



EEX Group MiFID II Readiness FIA Webinar

06 December 2017

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› ecc

› epexspot

› powernext

› pegas

› pxe

› cltx

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Welcome

Speakers today



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Agenda

1. Overview EEX Group
2. Update on trends and liquidity in European power markets
3. Getting ready for MiFID II
4. Questions

Markets of EEX Group



Power



Natural Gas



Coal



Environmental Markets

Emission Allowances,
Guarantees of Origin



Oil

Fuel Oil



Freight

Dry Bulk Freight



Metals

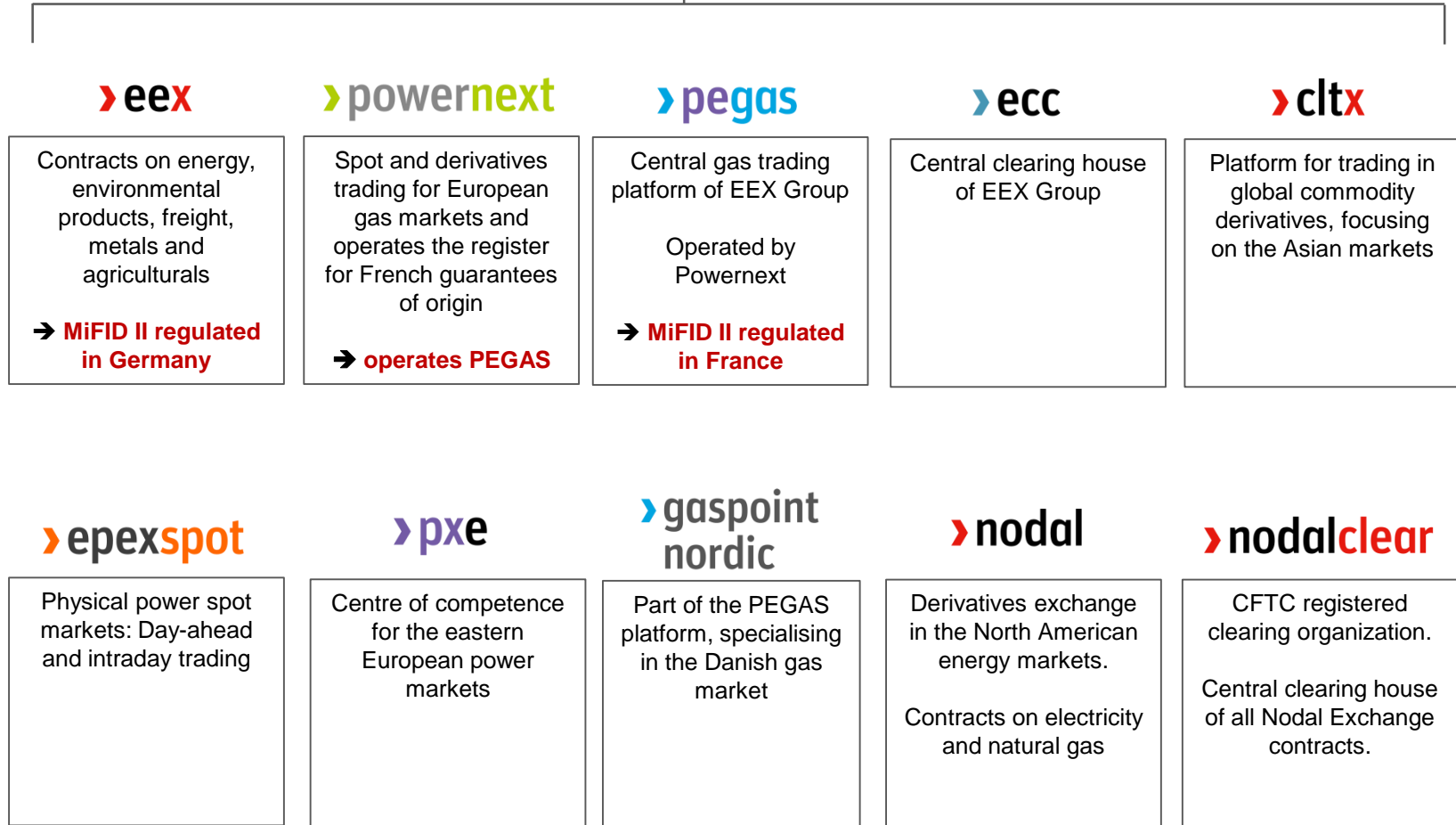
Iron Ore, Steel



Agricultural Markets

Potatoes, Dairy Products, Fertiliser

› eex group



Trading participants of EEX Group

EEX-Group connects **585** trading participants from **37** countries:

Thereof **103** Non-European participants:

Bermuda, British Virgin Islands, Canada, Cayman Islands, China, Singapore, South Korea, United States of America



