

MEFF EXCHANGE

STRATEGY TRADING REFERENCE GUIDE

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Introduction

MEFF offers in its trading system a facility for Strategy Trading.

All market participants will be able to generate at any time of the session a trading book for any of the 30 predefined strategy types. This order book shall be open to all participants from the moment of its creation until the end of the session.

The order books for strategies allow the introduction of buy and sell orders on the strategy provided that an Indication of interest has been previously made. When a trade is made in this book, only the legs that compound the strategy will be registered, at prices that fit the strategy price traded.

In order to be able to trade on screen, it is mandatory that an IOI is generated on the contract when the strategy is created, i.e., the "indication of interest" field must be selected when the strategy is created. It is possible that on certain occasions the approval of the strategy by the supervisor may be required when the strategy data is not clear, or the prices deviate from the theoretical price.

The FIX interface does not allow the sending of blocktrades in the form of strategies, so it must always be done from a MEFFStation terminal.

Strategies created in the Strategy Trading books cannot be traded in the prearranged trade system and vice versa.

These 30 predefined types also include the possibility to create strategies that involved an exchange of underlying asset (delta operation) as part of the operation.

Strategy Trading provide certain enhancements:

- Negotiation of complex operations that usually are not available on the screens.
- Improved price in strategy execution.
- Increased market transparency.
- Allows market participants to trade volatility through the delta operations.



Core Features

Trading Hours

Strategy Trading in options and futures (Basis trading), will have the same trading hours that the trading hours of the contracts that compound the strategy.

The entry, modification and cancellation of orders, and Request for Quote on strategies, will be only made during trading hours.

Underlying available

The Strategy Trading is available for all products in which MEFF has options, except those whose maturity is weekly.

In the case of delta strategies, when the underlying of the strategy are shares, the asset for the delta will be shares. When the strategy is about options with underlying IBEX 35, the underlying asset for the delta will be the MinilBEX Future.

For these strategies with delta the system will calculate the minimum number of options to be traded for each underlying unit, so, only for this type of strategy, it must operate in lots.

The lot will force those orders introduced in these books have to be for a volume that it is multiple of the lot. For example, if the lot of certain strategy is fixed at 20, the buy or sell orders that are entered in the book will have to be with a volume of 20, 40, 60, 80 or any other multiple of 20.

Regarding the shares order, this order will be always done through the Entity that each MEFF Member has appointed as the one that manage its shares orders when a stock option is exercised. In the case of strategies traded in the Prearranged Trade System and Request for Quote System, the cash transaction will be managed by the entity designated in each case.

Order Types

The Strategy Trading facility will allow the introduction of all types of orders defined in MEFF.

Order book

Strategy Trading will be done in its own trading book, so it is independent of the order books of those contracts that compound the strategy. Like all trading on any order book, the criteria for prioritizing orders will be the price and time of arrival.

Trading in the order book of a strategy guarantees the execution of all legs that compound the strategy, not being possible executing only one of the legs.

The order book of any strategy will always be deleted at the close of the trading session, so that at opening of the next session there will be no order book for strategies until one of the participants generates one.

Volume

Each strategy has a standardized quantity for each leg. For example, a Call Spread 10-11 will be the buying of a call with strike 10 and the selling of a call with strike 11.

The volume introduced in each order will represent how many strategy units are desired to be bought or sold. For example, a buying trade over a Call Spread 10-11 with a volume of 100 will mean the desire of buying 100 options with strike 10 and the desire of selling 100 options with strike 11.

Amount of underlying to be traded in the strategy:

When requesting a strategy with delta, the system will prompt the user to enter the number of shares or Mini IBEX futures to be traded per strategy unit. The user must take into account the multiplier of the option for this purpose. Thus, in an option with multiplier 110, a 50% delta hedge will require the user to enter an amount of 55 shares per strategy unit traded.

Thresholds of Blocktrades in strategies:

If the nominal of the strategy's derivative contracts is greater than LIS in all legs, the management of applications will be as before, pending confirmation by the counterparties if necessary.

If the nominal of the strategy's derivative contracts is greater than LIS but not in all legs, the system will perform a second check to see if it is a liquid or illiquid strategy. A strategy will be considered illiquid if it meets at least one of the following requirements:

- One of the legs is considered a different asset from the rest (option + spot, future + spot, or option + future).
- The strategy has more than two legs.
- The maturity of one of the legs is longer than 6 months.
- The options of the strategy have different maturities.

