Xetra Retail - Best execution for retail order flow

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Xetra Retail

- Xetra Retail is a new functionality for the execution of retail orders for the trading venue Xetra.
- The new service aims to offer the best execution of retail orders at attractive conditions:
  - The new execution service offers price improvements based on the current Central Limit Order Book (CLOB) and based on the competing quotes of dedicated Retail Liquidity Providers (RLPs).
  - Furthermore, the transaction fees for the execution of retail orders will be reduced.

→ With the new Xetra execution service retail orders will benefit from improved execution prices and lower transaction fees.

Xetra Retail - Overview

Main objectives

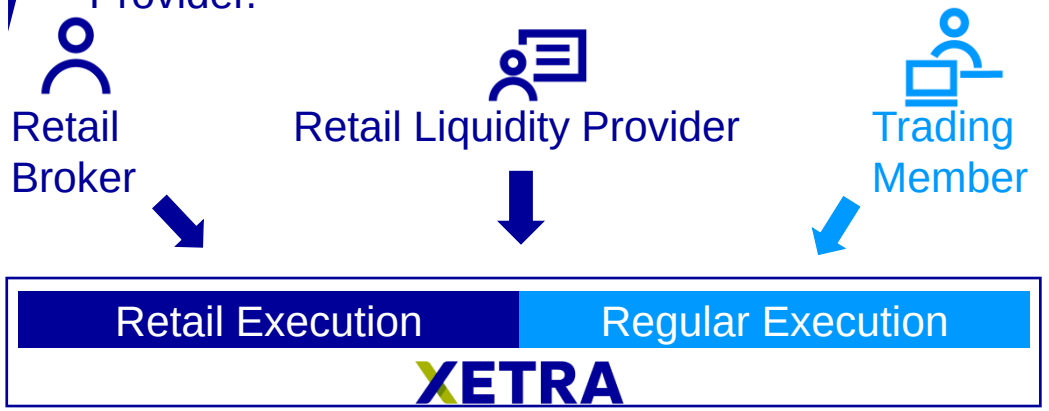
- Keep existing retail order flow
- Win back retail order flow from largest retail order flow provider (especially with focus on best execution policies)
- Participation in further growth of the German retail market

Critical Success Factors

- **Retail OFPs:** Low implementation and maintenance effort and predictable positive P&L impact incl. ease of use (e.g. automated order routing out of the best ex policy)
- **Retail Investors (self-directed):** Best execution during the main trading trading hours in a comprehensive instrument scope with various order types (ease of use)
- **Liquidity Provider:** Limited trading risks and low implementation effort

Basic concept

- Segregation of retail flow in the Xetra order book (aggressive and passive) with preferred execution of the retail orders against retail liquidity providers ensuring reference market matching with a price improvement option (9:00 - 17:30h),
- Reduced trading fees for retail brokers,
- Increased trading fees for Xetra Retail Liquidity Provider.



Xetra Retail - General Setup

Retail Order

- A retail order originates **not** from a client who has been classified as a “professional client” within the “Wertpapierhandelsgesetz” (§ 63 (7) WphG) definition (private investor).
- Is an **agency order** that originates from a **private investor** and is submitted to the Exchange by a RMO, provided that **no change** is made to the terms of the order with respect to **price** or **side of market** and the order does not originate from a **trading algorithm** or any other computerized methodology (excluding SORs for dynamic best execution policies).

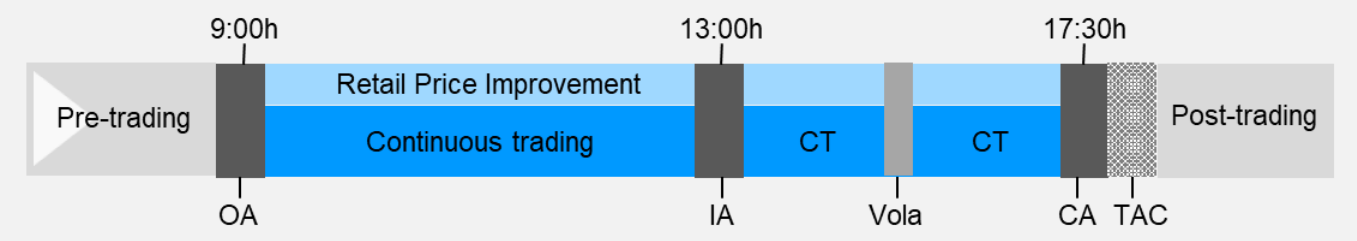
Retail Member Organization

- Trading members with retail order flow might register as a Retail Member Organization (RMO).
- RMOs are allowed to send retail orders via a **new T7 trading capacity** (legally A-account).
- Orders sent via the new trading capacity are considered as retail orders.
- In general, retail orders are treated as regular orders. In addition, retail orders are executable against quotes / orders of Retail Liquidity Providers (RLP).

Retail Liquidity Provider

- Trading members might register as an RLP. Number of RLPs per instrument is not limited.
- With the registration an instrument basket is assigned to the RLP for which he is allowed / obliged to enter RLP quotes / orders. RLPs are allowed to sent RLP quotes / orders via a new T7 trading capacity (legally P-account)
- During continuous trading RLP quotes / orders are only executable against retail orders. RLP quotes / orders do not participate in scheduled auctions.

