

Deutsche Börse Group – Cash Markets
Processing of Bilateral Trades
Bilateral Aggregation and Routing to Settlement System –
Service Description

Version 1.1

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1 Introduction

The processing of bilateral trades on T7 (MIC XFRA and XETR¹) is incorporated into the new service called Bilateral Routing Service (BRS). The change does not cause technical impact on the trading participant's or settlement institution's side, with functionality being generally unchanged.

Bilateral trades are settled directly between the two trading participants without a Central Counterparty being involved in the trade. Therefore, these trades are routed directly to the respective settlement systems. Because the Trading System T7 has no direct connection to settlement systems, the routing is facilitated by BRS.

Trading Participants can opt to aggregate bilateral trades for settlement. Non-aggregated bilateral trades result in individual settlement instructions per trade, while aggregated trades are instructed in one settlement instruction for all trades within an aggregation unit (see chapter 2.1).

Aggregation is done against counterparties with the same settlement account in the same ISIN only and it is executed separately for the buy- and the sell side of the trades. Aggregation can be selected separately for the A and P account. All non-CCP ISINs on XFRA are aggregated in the same way without differentiation by instrument type.

Bilateral aggregation is conducted on trade date basis and is optional on trading participant level. The aggregation is done if both parties have opted for bilateral aggregation only². After the orders have been matched, bilateral trades are aggregated before routing them to Clearstream for settlement: The aggregated result plus the trades not marked for aggregation are forwarded to SETI at the end of each trading day. SETI is the Clearstream system that receives the bilateral trades and submits the corresponding settlement instruction into CASCADE/T2S or Creation/CBF(i). The further lifecycle management, e.g., delivery management, corporate action processing, blocking / unblocking etc. is processed by respective related systems of Clearstream. Therefore, the settlement and the corporate action reports from Clearstream contain the aggregated position, if aggregation is active for the trading participant. The benefit is that the number of settlement instructions can be significantly reduced due to settlement of the aggregated position instead of single trades.

The document is structured as follows:

- Chapter 2 gives a short overview of the details for bilateral aggregation
- Chapter 3 lists further contact information.

¹ Please note that bilateral trades on XETR are currently not supported.

² Please note that in case the trading participant has opted for both Settlement Internalisation and Bilateral Aggregation and the counterparty is the same trading participant then the trades are internalized. There will be no bilateral aggregation afterwards.

2 Setup and Functionality of Bilateral Aggregation

2.1 Aggregation

When trades are aggregated, the buy and the sell trades are summed up separately. In contrast to netting, no offset is calculated and the full buy and sell sides are instructed.

All bilateral trades (including TES and Xetra Enlight trades) that have trade date equal to current business day and that are flagged for bilateral aggregation (see chapter 2.2 for details) are considered for the bilateral aggregation process.

The aggregation unit (AU) is defined by the following criteria:

- ISIN
- Settlement currency
- Contractual settlement date
- Trade date
- MIC
- Settlement account
- Settlement account of counterparty
- Member KV number
- Member KV number of counterparty
- Buy / Sell

The quantity of shares and the amount of cash is summed up for all bilateral trades of the same aggregation unit. In this process one aggregated position for the sell side and one aggregated position for the buy side is created. In case of trades notated in per cent the accrued interests of the single trades are summed up (no rounding takes place).

For trades to be aggregated, both trading participants need to have the aggregation flag activated for the respective account types, A (agent) or P (proprietary), relevant for the trade as shown below.

Party		Trading Participant Two			
		A account = no	A account = no	A account = yes	A account = yes
Trading Participant One	A account = no	no	no	no	no
	P account = no	no	no	no	no
	A account = yes	no	no	yes	yes
	P account = yes	no	no	yes	yes

The picture reads like this: If “Trading Participant One” trades on his A account and has set the bilateral aggregation flag on his account to “yes”, and his counterpart, “Trading Participant Two”, trades on his P account and has set the bilateral aggregation flag to “yes” for his P account, then the trade will be aggregated with other trades between these two trading participants. If bilateral aggregation is set to “yes” for A and P account of a trading participant, then A and P are aggregated together. It is not possible to aggregate trades on the A and P account separately. The account type of the aggregated position is the same as the one of the contained bilateral trades if all bilateral trades have the same account type. If the account types of the contained bilateral trades are different, the aggregated position gets the proprietary account type “PP”.