If the strategy is considered illiquid it will have an exemption per strategy, and therefore the management of Blocktrades will remain as before, awaiting confirmation by the counterparties if necessary. If, on the other hand, it is not considered illiquid, the system will cancel the application and request an RFQ. u

In the case of reported blocktrades where none of the legs is greater than LIS, the system will cancel the application and request an RFQ (https://www.meff.es/docs/docsSubidos/MiFID_esp/MEFF_Nuevo_Sistema_Negociaci%C3%B3n.pdf).

Price

Price given in an order will represent the net price at which the trader wants to buy or sell the whole strategy. E.g., a Call Spread 10-11 with a price of 0.67 implies that the buyer would pay a total of 0.67 euros per share in order to acquire the option call with strike 10 and simultaneously to sell the option call strike 11.

It is important to remark that due to the fact that the price is the net price of the strategy, it is possible to find negative or zero prices in the order book.

When a deal is crossed in the order book of a strategy, it will register the corresponding legs with premiums that net the strategy price.



Request for Quote

The trading system in MEFF will let Request for Quote for any strategy already created, or for one created in that moment.

Market making

MEFF will set incentives plan to facilitate the market making in strategy books.

Fees

The use of the Strategies Trading facility will be for free, so fees to pay will be the same as if the strategy is traded by legs.



Strategy Types

Code	Description	Exemple	Codification of the example
BUL	Call Spread	Buy Call TEF American style Strike 10 Jun 14 and sell Call TEF American style Strike 11 Jun 14	E TEF BUL AM JUN14 +C10.00 -C11.00
BUL -U	Call Spread -U	Buy Call TEF American style Strike 10 Jun 14, Sell Call TEF American style Strike 11 Jun 14 and sell 45 stocks TEF for each unit priced at 11.435 each	E TEF BUL AM JUN14 +C10.00 -C11.00 vs -45 @ 11.435
BER	Put Spread	Buy Put TEF American style Strike 11 Jun 14 and Sell Put TEF American Style Strike 10 Jun 14	E TEF BER AM JUN14 +P11.00 -P10.00
BER+U	Put Spread +U	Buy Put TEF European style Strike 11 Jun 14, Sell Put TEF European style Strike 10 Jun 14 and Buy 45 stocks TEF for each unit priced at 10.80 each	E TEF BER EU JUN14 +P11.00 -P10.00 vs +45 @ 10.80
STD	Stradle	Buy Call TEF European style Strike 11 Jun 14 and Buy Put TEF European style Strike 11 Jun 14	E TEF STD EU JUN14 +C11.00 +P11.00
STD+U	Stradle +U	Buy Call TEF American style Strike 11 Jun 14, Buy Put TEF American style Strike 11 Jun 14 and Buy 45 stocks TEF for each unit priced at 10.80 each	E TEF STD AM JUN14 +C11.00 +P11.00 vs +45 @ 10.80
STD-U	Stradle -U	Buy Call TEF American style Strike 11 Jun 14, Buy Put TEF American style Strike 11 Jun 14 and Sell 45 stocks TEF for each unit priced at 11.435 each	E TEF STD AM JUN14 +C11.00 +P11.00 vs -45 @ 11.435
STG	Strangle	Buy Put TEF American style Strike 10.50 Jun 14 and Buy Call TEF American style Strike 11 Jun 14	E TEF STG AM JUN14 +P10.50 +C11.00



