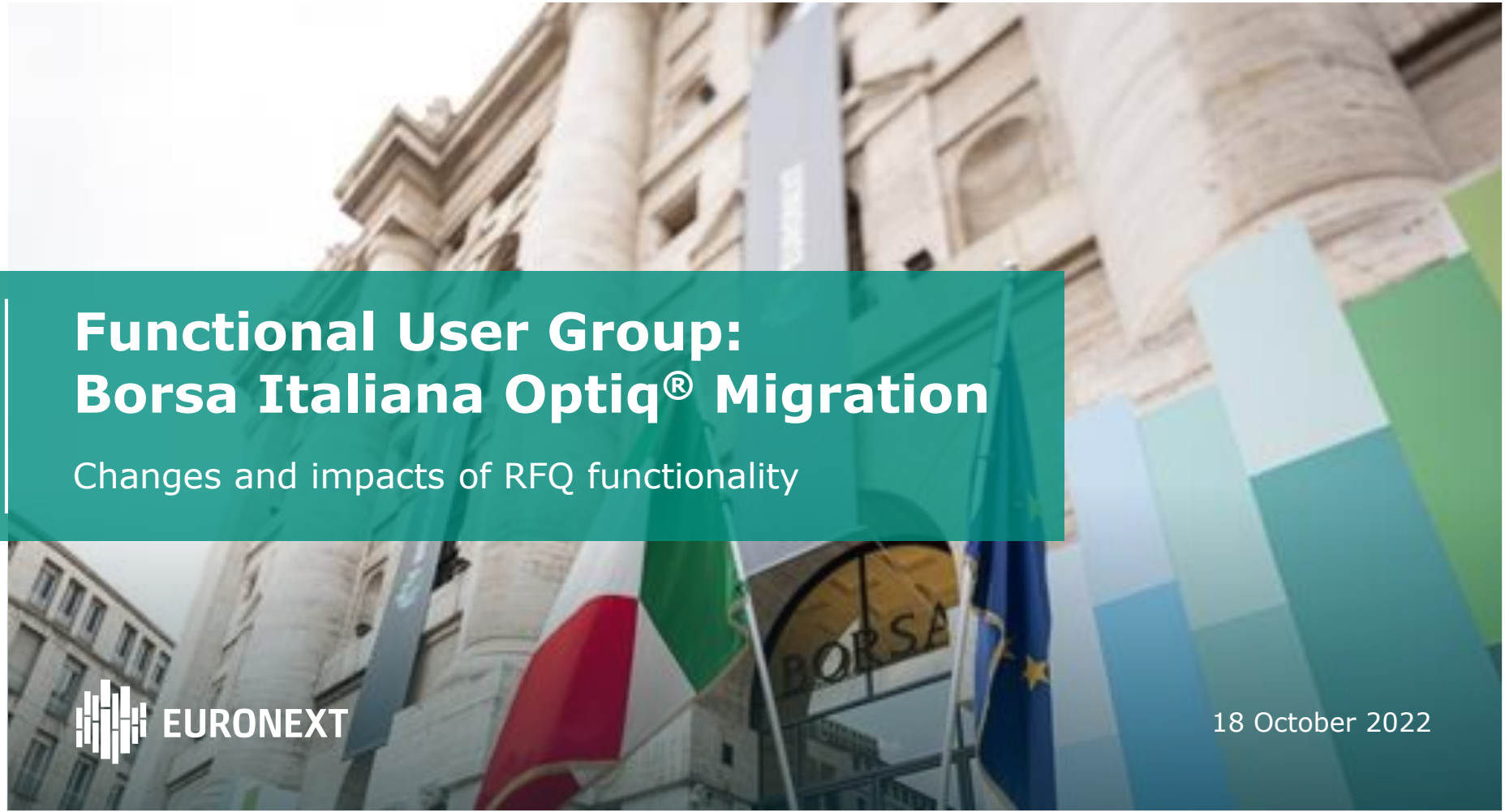

Functional User Group: Borsa Italiana Optiq® Migration

Changes and impacts of RFQ functionality

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18 October 2022

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Agenda

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2. THE RFQ WORKFLOW
3. DIFFERENCES WITH THE CURRENT BORSA ITALIANA FUNCTIONALITY
4. MAIN RFQ CHARACTERISTICS
5. RFQ MESSAGES AND MATCHING EXAMPLES
6. Q&A

1. Introduction

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General Overview of Euronext Request For Quote

What is the Euronext Request For Quote (RFQ)?

