



## eurex circular 145/13

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**Recipients:** All Trading Participants of Eurex Deutschland and Eurex Zürich and Vendors  
**Authorized by:** Peter Reitz

 **Action required**

 **High priority**

### Market-Making in options: Strategy Market-Making

**Related Eurex Clearing Circular:** 079/13

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**Content may be most important for:**

 All departments

**Attachments:**

none

#### Summary:

On 19 June 2013, the Management Boards of the Eurex Exchanges decided to amend the Market Maker Obligations in selected options products by the obligation to:

- respond to quote requests (RFQs) in standard option series (simple instruments),
- respond to quote requests in option strategies (complex instruments).

The new requirements will be effective as of **1 August 2013**. The response to quote requests in option strategies starts with a 3 months test phase until **31 October 2013**.

For more information on the pricing related to the amendments, please refer to Eurex Clearing circular 079/13.



## Market-Making in options: Strategy Market-Making

### 1. Summary

On 19 June 2013, the Management Boards of the Eurex Exchanges decided to amend the Market Maker Obligations in selected options products by the obligation to:

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### 2. Response to quote requests in standard options (simple instruments)

Market Makers are required to respond to incoming quote requests (RFQs):

- with a response time of 60 seconds after submission of the RFQ,
- holding a two-way market quote for ten seconds, whereby prices can be updated during this period,
- in the minimum quote size according to the AMM/PMM requirement of the product,
- at the maximum spread according to the AMM/PMM requirement of the product.

On a daily basis, 50 percent of all incoming valid quote requests need to be answered, up to a maximum of 150 quote requests. The Market Maker performance is measured on a monthly average.

#### 2.1 Limitation

The requirement to respond to RFQs is limited to:

- expirations that need to be quoted in the AMM/PMM model in the respective product,
- series that are not covered by a valid Market Maker quote.

This requirement will be valid for all constituents (including the index options) of the following AMM packages: FR, ESX50, NL, DE, IE, CH, RU, UK, BE, ES, IT, SC. It applies to the AMM and PMM schemes only.

#### 2.2 Reporting

Market Makers can monitor their quote request performance using the existing reports:

- RPTD941      Daily Permanent Market-Making Quote Request Performance
- RPTD942      Daily Advanced Market-Making Quote Request Performance
- RPTD946      MTD-Permanent Market-Making Quote Request Performance Measurement
- RPTD947      MTD-Advanced Market-Making Quote Request Performance Measurement

### 3. Response to quote requests in option strategies (complex instruments) - SWMM

Market Makers are required to respond to incoming quote requests in specific option strategies. A quote request is defined as a dedicated electronic RFQ message or as a change in the Eurex reference data (the creation of a complex instrument):

- Respond to incoming strategy requests with a **response time** of max. 20 seconds;
- **Holding time** – hold a quote for **one minute**. If a strategy quote is traded, the obligation for the required holding time for the specific strategy is deemed to be fulfilled.

Please note: Quotes can be updated as often as necessary during the holding time.

- If the same strategy is **re-requested**, a new quote should be entered and again held for one minute.

### 3.1 Limitation

- Per product and day, a maximum number of 200 valid strategy requests in option strategies are counted of which 80 percent must be answered;
- The strike price window (SPW) and the maturity range of the AMM/PMM scheme provide the universe of options combinations for each product; strategies where at least one leg is outside the SPW need not be quoted;
- Strategies that contain an options leg that expires five days later or less will not be part of the measurement;

### 3.2 Product scope

- Fixed income options (OGBL, OGBM, OGBS), Blue Chip index options (DAX<sup>®</sup>, EURO STOXX 50<sup>®</sup> and SMI<sup>®</sup>) and options on the 20 most liquid single names (see below).

### 3.3 Quotation parameters

The quotation parameters relate to the quotation parameters of the outright option.

- Minimum quote size
  - dependent upon the options combination of a given strategy, the minimum strategy quote size is a multiple of the minimum quote size (Outrights)
  - Option Strategies = multiple \* quote size (Outrights)
- Maximum Quote Spreads
  - Depending on the options combination, the maximum spread will be a multiple of the respective maximum spread of the outright options spread class
  - The spread will be determined by the net premium of the option strategy:
    - Example: EURO STOXX 50<sup>®</sup> options are in spread class 10, where options premia from 15 to 225 index points can be quoted with an 8 percent spread. A call spread would for instance be quoted at 1x the outright spread, here 8 percent spread of the net premium of the strategy.
    - A call spread consisting of a long call with a premium of 40 points and a short call with a premium of 20 points can be quoted 1.6 points wide (20 x 8 percent) as the net premium is only 20 points.

