

Xetra® XXL

The New Dimension



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# Agenda

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1

Motivation for Xetra XXL

2

Market Model

3

Functional Implementation

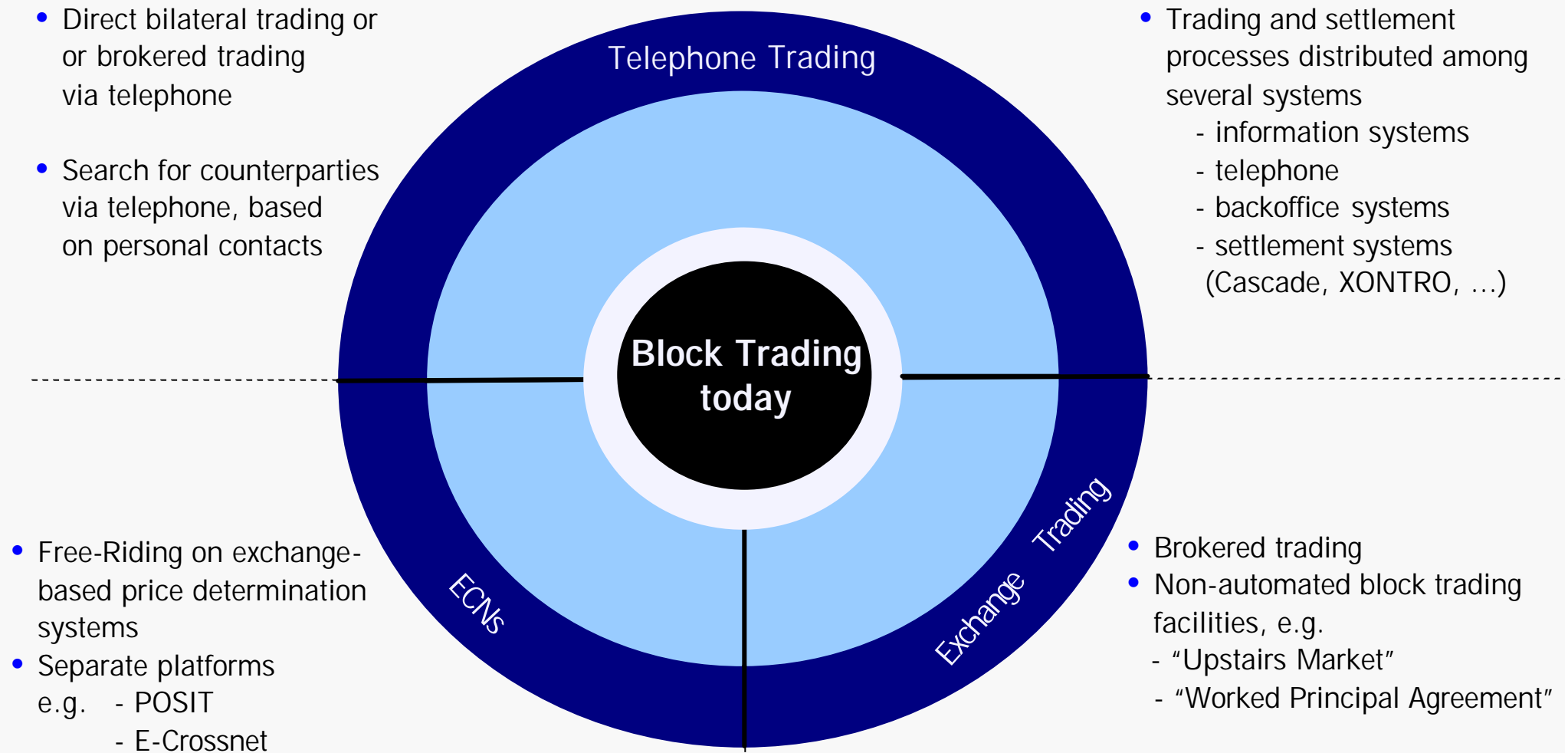
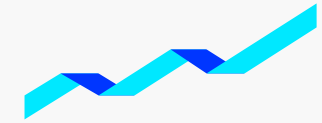
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Fee & Pricing

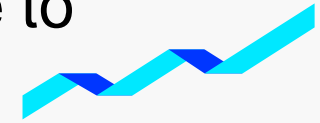
5

Your Benefit from Xetra XXL at a Glance

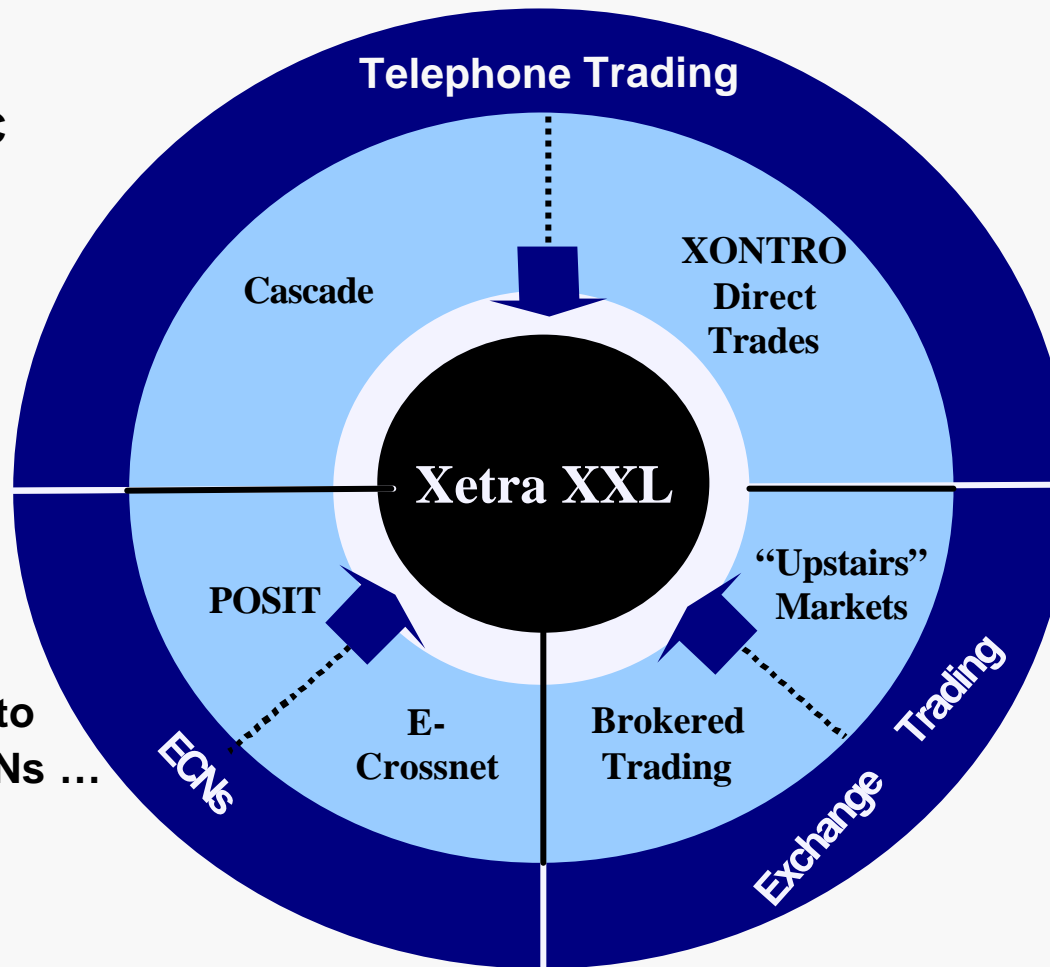
# Block Trading is Trading of Orders with large Volumes distributed among different Execution Mechanisms



