



Consultation document no. 01/2017

Natural gas market
Market making in the MGAS

This document shows, for the purpose of evaluation, the proposal for the introduction of the *market making* activity in the MGAS.

Article 27 of the MGAS Rules provides that, in order to improve the liquidity of products traded on the market, GME may provide for Market Making activity in the MGAS, in accordance with the terms and conditions defined in the Technical Rules. (...) *participants interested in carrying out the Market Making shall submit GME a request, in accordance with the terms and conditions set forth in the Technical Rules.*

In view of this provision, without prejudice to the arrangements to be made to enable participants to submit a request to carry out the *market making* activity, the following paragraphs list:

1. MGAS markets, and the related products, for which *market making* activity is provided;
2. the criteria for fulfilling the obligations of *market making*;
3. the manner through which GME will verify that such obligations have been fulfilled
4. the economic conditions recognized by GME for the *market making* activity.

Participants are requested to submit their comments to GME within **20 June 2017**, also indicating whether they are interested to carry out market-making activities or if they are just interested in the use of such an activity. In the document, GME has also included consultation suggestions, where it is considered useful to receive specific comments to the proposal for *market making* activity from participants.

1. MGAS Markets where the market *making activity* is to be provided

Market-making activities shall be initially provided in the MGP-GAS only with reference to the trading of the daily contract related to gas-day G+1.

This is done in order not to lose, at least in the first phase, any possible liquidity growth on different products and to concentrate the positive effects in terms of both growth of liquidity and strengthening of significant and reliable price signals on a market/product.

Subsequently, GME would consider extending the market-making activity to the following contracts:

- In the MP-GAS
 - o daily contract referred to the gas-day G, traded in the MI-GAS
- in the MT-GAS
 - o monthly contract referred to the month M+1
 - o quarterly contract referred to the quarter Q+1
 - o annual contract referred to the year Y+1

Suggestion for consultation No.1

Do you agree to limiting, at least at an early stage, market-making activity to the MGP-GAS for the only daily contract related to the gas-day G+1? Would it be more useful to initially start market-making activity on other contracts too?

2. Modalities through which participants can carry out *market making activity*

Each MGAS participant may request to carry out *market making* activities¹, in accordance with the terms and conditions that will be defined in the Technical Rules by entering into a specific agreement with GME (the "**Contract**").

Traders who will carry out market-making activities will be placed by GME in a special public list.

Participants who want to terminate their *market making* activity shall submit a special notice to GME at least 30 days before the termination date.

GME believes that, at least at an early stage, *market making* service can be provided by the **LIQUIDITY PROVIDER** (hereinafter: **LP**).

The LP would carry out the service by committing itself to submit: i) on an ongoing basis, and ii) at each market session held on working days²; bids/offers in the MGAS, subject to the following requirements:

- o minimum quantity to be offered: bids/offers must have a quantity equal to or greater than the minimum quantity provided by GME. In the case of different quantities of bids/offers,

¹ Please note that GME reserves the right to identify further conditions that must be met by the participants concerned, required to submit such a request.

² Although market sessions are held every day, including holidays, it is considered preferable to limit the market making service to only working days, that is to say only the days when market participants can ensure an adequate trading activity.

in order to comply with the minimum quantity requirement, the bid/offer for the smaller quantity shall be considered³;

- maximum spread allowed: the difference between the bid price and the purchase price should not exceed the maximum spread provided for by GME.
- minimum presence on the book: bid and sale offers must remain "simultaneously"⁴ on the trading book during the time window from 2:00 pm to 6:00 pm. The presence on the book may also be on a non-consecutive basis, provided it is within the time window and provided that the bids/offers comply with all the requirements previously mentioned.

As an alternative, the participant may commit to carrying out the LP service if it meets the requirement of the "Minimum fulfillment of duty of the LP in a Session" along with the compliance with the "Maximum Allowed Spread" between opposite bids/offers. This requirement is deemed to be satisfied if the LP has nevertheless concluded trading in the purchase and / or sale for an amount equal to three times the "Minimum Quantity to Offer", during the time frame 2:00 pm - 6:00 pm⁵.

