routing to Xetra via SAKI, as well as the production and distribution of contract notes for executed trades, will furtheron be possible for foreign currency instruments. Specifically, this means:

- Along with the order entry using the MT500/501, the "Currency of price fixing" (Field 32L, 1st line) is not content validated; hence, the entry of a foreign currency unlike "EUR" is already possible as of today.

- The contract notes for these trades from Xetra Frankfurt or Xetra Frankfurt 2 may then contain settlement currencies unlike Euro, too. Since, however, all relevant "amount" fields within the online display in the 3270 dialog emulation, as well as within the contract notes data carrier files, are already delivered bearing a currency flag, a system-side adaptation of these features will not be necessary because of the new currencies unlike Euro.

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These adaptations will, however, become valid in the way outlined above only for the case of the introduction of settlement currencies unlike Euro on Xetra Frankfurt 2 beginning Xetra 9.1 with release date 24 November 2008; in case of the introduction of foreign currencies on Xetra Frankfurt, the adaptations necessary in XONTRO will be carried out at a later phase, and then published accordingly. Besides, the current concept does not provide for foreign currency instruments to be introduced into production on Xetra right from the Xetra 9.1 production start (24 November 2008), but rather not before the following year 2009. Therefore, the Xetra 9.1 simulation concept does not provide for any scenarios simulating trades in foreign currency instruments for the members.

2.2. Introduction of the CCP on Xetra Frankfurt 2

Along with the introduction of the new Xetra Release 9.1, the introduction of the CCP as a "Central Counterparty" is planned for Xetra Frankfurt 2, too. The CCP will, however, not "retroactively" be introduced for those instruments presently being traded on Xetra Frankfurt 2 – i.e. the so called "Structured Products" or Scoach instruments – but rather only for further market segments that will be migrated from the Frankfurt Floor onto Xetra Frankfurt 2 at a later phase.

2.2.1. Implications for XONTRO

The most important changes for XONTRO Trade concern the Xetra Frankfurt 2 trades processing within the XONTRO evening batch; there are, however, some intraday trading modifcations that need be considered, too.

2.2.1.1. Direct (OTC) Trades for Banks

At present, banks have the option to insert direct (OTC) trades in XONTRO using instruments that are traded on-exchange on Xetra Frankfurt 2, too. According to the hitherto existing regulation, whereas direct (OTC) trades inserted into XONTRO will always be settled outside of the CCP, even if the ISIN traded uses the CCP as the central counterparty, this rule will now also apply for intruments that will be traded on-exchange on Xetra Frankfurt 2, and for which the CCP will then be used as a central counterparty. This will mean that the procedure for direct (OTC) trades entered by banks into XONTRO will not change.

2.2.1.2. Broker Mediated Direct Trades

Intermediaries also have the option to insert off-exchange trades in intruments traded on-exchange on Xetra Frankfurt 2 (prerequisites: a) off-exchange, b) no order reference being allowed). Along with CCP instruments, the CCP will be inserted into the trades as a Central Counterparty in these cases, too – independently from the platform the ISIN is traded on. In analogy to this rule, the CCP will be inserted into broker-mediated (off-exchange) XONTRO trades executed on the Frankfurt Floor in instruments traded on-exchange on Xetra Frankfurt 2, too. In addition, these trades will then not be forwarded to LION during the XONTRO evening batch any longer. For the forwarding of these trades onto the remaining downstream systems (i.e. StatistiX, EK-NEU, Trice) the same rules and regulations will apply as for the other broker-mediated CCP trades being valid now.

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As for the decision whether a trade entered will become a CCP trade or not, the same rules and regulations as for trade entries done in instruments being traded on-exchange in XONTRO (Frankfurt Floor) will apply.

2.2.1.3.   XONTRO Trade Processing of Xetra Frankfurt 2 Trades

After the introduction of the CCP on Xetra Frankfurt 2, the "trade enrichment" of the Xetra Frankfurt 2 trades by XONTRO Trade will be done based on the following restrictions:

- Initially, no "Order Contract Notes", as is a current option for Xetra Frankfurt, will be created and delivered for Xetra Frankfurt 2; the set up of this functionality is not yet scheduled for the Xetra 9.1 release.

- Likewise, no separate "Contract Notes for the Clearer" will initially be offered for Xetra Frankfurt 2; the "Clearer Contract Notes" functionality for XONTRO and Xetra Frankfurt available as of now remains unchanged.