RFQ is a functionality that provides all Trading Members with a **fast** and **efficient** way to submit specific requests for prices to execute orders with sizes larger than those that can usually be traded in the Central Order Book

For which markets will the RFQ be available ?

The Euronext Request For Quote functionality will be available for:

- Italian ETP and Fixed Income Markets
- Euronext Legacy ETP and Fixed Income Markets

When will RFQ be available in Production?

- The Euronext RFQ functionality will be active as of the Go-Live of:
  - ✓ **The Italian ETP market on 27 March 2023**
  - ✓ **The Italian Fixed Income Markets on 11 September 2023**
- *For Euronext ETP* and Fixed Income Markets, the Go-Live date will be communicated in due course*

**ETP stands for Exchange Traded Products and refers to Exchange Traded Funds (ETF), Exchange Traded Commodities (ETC) and/or Exchange Traded Notes (ETN)*

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The benefits of the Euronext RFQ functionality

No difference from a post-trade perspective between trades executed in the Central Order Book or using the RFQ facility

Large transactions benefit from a **dedicated On-Exchange facility**

RFQ trades will be **reported** and **consolidated** within the exchange volumes

Available to all members and completely **integrated within Optiq**, allowing participants to **leverage** their trading infrastructure

Euronext RFQ, integrated in the COB, provides brokers with an efficient solution for trading in the **best market conditions**

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2. The RFQ workflow

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The Euronext RFQ flow

1 **REQUESTOR**

RFQ on a specific ISIN

Optiq

Order Book

3 **Order book liquidity is put in direct competition** with RFQ quote responses

A message is sent by Optiq to inform the RFQ LPs about the potential matching quantity at the time the message is sent

RFQ LPs 2

RFQ Response to accept the RFQ

RFQ LPs can respond in less than full requested size and can answer with more than one order

At the same price:
- RFQ LPs have the priority
- Bigger quantities have the priority for LPs' RFQ Responses

*Requestor receives the **potential matching price** (weighted average price, updated on every change to COB and RFQ answers)*

4 **REQUESTOR**

Requestor must send a **confirmation order** with the average price it wishes to execute

Trade

All RFQ counterparties are notified of the end of the negotiation process

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3. Differences with the current Borsa Italiana functionality

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Main RFQ changes for Exchange-Traded Products

Modified Features

- ✓ Only manual and anonymous RFQ model available
- ✓ Interaction with COB for all RFQs and for all sizes
- ✓ All book levels contribute to the RFQ price (not only the 1st level)
- ✓ Tick Size & Price Collars are the same as the Central Order Book
- ✓ No pre-trade transparency waivers (all RFQ LPs' answers will be published to the market – including those that are not executed)

Additional Features

- ✓ RFQ LPs can also respond for a partial quantity
- ✓ Requestors can also execute a partial quantity
- ✓ Two new alternative fields can be set to better control execution: MAQ (Minimum Acceptable Quantity) and MES (Minimum Execution Size)
- ✓ Potential matching price (weighted average price, updated on every change to COB and RFQ answers) is sent to the requestor before the execution

Discontinued Features

- × AutoRFQ and RFQ LP Ranking will no longer be available
- × Requestors will no longer be able to select RFQ LPs (only anonymous model)
- × No RFQ duration and limit price can be set by the requestor
- × Tick size will be the same as the COB (no more dedicated tick available)