Each session in which the above-mentioned requirements have been met, will be considered a "useful session" for fulfilling the commitment to carry out the LP.

Tab. 1

A session that takes place on a working day, referred to a specific contract is considered "useful" for the purpose of fulfilling the commitment to provide the LP service provided that the following requirements are met		
a) Minimum amount to be offered	<i>or</i>	a) Minimum fulfillment of duty of the LP in one session
b) Maximum spread		b) Maximum Spread
c) Minimum presence in the book		

³ For example, if the minimum quantity amounts to 500 contracts, a participant who has simultaneously submitted a bid for 510 contracts and a sale offer for 490 contracts does not meet the minimum quantity criterion, since it is considered as a quantity "simultaneously" offered for purchase and sale of 490 contracts.

⁴ In case the bids/offers are placed on the book at different times, only the time for which both bids/offers are simultaneously displayed on the book are considered. For example, if a participant places a sales offer on the book at 2:05 pm and a purchase bid at 2:06 pm, the exposure time on the book will be counted from 2:06 pm, so that the participant respects the minimum presence time requirements

⁵ This criterion ensures that an LP that submits its bids/offers does not have to replicate them, if combined, more than three times in order to reward the LP, which has nevertheless combined bids/offers sufficiently to ensure a sufficient level of liquidity. It is understood that, even with the adoption of this criterion, the session would be considered "useful" only when the amount of 3 times the "minimum amount offered" is matched with the "maximum spread allowed" criterion at the same time.

The specific requirements are listed in the following Tab. 2.

MARKETS	PRODUCS	Maximum Spread	Minimum amount ⁶ to be offered	Minimum presence in the book	Minimum fulfillment of duty of the LP in one session
MGP-GAS	Daily (G+1)	0,3 €/MWh	500 Contracts (500 MWh)	2 hours	1.500 Contracts (1.500 MWh)

Finally, in order to safeguard the anonymity of transactions, the Liquidity Provider service could be activated only in presence of a minimum number of LPs determined by GME.

Suggestion for consultation No.2

Do you think 2:00 pm - 6:00 pm time frame is appropriate? Do you think it is appropriate to limit your LP service to the aforementioned time frame only on business days?

As an alternative to what is proposed and to ensure liquidity in non-working days, do you think it is appropriate to extend the commitment to submit bids/offers to all calendar days at least for such daily products?

Do you consider the requirements for LP's bids/offers submission to be sufficient? Are the requisites for compliance with the proposed requirements reasonable (see Tab. 2)? In particular, is the proposed value for the conduct of LP activity reasonable in relation to the "maximum allowed spread" requirement?

3. Criteria for fulfilling the commitment to carry out the market making service for the LP

The criteria that **LIQUIDITY PROVIDER (LP)** must meet in submitting bids/offers during a session are already listed in the previous paragraph. However, the fulfillment of the LP service role will be assessed over a period of observation corresponding to the calendar month.

⁶ Amounts are expressed both as number of contracts and as MWh. The latter are obtained from the product between the number of contracts and the actual number of gas-days covered by each contract. In the table, the amounts in MWh are shown in brackets by way of mere example and were calculated by assuming the following gas-day numbers: for monthly gas contracts, 30 gas-days; for quarterly contracts, 90 gas-days; for annual contracts, 365 gas-days.

The commitment to play the role of LP for a particular product will only be deemed to be fulfilled if, during a calendar month, the LP will have accomplished a number of sessions with a value more than or equal to the "Minimum Number of Useful Sessions", which intends to set at 75% of the number of market sessions that took place on working days only⁷. If, however, the commitment to play the role of LP was extended even on non-working days, the percentage of the total number of sessions to be used to calculate the "minimum number of useful sessions" could be revised downwards.

If, a general consensus should emerge from the outcome of the consultation, according to which the LP should carry out the service by submitting bids/offers with a "maximum allowed spread" greater than the one proposed in Tab. 2, GME may consider introducing a second requirement, that the LP shall comply with, about the proper performance of LP's role in order to avoid as far as possible that, in the presence of a too wide "maximum spread allowed", the bids/offers submitted by the LP may generate few matches and, consequently, the positive effects in terms of liquidity growth would be limited.