**There are four sets of strategies and respective quotation parameters:**

#### 1. Index options: ODAX, OESX, OSMI

Strategy name	Strategy symbol	With underlying ?	Expiration range	Relative to outright spread	Quote size/ multiple of outright
Call Spread	BUL	no	1-5	1	3
Call Spread	BUL	no	6-8	2	3
Put Spread	BER	no	1-5	1	3
Put Spread	BER	no	6-8	2	3
Call Butterfly	CBUT	no	1-8	2	3
Put Butterfly	PBUT	no	1-8	2	3
Call Calendar Spread	BLT	no	1-5	1	3

Strategy name	Strategy symbol	With underlying ?	Expiration range	Relative to outright spread	Quote size/ multiple of outright
Call Calendar Spread	BLT	no	1-8	2	3
Put Calendar Spread	BRT	no	1-5	1	3
Put Calendar Spread	BRT	no	1-8	2	3
Straddle	STD	no	1-8	2	1
Straddle Calender Spread	STDT	no	1-5	1	1
Straddle Calender Spread	STDT	No	1-8	2	1
Strangle	STG	no	1-8	2	1
Call 2x1 Ratio Spread	RBUL	no	1-5	3	2
Put 2x1 Ratio Spread	RBER	no	1-5	3	2

## 2. Fixed income options: OGBL, OGBM, OGBS

Strategy name	Strategy symbol	With underlying?	Expiration range	Spread multiplier	Quote size/ multiple of outright
Call Spread	BUL	no	1-2	1	2
Put Spread	BER	no	1-2	1	2
Call Butterfly	CBUT	no	1-2	2	3
Put Butterfly	PBUT	no	1-2	2	3
Call Calendar Spread	BLT	no	1-2	1	2
Put Calendar Spread	BRT	no	1-2	1	2
Straddle	STD	no	1-2	2	1
Straddle Calender Spread	STDT	no	1-2	2	1
Strangle	STG	no	1-2	2	1
Call 2x1 Ratio Spread	RBUL	no	1-2	4	1
Put 2x1 Ratio Spread	RBER	no	1-2	4	1

**3. Swiss equity options: ABBN, CSGN, NESN, NOVN, UBSN, ZURN**

Strategy name	Strategy symbol	With underlying ?	Expiration range	Spread multiplier	Quote size/ multiple of outright
Call Spread	BUL	no	1-5	1	1
Call Spread	BUL	no	6-8	2	1
Put Spread	BER	no	1-5	1	1
Put Spread	BER	no	6-8	2	1
Call Butterfly	CBUT	no	1-8	2	1
Put Butterfly	PBUT	no	1-8	2	1
Call Calendar Spread	BLT	no	1-5	1	1
Put Calendar Spread	BRT	no	1-5	1	1
Straddle	STD	no	1-8	2	1
Straddle Calendar Spread	STDT	no	1-5	1	1
Strangle	STG	no	1-8	2	1
Call 2x1 Ratio Spread	RBUL	no	1-5	3	1
Put 2x1 Ratio Spread	RBER	no	1-5	3	1

**4. Other equity options: ALV, BAS, BMW, CBK, DAI, DBK, DTE, EOA, IFX, NOA3, RWE, SAP, SIE, TKA**

Strategy name	Strategy symbol	With underlying ?	Expiration range	Spread multiplier	Quote size/ multiple of outright
Call Spread	BUL	no	1-5	1	3
Call Spread	BUL	no	6-8	2	3
Put Spread	BER	no	1-5	1	3
Put Spread	BER	no	6-8	2	3
Call Butterfly	CBUT	no	1-8	2	3
Put Butterfly	PBUT	no	1-8	2	3
Call Calendar Spread	BLT	no	1-5	1	3
Put Calendar Spread	BRT	no	1-5	1	3
Straddle	STD	no	1-8	2	1
Straddle Calendar Spread	STDT	no	1-5	1	1

Strategy name	Strategy symbol	With underlying ?	Expiration range	Spread multiplier	Quote size/ multiple of outright
Strangle	STG	no	1-8	2	1
Call 2x1 Ratio Spread	RBUL	no	1-5	3	2
Put 2x1 Ratio Spread	RBEB	no	1-5	3	2

### 3.4 Reporting

Daily reports will be available which summarize the quote performance per product. For both AMM and PMM, one report covers the month-to-date performance:

- Strategy Market-Making Performance within the AMM Programme: RPTD949
- Strategy Market-Making Performance within the PMM Programme: RPTD948

A second report summarizes all strategy quote requests of the previous day per product and the respective fulfilment of the Exchange Participant:

- Strategy Quote Requests within the AMM Programme: RPTD944
- Strategy Quote Requests within the PMM Programme: RPTD943

The reports can be retrieved from the Common Report Engine (CRE). They will be available as of 10 August 2013.

### 3.5 Market Maker rebates

Market Maker rebates in the affected products will reflect fulfilment of the strategy Market-Making obligations. Ten percentage points of the respective AMM/PMM rebate will be attributed to the fulfilment of the strategy Market-Making obligations (SWMM).

**Example:**

- Current AMM rebate in ALV for order book trades: 80 percent
- Future AMM rebate in ALV for order book trades: 70 percent
- Future SWMM rebate in ALV for order book trades: 10 percent

SWMM rebates will only be granted in combination with either AMM or PMM fulfilment.

**Please note: The change in Market Maker rebates will become effective on 1 November 2013.**

For further details please refer to Eurex Clearing circular 079/13.

2 July 2013