EEX Group

More than 540 employees in 16 different locations

1 Leipzig - HQ

2 Amsterdam

3 Berlin

4 Bern

5 Brussels

6 Copenhagen

7 London

8 Luxembourg

9 Milan

10 Oslo

11 Paris

12 Prague

13 Singapore

14 Vienna

15 Madrid

+ Washington = #16

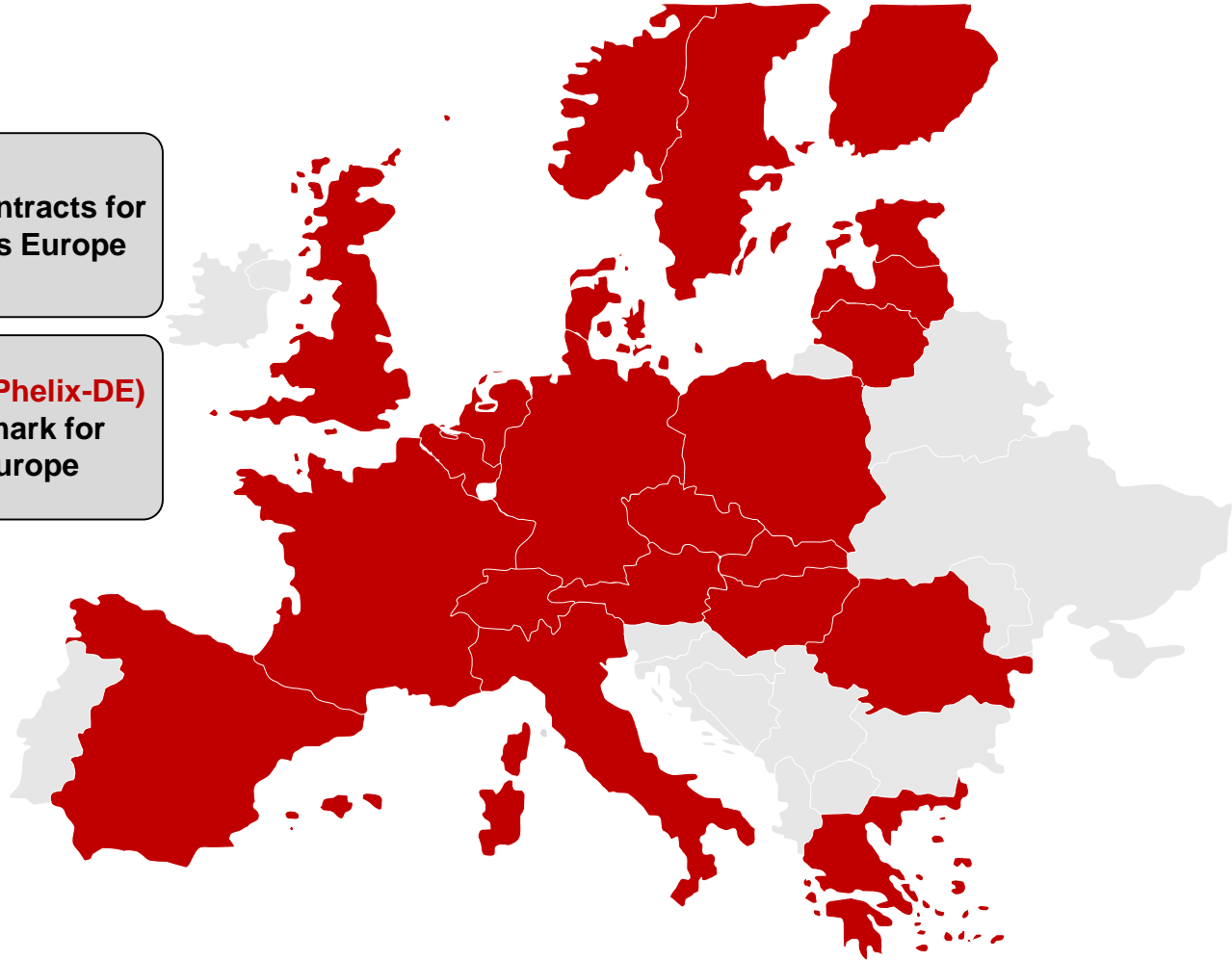


Market coverage

EEX European Power Derivatives Markets

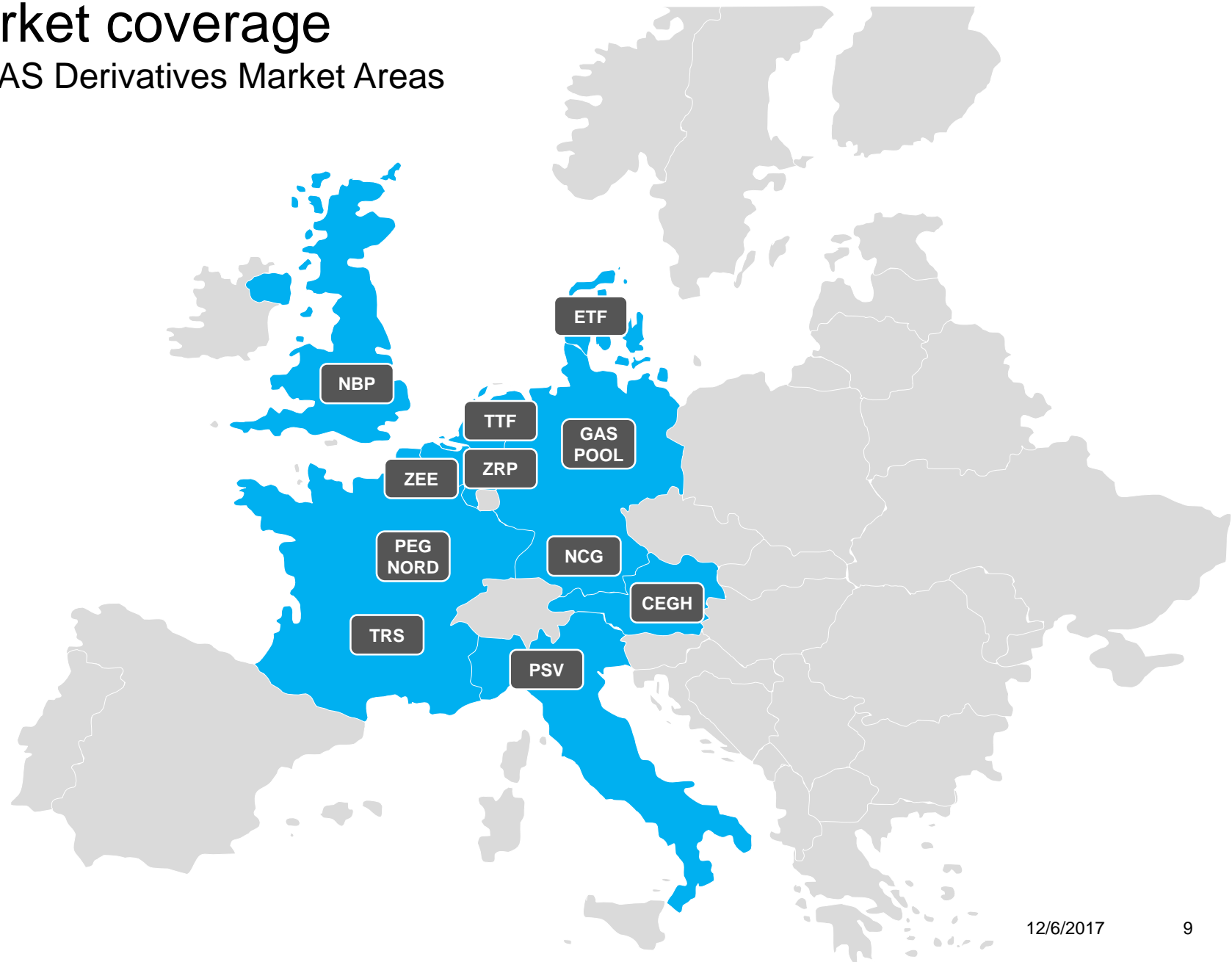
Cash-settled futures contracts for
17 market areas across Europe

EEX's **German Power (Phelix-DE)**
Future is the benchmark for
trading power in Europe