Therefore, if, in the event of a general request by participants, GME provided for the introduction of a very broad "maximum allowed spread", it could also be envisaged that the LP, for the purpose of properly carrying out his/her role, should not only submit bids/offers in compliance with the criteria outlined above for at least 75% of the sessions, but he/she shall also match together during the "useful sessions" (time frame 2:00 pm - 6:00 pm) bids/offers for a quantity greater than or equal to the "minimum quantity to be traded per month", calculated as x% of the product between the "minimum quantity to offer" and the "minimum number of useful sessions"⁸.

However, this second condition would be necessary only in presence of a "maximum allowed spread" greater than the one shown in Tab. 2 and with the sole purpose of encouraging the LP to submit on the book the bids/offers that give rise to matching, and to prevent GME from remunerating the LP even if the bids/offers submitted by it did not give rise to any matching and are therefore had no real effect in terms of increasing liquidity.

The commitment to provide LP service is considered to be fulfilled provided that the LP fulfilled the following requirements during the month		
Minimum number of useful sessions	+	Minimum amount to be traded during the month (only if the "maximum allowed spread is greater than the one shown in Tab. 2)

If the LP fails to meet the requirements within a month, the LP service will not be considered carried out and therefore GME will not provide any payment, the calculation criteria of which are identified in the next paragraph 4 of this document, and will not apply any penalties to the LP.

⁷ In the case of a 20 working days month, the "minimum number of useful sessions" would be 15 (20*75%). In the case where the product between 75% and the number of sessions taking place on working days gives rise to a non-integer number, the "minimum number of useful sessions" to be made within a month will be obtained by rounding the mathematical criterion of this product to the nearest one. For example, in a month with 21 working days, the "minimum number of useful sessions" would be 16 (75% * 21 = 15.75).

⁸ The values of the obligation proposed in relation to the "minimum quantity to be traded per month" are set out in the Annex. Assuming that the "Minimum Quantity to offer" for a contract is equal to 500 MWh and that the minimum number of useful sessions in a month with 20 working days is 15 (20 * 75%), the requirement of "Minimum traded quantity" is considered met if the participant has traded at least 2,250 MWh (500 MWh * 15 * 30%).

The fulfillment of LP's quotation requirements shall be suspended temporarily, following GME's request, in the following cases:

- suspension of the market or the trading of one or more products traded on the market for which market making activities are envisaged;
- in the presence of anomalous trends in price volatility traded on MGAS or bid/ask spread; and / or
- in the presence of other circumstances that prevent the regular running of the market making activity.

It is understood that in case of suspension, even partial, of a market session GME may identify specific mechanisms aimed at enabling the participant underwriting the contract to fulfill his/her LP role.

GME, even if it does not apply any kind of penalties to LPs that fail to comply with the obligations associated with that role, will, however, reserve the possibility of revoking LP's qualification to those qualified LP participants who do not play such role for at least six consecutive months.

It is understood that the information regarding the fulfillment of the requirements for the performance of the role of LP remains confidential and will be disclosed by GME to LP only.

4. Remuneration by GME to LP

In the event that, for a calendar month, the assessments of LP's fulfillment has been successful, GME provides two separate forms of remuneration for the LP:

- a fixed fee for the service performed by the LP for each useful session;
- a fee for the service performed by the LP for each MWh in the MGP for the daily product G+1 in any session held during the month, including those held on non-working days, as well as outside the time frame 2:00 pm - 6:00 pm. The amount of such remuneration would be equal to the amount currently due to participants for concluded tradings (0.01 € / MWh)⁹.

In order to set a maximum limit on the total amount of fixed payment that GME should provide LPs, when specific conditions are satisfied, GME will identify a maximum number of LPs to be selected; In the case of requests exceeding this limit, on the basis of the larger volumes traded on MGP GAS (G+1 product) starting from 1 October 2016 by such participants.

No restriction would be provided on the payments recognized for LPs on each MWh traded.

⁹ The LP would in any case be charged the fee for each MWh negotiated, being understood any possible financial compensation.

