X-pand into the Future

e u r e x *circular 036/10*

Date: Frankfurt, March 2, 2010

Sender: 1. Eurex Deutschland and Eurex Zürich
2. Eurex Clearing AG

Recipients: All Trading Members of Eurex Deutschland and Eurex Zürich, all Clearing Members of Eurex Clearing AG and Vendors

Authorized by: Peter Reitz

⚠ **Action required** ⚠ **High priority**

Introduction of Volatility Options and a Market Maker Scheme for Volatility Options

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Content may be most important for:

Ü All Departments

Attachments:

Updated sections of:

Eurex Deutschland and Eurex Zürich

1. Contract Specifications for Futures Contracts and Options Contracts at Eurex Deutschland and Eurex Zürich
2. Market Maker Scheme for Options on VSTOXX® (OVS)

Eurex Clearing AG

3. Clearing Conditions for Eurex Clearing AG
4. Price List of Eurex Clearing AG
5. Conditions for Utilization of the OTC Trade Entry Facilities (General Conditions for Participation)

Summary:

The Management Boards of the Eurex Exchanges and the Executive Board of Eurex Clearing AG decided to introduce options on VSTOXX®, the index for implied volatility in the EURO STOXX 50® index effective **March 22, 2010.**

As of **March 10, 2010**, a corresponding product (TOVS) will be available in the Eurex simulation environment.

Up until December 31, 2011, a Market Maker scheme for volatility options with a 100 percent rebate on transaction fees and revenue sharing will be offered.

Introduction of Volatility Options and a Market Maker Scheme for Volatility Options

Introduction of Volatility Options

The Management Boards of the Eurex Exchanges and the Executive Board of Eurex Clearing AG decided to introduce options on VSTOXX®, the index for implied volatility in options in the EURO STOXX 50® index effective March 22, 2010.

Along with the existing VSTOXX® futures (Eurex product code: FVS), Eurex will offer an additional exchange-traded derivative on volatility, which will be settled via Eurex Clearing AG, the Central Counterparty.

Eurex Deutschland and Eurex Zürich

To implement this decision, Contract Specifications for Futures Contracts and Options Contracts at Eurex Deutschland and Eurex Zürich will be amended as specified in attachment 1 with effect from March 22, 2010.

Eurex Clearing AG

To implement the decision of the Management Boards of the Eurex Exchanges, Eurex Clearing AG will adjust the Clearing Conditions for Eurex Clearing AG (attachment 3), the Price List for Eurex Clearing AG (attachment 4), and the Conditions for Utilization of the OTC Trade Entry Facilities (General Conditions for Participation - attachment 5) with regard to the clearing services it offers. These changes will also become effective on March 22, 2010.

1. Product Description

VSTOXX® indicates the implied volatility which is implied by the market via prices in EURO STOXX 50® options. The index calculation is based on the square root of the implied variance and contains the volatility smile and the skew.

An index description can be found on the STOXX website under:

www.stoxx.com > Factsheets & Methodologies > Eurozone >
EURO STOXX 50 Volatility (VSTOXX)

VSTOXX® options are European style options.

Technically, the product will be set up as an option on futures (Eurex product code: OFIX). However, the options expire directly in a cash position, and no futures position will be generated.

2. Contract Specifications

Product Code	Product ISIN	Contract Value	Product Currency	Minimum Price Change	Value of the Minimum Price Change	Product Group	Block Trade Size
OVS	DE000A0E4S49	100 EUR per volatility point	EUR	0.05	5 EUR	XNCFVE	500

3. Strike Price Intervals

Graded intervals according to the VSTOXX® index value:

VSTOXX®	Strike Price Intervals
≤ 20	1 Index Point
> 20 and ≤ 50	2.5 Index Points
> 50	5 Index Points

4. Contract Months

Four expiration months will be offered: the next three consecutive calendar months and the following quarter month out of the February, May, August and November cycle.