# Xetra XXL: Trendsetting platform developed in response to increasing OTC trading and Crossing Networks



Xetra XXL attracts OTC volume to Xetra...

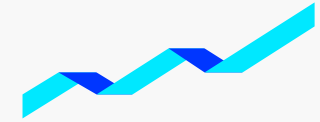


Xetra XXL is the answer to "parasite pricing" by ECNs ...

Xetra XXL is an exchange-based, fully electronic block trading platform on Xetra ...

 Goal of Xetra XXL: reduction of transaction costs in order to increase portfolio performance

# Transaction Cost Components



Explicit  
Transaction costs

- Commissions, fees, taxes etc.

Spread

- Costs in the amount of half the bid / ask spread

Market Impact

- Price effect, if the order volume exceeds the current best bid / best ask (demand for liquidity)
- Market reaction upon disclosure of the order in the market (supply for liquidity)

Timing Costs

- Price movement, if the order is held back due to a possible market impact (positive or negative)

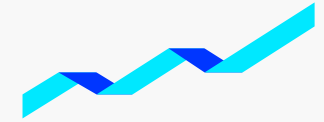
Opportunity Costs

- Lost revenue in the trading strategy, if the order is not placed, due to market impact / timing costs

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# Agenda

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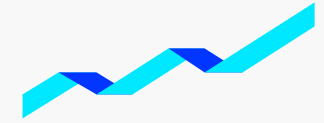


- 1 Motivation for Xetra XXL
- 2 **Market Model**
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# Characteristics of Xetra XXL

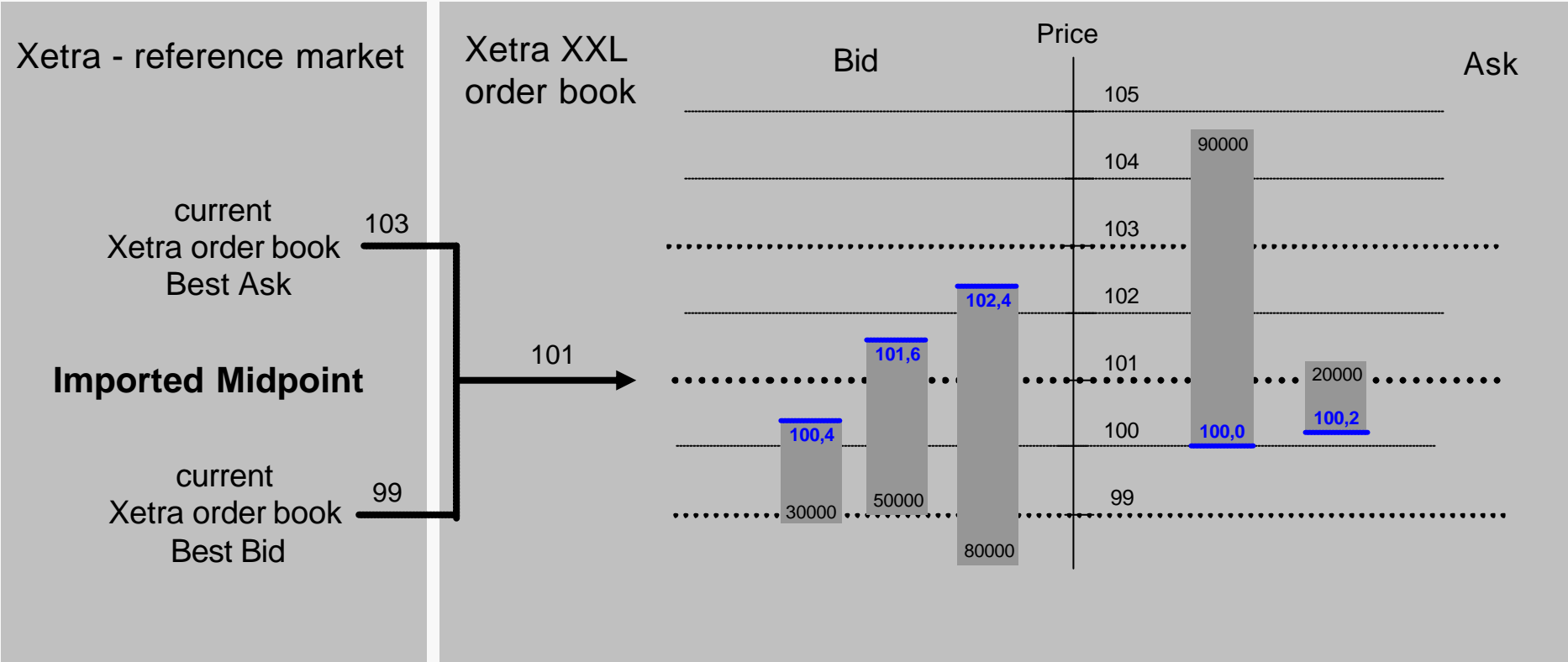
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## Trading Model

- Specific trading model for (large) stock orders
- Separate, completely closed order book
- Information on the existence of block orders per instrument (new with Release 6.5)
- No autonomous price determination in the crossing segment
- Trading at reference prices (midpoints)
- Periodic crossing auctions based on a crossing schedule

