



e u r e x circular 035/06

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Volatility Futures: Developments in the Regulatory Environment and Adjustment to Product Parameters

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Product Design Equity Derivatives

Content may be most important for:

↻ All Departments

Attachments:

1. Updated sections of Conditions for Utilization of the OTC Trade Entry Facilities (General Conditions for Participation)
2. Designated Market Maker Application Form - Volatility Futures
3. Designated Market Maker Quote Obligations - Volatility Futures

Summary:

1. On January 26, 2006 the Committee of European Securities Regulators (CESR) published its final advice for the European Commission with regard to "Eligible Assets for Investments of Undertakings for Collective Investment in Transferable Securities (UCITS)". According to this, a derivative on a financial index is, principally, UCITS-compatible, if the index fulfills certain criteria. This applies to the construction of the Volatility Future.
2. The Executive Board of Eurex Clearing AG decided in its session on February 1, 2006 to reduce the minimum contract size for Block Trades in Volatility Futures from 500 contracts to 100 contracts effective **March 1, 2006**.
3. Maximum Spreads for Designated Market-Making in Volatility Futures on the VSMI[®] Index (FVSM) will be reduced from 15 percent to 10 percent with effect from **March 1, 2006**.

Volatility Futures: Developments in the Regulatory Environment and Adjustment to Product Parameters

1. CESR's Final Advice on Eligible Assets

On January 26, 2006 the Committee of European Securities Regulators (CESR) published its final advice for the European Commission to clarify the definition of "Eligible Assets for Investments of Undertakings for Collective Investment in Transferable Securities (UCITS)". According to CESR's final advice, taking into account Art. 1 (2) in conjunction with Art. 19 (1) (g) and Recital 13 of Directive 2001/108/EC, those derivatives may be considered "financial derivative instruments" whose underlying values consist of:

- Assets listed in Art. 19 (1) UCITS
- Financial indices

This means that a derivative on a financial index is principally UCITS-compatible, if the index fulfills certain criteria. This applies to the construction of the Volatility Future.

According to the prerequisites of Art. 22a (1) of Directive 2001/108/EC on which the CESR final advice is based, an index is admissible, if

- the index composition is sufficiently diversified
- the index represents an adequate benchmark for the market to which it refers, and
- the index is published in an appropriate manner

Taking into account the principles already in effect, CESR determined which products belong to the scope of application. Financial innovations were considered as well, provided they guarantee sufficient investor protection (for detailed prerequisites please see "CESR's Advice on Eligible Assets", Box 13, 14, http://www.cesr-eu.org/images/cesr_barre.jpg).

2. Adjustment of Minimum Contract Size for Block Trades

The Executive Board of Eurex Clearing AG decided in its session on February 1, 2006 to reduce the minimum contract size for Block Trades in Volatility Futures from 500 contracts to 100 contracts effective March 1, 2006. Section 9.2 of the Conditions for Utilization of the OTC Trade Entry Facilities has been updated accordingly (attachment 1).

3. Adjustment of Designated Market-Making

Maximum Spreads for Designated Market-Making in Volatility Futures on the VSMI[®] Index (FVSM) will be reduced from 15 percent to 10 percent with effect from March 1, 2006. For further details and exact parameters of the Designated Market-Making program please see attachment 3.

Participants interested in fulfilling Designated Market Maker function are requested to complete the corresponding application (attachment 2) and to return it to Ralf Huesmann, Eurex, fax +49-69-211-61 54 43.

Frankfurt, February 17, 2006

**Conditions for Utilization of the OTC Trade Entry
(General Conditions for Participation)**

March 1, 2006

Page 1

[.....]

9 Admitted Products

[.....]

9.3 Eurex Clearing AG has admitted the following products to the Block Trade Facility even if they had been entered within the scope of options strategies or options volatility strategies:

Product	Minimum number of tradable contracts
Options Contracts on the DAX [®] (ODAX)	500
Options Contracts on the Tec DAX [®] (OTDX)	1,000
Options Contracts on the SMI [®] (OSMI)	500
Options Contracts on the OMXH25 (OFOX)	250
Options Contracts on the Dow Jones EURO STOXX 50 [®] (OESX)	1,000
Options Contracts on the Dow Jones STOXX 50 [®] (OSTX)	1,000
Options Contracts on the Dow Jones STOXX [®] 600-(O600)	250
Options Contracts on the Dow Jones STOXX [®] Mid 200-(O2MI)	250
Options Contracts on the Dow Jones Italy Titans 30 SM Index (O1TA)	500
Options Contracts on the Dow Jones Global Titans 50 SM (OGTI)	1,000
Options Contracts on the Dow Jones EURO STOXX [®] Sector indices	250
Options Contracts on the Dow Jones STOXX [®] 600 Market Sector Indices	250
Options contracts on the Dow Jones STOXX [®] 600 Index (O600)	250

