Tailor Made Combinations

Nordic Equity Derivatives • Functional Walkthrough
The Tailor Made Combination (TMC) functionality supports the creation and electronic trading of user-defined strategies in the central trading architecture Genium INET Nordic.

- Supports the creation of user-defined combination order books
- Enables market participants to place working good-for-day multi-leg orders and quotes
- When matched at given net price, TMCs simultaneously trades all legs without execution risk
- Created intraday, TMCs are visible to the entire market and lives throughout a trading day
- Ranking and matching according to main ranking rule, 1) price and 2) time
- Supports matching within the combination order book and also against outright orders and quotes
- Central system maintains implied orders for the TMC legs maximizing the probability of execution
- Market makers have the obligation to reply to request-for-quote (which are sent out automatically at creation) in TMC order books.
Creating a TMC
Defining the TMC

- A TMC order book is requested to be created by defining the legs, their sides and relative ratios.
- The central system will either create and confirm the new TMC or inform of an already existing meeting the criteria.
- When creating a TMC, the central system always sorts the legs according to market practice.*
- A multi-leg order can then be entered into the new or corresponding TMC order book.

In the Genium INET Trading Workstation the user selects the leg symbols to include, specifies their ratios and sides, the net price and number of lots. The GUI automatically sorts the legs according to market practice.

Both creating the TMC, and entering the order is simply done by pressing "Send Pay" or "Send Receive".

The same fields can/shall be filled in and attached to the order just like when trading outrights.

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*For sorting rules, please refer to the Genium INET Market Model for Nordic Equity Derivatives.
TMC Order entry

• Once a TMC order book has been created, all market participants are notified and orders can be entered into it, modified and deleted using the standard order entry interfaces.

• Such TMC orders can either match with opposing orders in the combination order book, or with outright orders and quotes in the legs through implied-out orders.

• All TMC order updates are distributed on standard market data feeds.

In the Genium INET Trading Workstation the user defines a call spread and submits an order to pay SEK 3.00 net premium for 10 lots.

The TMC order is entered as bid 10 @ 3.00 and is published on market data feeds, here as seen in the top-of-book view.

...and as seen in the local order book view.
Pricing the TMC

• Just as with the pre-defined OMX roll book, the order price is given as the sum of each leg’s price multiplied by its ratio.

• For TMC bid (ask) orders, the price of a bought (sold) leg is added, and the price of a sold (bought) leg is subtracted.

• The order price of a TMC is a positive value when
  ▪ the user is placing a bid and is willing to pay; or
  ▪ the user is placing an offer and wants to be paid; and

• a negative value when
  ▪ the user is placing an offer and is willing to pay; or
  ▪ the user is placing a bid and wants to be paid.

In the Genium INET Trading Workstation the user does not have to consider whether to place a bid or offer, or a positive or negative order price.

In this Calendar Spread example the user simply selects “Send Receive” and the GUI translates it and enters the order as a bid with negative order price based on the TMC definition.
Trading a TMC
TMC Trades

• The number of lots in a TMC order reflects how many units of the combination it will trade.
  • One unit of a combination trades one times the ratio of each leg.
  • If the TMC bid buys one “A” and sells one “B”, then a bid of 10 lots will if fully matched buy 10 “A”, and sell 10 “B”.

• When traded, both the TMC and its legs are published on market data.
  • Dedicated execution info to front-office users include both the TMC and its legs.
  • Dedicated trade copies to back-office users include the legs only.

In the previous Call Spread example the user’s working bid of ten lots is partially matched, and the central system publishes the TMC and its leg trades in the “Ticker”.

The dedicated trade info include both the TMC and leg details. The TMC is reconciled with its leg trades using the “Combo ID” field.

Following the match, five lots remain working in the order book, here as seen in top-of-book view.
TMC Ranking & Matching

- Working good-for-day TMC orders are ranked and can be matched against within the TMC order book according to 1. price; and 2. time

- If possible the central system also creates implied-out orders in the legs and ranks them together with outright orders according to 1. price; and 2. time

- Implied-out orders are published on market data for legs with a ratio of one

- The central system also supports implied-out matching of legs with ratios larger than one, and implied-in matching although no such implied orders are published

- Implied-in matching will always be prioritised at entry before matching within the TMC order book if the implied-in price equals the actual

Implied-out orders are orders coming out of combinations into outright order books automatically created and continuously maintained by the central system

- For a combination leg, where possible, the central system uses the best priced outright orders and quotes in all other legs to calculate a theoretical price needed to trade at in order to execute one combination unit at the given net order price

- Such calculated price* will be placed into the market as an implied-out order and if matched, the central system will simultaneously trade against the outright orders and quotes in all other legs without execution risk for the user

- The implied nbr. of lots attached to the theoretical price is the minimum between the TMC order quantity and the outright orders and quotes used as base for the price

- Implied-in matching means matching of a TMC order immediately at entry against a price and quantity coming into the combination out of outright orders and quotes

*The calculated price is always adjusted away from mid to the applicable tick in the outright order book
Implied-out Matching

- TMC HMB9C170TMC_001 is defined to
  - buy one HMB9C170; and
  - sell one HMB9C190
- The working bid orders in the TMC creates implied-out offers (in red) in the 190 strike using the best aggregated level of 50 lots in the 170 strike
- Since only 50 lots are available on the best level in 170, it’s only possible to create an implied-out offer of 26 lots for the second ranked TMC order

Matching a bid of 20 lots against the first ranked implied order in the 190 strike above, the central system simultaneously trades the TMC against the base in the 170 strike and re-calculates the implied-out order before accepting new order operations from other users.
• TMC HMB9C170TMC_001 is still defined to
  ▪ buy one HMB9C170; and
  ▪ sell one HBM9C190
• The working offer in the 170 strike, together with
  the bid in the 190 strike,
  creates a non-disclosed implied-in offer of 50 @ 5.00 in the TMC

Since implied-in matching is prioritised, entering a bid in TMC of 10 @ 5.00 above simultaneously trades against the outright orders leaving the resulting books
How to access TMCs
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• The launch date for Tailor Made Combinations is March 17, 2014

• The TMC functionality is offered via the genium INET Trading Workstation and the FIX and OMnet interfaces

• Please contact your ISV or subscribe to the Genium INET Trading Workstation