# Crossing for Stock Blocks on Xetra - Basic Principle

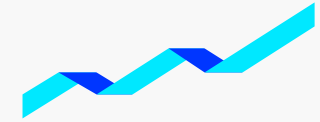


→ crossing 110.000 units at a price of 101



# Xetra XXL Principles

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## Traded Instruments

- DAX
- MDAX
- TecDAX

## Orders

- Market Order
- Limit Order (execution restriction)
- Trading only above defined minimum volumes
- No Stop Orders, no additional execution restrictions
- Order validity: good-for-day

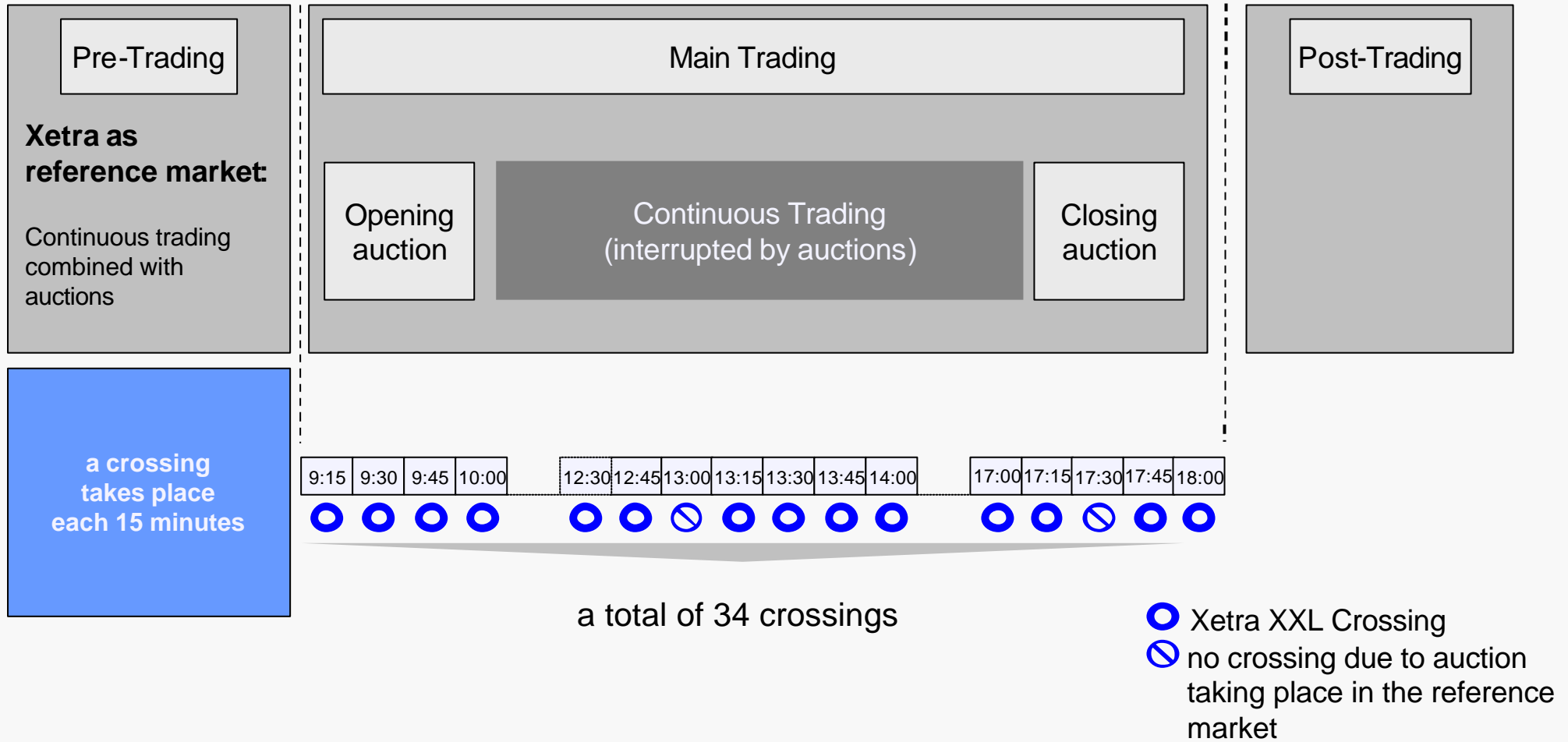
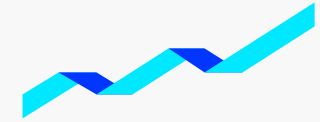
## Order Book Transparency

- Completely closed order book
- Display of current midpoints
- Display of phase change (QPREC => QCALL) if a „tradable“ order is submitted