Xetra Retail - Flow of Trading



Scope

- In general, available for all tradable instruments on the trading venue Xetra (MIC: XETR).
- However, only **equities** will be supported with the start of Xetra Retail.

Trading

- After the opening auction, **retail orders** might get executed against other orders in the order book or against the RLP quotes. RLP quotes can be entered after the opening auction and can match against sitting and incoming marketable retail orders.
- RLP quotes do not participate in auctions. With the start of an auction all RLP quotes are deleted.
- RLP quotes entered during an auction are rejected by the trading system.
- Executions of retail orders against quotes of an RLP will be flagged accordingly.
- Existing safeguards, i.e. volatility interruptions, apply for retail trades as well. Whenever the potential execution price of a retail order against a RLP quote lies outside the dynamic and/or static price range around a reference price a volatility interruption is initiated.

Xetra Retail - Basic Matching Rules

During this trading phase in general the basic continuous trading matching rules apply. However, the following special rules need to be considered:

- **Rule 1:** Retail orders are matched against all available orders in the order book and all available RLP quotes / orders.
- **Rule 2:** The RLP quote / order is treated as fully integrated in the order book. However, for the execution of retail orders, a **price/ retail / time priority** for the RLP quote / order applies. RLP quotes / orders cannot match against each other.
- **Rule 3:** In case of a **crossed order book** situation of a **non-retail order** and a **RLP quote / order**, where the non-retail order is top of book, the RLP-quote / order is disclosed to the market with the same limit as the crossed order limit on the opposite side.
- **Note:** During **continuous trading** a quote / order of a retail liquidity provider is only executable against a retail order and not against other orders or quotes in the order book. This is also true in case of more than one RLP per instrument, i.e. RLP quotes / orders do not match against each other.

Matching Examples – Incoming retail order

Example ① A market order meets an order book with a RLP quote and another limit order on a different price level

Bid							Ask
Time	Type	Qty	Limit	Limit	Qty	Type	Time
				204	500	RLP	9:25
9:25	RLP	200	200				
9:10	LO	50	199				

Incoming **retail** order: Sell market order, quantity 250 shares

200 shares of the sell market order are executed against the bid of the RLP quote at a price of € 200 and 50 shares are executed against the limit order at a price of € 199.

Full order book integration

Example ② A market order meets an order book with a RLP quote and a limit order on the same price level. (Price- / retail-/ time-priority)

Bid							Ask
Time	Type	Qty	Limit	Limit	Qty	Type	Time
				204	500	RLP	9:25
9:25	RLP	200	200				
9:10	LO	50	200				

Incoming **retail** order: Sell market order, quantity 50 shares

50 shares of the sell market order are executed against the bid of the RLP quote at a price of € 200 due to price- / retail- / time-priority.

Price- / retail- / time-priority

Note:

- Orders will not be displayed as retail or non-retail for any trading participant. The “Type” column in the examples has been added for illustration purposes only.
- RLP quotes / orders will not be displayed within the Xetra order book, but via a new data stream via the consolidated exchange feed (CEF).

Matching Examples – Incoming RLP quote

Example ③ Incoming RLP quote with a retail limit order on the opposite side.

Bid							**Ask**
Time	Type	Qty	Limit	Limit	Qty	Type	Time
				202	500	LO	9:25
9:15	RLO	50	200				

Incoming RLP quote: bid limit 198; ask limit 199, quantity 200 shares

50 shares of the retail buy limit order are executed against the ask of the RLP quote at a price of € 200.
Remaining parts of the RLP-quote enter the order book:

Bid							**Ask**
Time	Type	Qty	Limit	Limit	Qty	Type	Time
				202	500	LO	9:25
~~9:15~~	~~RLO~~	~~50~~	~~200~~				
				199	150	RLP	9:27
9:27	RLP	200	198				

Execution of a passive retail order

Note:
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Matching Examples – crossed order book

Example ④ Incoming RLP quote with a standard and retail limit order on the opposite side.

Bid							**Ask**
Time	Type	Qty	Limit	Limit	Qty	Type	Time
				204	500	LO	9:25
9:10	LO	200	200				
9:15	RLO	50	200				

Incoming RLP quote: bid limit 198; ask limit 199, quantity 200 shares

50 shares of the buy retail limit order are executed against the ask of the RLP quote at a price of € 200. Remaining parts of the RLP-quote enter the order book. Due to a higher bid limit of a regular limit order, the ask limit of the RLP quote is displayed according to this limit.

Bid							**Ask**
Time	Type	Qty	Limit	Limit	Qty	Type	Time
				204	500	LO	9:25
9:10	LO	200	200	200	150	RLP	9:27
~~9:15~~	~~RLO~~	~~50~~	~~200~~				
9:27	RLP	200	198				

Order book consistency

Note:

- Orders will not be displayed as retail or non-retail for any trading participant. The “Type” column in the examples has been added for illustration purposes only.
- RLP quotes / orders will not be displayed within the Xetra order book, but via a new data stream via the consolidated exchange feed (CEF).

Thank you!

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