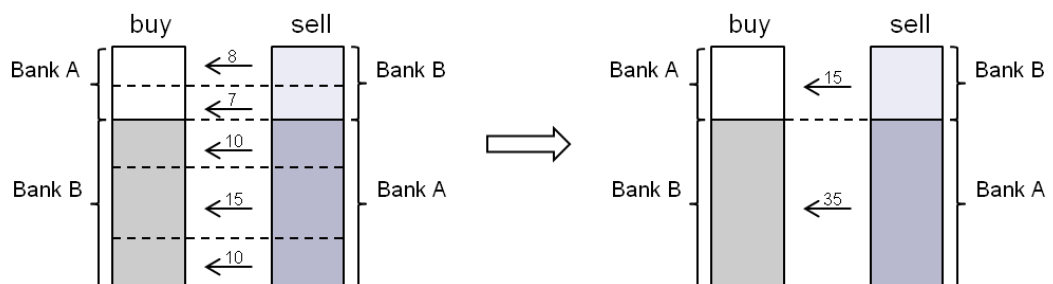
Each aggregated position receives a new trade ID by BRS. This trade ID is unique for the business day and is used in the same way as the trade ID for single trades (i.e., it can also be used as settlement reference at SETI). The key word “BILAGG” is added before the new trade ID (i.e., in tag 21 and tag 70e of reports BA100/BA200 and BA105/BA205 respectively) and the original trade IDs created in T7 are reported for each aggregated position to allow mapping to the aggregated position.

The aggregated position is created after the T7 Trade Notification message in the Enhanced Trading Interface (ETI) or after the Trade Capture Report message in FIX has already been sent, so no additional trade confirmation message is provided for the aggregated position in T7. Instead, the aggregated position is reported via the Common Report Engine (CRE) or z/OS File transfer (SNA) as described in chapter 2.5.

2.1.1 Examples of Aggregation

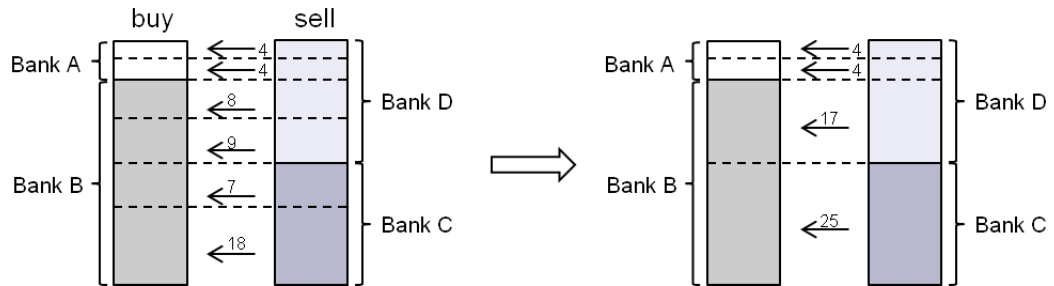
Example 1)

Bank A sold shares of an ISIN to Bank B, but also bought shares from Bank B in the same ISIN. After aggregation, each counterparty has up to one buy and one sell side, provided that both parties fulfil the respective aggregation prerequisites:



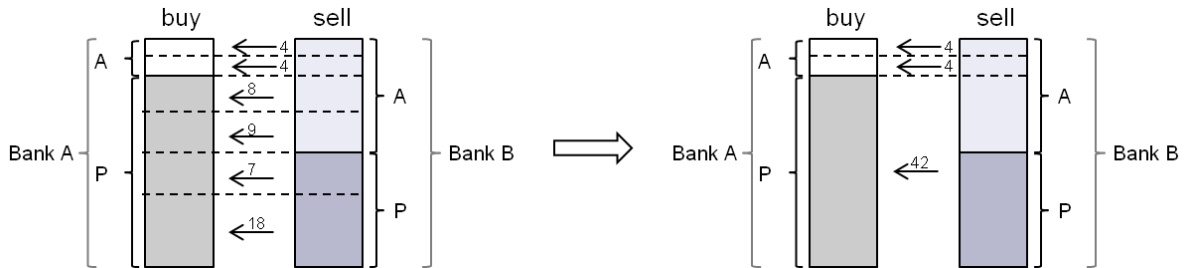
Example 2)

Bank B, Bank C and Bank D changed the account setting to aggregation. Bank A does not do aggregation.



Example 3)

Bank A does aggregation only for P trades. Bank B does aggregation for all trades.



2.2 Prerequisite

Before applying for bilateral aggregation, the trading participant has to ensure that the settlement infrastructure used, e.g., his settlement agent, is capable of processing the aggregated positions. The respective agreements and declarations for trading participants and settlement institutes need to be in place. Also, the trading participant might need to be able to reconcile single trade information with aggregated positions.

With their will to bilaterally aggregate trades, the trading participants instruct DBAG to aggregate obligations between two counterparts bilaterally on their behalf and in their name. The role of DBAG is purely technical.

A trading participant can choose to aggregate on his A account and on his P account (see chapter 2.1 for further details).

2.3 ETI Trade Notification / FIX Trade Capture Report

The T7 ETI Trade Notification message and the T7 FIX Trade Capture Report message indicate if a trade will be aggregated or not. If both trading participants of a bilateral trade opted for bilateral aggregation the field ClearingInstruction (Tag 577) is filled with '2' (Bilateral netting only).

There will be no messages for aggregated positions which are performed in BRS. The aggregated positions can be seen in reports BA100/BA105 or BA200/BA205, for MIC Xetra and XFRA respectively, offered via the CRE and z/OS File transfer (see chapter 2.5. for details).

2.4 Xetra TES Trades of type OTC

Xetra Trade Entry Service (TES) trades of type OTC or LIS with the same contractual settlement date are aggregated. I.e., if on the same trade date TES trades with different settlement dates were entered, an aggregation position is built for each settlement date (more than one aggregation position is possible depending on the other aggregation unit criteria).

2.5 Reports

Aggregation Unit Reports (BRS)

Two report types are offered to report bilateral trades to trading participants. The first one is offered to report the aggregated positions plus those trades not marked for aggregation (if wanted by the trading participant), the second one to report the aggregated positions and the corresponding single trades used to create the aggregated positions but not containing gross processed trades. Both report types are offered as raw report in SWIFT format (MT512 and MT518). Each report is offered per MIC (i.e., XETR and XFRA; XETR reports are currently empty as non-CCP trades are not supported). The following report names and IDs are used:

- BA100 “AGGR. POS. CONFIRMATION XETR” (MT512)
- BA200 “AGGR. POS. CONFIRMATION XFRA” (MT512)
- BA105 “AGGR. PROCESSING REPORT XETR” (MT518)
- BA205 “AGGR. PROCESSING REPORT XFRA” (MT518)

The reports BA100 and BA200 contain all aggregated positions of a trading participant of the current business day. Additionally, the trading participant can choose to add those trades to the report that have not been aggregated. With this the report can be used for reconciliation because it reflects the instructions to the CSD. The selection if non-aggregated trades are included can be done by the trading participant via report selection form.

The reports BA105 and BA205 contain all aggregated positions and corresponding single trades of a trading participant of the current business day. The reporting is done on trading participant level. Depending on the admission role of the trading participant, different aggregated positions are reported. Frankfurt Stock Exchange trading participants receive all aggregated positions of their trades. Settlement institutes receive all aggregated positions of their participants, applying bilateral aggregation. In case a trading participant is acting in both roles only one report is provided containing his own aggregated positions and the aggregated positions of his trading participants.