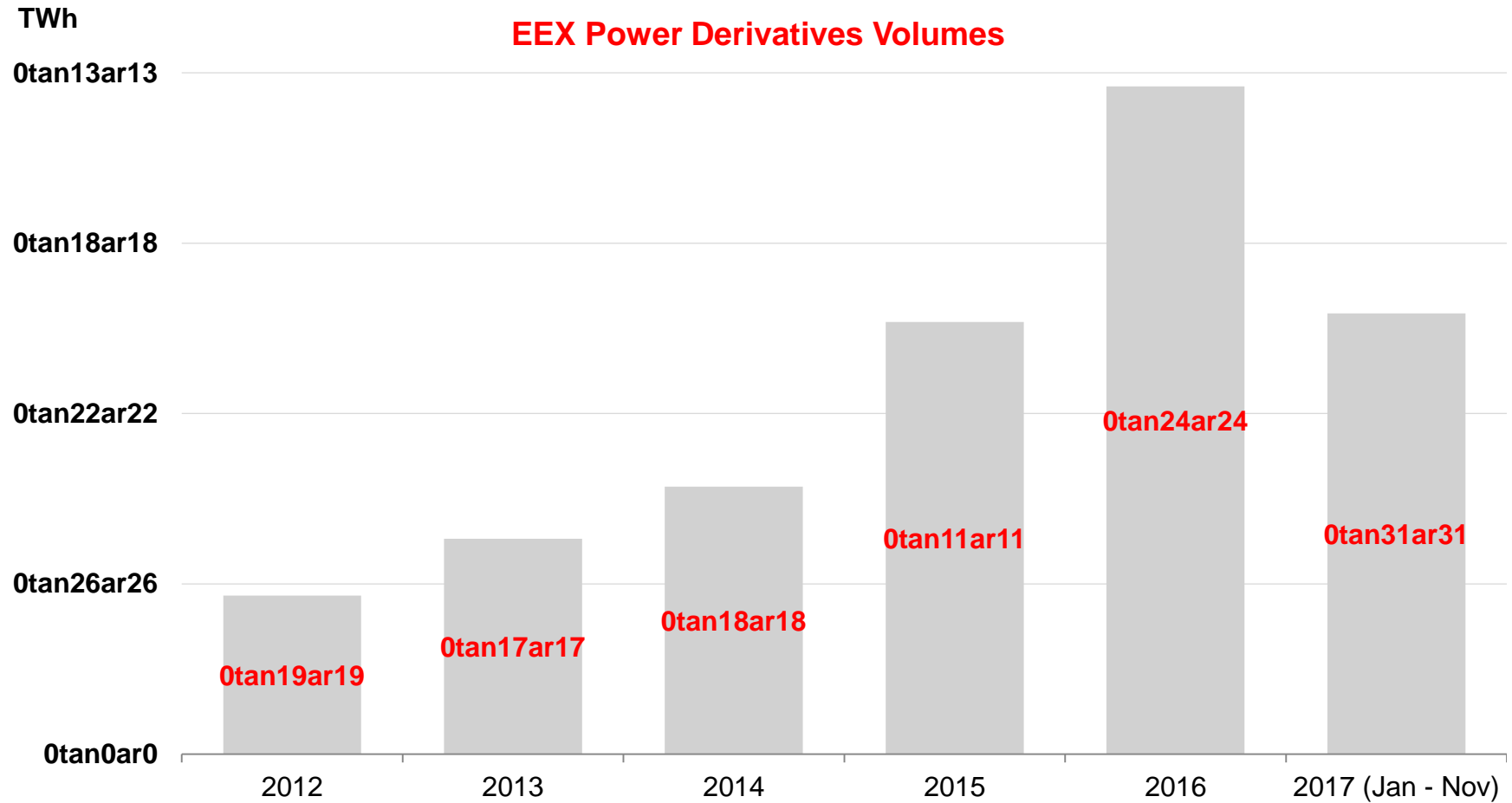
Market coverage

PEGAS Derivatives Market Areas



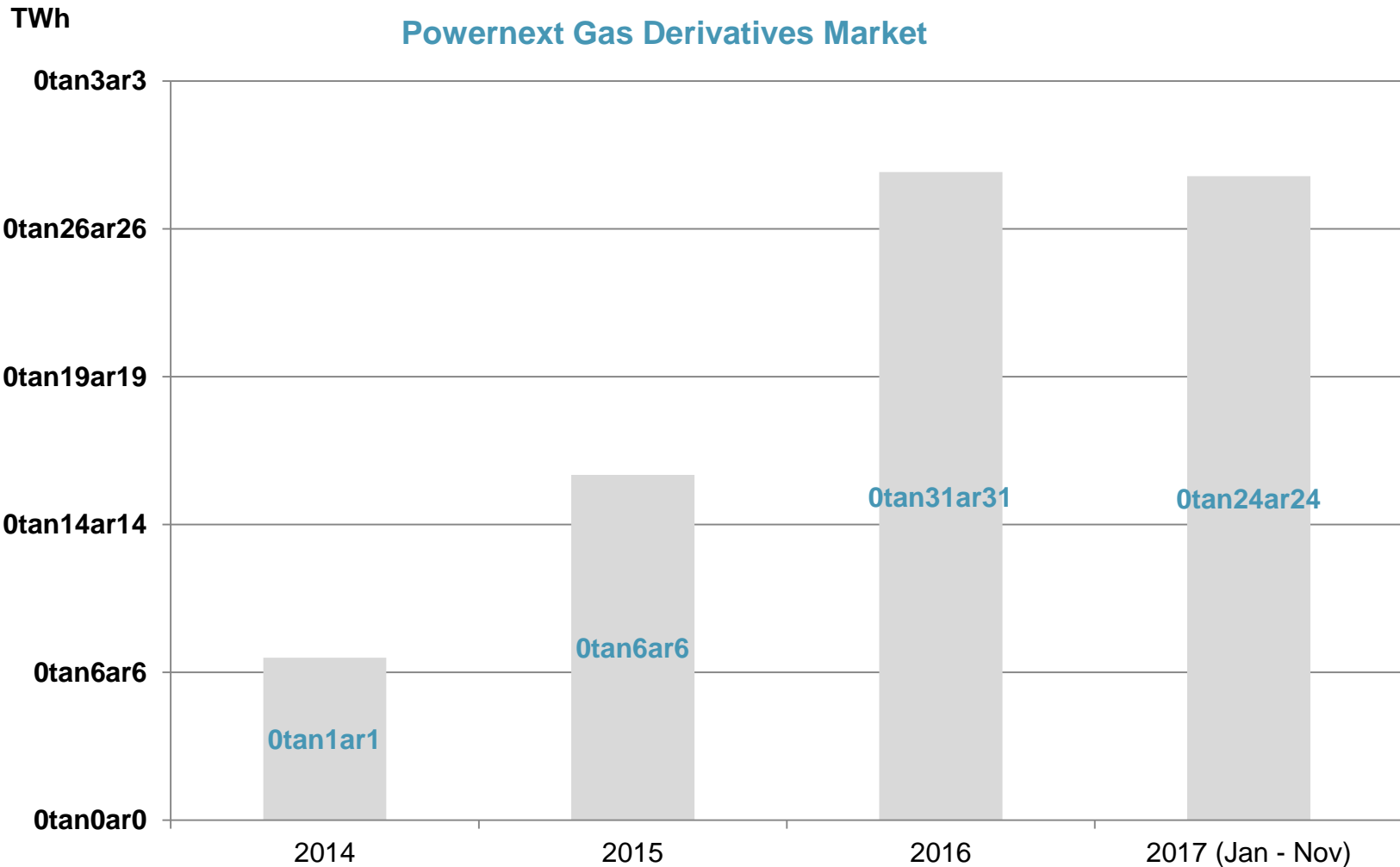
Annual trading volumes

EEX European Power Derivatives Markets



Annual trading volumes

Powernext Gas Derivatives Volumes



Getting ready for MiFID II

Implications for non-EU Firms

National Transitional Regimes

Pending an EU-wide equivalence decision by the European Commission, third country firms may be able to continue accessing EU market under national regimes – **each national authority provides a transitional solution**

Germany (BaFIN)

In general, the Governance Banking Act (Kreditwesengesetz – KWG) requires a separate permission for each company as member of an exchange, MTF or other trading venues dealing in one's own name/account without providing services for others.