**Conditions for Utilization of the OTC Trade Entry
(General Conditions for Participation)**

March 1, 2006

Page 2

Product	Minimum number of tradable contracts
Options contracts on the Dow Jones STOXX [®] Mid 200 Index (O2MI)	250
Options Contracts on the Exchange Traded Funds:- DAX [®] EX (EXS1), DJ EURO STOXX 50 [®] EX (EXW1), iShares DJ EURO STOXX 50 [®] (EUN2), XMTCH on SMI [®] (XMT)	1,000
Options Contracts on a Euro BUND Future (OGBL)	50
Options Contracts on a Euro BOBL Future (OGBM)	50
Options Contracts on a Euro SCHATZ Future (OGBS)	50
Options Contracts on Stocks of German Stock Corporations (OSTK)	250
Options Contracts on Stocks of Swiss Stock Corporations (OSTK)	250
Options Contracts on Stocks of Finnish Stock Corporations (OSTK)	250
Options Contracts on Stocks of Dutch Stock Corporations (OSTK)	250
Options Contracts on Stocks of Italian Stock Corporations (OSTK)	250
Options Contracts on Stocks of French Stock Corporations (OSTK)	250
Options Contracts on Stocks of Corporations listed on TecDAX	250
Options Contracts on Stocks of US-American Stock Corporations (OSTK)	250
Futures Contracts on a Notional Particularly Long-Term Bond of the Federal Republic of Germany (Euro BUXL Futures; FGBX)	500
Futures Contracts on a Notional Long-Term Debt Security of the Federal Republic of Germany (Euro BUND Futures; FGBL)	2,000

**Conditions for Utilization of the OTC Trade Entry
(General Conditions for Participation)**

March 1, 2006

Page 3

Product	Minimum number of tradable contracts
Futures Contracts on a Notional Medium-Term Debt Security of the Federal Republic of Germany (Euro BOBL Futures; FGBM)	3,000
Futures Contracts on a Notional Short-Term Debt Security of the Federal Republic of Germany (Euro SCHATZ Futures; FGBS)	4,000
Futures Contracts on a Notional Long-Term Debt Security of the Swiss Confederation (CONF Futures; CONF)	500
Futures Contracts on the Interest Rate for Three-Month Cash Deposits in Euro (Three-Month Euribor Future; FEU3)	100
Futures Contracts on the Monthly Average of Effective Interest Rates for Overnight Deposits in the Inter-bank Euro Market, EONIA (One-month EONIA Future; FEO1)	100
Futures Contracts on the Dow Jones STOXX [®] 50 Index (FSTX)	250
Futures Contracts on the Dow Jones STOXX [®] 600 (F600)	250
Futures Contracts on the Dow Jones STOXX [®] Mid 200 (F2MI)	250
Futures Contracts on the Dow Jones EURO STOXX [®] Market Sector Indices	250
Futures Contracts on the Dow Jones STOXX [®] 600 Market Sector Indices	250
Futures Contracts on the DAX [®] Index (FDAX)	250
Futures Contracts on the TecDAX [®] Index (FTDX)	1,000
Futures Contracts on the Dow Jones EURO STOXX [®] 50 Index (FESX)	1,000
Futures contracts on the VSTOXX [®] -Index	500 100
Futures Contracts on the SMI [®] Index (FSMI)	500

**Conditions for Utilization of the OTC Trade Entry
(General Conditions for Participation)**

March 1, 2006

Page 4

Product	Minimum number of tradable contracts
Futures Contracts on the VSMI [®] Index (FVSM)	500 <u>100</u>
Futures Contracts on the OMXH25 Index (FFOX)	250
Futures Contracts on the Dow Jones Global Titans 50 SM Index (FGTI)	1,000
Futures Contracts on the Dow Jones Italy Titans 30 SM Index (F1TA)	500
Futures Contracts on the MDAX [®] Index (F2MX)	250
Futures Contracts on the VDAX-NEW [®] Index (FVDX)	500 <u>100</u>
Futures Contracts on individual equities	1

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Application Form - Designated Market Making Scheme

To Eurex
Product Design Equity/Index
 Ralf Huesmann
 Neue Börsenstraße 1

60487 Frankfurt am Main
 Germany

Fax no.: +49-69-211-61 54 43

Application for the Status of Designated Market Maker in Volatility Futures

1. We _____
 (name of member)

herewith apply for the status of Designated Market Maker in the following contract(s)

Product	Eurex Code	Please tick <input checked="" type="checkbox"/> if applicable
VDAX-NEW [®] Future	FVDX	<input type="checkbox"/> yes
VSTOXX [®] Future	FVSX	<input type="checkbox"/> yes
VSMI [®] Future	FVSM	<input type="checkbox"/> yes

for the period from September 19, 2005 until March 31, 2006 in accordance with the terms and conditions stated in the Quote Obligations (attachment 3).

