MEFF *Circular*	**Number:**	C-EX-DF-17/2018
	Segment:	Financial Derivatives
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	Replaces:	C-EX-DF- 10/2018

Subject	Auction Periods and Volatility Auctions.

Summary	This Circular describes the rules for determination of the auction price, the order types admitted in this trading period and their execution priority, together with details about how information on the auction is communicated while the auction is in progress. It is modified due to the incorporation of the Micro IBEX 35 Future contract.

According to 9.2 Article of the Rule Book, MEFF will dispose of volatility managing mechanisms that are explained on this Circular.

1. DETERMINATION OF THE AUCTION PRICE

An Auction Period is a time to place, modify or cancel orders. Matching does not take place until the end of this period. Then, the system calculates a price that maximizes the number of contracts to match. This price is named the Auction Price and it will be calculated following the rules below:

1. Considering all the orders placed during the Auction Period, the Auction Price will be that which allows matching the highest number of contracts.

2. If there are several prices with equally potential executable volume, the Auction Price shall be that which causes the lowest imbalance (differences between bid volume and ask volume at that price).

3. If there still is more than one price that, trading the same volume, causes the same imbalance, the Auction Price shall be that of the side with more volume.

4. If the three abovementioned conditions still generate more than one price, the Auction Price shall be the one closest to the last traded price (in case of Opening auction, it shall be the previous day's Closing Price). But if the last traded price (or Closing Price) is within the potential auction prices, the final Auction Price will be the last traded price.

Annex 1 contains examples about the algorithm.

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2. VOLATILITY AUCTIONS

Volatility Auctions are established as a mechanism to avoid unjustified movements on all negotiable contracts in MEFF Financial Derivatives Segment.

When potential execution price is out of the price spread establish in the System, order will not be crossed and the contract will start a Volatility Auction.

Volatility Auction resolution will be manually after Supervisor evaluates the situation and it expected to last 5 minutes, nevertheless if more time is required for the market situation analysis, Volatility Auction will be extended until the Supervisor decides to end it.

IBEX 35, Mini IBEX 35 and Micro IBEX 35 Futures: Affected expiries

Only an order that is out the established parameters on the first or second expiry in any of the IBEX 35 Futures contracts will cause a Volatility Auction. If this happens, all IBEX 35 Futures expiries of that Future size and their Time Spreads will start an auction.

Other products: All expiration dates will be affected

3. TYPES OF ORDERS ADMITTED IN THE AUCTION PERIOD AND TRADING PRIORITY

Order types admitted will be the following:

a) Limit orders.

b) Stop Limit orders. In the course of the Opening Auction these orders do not affect the Auction Price determination and will be triggered (in case they had to) once the Auction Price is determined, becoming Limit orders once the trades derived of the resolution of the auction are performed.

c) Auction Price orders. The execution of this new order type is conditioned to a successful resolution of the auction with matches between priced orders. These orders affect the Auction Price determination acting as orders at the Limit order best price of the same side. Auction Price orders not executed in the auction are automatically cancelled.

d) Quote orders. They act as two Limit orders. This type of orders will only be valid for Futures Contracts, not for the Time Spread contracts.

e) Synthetic orders. Those contracts with the Spread facility activated during the Trading Phase will not have this facility activated during Volatility and Intraday Auction Period. Time Spread contracts will not be available on opening auction. This means that the determination of the Auction Price will be independent on every future maturity and their corresponding time-spread contract.

Regarding trading priority and, while bid and offer orders volume allows for it, Auction Price orders shall be traded in first place followed by Limit orders with better price than the Auction Price and, finally, Limit orders with the same price than the Auction Price, with time priority. There will never be an extension of the Auction period even if the whole volume entered in Auction Price orders is not traded in its entirely.

4. INFORMATION PROVIDED DURING AN AUCTION PERIOD

As long as the best Limit bid order is below the best Limit ask order, there shall not be any possibility of matching (even though there may be Auction Price orders of different side). Therefore, no Auction Price can be displayed. In this situation, the best bid and ask prices will be displayed with their accumulated volumes.