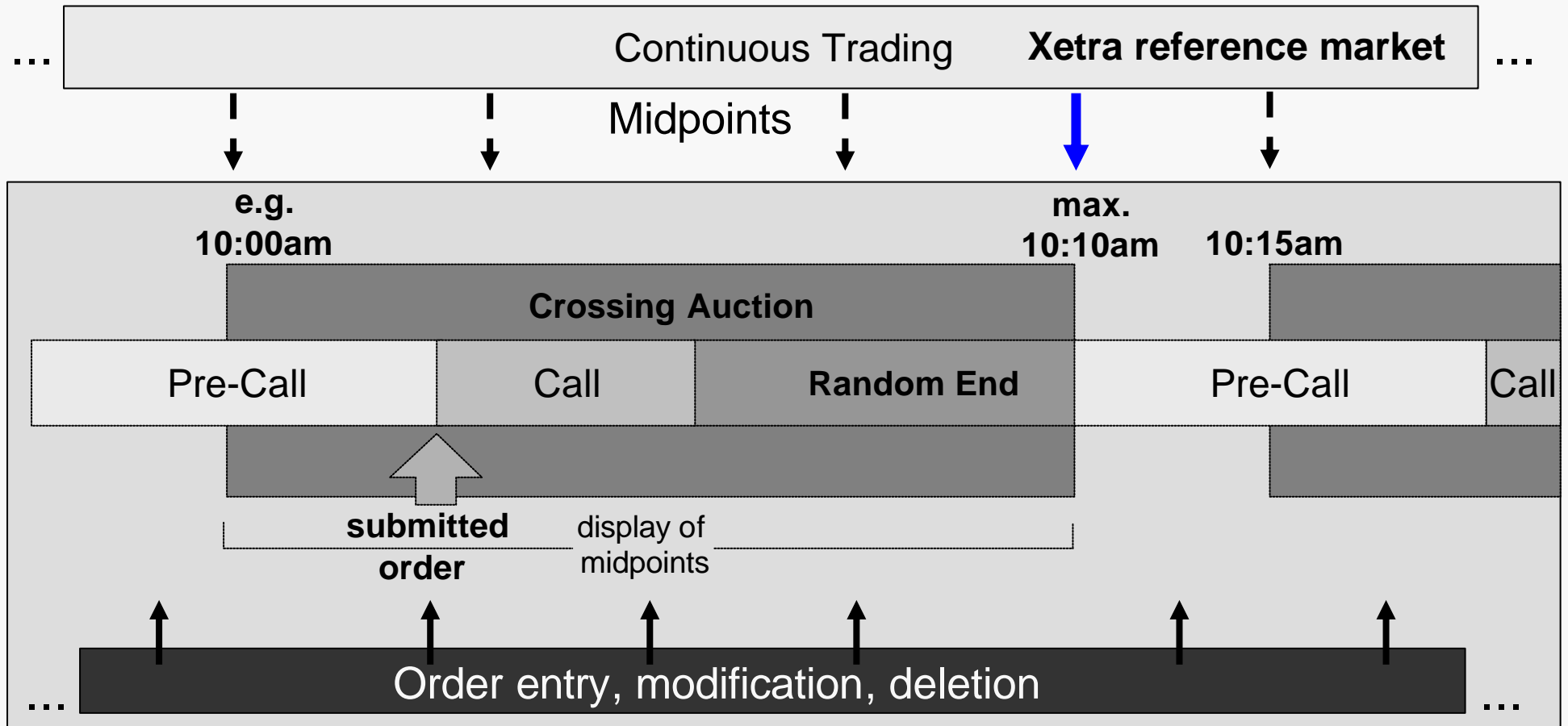
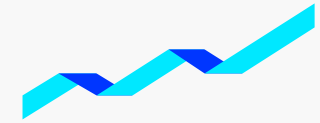
## Order Book Matching

- Matching at the reference price at a random point in time
- Executable orders: Market Orders and buy (sell) Limit Orders  $\geq$  ( $\leq$ ) reference price
- Priority: volume/time

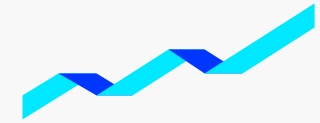
# Interaction Xetra - Xetra XXL



# Xetra XXL - Crossing Auction

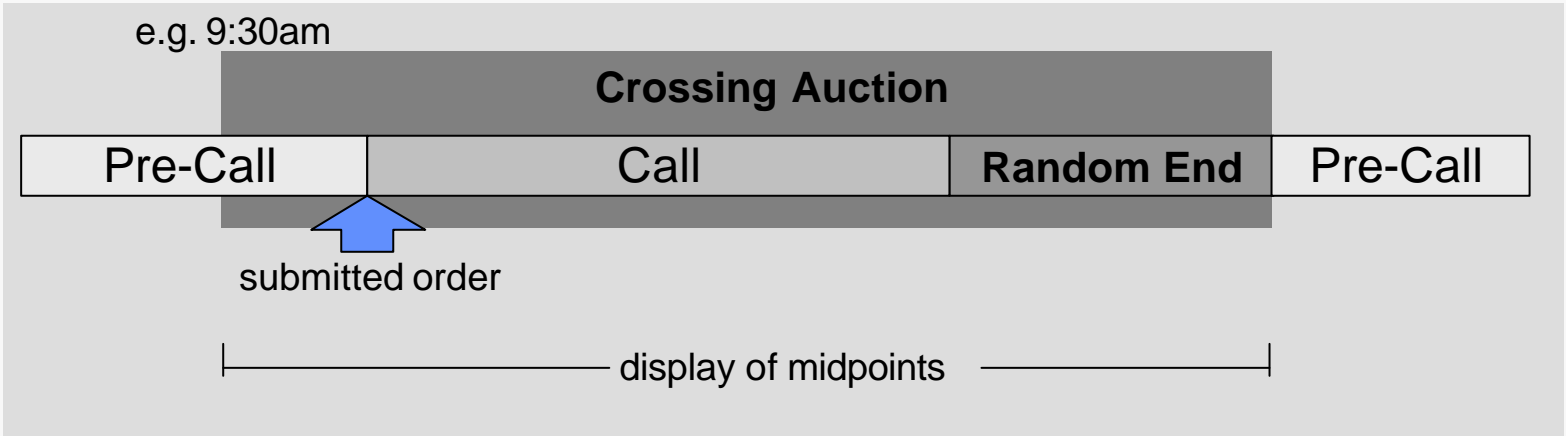


# Adaption of pre-trade transparency in Xetra XXL with Release 6.5 (19. Nov. 2001)

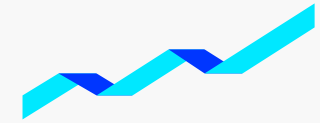


Increase of transparency by displaying “tradable” orders  
(no volumes, no market sides)

