

CIRCULAR

30 OCTOBER 2017

CIRCULAR 17/153 EXTENSION OF THE STIR FUTURES DMM PROGRAMMES

CATEGORY

Trading

ATTACHMENTS

None

Introduction

The purpose of this Circular is to inform Members of the renewal of the Short Term Interest Rate (“STIR”) Futures DMM Programmes (“the Programmes”) on the amended terms set out in this Circular, which update the current programmes that are due to expire on 31 October 2017 (Circular [16/209](#) dated 19 December 2016). The Programmes will run from 01 November 2017 to 31 October 2018 inclusive.

Please be aware that existing participants will need to re-apply if they wish to remain in the Programmes.

Commercial Terms

The Programmes reference specific delivery months in the following STIR futures contracts (each a “Contract”, collectively “the Contracts”):

- Three Month Euro (EURIBOR®) Interest Rate Futures Contract (“Euribor Futures”);
- Three Month Sterling (Sterling) Interest Rate Futures Contract (“Sterling Futures”); and
- Three Month Euro Swiss Franc (Euroswiss) Interest Rate Futures Contract (“Euroswiss Futures”)

The Exchange will provide appointed DMMs with a fee rebate (£0.18 in respect of the Clearing Fee and £0.07 in respect of Exchange Fee) per lot in relation to DMM qualifying business. In order to assist with hedging costs DMMs may be eligible for fee credits (£0.18 in respect of the Clearing Fee and £0.07 in respect of Exchange Fee) per lot in respect of their STIR futures transactions (“Hedge Qualifying Business”), up to a maximum specified number of lots (“Maximum Hedging Lots”), for each lot of DMM qualifying business transacted. The maximum number of fee credits eligible is defined per Contract, per delivery month (“the Delivery months”), per lot in the table below.

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Delivery Month / Programme	EURIBOR	STERLING	EUROSWISS
Back Red			2
Front Green			4
Back Green			6
Front Blue	5	7	
Back Blue	7	10	
Gold	15	15	
Purple	20	20	

The number of eligible hedging lots a DMM is entitled to for a calendar month will be the maximum number of hedging lots adjusted by the DMM monthly performance score (as detailed in this Circular), rounded to the nearest lower number of whole lots.

Qualifying Business

“Qualifying Business” is business which satisfies the following criteria:

- executed in a market making capacity in the relevant contract;
- executed on the Central Order Book and not via the Block Trade Facility;
- executed in the specified delivery months of the relevant contract; and
- assigned to the market making Account Reference(s) as registered with the Exchange

Hedge Qualifying Business

“Hedge Qualifying Business” is business which satisfies the following criteria:

- executed in the same contract as the associated Qualifying Business;
- executed on the Central Order Book and not via the Block Trade Facility;
- executed in delivery months not qualifying for a DMM rebate; and
- assigned to the designated hedging Account Reference(s) as registered with the Exchange

Hedging Qualifying Business will initially be awarded to the nearest dated colour expiry executed by the market maker, with subsequent Hedge Qualifying business being applied further down the curve. Each participant's monthly combined rebates and credits are subject to a cap of £250,000 per Contract.

DMM Quoting Requirements

Appointed DMMs will be required to make continuous two-way prices, at or tighter than a specified bid-offer quote spread in the defined Contract and delivery month. For each defined Contract and delivery month, DMM quoting activity will be measured relative to spread (“Benchmark Spreads”), size (“Benchmark Sizes”) and presence (“Benchmark Presence”) as set out in the following table:

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EURIBOR & STERLING Delivery Month / Programme	Benchmark Spread (BS)	Benchmark Size (BV)	Benchmark Presence (BP)	No. MPM	
				EURIBOR	STERLING
Front Blue	0.02	100	80%	4	2
Back Blue	0.02	100	80%	4	2
Front Gold	0.03	75	80%	6	3
Back Gold	0.03	75	80%	6	3
Front Purple	0.05	30	80%	10	5
Back Purple	0.05	30	80%	10	5

EUROSWISS Delivery Month / Programme	Benchmark Spread (BS)	Benchmark Size (BV)	Benchmark Presence (BP)	No. MPM	
				EURIBOR	STERLING
Back Red	0.02	50	80%	2	
Front Green	0.03	30	80%	3	
Back Green	0.04	20	80%	4	

*where MPM is "Minimum Price Movement"

Quote presence is measured relative to the defined trading session for the Contracts, namely;

- **Euribor Futures:** 07:00 - 18:00 hours (London local time)
- **Sterling Futures:** 07:30 - 18:00 hours (London local time)
- **Euroswiss Futures:** 07:30 - 18:00 hours (London local time)

DMM quote activity will be monitored (and scored) using the market making Account Reference(s) as registered with the Exchange and used exclusively for market making activity. Quote spreads and sizes will be determined by taking the tightest spread (i.e. difference between best bid and best offer) and associated size maintained by the DMM at any given time.

In order to be eligible for hedging lots, DMMs are required to attain the following criteria (per Contract basis):

- **Euribor Futures:** Minimum monthly quote score of 0.5 in "Front Blue", "Back Blue", "Front Gold" and "Back Gold" delivery months;
- **Sterling Futures:** Minimum monthly quote score of 0.5 in "Front Blue", "Back Blue", "Front Gold" and "Back Gold" delivery months;
- **Euroswiss Futures:** Minimum monthly quote score of 0.5 in "Back Red" delivery months.

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DMM Performance Scoring

Scores will be awarded as a function of quote spread, size and presence and act as a performance measure relative to the respective Benchmark Spread, Benchmark Volume and Benchmark Presence per Contract, per delivery month. Scores will be calculated according to the formula set-out below:

$$Q_{score} = \frac{MPM}{Q_{spr}} \cdot \frac{\text{Min}\{Bid_{vol}, Ask_{vol}\}}{Vol_{bench}/MPM} \cdot \frac{P_{actual}}{P_{bench}}$$

Where:

Q_{score}	= Quote score
Q_{spr}	= Quote spread
MPM	= Minimum Price Movement
Bid_{vol}	= Best bid volume
Ask_{vol}	= Best ask volume
Vol_{bench}	= Volume benchmark
P_{actual}	= Actual quote presence
P_{bench}	= Benchmark quote presence

No quote score will be awarded for any instances whereby the quote spread is greater than the Benchmark Spread for a given Contract and delivery month. Similarly, should the average daily performance score as determined by the Exchange fall below 0.5 for a given month, a monthly performance score of zero will be assigned to the Contract and delivery month in question. Daily performance scores are calculated according to the formula set-out below:

$$\text{Daily Performance Score} = \text{Min} \left\{ \sum \text{Daily Individual Quote Score}, 1.0 \right\}$$

The DMM monthly performance score is used to determine the actual number of eligible hedging lots which a DMM is entitled to per calendar month. It is calculated according to the following formula:

$$\text{DMM Monthly Performance Score} = \frac{1}{N} \left\{ \sum \text{Daily Performance Score}, 1.0 \right\}$$

where N is the number of business days for a given Contract during a given calendar month.

Please ensure that the appropriate members of staff within your organisation and customers are advised of the content of this Circular.

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Signed:

A handwritten signature in black ink, appearing to read "Patrick Davis".

Patrick Davis
Company Secretary

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