5. Last Trading Day and Final Settlement Day

Last trading day is the final settlement day. The final settlement day is 30 calendar days prior to the expiration day of the underlying options of the volatility index (i.e. 30 days before the third Friday of the expiration month of the underlying options, provided this is an exchange day). In general, this is the Wednesday before the second-to-last Friday of the particular expiration month, provided this is an exchange day, otherwise the exchange day preceding that day.

6. Trading Hours (all times CET)

Pre Trading	Trading	Post Trading	Close of Trading (on the Last Trading Day)
08:30 - 09:00	09:00 - 17:30	17:30 - 19:00	11:30

7. Transaction Fees

Order Book Transaction	Block Trade Transaction	Cash Settlement	Exercise
EUR 0.30	EUR 0.30	EUR 0.30	EUR 0.30

8. Mistrade Parameters

Mistrade Ranges for this product will be published on the Eurex website as of the start of trading under the following path:

www.eurexchange.com > Trading > Products

9. Margining and Risk Parameters

The new option will be added to the margin group VSX1. Thus the option will be in the same margin class as the futures on VSTOXX® (FVS), which may result in a margin offset.

The Margin Parameters for the new product will be published as of the start of trading on the Eurex Clearing website under:

www.eurexclearing.com > Risk Management > Risk Parameters

10. Data Vendor Codes

Data vendor codes for the new products will be published on our website under the path:

www.eurexchange.com > Trading > Products > Vendor Product Code Search

11. Simulation

As of March 10, 2010, a corresponding product (TOVS) will be available in the Eurex simulation environment.

Introduction of a Market Maker Scheme for Volatility Options

For Market Makers, the transaction fees for transactions concluded on the M account will be refunded for the period of March 22, 2010 until December 31, 2011, provided they fulfill the following quotation conditions. Each member may act as Market Maker.

The following conditions for quotation will apply:

Minimum Quotation Size:	50 contracts
Maximum Spread:	15 percent of the bid price
Quotation Time:	80 percent of the full trading time on an average monthly basis for calls and puts in five out of seven strikes near the current at-the-money index value. Asymmetric quotation is allowed.
Expirations:	All four expirations have to be quoted.
Incentive:	100 percent rebate on transaction fees for transactions concluded on the M account between March 22, 2010 and December 31, 2011, if the monthly obligations have been fulfilled. In addition, revenue sharing will be

offered: 50 percent of the net trading fees will be distributed among the top three Market Makers on a monthly basis. The amount will be determined as the ratio of the trading volume of one single Market Maker out of the total trading volume of the top three Market Makers.

Frankfurt, March 2, 2010

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CHANGES ARE MARKED AS FOLLOWS:

AMENDMENTS ARE UNDERLINED

DELETIONS ARE CROSSED OUT

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2. Part: Contract Specifications for Options Contracts

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2.8 Subpart: Contract Specifications for Volatility Index Options Contracts

The following subpart contains the contract specifications for Volatility Index Options Contracts listed in the following:

§ Options Contracts on VSTOXX („VSTOXX Options Contracts").

2.8.1 Subject Matter of Contract

(1) A Volatility Index Options Contract respectively refers to a certain volatility index.

(2) On the Eurex Exchanges, options contracts on the following volatility index are available:

§ VSTOXX® Index (STOXX Limited).

(3) The value of an options contract is:

§ EUR 100 per index point with contracts on the VSTOXX

(4) If any changes are made in the calculation of an index or its composition or weighting such that the concept of the index appears to be no longer comparable with the concept that applied when the futures contract was admitted to trading, the Management Boards of the Eurex Exchanges may order the termination of trading in such contract as of the Exchange day prior to the change in the respective index. Open positions shall be settled in cash upon the termination of trading. The respective final settlement price shall be relevant (Chapter II subsection 3.8.3 of the Clearing Conditions of the Eurex Clearing AG).