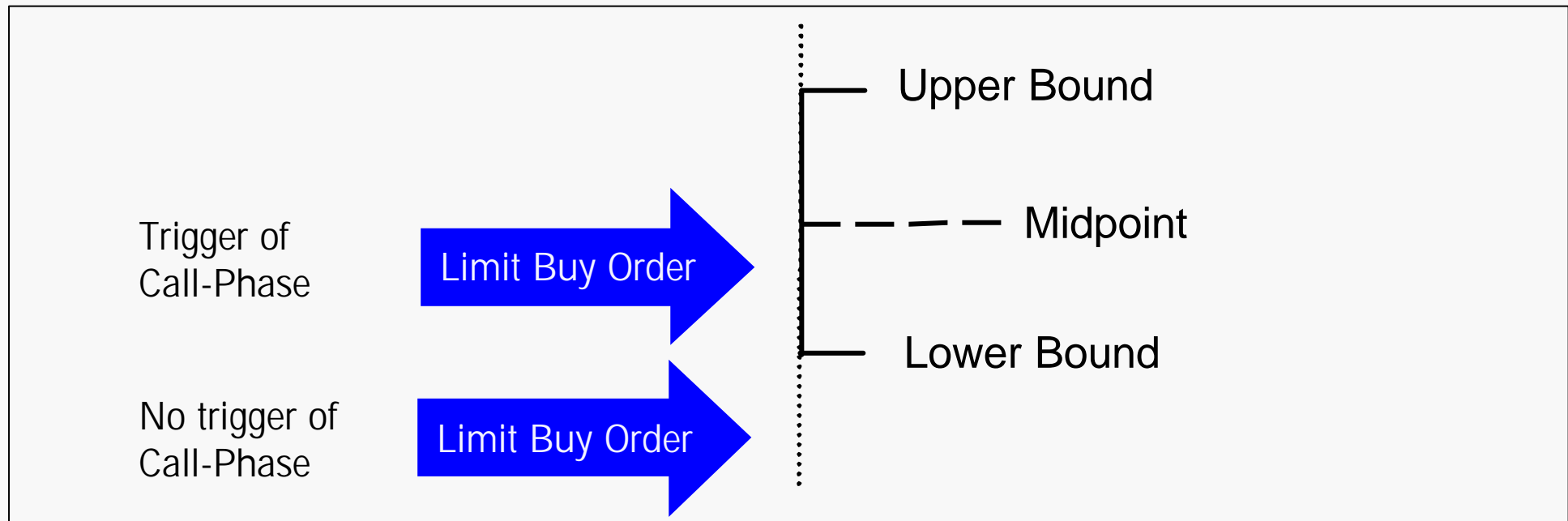
**Release 6.5**  
Display of call-  
phase for a  
submitted order  
(buy or sell  
order)



# Only “tradable” orders cause phase change from pre-call to call



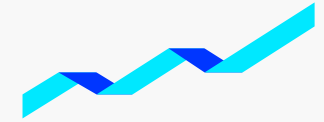
- Trigger corridor prevents manipulation
- DBAG specifies a corridor around the respective midpoint
- Call phase, if:  
Buy Market order or limit Buy Order  $\geq$  lower bound  
Sell Market order or limit Sell Order  $\leq$  upper bound



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## Display of trading interest

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### Instrument Level

Phase change from pre call to call will be triggered by a submitted “tradable” order.

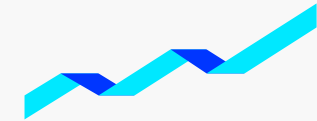
### System Level

Realtime information about the existence of a block order will be published in the Message Log of the Xetra J-Trader.

### Information Vendor Level

Realtime information about the existence of a block order will be published by information vendors (e.g. Reuters) in the respective underlying.

# Display on Instrument Level



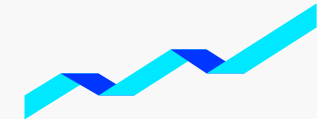
**SIMU: Order Market Overview: XXL**

Window Trading View Columns

Profile 
  Instr 
  InstrGrp 
 Exch: FFM

	Instr	WKN	ISIN	Exch	BidQty	Bid	Ask	AskQty	LstPrc	LstQty	LstTime	Phase	Ind	Plnd	QR	Low	Volume	MRBid	MRAsk
+	BCDTE	BC0555750	BC0005557508	FFM							00:00:00	QPREC							
+	DTE	555750	DE0005557508	FFM	200	M			10.10	500	11:54:33	TRADE				5.80	17,410,141		
+	BCALV	BC0840400	BC0008404005	FFM							00:00:00	QCALL						26.04	26.04
+	ALV	840400	DE0008404005	FFM					252.00	737,000	10:34:04	VOLA	V			2.00	8,285,518		
+	BCBAS	BC0515100	BC0005151005	FFM							00:00:00	QPREC							
+	BAS	515100	DE0005151005	FFM					39.67	600	10:40:23	VOLA	V			3.00	215,283		
+	<b>BCBAY</b>	BC0575200	BC0005752000	FFM							00:00:00	QCALL						34.68	34.68
-	BAY	575200	DE0005752000	FFM	400	33.80	33.90	200	34.00	100	11:40:56	TRADE				20.00	334,250		
					300	33.00	34.00	200											
					900	32.50	35.60	500											
					1,200	31.00	35.87	200											

# Display on System Level



Message Log

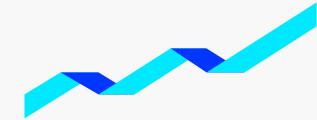
Window Columns Help

No Alert No OTC Alert

Date	Time	Exchange	Message
25.10.2001	12:00:05	FFM	Crossing call started (BCBAY - BC0575200)
25.10.2001	12:00:04	FFM	Crossing call started (BCBMW - BC0519000)
25.10.2001	12:00:01	FFM	Crossing call started (BCALV - BC0840400)
(25.10.2001)	(11:52:44)	VIE	8419 BROADCAST RETRANSMISSION AVAILABLE
(25.10.2001)	(11:52:44)	VIE	8417 XETRA BACK-END AVAILABLE
(25.10.2001)	(11:52:44)	VIE	6111 CONTINUOUS AUCTION XERVICE NOT AVA
(25.10.2001)	(11:52:44)	FFM	8419 BROADCAST RETRANSMISSION AVAILABLE
(25.10.2001)	(11:52:44)	FFM	6111 CONTINUOUS AUCTION XERVICE NOT AVA
(25.10.2001)	(11:52:44)	FFM	8417 XETRA BACK-END AVAILABLE
(25.10.2001)	(11:52:44)	FFM	8417 XETRA BACK-END AVAILABLE



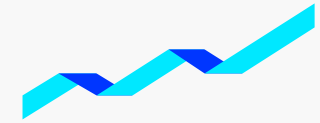
# Display on Information Vendor Level (Reuters)



Reuters : Quotes : DB1Gn.DE							
Function Edit Screens Format View Setup Help							
DB1Gn.DE	DT	BOERSE N	581005	DB1Gn.DEB2	GER/GER/EUR	19OCT01	12:58
Last	C	Chg	Net.Ch	LastVol	Moves	Bid / Ask	Size
↓39.20		-0.04	1000	19		39.00 / 39.35	1200 / 500
39.20		Pct.Chng	-0.10 %	Turnover	395.46	VWAP	39.43
39.20		Open	39.00	Trd.Vol	10030		
39.20		High	39.80	Yr.High	43.45	07JUN01	
39.20		Low	39.00	Yr.Low	29.77	22MAR01	
Today's Offcl		Cls	39.04	Offcl Cls	39.04	18OCT01	Status
				Clean Lst			
Total Vol		Blk.Trade		Blk.Vol		News	10:24
IndLast	Bid/Ask		OpnAuction	CntAuction	ClsAuction		
	/		39.00				
Reference:		ComPRIC			Market DEPTH		
Yield	Div.Dat	Dividend	Cur	PROP.Div	Ex.Date	Cap Adj.Fact	
7.684 %		3.00	EUR		04MAY01	0.1	01JUN01