In respect of the transition regulation, affected third country firms are – temporarily – exempted if they apply for an exemption. BaFIN requires a complete application (on paper) in German language until 02.07.2018 latest.

In addition it is required to inform the responsible German trading venue about the application. Details of the needed documents for a complete application will be provided by BaFIN in due course.

France (AMF)

No official communication on transitional regimes has been published by AMF yet. Third country firms should contact AMF directly or seek legal advice.

MiFID II related rulebook changes

EEX and Powernext

Subject to formal decision of the exchange councils of EEX and Powernext on 7th December 2017, the following changes will be made to the rules and regulations:

Market Making / Liquidity Provision

Members pursuing a market making strategy exhibiting certain characteristics need to enter a market making agreement with EEX and/or Powernext (RTS 8). Orders that have been placed to meet an obligation coming from such an agreement need to be marked when being entered into the system.

Algorithmic Trading

Members will be obliged to certify to EEX and/or Powernext that their algorithms relating to financial instruments have been tested. Orders coming from algorithms will need to be marked accordingly from January 2018 onwards.

Direct Electronic Access (DEA)

Members providing DEA need to conduct a due diligence assessment of its prospective DEA clients. Direct Sponsored Access requires prior authorization by EEX and/or Powernext. Orders coming via DEA need to be marked accordingly when entered in the system.

MiFID II related rulebook changes

EEX and Powernext

Pre-Trade Controls

Controls implemented in the trading system to secure orderly exchange trading (Maximum Order Value, price collars, maximum order value, Kill Functionality)

Position and Transaction Reporting

Members are obliged to support in the reporting process

Members' obligations to comply with applicable Delegated Acts

For example: Conformance tests and cooperation in annual risk-based and any additional assessments

Order Record Keeping:

Additional details need to be attached to an order entry message in order for EEX and/or Powernext to store the data with all the details requested (algorithmic trading, DEA, quoting obligation, risk reducing flag).

Position Management Controls

Monitoring by Market Surveillance; Measures by Management Board of the Exchange

Algorithmic trading activities

Algo declaration

As of 3 January 2018 any algorithm connected to and interacting with the EEX and/or Pownext trading system must be clearly identified by an Algo ID. The Algo ID needs to be added to every order entry message and must be declared through the submission of a short and long code mapping.

Algo testing

Members need to test their algorithms in a testing environment before the algorithms are used in production in order to avoid market disturbance. This is valid for each new algorithm, for substantial changes to existing algorithms and also for algorithms already in use as of 3 January 2018.

EEX and Pownext offer participants the possibility to test their algorithms in the standard simulation environment of T7 trading system. To receive access to this simulation environment, please contact us directly.

Participants must certify that all deployed algorithms have successfully passed the testing requirements imposed by the MiFID II regulation (and the respective national implementing law).

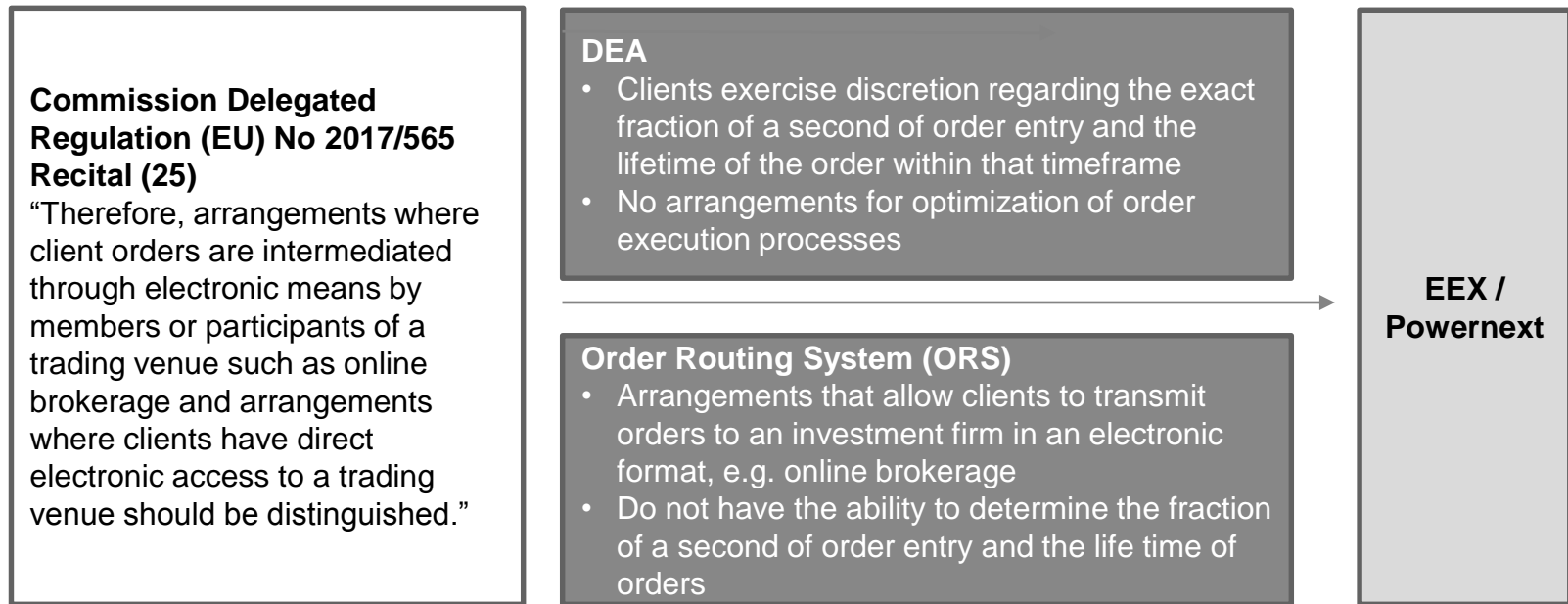
Submission of algo declaration

If you already use or are plan to use any algorithms at EEX, please return the [algo declaration form](#) to memberreadiness@ecc.de

Direct Electronic Access

DEA is only one possible way to electronically access venues and comprises Direct Market Access (DMA) and Sponsored Access.