2.8.2 Call Option (Call)

(1) The purchaser of a call option (Call) has the right to demand a payment in the amount of the difference between the execution price of the option and a higher final settlement price (Chapter II Number 3.8.3 of the Clearing Conditions of Eurex Clearing AG) of the options series (cash settlement).

(2) The seller (writer) of a call is required, on the Exchange day after exercise of the option, to settle in cash the difference between the execution price of the option and a higher final settlement price of the options series; this shall also apply if the writer is assigned the execution on the exchange day following the day of execution only.

(3) The final settlement price shall be determined by the Executive Board of Eurex Clearing AG on the execution day of the contract.

2.8.3 Put Option (Put)

(1) The purchaser of a put option (Put) has the right to demand payment in the amount of the difference between the execution price of the option and a lower final settlement price (Chapter II Number 3.8.3 of the Clearing Conditions of Eurex Clearing AG) of the options series (cash settlement).

(2) The seller (writer) of a put is required, on the Exchange day after exercise of the option, to settle in cash the difference between the execution price of the option and a lower final settlement price of the options series; this shall also apply if the writer is assigned the execution on the exchange day following the day of execution only.

(3) The final settlement price shall be determined by the Executive Board of Eurex Clearing AG on the execution day of the contract.

2.8.4 Term

For Volatility Index Options Contracts, terms expiring on the final settlement day of the next, the second succeeding and the third succeeding delivery month and of the next following quarter month from the cycle February, May, August and November are available on the Eurex Exchanges.

2.8.5 Last Trading Day, Final Settlement Day, Close of Trading

(1) The last trading day of an option series shall generally be the last day on which such option series is available to Exchange Participants for trading and clearing through the EDP system of the Eurex Exchanges. The last trading day of the Volatility Index Options Contract is the final settlement day.

(2) The final settlement day of the Volatility Index Options Contracts shall be 30 calendar days before the expiry day of the options underlying the volatility index (i.e. 30 days before the third Friday of the expiry month of the underlying options, provided that this is an Exchange day). This is, in general, Wednesday before the second last Friday of a respective expiry month of the Volatility Index Options Contracts, provided that this day is an Exchange day, otherwise the trading day before.

(3) Close of Trading on the last trading day for

- VSTOXX®-Options contracts (Product-ID: OVS) is 12:00 CET.

2.8.6 Execution Prices

Options series of Volatility Index Options Contracts have execution prices with price gradations in the amount of not less that one point.

2.8.7 Number of Exercise Prices upon Admission of Contracts

Upon the admission of Volatility Index Options Contracts, at least eleven exercise prices shall be made available for trading for each expiration day for each call and put, such that five exercise prices are "in the money", one is "at the money" and five are "out of the money".

2.8.8 Introduction of New Option Series

(1) Option series with new exercise prices shall be introduced for an existing expiration month no later than at the beginning of the Pre-Trading Period of a given Exchange day in the event that the minimum number of exercise prices specified in number 2.8.7 in-the-money, at-the-money or out-of-the-money. The introduction shall be made at the beginning of the pre-trading period of the following trading day.

(2) A new options series shall not be introduced if it would expire within less than two Exchange days, unless the market situation would require a new introduction.

2.8.9 Price Gradations

The price of a Volatility Index Options Contract shall be determined in points with two digits. The smallest price gradation (tick) shall be

- 0.05 points with VSTOXX® Options Contracts; this represents a value of EUR 5.

2.8.10 Exercise

Diverging from subsection 2.1.3 Paragraph (1), the holder of a Volatility Index Option Contract may only exercise such option up to the end of the Post-Trading Full Period on the final settlement day (Subsection 2.8.5 Paragraph 2) thereof (European style).

2.8.11 Assignment

Diverging from subsection 2.1.5 Paragraph 1, all exercises of a Volatility Index Options Contract may only be assigned to the writers of the exercised option on the final settlement day (Number 2.8.5 Paragraph 2).