# Duration of Trading Phases (Crossing Durations)

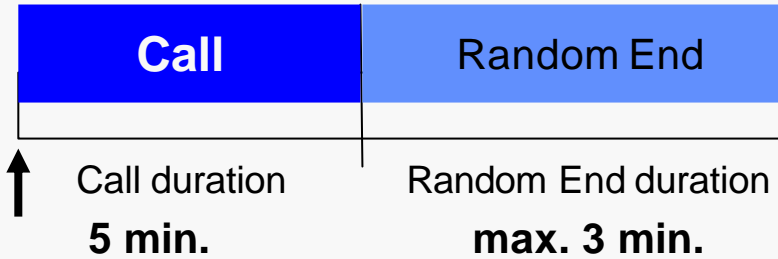


The

**First case:**

**Orders submitted  
before crossing start**

e.g. 10:00am

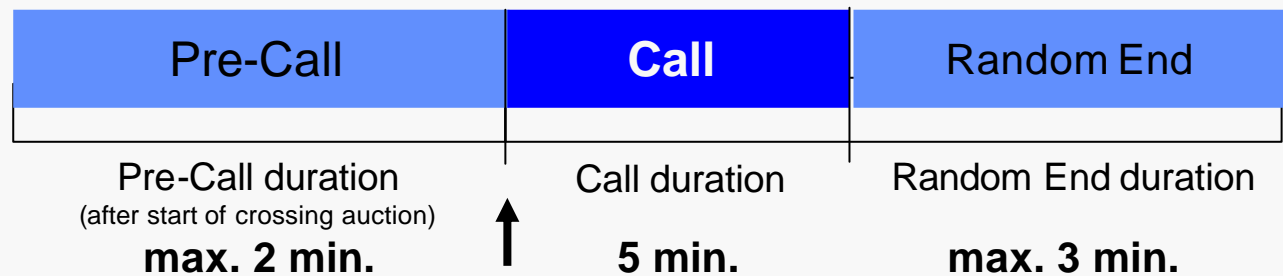


submitted order

**Second case:**

**Orders submitted  
during crossing period**

e.g. 10:00am

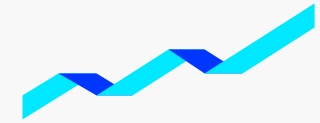


submitted order

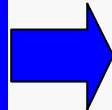
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## Additional provision of information about minimum order sizes and trades

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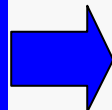


### Minimum order size



- Monthly via the XXL-circular
- On the internet-side [www.deutsche-boerse.com](http://www.deutsche-boerse.com); Xetra; Trade; Xetra XXL; About Xetra XXL
- In Reuters on the contributor sides XXL01-XXL15

### Trade information



- Published from 8.30pm on each trading day on the internet-side [www.deutsche-boerse.com](http://www.deutsche-boerse.com); Xetra; Trade; XetraXXL; Market Data
- Published from 8.30pm on each trading day through Reuters in "Time & Sales" with the identifier "BLK".
- Published from 8.30pm on each trading day through Bloomberg in "Time & Sales" with the identifier "YBC".

# General Conditions for Block Crossing on Xetra



## Legal Aspects

- Block Crossing is wholesale trading in the electronic trading system of the FWB (Xetra).
- Block Crossing prices are exchange prices.
- In general, all Xetra Members may have access to the Block Crossing trading segment.
- Rules and Regulations regarding exposure monitoring („Engagementkontrolle“/EK Neu) are also valid for the Block Crossing segment.

## Specific Features

- Minimum order sizes
- Post-trade anonymity
- Increased replacement and settlement risks

**For access to Block Crossing, the participant or his clearing bank are required to have a long-term minimum security deposit\* in exposure monitoring („Engagementkontrolle“/EK Neu) in the amount of 10 million €**

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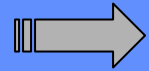
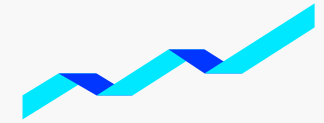


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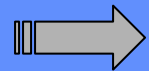
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# Functional Implementation of Block Crossing on Xetra XXL

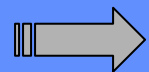
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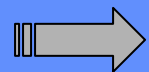
Block Crossing is based on Block Crossing instruments



Course of a Block Crossing Transaction on Xetra is based on existing Processes



Settlement is based on the original WKN

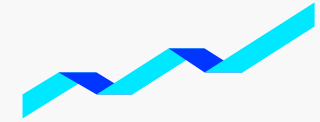


Authorization needs to be adapted for Block Crossing

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# Xetra XXL is based on Block Crossing Instruments

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## Identification of Block Crossing Instruments

- ISIN
  - ⇒ For the artificial BC-ISIN, only the “DE” country code of the original ISIN is replaced by “BC” (e.g. BC0007100000)
  - ⇒ The control digit of the BC-ISIN equals the control digit of the respective DE-ISIN
- WKN
  - ⇒ Within Xetra, the WKN of Block Crossing instruments use a BC0 prefix (e.g. BC0710000)
- Mnemonic
  - ⇒ The mnemonic is prefixed with BC, if the mnemonic of the instrument in the reference market consists of three letters (e.g. BCDCX)
  - ⇒ The mnemonic is prefixed with B, if the mnemonic of the instrument in the reference market consists of four letters (e.g. BSAP3)

## VALUES API

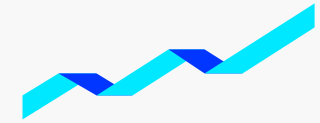
- All transactions concerning input/output procedures in Block Crossing instruments (e.g. order entry, execution confirmation, trade inquiry) have to be entered via VALUES API using the BC-ISIN



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# Xetra XXL Processing

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Besides using an artificial identifier, the market transaction in the block crossing segment is equal to the regular process known for other instruments traded on Xetra.