EEX and Powernext will allow trading participants to offer **DMA / Sponsored Access** for clients in addition to **ORS**.



Submission of the intention to act as DEA provider
 If you already provide or plan to provide DEA to your clients at EEX or Powernext, please return the **DEA declaration form** (will be published in due course on EEX website) to memberreadiness@ecc.de

MiFID II related changes to the trading system

Additional order entry fields

EEX and Powernext will introduce new **optional** fields in order entry messages, including but not limited to:

Field	Short Description
<ClientID>	<p>Orders which were submitted on an agent account (A1, A2, ...) on behalf of a client must be flagged with a client identification code (LEI or National_ID).</p> <p>The order is enriched with a ClientID short code. The mapping of client short codes to full LEI or National IDs is done within the Member Portal.</p>
<Investment Decision Maker Qualifier>	<p>Determines if the decision was made by an algorithm or human.</p> <p>If left blank, the owner of the Trader ID will be assumed as Investment Decision Maker.</p>
<Investment Decision Maker>	<p>The attribute may be filled with a short code identifying the person or an Algo_ID identifying the algorithm which is responsible for the investment decision.</p> <p>If left blank, the owner of the Trader ID will be assumed as Investment Decision Maker.</p>
<Execution Trader Qualifier>	<p>Determines if the transaction was executed by an algorithm or human.</p> <p>If left blank, the owner of the Trader ID will be assumed as Execution Trader.</p>
<Execution Trader>	<p>The attribute may be filled with a short code identifying the person or an Algo_ID identifying the algorithm which is executes the transaction.</p> <p>If left blank, the owner of the Trader ID will be assumed as Execution Trader.</p>



For further technical details, please read [Customer Information on the introduction of T7 release 6.0](#)

MiFID II related changes to the trading system

Shortcode mapping

- As of 3 January 2018, the following order entry fields shall be populated with a shortcode, which itself needs to be mapped to a LEI or a National-ID in mapping file

<Client_ID>

<Execution Trader>

<Investment Decision Maker>

- EEX provides a **mapping service** to employ shortcodes at the discretion of the member and a mapping file with corresponding long codes (LEI or National_ID) which will be used for reporting to the competent authority.
- A detailed presentation on shortcode mappings is available for [download from the EEX website](#)



In case the fields <Execution Trader> and/or <Investment Decision Maker> are not populated within the order entry message, EEX will use the **National_ID of the trader who has entered the order**. The National_ID is therefore a mandatory information and a precondition for the admission of all traders.

Position and transaction reporting

Regulatory framework

Position reporting

Pursuant to MiFID II Article 58, EEX and Powernext must provide the competent authority (i.e. BaFIN for EEX, AMF for Powernext) with a **complete breakdown of the positions** held by all members and the clients thereof (until the end client, i.e. first non-investment firm, is reached) on a daily basis.

Transaction reporting

Additionally, pursuant to MiFIR Article 26, EEX and Powernext must report **details of all transactions (order book trading and trade registration)** in financial instruments concluded by non-investment firms on the platform to their respective competent authority. For commodity derivatives, the reports must indicate whether a transaction is risk-reducing or for speculative purpose.