2.8.12 Performance, Cash Settlement

(1) The settlement day is the Exchange day after the exercise day.

(2) The performance of contracts shall be effected through cash settlement between the Clearing Members. Each Clearing Member shall be responsible for handling the cash settlements with the Non-Clearing Members served by it and its own customers; the handling of cash settlements by Non-Clearing Members to their customers is the responsibility of such Non-Clearing Members.

When carrying out the cash settlement, the Volatility Index Options Contracts which are designed as options on Futures with regard to the index are settled on basis of the future. The settlement takes place by calculation of the Volatility Futures expiring upon identical final settlement day and respective cash settlement. The options expire directly in a cash position without a futures position coming into existence.

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Annex C in relation to Contract Specifications:

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Trading Hours Options Contracts

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Volatility Index Options Contracts

Product	Product ID	Pre-Trading-Period	Continuous Trading	Post-Trading Full Period	OTC Block Trading	Last Trading Day	
-	-	-	-	-	-	Trading until	Execution until
VSTOXX® Options Contracts	OVS	07:30-08:50	08:50-17:30	17:30-20:30	09:00-18:30	12:00	20:00

Market Maker Scheme for Options on VSTOXX® (OVS)

Quote Obligations

Eurex Code: OVS Options on VSTOXX®

Minimum Size: 50 contracts

Maximum Spread: 15 percent of the bid price.

Quotation Period: 80 percent of the total trading period on a monthly average for calls and puts in five out of seven strikes around the current index level. Asymmetric quotation is allowed.

Incentive: 100 percent fee rebate for trades on M-account from February 22, 2010 until December 31, 2011, for fulfilling monthly obligations.
Additionally Eurex will introduce a revenue sharing by distributing 50 percent of the net trading fee among the top three performing Market Makers on a monthly basis. The kickback will be determined as a ratio of the trading volume of a particular Market Maker to the total trading volume of the three Market Makers.

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Chapter II
Transactions at Eurex Deutschland and Eurex Zürich (Eurex Exchanges)

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Part 3
Clearing of Options Contracts

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3.8 Subpart
Clearing of Volatility Index Options Contracts

The following numbers shall rule the clearing of transactions in the Volatility Index Options contracts named in Number 2.8 of the Contract Specifications for Futures Contracts and Options Contracts at Eurex Deutschland and Eurex Zürich.

3.8.1 Procedure in Payment

All payments shall be made on the Exchange day following the final settlement day (Number 2.8 of the Contract Specifications for Futures Contracts and Options Contracts at Eurex Deutschland and Eurex Zürich). All Clearing Members shall ensure their ability to effect payments on the due date by having sufficient credit balances on the RTGS account or euroSIC account.

3.8.2 Options Premium

The balance of the option premiums (Net Premium) to be paid by the Clearing Members pursuant to Number 2.1.1 of the Contract Specifications for Futures Contracts and Options Contracts at Eurex Deutschland and Eurex Zürich and to be reimbursed by Eurex Clearing AG shall be payable by the time specified by Eurex Clearing AG on the Exchange day following the conclusion of the transaction, but generally prior to the commencement of trading at Eurex Deutschland and Eurex Zürich on such Exchange day.

3.8.3 Final Settlement Price

The final settlement price of the Volatility Index Options contracts shall be determined by Eurex Clearing AG on the final settlement day (Number 2.8.5 of the Contract Specifications for Futures Contracts and Options contracts at Eurex Deutschland and Eurex Zürich) of a contract.

The average value of all index calculations of the VSTOXX® between 11:30 and 12:30 CET on the last trading day are relevant for the VSTOXX® Options contracts.

In case of extraordinary circumstances, in particular if, due to technical problems, trading is interrupted or if, due to other reasons, the price cannot be determined, Eurex Clearing AG may determine the final settlement price by another procedure.