2. As Designated Market Maker
- a) we will provide bid and ask quotes on both sides of the market
 - for the minimum number of contracts specified in the Quote Obligations
 - in compliance with the Maximum Spreads (see Quote Obligations); and
 - for the period of time specified in the Quote Obligations (also, and in particular, on a daily basis at the beginning of trading and at the end of trading in the contract and in response to quote requests)
 - b) we will designate a manager who has the authorization and expertise necessary to make decisions and act as the coordinator in our firm, who will be available for Eurex with respect to this agreement;
 - c) we will ensure that a Eurex trading screen and a qualified trader are available for Designated Market Making; and



- d) we will inform Eurex within one business day in the event that we find ourselves no longer in a position to fulfill these obligations.
3. Eurex will in return
 - a) publish the name of the Eurex member with Designated Market Maker status in advertising and information material in connection with the contracts;
 - b) make Eurex speakers and printed material available for index futures-related seminars organized by Designated Market Makers; and
 - c) refund all trading and clearing fees for contracts traded by Designated Market Makers on M-accounts up to March 31, 2006. Refunds for the respective month will be calculated at the beginning of the subsequent month. No refund will be made if the respective futures are traded on A- or P-accounts or if Quote Obligations are not fulfilled.
 4. Compliance with the obligations stated under No. 2 shall be monitored by Eurex.

In the event that the obligations stated under No. 2 are not be met by us, Eurex shall have the right to terminate the agreement and to publicly disclose the termination of the Designated Market Maker status at Eurex' discretion. In this case, Eurex shall be released from its obligations pursuant to No. 3 with immediate effect.
 5. In the event of a significant change in the Contract Specifications for the contract or due to a revision of the law or rules with respect to the contract, we as well as Eurex have the right to terminate this agreement with immediate effect or to renegotiate the requirements indicated in paragraph 2 and/or in the associated Quote Obligations.
 6. Eurex shall have the right to amend one or more of the conditions laid down in this agreement for limited periods of time at its sole discretion with validity for all Designated Market Makers, if it deems this appropriate (for example, in circumstances which lead to high market volatility or if such amendments are not expected to have an adverse effect on market quality). In the event that Eurex amends one or more conditions, the Designated Market Makers must, for their part, ensure that the Designated Market Makers can also be promptly advised that this situation has ceased to exist.
 7. Other than the aforementioned measures, no special status at Eurex shall be accorded to the participant in conjunction with the Designated Market Maker status, which expires on March 31, 2006. After that time, the title "Designated Market Maker" can no longer be used unless otherwise agreed with Eurex.



8. The associated Quote Obligations (attachment 6) are an integral part of this application.

SHOULD BE FILLED OUT BY THE PERSON DESIGNATED IN ACCORDANCE WITH PARAGRAPH 2. b)

Place, date

Name

Position

Phone

Fax

(Signature / Stamp of the firm)

E-mail address

Please fax the completed application for the status of Designated Market Maker to above-mentioned fax number.



**Designated Market Maker Scheme for
Futures on the VDAX-NEW[®] Index**

Quote Obligations

Eurex Code:	FVDX
Minimum Size:	10 contracts on the bid and ask side for all expiries
Maximum Spread:	10 percent of the future bid premium. The spread classification will be reviewed on a monthly basis.
Quotation Period:	85 percent of the daily trading period between 08:50 and 17:30 (CET) on a monthly average
Designated Market Maker Fees:	September 19, 2005 until March 31, 2006. Total refund of trading and clearing fees for contracts traded on M-accounts.



**Designated Market Maker Scheme for
Futures on the VSTOXX[®] Index**

Quote Obligations

Eurex Code:	FVSX
Minimum Size:	10 contracts on the bid and ask side for all expiries
Maximum Spread:	10 percent of the future bid premium. The spread classification will be reviewed on a monthly basis.
Quotation Period:	85 percent of the daily trading period between 08:50 and 17:30 (CET) on a monthly average
Designated Market Maker Fees:	September 19, 2005 until March 31, 2006. Total refund of trading and clearing fees for contracts traded on M-accounts.



**Designated Market Maker Scheme for
Futures on the VSMI[®] Index**

Quote Obligations

Eurex Code:	FVSM
Minimum Size:	10 contracts on the bid and ask side for all expiries
Maximum Spread:	15 percent of the future bid premium. The spread classification will be reviewed on a monthly basis.
Quotation Period:	85 percent of the daily trading period between 08:50 and 17:20 (CET) on a monthly average.
Designated Market Maker Fees:	September 19, 2005 until March 31, 2006. Total refund of trading and clearing fees for contracts traded on M-accounts.