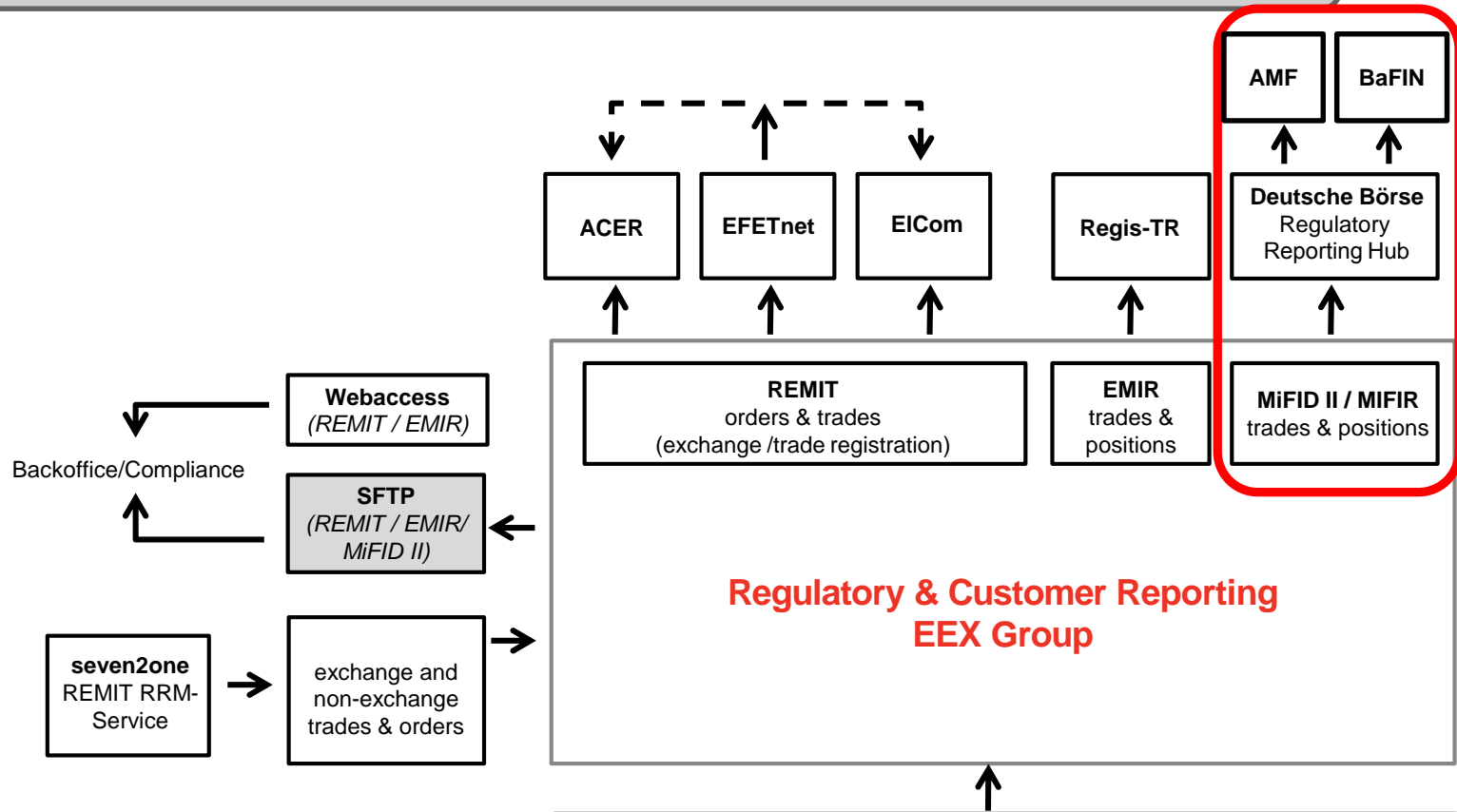
Obligation to contribute

EEX and Powernext have **reduced the effort on their members' side to the necessary minimum**. However, we require their trading members to contribute to these position and transaction reporting requirements as set forth in the respective exchange rules. These obligations also apply to members located outside of the European Union.

EEX Group MiFID II / MIFIR Data Services

Taking operational burden off clients' shoulders

EEX Group's MiFID II reporting infrastructure is only an addition to the established and well-known EEX Group infrastructure for REMIT and EMIR reporting



EEX Group MiFID II / MiFIR Data Services

Position and transaction reporting - operational process

1 Static data

- Members are required to provide member-related static data and default values (one-off task)

2 Draft reports

- EEX will prepare draft position and transaction reports for each EEX and Powernext member based on ECC position data and all information available to the exchange
- Members can download the encrypted draft reports (xml) from an SFTP server at 10am CET, make amendments and upload new versions
- Position reports will be based on FIA / EFET standard, transaction report use a proprietary format
- For non-investment firms, these draft reports will already be fully reportable

3 Instrument file

- EEX provides a dedicated MiFID II / MiFIR designed instrument file (csv) on the SFTP server containing, inter alia, ISIN on contract level, contract details and option deltas

4 Amended reports

- EEX expects report amendments for the previous trading day by 2pm CET on each trading day.

5 Submission of final report

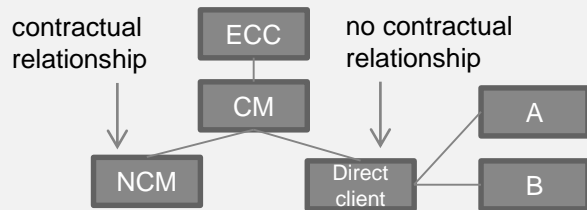
- EEX checks the relevant ftp folders for amended report(s) post 2pm CET and takes up the latest one. In case no amended reports is available, EEX assumes the draft report as the final one.
- If an amended report is available, it will be submitted to Deutsche Boerse's Regulatory Reporting Hub. Deutsche Boerse will pass it on to AMF and BaFIN

EEX Group MiFID II / MIFIR Data Services

Non-member reporting

Challenge

- Clients of Investment Firms (IF) may not want to report the details of their position (e.g. hedge/spec, information of subsequent clients) to the previous IF.
- ECC's indirect clearing model does not require the Clearing Member to know the clients of its clients.



- Art. 58.3 requires trading venues to provide a complete breakdown of the positions until the end client is reached. However, indirect clients (i.e. firms not member of the trading venue) have no legal obligation towards the trading venue.

Solution approach (as agreed with FIA and its members)

- **Key principle:** Every Investment Firm (IF) reports what they know.
- **Contractual solution:** The first IF in the chain holds its direct client(s) accountable. The direct client of the IF – if also an IF - holds its own direct client accountable
- **Technical solution:**
 1. When submitting its report, the client of the IF first « reverses » the position(s) reported by the IF on its behalf.
 2. Secondly, it enters (a) new record(s), incl. the right hedging information and/or client information.
 - ▶ No need to correct/eliminate/overwrite existing reports: By reversing the position, the NCA will have the correct information for each end-client.
 - ▶ **Please note:** There is no draft position report available for non-members except for those participating in ECC's indirect clearing model and using the technical NCM solution.