**But:**

⇒ **No Publication of BC-Trades**

- No Publication of Block Crossing Trades in Xetra (e.g. OMO, Ticker)
- Publication of price information occurs after the end of the trading day

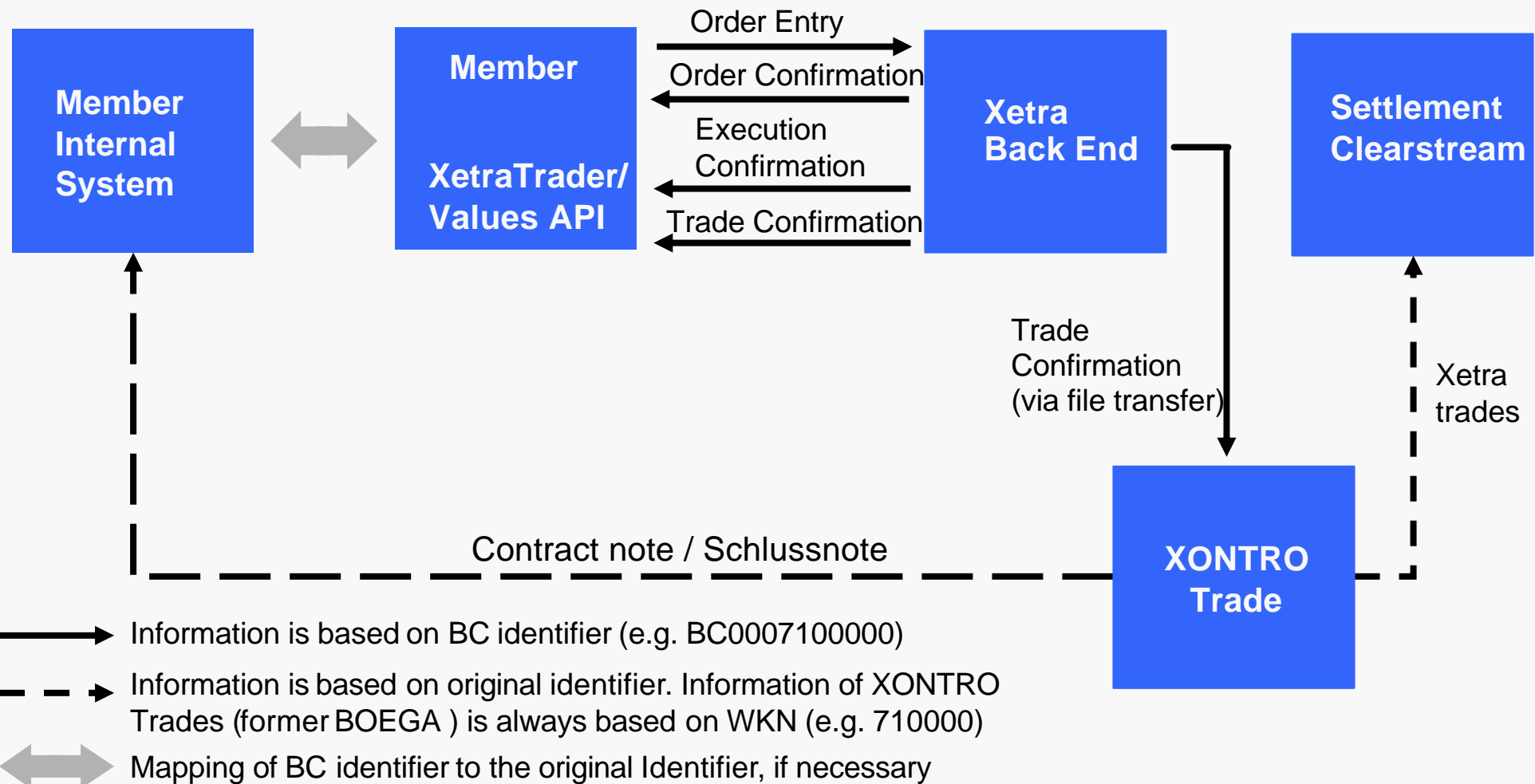
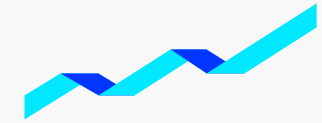
⇒ **Counterparty Information**

- The Trade Confirmation does not include a specific counterparty information, but a generic counterparty replacement character

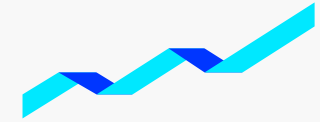
■ **The contract notes (= Schlussnoten) and delivery instructions are based on the original WKN**

**The conversion from BC-ISIN to DE-ISIN has to be performed by in-house systems, if necessary**

# Functional Implementation of Xetra XXL - Overview



# Authorization of “BC-User”



## Authorization

- Separate instrument groups will be introduced for block crossing instruments
- BC instrument groups are only assigned to members who meet the requirements defined in the access form
- Xetra users participating in Block Crossing should be set up with a maximum order volume exceeding the minimum order size for the assigned Block Crossing instruments

## „BC-User“

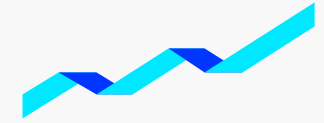
- The following procedure can avoid conflicts regarding the required maximum order volume for block crossing instruments:
  - Only instrument groups with block crossing instruments should be assigned to a created “XXL Subgroup”
  - Traders receive separate User IDs for trading in Block Crossing

The maximum order volume is only related to the „BC Users“

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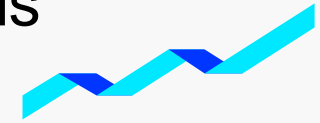


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# The fee and pricing model of Xetra XXL explicitly rewards the provision of liquidity

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## Liquidity supply:

No  
transaction fees

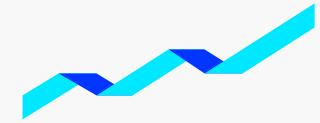
- For all (executed) market and limit orders, which trigger a call phase, ***no transaction fees*** will be charged.