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RFQ main changes for Fixed Income

Modified Features

- ✓ Only manual and anonymous RFQ model available
- ✓ RFQs can be sent for any size
- ✓ Tick Size and Price Collars are the same as the Central Order Book
- ✓ No pre-trade transparency waivers (all RFQ LPs' answers will be published to the market – including those that are not executed)
- ✓ Last trade price, reference price and collars are updated in case of execution on COB

Additional Features

- ✓ **Interaction with the COB**
- ✓ LPs can also respond for a partial quantity
- ✓ Requestors can also execute a partial quantity
- ✓ Two new additional alternative fields can be set: MAQ (Minimum Acceptable Quantity and MES (Minimum Execution Size)
- ✓ Potential matching price (weighted average price, updated on every change to COB and RFQ answers) is sent to the requestor before the execution

Discontinued Features

- × AutoRFQ will no longer be available
- × Requestors will no longer be able to select RFQ LPs (only anonymous model)
- × No RFQ duration and limit price can be set by the requestor

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4. Main RFQ characteristics

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Main characteristics of the target RFQ model

	Current RFQ for Borsa Italiana	Target Euronext RFQ model in Optiq
The RFQ Model **Requestors vs. Liquidity Providers**	Two models available: **1- Anonymous:** RFQ is routed to all authorised Liquidity Providers (LPs) Requestor does not see LP's Identifier in Quotes (and vice versa) **2- Named:** Requestor must select the LPs to which the RFQ is sent. Requestor sees LP's Identifier in Quotes (and vice versa)	**All RFQs on Optiq will be anonymous**, i.e. RFQs will be routed to all LPs and Requestors will not be able to see the LPs that are originators of the Quotes
Execution Delay	Available only for AutoRFQ	Execution Delay not available on Optiq
Minimum number of LP Responses	Available only for AutoRFQ	Feature no longer available

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Main trading characteristics

	Current RFQ for Borsa Italiana	→	Target Euronext RFQ model in Optiq
Minimum Size	No minimum size for ETPs Minimum size for FI		**No minimum size**
Max Quantity	**Ad hoc** parameters for RFQ		Same Max Quantity applies as in COB
Tick Size	0,0001 (with exception of Equity Europe ETFs)		Same tick sizes apply to RFQs as to COB orders
Price Validation	Ad hoc parameters vs BBO		Same price validation applies to RFQs as to COB orders
Max Duration	180 seconds (the requestor can set a shorter duration)		180 seconds (the requestor **cannot** set a shorter duration)

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New optional MES & MAQ parameters

MES
"Minimum-Execution Size"

Orders are executed only if at least one opposite order with the specified minimum quantity is available for matching

- Requestor defines the maximum number of executed trades
- Respondent defines the minimum quantity willing to trade

MAQ
"Minimum-Acceptable-Quantity"

Orders are executed only if a specified minimum quantity is available in aggregate over any opposite orders for matching

- Requestor defines the total tradable minimum quantity, regardless of the number of executed trades
- Respondent defines the minimum quantity willing to trade

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5. RFQ messages and matching examples

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RFQ Messages (1)

		SBE/FIX Message	Meaning/Content
Request for Quote	Requestor » Optiq	**Quote Request** (10) *Min Quantity* should be used to specify MAQ or MES *Dark Execution Instruction* (bit 4) should be used to specify if min quantity is MAQ or MES	RFQ is entered, Optiq replies with the RFQ ID to be used as reference for the request
RFQ Notification	Optiq » LPs	**RFQ Notification** (35)	Notifies LPs of an RFQ, provides RFQ ID
LPs Quotes	LPs » Optiq	**New Order** (01/D) Order Type 'Limit'	LP replies to RFQ, using RFQ ID to identify request
RFQ Matching Status	Optiq » Requestor	**RFQ Matching Status** (36)	Notifies of Potential RFQ Execution Price and Quantity, using RFQ ID to identify request
RFQ LP Matching Status	Optiq » LPs	**RFQ LP Matching Status** (37)	