Anytime the price of a bid order is above or equal to the best price of any ask order, an identical bid and ask price will be displayed equal to the potential Auction Price at that time. Volumes will be accumulated in the best prices. The minimum volume of bid and ask volumes will be the potential volume to be matched at the Auction Price.

5. TIME AND DURATION OF THE OPENING AUCTION PERIOD AND OTHER SPECIAL CIRCUMSTANCES WHICH MAY REQUIRE AN AUCTION PERIOD WITH AUTOMATIC RESOLUTION

The Opening Auction Period will take place on a daily basis at the beginning of the session and will affect futures and options simultaneously and not to Time Spreads contracts.

	Opening Auction start	Opening Auction end
BONO 10 Future	7:55	8:00
IBEX 35, Mini IBEX 35 and Micro IBEX 35 Future	7:55	8:00
Other contracts	8:30	9:00

In the auction period it is possible to introduce, modify and cancel orders.

The end of Opening Auction time will be the time settled in the above table plus a 30 seconds random end.

Auction periods shall also be held on an extraordinary basis when any of these two situations occurs: If any of these events happen Time Spread contracts will also be in Auction.

− When one particular contract has been temporarily suspended from trading by a competent authority and once the suspension has been lifted, the contract will enter into an auction period whose duration will be that of the underlying at SIBE system.

− When, for technical reasons, MEFF had to halt trading in any or all contracts, trading will be restored after an auction period whose duration will be informed.

6. FUNCTIONING OF PRICE AND VOLUME FILTERS (LIMITS) DURING AUCTION PERIODS

Volume filters will operate in the same way during Auction and Continuous Trading periods.

Price filters, which during the Continuous Trading act comparing the price of the orders with the "last" price, will work as follows during the Auction Period:

- Price filters on Limit Orders: During the Opening Auction the order price will be compared with the previous day Closing Price (if the evolution of other markets has significantly moved with respect to the previous session, the value on which the filters apply will be changed by MEFF). In other type of auctions order price will be compared with the same reference that is compared during trading phase and defined on Circular 08/2015 Use of filters by Members and treatment of erroneous entries in Futures and Options and the Instruction 01/2015 or that one that may substitute.

ANNEX 1

Determination of the Auction Price. Examples:

1. If the order book at the end of the Auction Period contains the orders shown in the next table, then the Auction Price will be 8000 with 10 contracts traded at that price.

BID ORDERS		ASK ORDERS	
PRICE	VOLUME	PRICE	VOLUME
8000	10	8000	10
7950	5	Auction Price Order	2

The auction price would be 8000, since this price matches 10 contracts while 7950 matches none. The contracts traded on the ask side will be the 2 contracts of the Auction Price order plus 8 from the Limit Order at 8000.

2. If there is more than one price that allows trading the same number of contracts, the Auction Price will be the one that causes the lowest imbalance (difference between bid and ask volumes at the same price).

BID ORDERS		ASK ORDERS	
PRICE	VOLUME	PRICE	VOLUME
7500	100	7490	30
7499	5		

In this situation, at any price the same number of contracts (30) would be matched. The auction price will be 7500, as there is an imbalance of 70 contracts while at other potential prices the imbalance amounts to 75 contracts.

3. If there is more than one price at which the same number of contracts can be matched and leaves the same imbalance, the Auction Price will be the one of the side with more volume.

BID ORDERS		ASK ORDERS	
PRICE	VOLUME	PRICE	VOLUME
7500	100	7490	30

At any of the two prices the same number of contracts (30) would be matched and the imbalance left would be the same. In this case, the Auction Price is 7500 leaving a pending bid order of 70 contracts at 7500.

4. If the three above-mentioned conditions still generate more than one price, the Auction price will be the one closest to the last price traded (or Closing Price in the case of the Opening auction). But if the last price traded (or Closing Price) is in the spread of potential auction prices, the Auction Price will be that last traded price (or Closing Price).

BID ORDERS		ASK ORDERS	
PRICE	VOLUME	PRICE	VOLUME
7500	30	7490	30

Closing Price = 7502; Auction Price = 7500

Closing Price = 7489; Auction Price = 7490

Closing Price = 7496; Auction Price = 7496