## Liquidity demand:

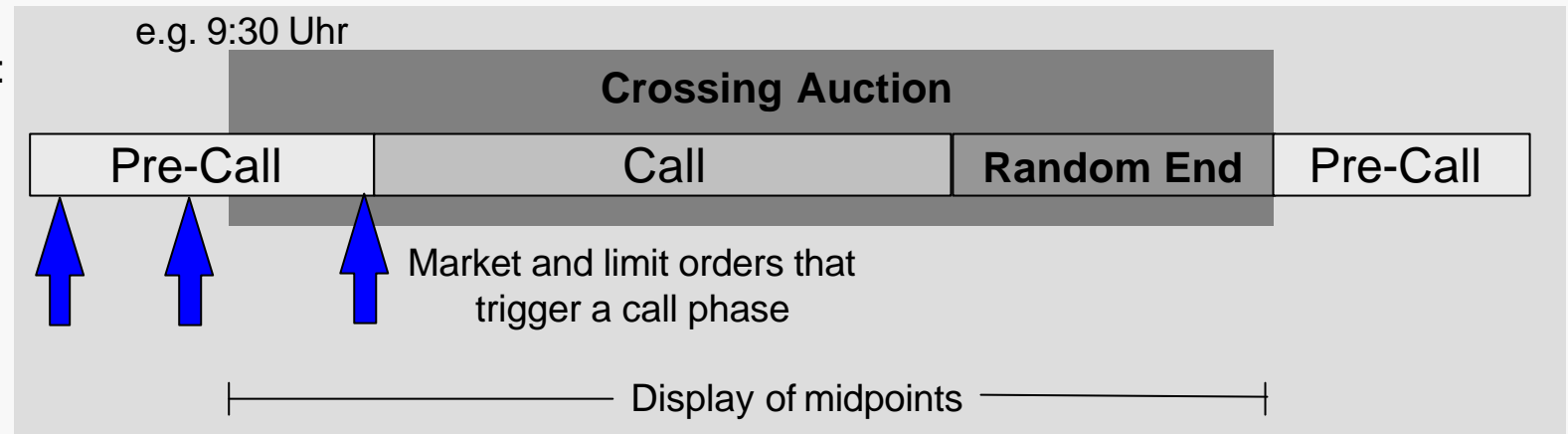
Variable fee  
of 2 basispoints;  
cap of  
1000 Euro per order

- transaction fees will only be charged for (executed) orders, which are entered during the respective call phase or for limited orders, which do not trigger a call phase, but only become executable in the call phase. For such orders, fees in the amount of 0.02 per cent of the trade value with a maximum transaction fee of 1000 € (cap).
- The cap takes already effect at ordersizes of 5 million Euro. (e.g. 10 million. order: 1 bp)

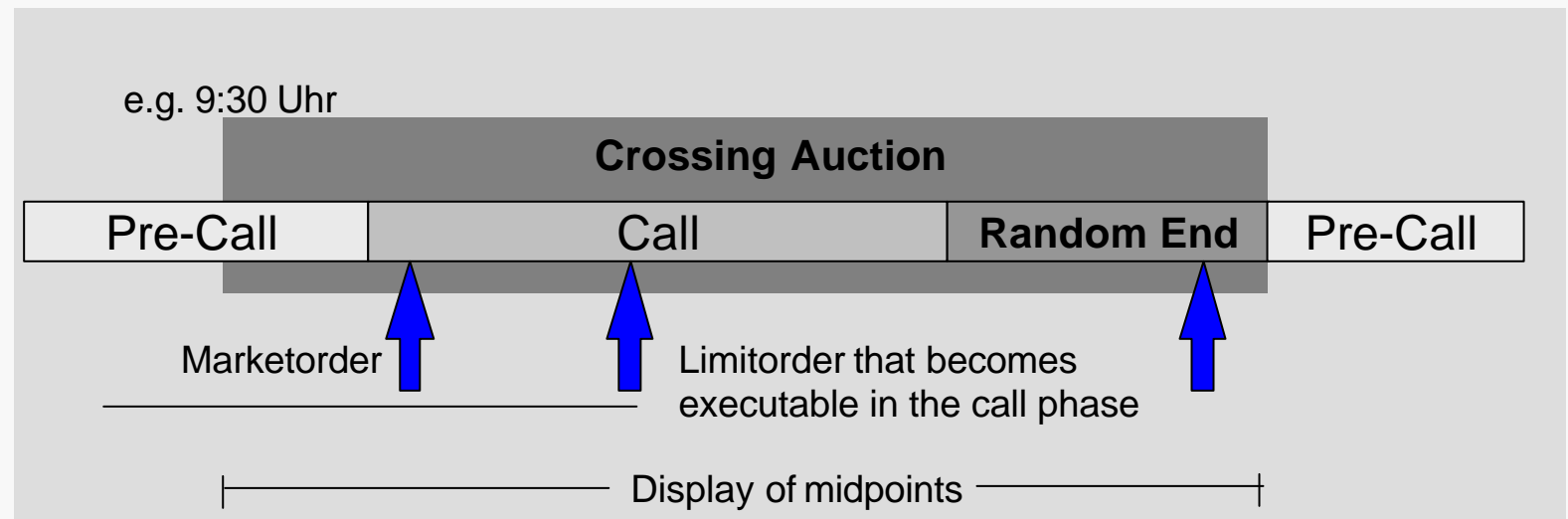
# No transaction fees for order entry before the call phase



No transaction fees:



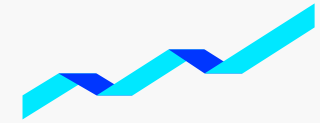
Transaction fees:



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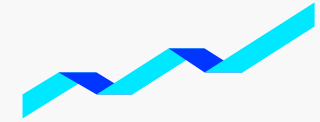
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# Benefits of Xetra XXL compared to other existing block trading facilities



The market model reflects specific requirements for block trading ...

- Complete anonymity (closed order book)
- Minimized information disclosure
- Considerable reduction of trading costs
  - no spread costs
  - no market impact

Xetra XXL integrates block trading in Xetra ...

- Increased process efficiency compared to telephone trading
- Complete integration from trading to settlement (STP)
- Reduction of system diversity on the participants' side
- Concentration of presently dispersed liquidity on Xetra XXL

Exchange trading ensures price quality and fairness in block trading ...

- Xetra XXL prices are exchange prices
- FWB Trading Surveillance Office supervises Xetra (reference market) and the Xetra XXL (block trading market)
- Coordination of both markets in extreme market situations is guaranteed

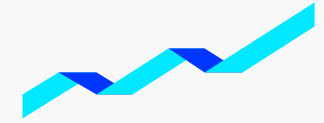
**tailor-made services co-exist  
for trading on a technical platform (Xetra)**



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## Your Deutsche Börse AG contacts

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- Axel Schmidt

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E-Mail: [axel.schmidt@deutsche-boerse.com](mailto:axel.schmidt@deutsche-boerse.com)