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RFQ Messages (2)

		SBE/FIX Message	Meaning/Content
RFQ Confirmation	Requestor » Optiq	**New Order** (01/D) *Order Type 'Average Price'*	Requestor executes RFQ
RFQ Trade	Optiq » Requestor LPs	**Fill** (04/8)	Trades resulting from RFQ
RFQ Cancel	Requestor » Optiq	**Cancel Request** (12/F) or **Mass Cancel** (13/q)	Requestor cancels RFQ
RFQ Expiration	Optiq » Requestor LPs	**Kill** (05/8)	RFQ has expired
RFQ Audit	Optiq » Requestor	**RFQ Audit** (72)	Details of all answers received from LPs and of all COB orders (only in case of execution) LP answers are provided even if not executed

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Standard execution – example

RFQ / Sell, Qty 1000

LPs

RFQ Notification / Qty 1000

Bid Qty	Bid Price	Ask Price	Ask Qty
300	10	10.2	200

RFQ Matching Status / Qty 300, Price 10

RFQ Response / Price 9, Qty 200 **LP1**

RFQ Matching Status / Qty 500, Price 9.6

RFQ Response / Price 8, Qty 200 **LP2**

RFQ Matching Status / Qty 700, Price 9.14

RFQ Confirmation / Avg Price 9.14

Trade / Quantity 300, Price 10

Trade / Quantity 300 **COB**

Trade / Quantity 200, Price 9

Trade / Quantity 200 **LP1**

Trade / Quantity 200, Price 8

Trade / Quantity 200 **LP2**

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Minimum Execution Size – example 1

Bid Qty	Bid Price	Ask Price	Ask Qty
300	10	10.2	200

LPs

RFQ / **Buy**, Qty 1000, MES 500

RFQ Notification / Qty 1000, MES 500

RFQ Response / Price 10.1, Qty 400 — LP1

RFQ Response / Price 10.1, Qty 500 — LP2

RFQ Matching Status / Qty 500, Price 10.1

RFQ Confirmation / Avg Price 10.1

Trade / Quantity 500, Price 10.1

Trade / Quantity 500 — LP2

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Minimum Execution Size – example 2

RFQ / Buy, Qty 1000, MES 500

Bid Qty	Bid Price	Ask Price	Ask Qty
300	10	10.2	200

LPs

RFQ Notification / Qty 1000, MES 500

RFQ Response / Price 10.1, Qty 400 **LP1**

RFQ Response / Price 10.1, Qty 500 **LP2**

RFQ Matching Status / Qty 500, Price 10.1

RFQ Matching Status / Qty 1000, Price 10.15

Bid Qty	Bid Price	Ask Price	Ask Qty
300	10	10.2	500

RFQ Confirmation / Avg Price 10.15

Trade / Quantity 500, Price 10.2

Trade / Quantity 500 **COB**

Trade / Quantity 500, Price 10.1

Trade / Quantity 500 **LP2**

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Minimum Acceptable Quantity – example

Bid Qty	Bid Price	Ask Price	Ask Qty
300	10	10.2	200

LPs

RFQ / **Buy**, Qty 1000, MAQ 500

RFQ Notification / Qty 1000, MAQ 500

RFQ Response / Price 10.1, Qty 400 — LP1

RFQ Response / Price 10.1, Qty 400 — LP2

RFQ Matching Status / Qty 600, Price 10.13

RFQ Matching Status / Qty 1000, Price 10.12

RFQ Confirmation / Avg Price 10.12

Trade / Quantity 400, Price 10.1

Trade / Quantity 400 — LP1

Trade / Quantity 400, Price 10.1

Trade / Quantity 400 — LP2

Trade / Quantity 200, Price 10.2

Trade / Quantity 200 — COB

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6. Questions & Answers session

If there is not enough time to answer your questions, we will get back to you following the presentation. Thank you!

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