EEX Group MiFID II / MIFIR Data Services

EEX kindly and urgently ask all members to return the fully completed **MIFID II / MiFIR Data Services Agreement as soon as possible but no later than 15 December 2017.**

On 27 October 2017, EEX and Pownext requested from its trading participants the completion of the MiFID II / MiFIR Data Services Agreement.

The agreement can be downloaded from the EEX website: [download link](#)

In case EEX does not receive a fully completed agreement by **15 December 2017**, following assumptions will be made to assure compliance with the reporting obligations of EEX and Pownext:

- Ultimate parent of the trading member is the trading member itself
- Trading member undertakes independent investment decisions
- Trading member is a non-clearing member and an investment firm
- Trading member is considered 'an investment firm or credit institution' for the purpose of weekly position reports
- Default values for all positions and transactions of the trading member will be FALSE meaning every position and transaction is assumed to be for speculation and not for hedging purposes.

EEX Group MiFID II / MiFIR Data Services

Data Services

EEX MiFID II / MiFIR Data Service Packages

Service	Description	Positions
Basic Service	Provision of instrument and draft position file and amendment of the position file by the trading member	
Additional Service 1 (only in addition to Basic Service)	Basic Service operated by a service provider (e.g. GCM, EFETnet, Unavista, ...)	
Additional Service 2	Delivery of a final position file by non-members to EEX	
Additional Service 3 (only in addition to Basic Service)	Delivery of a final position file by member to Deutsche Boerse	
Additional Service 4 (only in addition to Basic Service)	Reporting of off-exchange positions in products listed at EEX or Powernext to EEX for submission to AMF and BaFin	

Service	Description	Transactions
Basic Service	Provision of instrument and draft transaction file and amendment of the transaction file by the trading member	
Additional Service 1 (only in addition to Basic Service)	Basic Service operated by a service provider (e.g. GCM, EFETnet, Unavista, ...)	
Additional Service 2 (only in addition to Basic Service)	Delivery of a final transaction file by member to Deutsche Boerse	
Additional Service 3 (only in addition to Basic Service)	Reporting of off-exchange transactions in products listed at EEX or Powernext to EEX for submission to AMF and BaFin	

Position limit regime

General framework

Position Limits

MiFID II requires competent authorities, in line with ESMA's methodology, to establish and apply position limits on the size of a net position which a person can hold at all times in commodity derivatives traded on trading venues. Each commodity derivative will have specific position limit for spot months and other months contracts.

Illiquid contracts

Any commodity derivatives contract with less than 10,000 lots of open interest is deemed illiquid and will not be subject to bespoke position limits. Instead, a fixed standard limit of 2,500 lots applies.

Liquid contracts

MiFID II RTS 21 stipulates that commodity derivatives contracts with more than 10,000 lots of open interest over three consecutive months will receive a bespoke limit set by the competent national authority.

Position Limit Exemption (Hedging Exemption)

Non-financial entities can apply for an exemption from the position limit if they show that the position in the particular commodity derivative contract is risk-reducing in relating to the commercial activity of the firm.

Position limit regime

Definition Spot Month vs Other Months

RTS 21, Art 2.

'spot month contract' means the commodity derivative contract in relation to a particular underlying whose maturity is the next to expire in accordance with the rules set by the trading venue.

German regulator BaFin and French regulator AMF confirmed using **next month as spot month for physical futures** and **current month as spot month for financial futures**. Other national competent authorities like Dutch AFM follow same approach.

There will be an amendment of the ESMA Q&As on the spot vs other months definition in the next version following the Board of Supervisors meeting on 14 December 2017.

Position limit regime

Limits for EEX products

National regulator **BaFin** has published the following list of indicative position limits for EEX contracts.

Contracts listed at EEX but not shown in the table below are considered illiquid and not subject to bespoke limits. The default limit of 2,500 lots applies in this case.

Contract	Venue Product Code Future / Option	Position limit for spot month	Position limit for other months
Phelix Power Future DE/AT und Option DE/AT (Base)	F1B / O1B	46 000 381 MWh	825 477 708 MWh
Phelix Power Future DE/AT (Peak)	F1P	15 403 476 MWh	19 600 000 MWh
French Power Future and Option (Base)	F7B / O7B	25 222 306 MWh	119 518 652 MWh
French Power Future (Peak)	F7P	4 378 303 MWh	1 552 656 MWh
Italian Power Future and Option (Base)	FDB / ODB	26 579 658 MWh	125 074 460 MWh
Spanish Power Future and Option (Base)	FEB / OEB	12 814 389 MWh	14 192 000 MWh
Swiss Power Future (Base)	FC	3 572 426 MWh	2 870 000 MWh
PXE Czech Financial Power Future (Base)	FX	tbd	tbd
Phelix DE Power Future (Base)	DEB / O2B	tbd	tbd

Many thanks

In case of further questions - EEX Group contacts

Clients are invited to reach out to their dedicated EEX or Powernext Key Account Manager.

Teams	Email	Hotline
EEX Market Data Services	reporting-services@eex.com	+49 341 2156 - 380 or -165
Powernext Regulation	regulation@powernext.com	
ECC Member Readiness	MemberReadiness@ecc.de	+49 341 2156 - 261
EEX MiFID II Team	mifid@eex.com	

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