3.8.4 Provision of Margin

(1) The basic principles for the provision of margin result from Chapter I Part 3. Furthermore, the following applies:

(2) First, the margin for the costs of a potential closing to the day's closing price of all positions shall be provided (Premium Margin).

(3) When calculating the provision of margin for all options series, the net-long positions form a calculation basis.

(4) In addition to above-regulated provision of margin (Premium Margin), another provision of margin (Additional Margin) shall be determined, covering - upon occurrence of the least favourable price development determined by Eurex Clearing AG - the change of the closing costs of all options positions until the next calculation of margin.

3.8.5 Cash Settlement

(1) Exercised and assigned options positions shall be settled by payment of a netting amount which is credited to or debited from the internal cash clearing account of the Clearing Members.

(2) The cash settlement shall be determined according to the difference between the exercise price of the options series and its final settlement price. The final settlement price shall be determined by the Management Boards of the Eurex exchanges on the exercise date of the options series.

3.8.6 Default

For default or technical default, the regulations pursuant to Chapter I Number 7.1 respectively 7.2 shall apply.

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3.1 Matching of Exchange Transactions / Recording of Derivatives Transactions (Trade)

3.1.1 Exchange Transactions

3.1.1.1 Regular Transactions

Contract	Fee per Contract A and P Accounts	Fee per Contract M-Accounts (Regular Market-Making)*	Fee per Contract M-Accounts (Permanent Market-Making)*	Fee per Contract M-Accounts (Advanced Market-Making)*
[…]				
Volatility Index Derivatives				
Options				
VSTOXX® Options	EUR 0.30			
[…]				

[…]

3.1.2 OTC Transactions

3.1.2.1 Fees for OTC Entries – Block Trades

Contract	Fee per Contract A-and P-Accounts	Fee per Contract M-Accounts (Regular Market-Making)*	Fee per Contract M-Accounts (Permanent Market-Making)*	Fee per Contract M-Accounts (Advanced Market-Making)*
Equity Derivatives				
Stock Futures with Group ID assigned in Annex A of the Eurex Contract Specifications				
[…]				
VSTOXX® Options	EUR 0.30			
[…]				

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3.2 Position Closing Adjustments

Position Closing Adjustments, if these do not take place between 13:30 CET on the day of trade and before 13:30 CET of the following trading day:

Contract:	Fee per Contract:
[…]	
Volatility Index Products	
VSTOXX®-Mini Futures (FVS)	EUR 0.40
VSTOXX® Options	EUR 0.60
[…]	

3.3 Cash Settlement

Contract:	Fee per Contract:	Maximum Fee for Contracts on the same underlying of each A-, P- and M-accounts
[…]		
Volatility Index Products		
VSTOXX®-Mini-Futures (FVS)	EUR 0.20	
VSTOXX® Options	EUR 0.30	
[…]		

[…]

3.6 Exercise of Options

Contract:	Fee per Contract A- and P-Accounts	Fee per Contract M-Accounts (Regular Market-Making)*	Fee per Contract M-Accounts (Permanent Market-Making)*	Fee per Contract M-Accounts (Advanced Market-Making)*
[…]				
Volatilitätsindexoptionen				
VSTOXX® Options	EUR 0.30			

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9 Admitted Products, Combinations and Combination Transactions Option-Share

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9.3 Eurex Clearing AG has admitted the products listed in the following to the Block Trade Facility even if they had been entered within the scope of options strategies, options volatility strategies or a Combination Transactions Option-Share, consisting of OTC options transactions and OTC security transactions:

9.3.1 Admitted Products:

Product	**Minimum number of tradable contracts**
[…]	
VSTOXX Options Contracts	500
[…]	

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Annex A to the General Conditions for Participation:

OTC Periods of Use (all times in CET)

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Options Contracts

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Product	Product ID	Start-End
Options Contracts on	-	-
VSTOXX	OVS	09:00-18:30