XONTRO "trade" contract notes for all Xetra Frankfurt 2 trades will furtheron be created and distributed for the banks; these may furtheron also be retrieved online on the following day, using the transaction code "BCAG" and the "retrieval group" ("Abrufgruppe") "W". CCP trades from Xetra Frankfurt 2 will (also) have "7540" as the "originator" ("Eingeber") flag, and (also) "8501" as the "counterparty" ("Kontrahent") flag. The CCP contract notes will be incorporated into the existing online display masks as well as into the existing data carrier files. The contract notes data carrier file fields 82D ("counterparty"), 87F ("buyer"/"seller"), and 57B ("information in combination with a CCP trade") will be filled accordingly.

2.3.   New Order Type "Midpoint Order" in Xetra

In addition, along with the Xetra Release 9.1, a new order type, the "Midpoint Order" is scheduled to be introduced in Xetra. The Midpoint Order may be viewed as a new order type. Details about this order type are documented in the corresponding Xetra 9.1 description.

2.3.1.   Implications for XONTRO Order

The entry of a Midpoint Order within the SAKI is done just like a "normal" buy (MT500) or sell (MT501) order entry. A Midpoint Order may be entered as a market or limit order; in addition, the order types "Immediate-or-Cancel" and "Fill-or-Kill" are allowed as well. In order for an order to be recognized as a Midpoint Order, a "Limit Supplement" must be included in Field 32L, 2nd row, according to the following table:

Shortcut	Meaning
MP	Midpoint Order
MI	Midpoint Immediate-or-Cancel Order
MF	Midpoint Fill-or-Kill Order

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Midpoint Order modifications or deletions may be entered as before, using the MT595. The "Limit Supplement" entry in Field 32L is, however, always mandatory. The system response for the entry, modification or deletion is done as usual via the MT596, the execution confirmation is returned as a MT519. The system reply messages contain no information whatsoever that the order is a midpoint order.

Within the "price" fields in the execution confirmation (MT519), as well as in the contract note (MT512), the fourth decimal digit already available may be used, if necessary.

2.3.2.   Implications on XONTRO Trade

Within the contract notes, executed trades based upon Midpoint Orders will be labelled accordingly. For this purpose, four new Record Type Numbers will be assigned for the MT512 in Label 32:

Record Type Number	"Long" Description	"Short" Description
114	Kauf (Buy) – Xetra Frankfurt Midpoint	KXMIDP
115	Kauf (Buy) – Xetra Frankfurt 2 Midpoint	KXMIDP
124	Verkauf (Sell) – Xetra Frankfurt Midpoint	VXMIDP
125	Verkauf (Sell) – Xetra Frankfurt 2 Midpoint	VXMIDP

New Record Types for Xetra OTC as well as for Xetra Best will not become necessary. In addition, there will be no new "Retrieval Groups" ("Abrufgruppen") set up within BCAG for "Midpoint Trades"; these trades will be able to be retrieved using the Retrieval Groups "X" or "W".

Within the "long version" in the 3270 terminal emulation using BCAG AL, as well as in the contract notes print list version, the trades will be labelled using the "Long" description listed above. Within the "short emulation version" using BCAG AK, the "Long" description is used – if necessary, shortened by three characters. The "terminal printing functions" BCAG DN and DG use the "Short" description listed above.

Within the contract notes, in analogy to the way Xetra Best trades are treated, the "Midpoint Trades" will generally be labelled as "off-exchange" trades (the "exchange trading indicator" flag set to "AB" in label 23 in the MT512). This label will not only occur in the contract notes (participant's view), but also within the trade data to be forwarded to CBF and EK-NEU.

With respect to further details concerning the Midpoint Order, the respective publications issued by DBAG resp. FWB are recommended for viewing.

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Note:

Along with the deletion of a Xetra order, under certain conditions – e.g. in cases where a deletion request cannot be executed immediately, due to the Xetra orderbook being momentarily frozen – a new Xetra order number is assigned to the order. In the future, within the deletion confirmation (MT596) as well as in the "protocol" of a deletion entered via a VALUES based front end, transmitted to the customer using a MT595 via SAKI, the old as well as the new Xetra order number will be contained. For further details about this modification, the explanations within the "Technical Connection for Financial Institutes", version 5.1, dated 15 September 2008, chapter 3.2.10 (Inquiry: Modification / Deletion / Cancellation / Trade reversal (MT595)), as well as chapter 3.2.11 (Response (MT596)) are recommended for viewing.

This change will also be introduced into the production environment on 24 November 2008.