The reports are available via CRE or z/OS File transfer. A detailed description of all reports is provided via a separate document.

T7 Trade Reports

All trades that are considered for bilateral aggregation contain value “2” (Bilateral netting only) in the field ClearingInstruction in the T7 Trade Notification (in ETI) or the Trade Capture Report (in FIX LF) message. This is also reflected in field clgInstr in the daily report “TC810 – T7 Daily Trade Confirmation”.

2.6 Trade Reversal

If a trade is identified on T+0 to be a mispriced trade, and the trade is reversed on the same day, it is not instructed at all. No special processing is required for bilateral processing.

If the trade is not deleted on T+0 then an instruction is sent to the CSD in the evening and a counter trade needs to be entered on T+1. The counter trade is settled on the same day as the mispriced trade so that neither shares nor money are transferred.

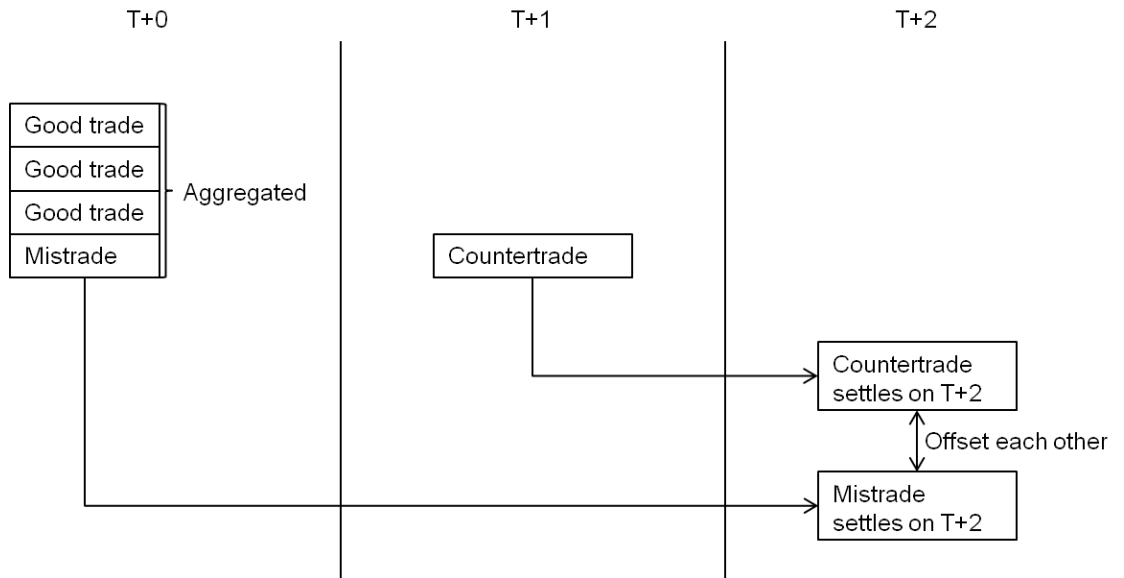


Figure 1: Mispriced trades and countertrades on T+1

If a corporate action is processed on T + 0 on the mispriced trade, the countertrade has to reflect this corporate action already when the countertrade is entered.

Because aggregation is done per trading day and per settlement day, the countertrade is not aggregated with other trades that settle two days after the trade was done.

3 Contact

Should you have any further questions or require additional information, please call your Key Account Manager. For technical support, please contact Customer Technical Services. For mistrade handling, please call Cash Market Operations.

Hotlines: <https://www.xetra.com/xetra-de/meta/hotlines>

4 Change Log

Version	Date	Changes
1.0	17 May 2013	Initial Release Version
1.1	21 August 2023	Bilateral Routing Service - Migration of post-trade processing of bilateral trades to a new technical infrastructure (no functional changes)