STG+U	Strangle +U	Buy Put TEF American style Strike 10.50 Jun 14, Buy Call TEF 11 American style Strike Jun 14 and Buy 45 stocks TEF for each unit priced at 10.80 each	E TEF STG AM JUN14 +P10.50 +C11.00 vs +45 @ 10.80
STG-U	Strangle -U	Buy Put TEF European style Strike 10.50 Jun 14, Buy Call TEF European style Strike 11 Jun 14 and Sell 45 stocks TEF for each unit priced at 11,435 each	E TEF STG EU JUN14 +P10.50 +C11.00 vs -45 @ 11.435
BLT	Call Calendar	Buy Call TEF American style Strike 12 Jun 15 and Sell Call TEF American style Strike 12 Jun 14	E TEF BLT AM JUN14 -C12.00 JUN15 +C12.00
BLT+U	Call Calendar +U	Buy Call TEF American style Strike 12 Jun 15, Sell Call TEF American style Strike 12 Jun 14 and Buy 45 stocks TEF for each unit priced at 12 each	E TEF BLT AM JUN14 -C12.00 JUN15 +C12.00 vs +45 @ 12.00
BLT-U	Call Calendar -U	Buy Call TEF American style Strike 12.00 Jun 15, Sell Call TEF American style Strike 12 Jun 14 and Sell 45 stocks TEF for each unit priced at 11,50 each	E TEF BLT AM JUN14 -C12.00 JUN15 +C12.00 vs -45 @ 11.50
BRT	Put Calendar	Buy Put TEF American style Strike 12 Jun 15 and Sell Put TEF American style Strike 12 Jun 14	E TEF BRT AM JUN14 -P12.00 JUN15 +P12.00
BRT+U	Put Calendar +U	Buy Put TEF American style Strike 13 Jun 15, Sell Put TEF American style Strike 13 Jun 14 and Buy 45 stocks TEF for each unit priced at 12.00 each	E TEF BRT AM JUN14 -P13.00 JUN15 +P13.00 vs +45 @ 12.00
BRT-U	Put Calendar -U	Buy Put TEF American style Strike 12.50 Jun 15, Sell Put TEF American style Strike 12.50 Jun 14 and Sell de 45 stocks TEF for each unit priced at 11.50 each	E TEF BRT AM JUN14 -P12..50 JUN15 +P12.50 vs -45 @ 11.50
RBUL	2*1 Ratio Call Spread	Buy Call TEF American style Strike10 Jun 14 and Sell two Call TEF American style Strike 11 Jun 14	E TEF RBUL AM JUN14 +C10.00 -2C11.00
RBUL+U	2*1 Ratio Call Spread +U	Buy Call TEF American style Strike 10 Jun 14, Sell two Call TEF American style Strike 11 Jun 14 and Buy 45 stocks TEF for each unit priced at 11,50 each	E TEF RBUL AM JUN14 +C10.00 -2C11.00 vs +45 @11.50

RBUL-U	2*1 Ratio Call Spread -U	Buy Call TEF American style Strike 10 Jun 14, Sell two Calls TEF American style Strike 11 Jun 14 and Sell 45 stocks TEF for each unit priced at 10.50 each	E TEF RBUL AM JUN14 +C10.00 -2C11.00 vs -45 @10.50
RBER	2*1 Ratio Put Spread	Buy Put TEF European style Strike 11 Jun 14 and Sell two Puts TEF European style Strike 10 Jun14	E TEF RBER EU JUN14 +P11.00 -2P10.00
RBER+U	2*1 Ratio Put Spread +U	Buy Put TEF European style Strike 11 Jun 14, Sell two Puts TEF European style Strike 10 Jun14 and Buy de 45 stocks TEF for each unit priced at 11.00 each	E TEF RBER EU JUN14 +P11.00 -2P10.00 vs +45 @ 11.00
RBER-U	2*1 Ratio Put Spread -U	Buy Put TEF American style Strike 11 Jun 14, Sell two Puts TEF 10 American style Strike Jun 14 and Sell 45 stocks TEF for each unit priced at 10 each	E TEF RBER AM JUN14 +P11.00 -2P10.00 vs -45 @ 10.00
RSK	Risky	Buy Call TEF European style Strike 12 Jun 14 and Sell Put TEF European style Strike 10 Jun 14	E TEF RSK EU JUN14 -P10.00 +C12.00
RSK -U	Risky -U	Buy Call TEF European style Strike 12 Jun 14, Sell Put TEF European style Strike 10 Jun 14 and Sell 45 stocks TEF for each unit priced at 10 each	E TEF RSK EU JUN14 -P10.00 +C12.00 vs -45 @ 11.00
CALL -U	Call -U	Buy Call IBEX 10500 Jun 14 and Sell 0.05 Futures of MinilBEX for each unit priced 10100 per each	E IBX CALL JUN14 +C10500 vs -5@10100
PUT +U	Put +U	Buy Put IBEX 10500 Jun 14 and buy 0.05 Futures of MinilBEX for each unit priced 10100 per each	E IBX PUT JUN14 +P10500 vs +5@10100
FUT -U	Future -U	Buy Futures TEF Jun14 and Sell 100 stocks per each future at 11.50 euros per each.	E TEF FUT JUN14 vs -100@11.50
SYNTHETIC	Synthetic	Buy Call TEF European style Strike 10 Jun 14 and Sell TEF European style Strike 10 Jun 14	E TEF SYNT EU JUN14 +C10.00 -P10.00
SYNTHETIC -U	Synthetic -U	Buy Call TEF European style Strike 10 Jun 14, Sell Put TEF European style Strike 10 Jun 14 and Sell 100 stocks TEF for each unit priced at 10 each	E TEF SYNT EU JUN14 +C10.00 -P10.00 vs <u>-100@10.00</u>



ROLL

Time Spread

Having a sold future position TEF Jun 14, Buy future of TEF Jun14 and Sell future of TEF Jul 14

E TEF ROLL FUT JUN14 -1 FUT JUL14 +1