



eurex circular 126/14

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Recipients: All Trading Participants of Eurex Deutschland and Eurex Zürich and Vendors
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EURIBOR Options: Introduction of a Market-Making scheme and further incentive and revenue sharing programmes

Related Eurex circular: 147/10

Related Eurex Clearing circular: 077/14

Contact: Joachim Heinz, Eurex Product Development, T +49-69-211-1 59 55,
joachim.heinz@eurexchange.com

Content may be most important for:

Ü All departments

Attachments:

1. Market Maker Application Form
2. Market Maker Quote Obligations and Incentives

Summary:

Introduction of a new Market-Making scheme for EURIBOR Options and EURIBOR Mid-Curve Options:

The Management Board of Eurex Deutschland and the Executive Board of Eurex Zürich AG have decided to introduce a Market-Making scheme for EURIBOR Options (OEU3) and EURIBOR Mid-Curve Options (OEM1, OEM2, OEM3, OEM4) The Market-Making scheme will run from **1 July 2014 until 31 December 2015**. The scheme is designed to ensure and further improve liquidity in the order book and on the phone.

Introduction of a long-term revenue sharing programme in EURIBOR Options, EURIBOR Mid-Curve Options and EURIBOR Futures for Market Makers in EURIBOR Options:

EURIBOR Options Market Makers who fulfil their requirements are entitled to participate in the long-term revenue sharing programme for EURIBOR Options (OEU3), EURIBOR Mid-Curve Options (OEM1, OEM2, OEM3, OEM4) and EURIBOR Futures (FEU3). All revenue sharing programmes will run from **1 July 2014 until 31 December 2019**.

Introduction of a Market Maker volume incentive programme in EURIBOR Options and EURIBOR Mid-Curve Options for Market Makers in EURIBOR Options:

Eurex Exchange will offer a volume incentive programme for Market Makers in EURIBOR Options (OEU3) and EURIBOR Mid-Curve Options (OEM1, OEM2, OEM3, OEM4) from **1 July 2014 to 31 December 2015**.



EURIBOR Options: Introduction of a Market-Making scheme and further incentive and revenue sharing programmes

1. Introduction of a new Market-Making scheme for EURIBOR Options and EURIBOR Mid-Curve Options

The Management Board of Eurex Deutschland and the Executive Board of Eurex Zürich AG have decided to introduce a new Market-Making scheme for EURIBOR Options (OEU3), one year- and two year-EURIBOR Mid-Curve Options (OEM1, OEM2) as well as three year- and four year-EURIBOR Mid-Curve Options (OEM3, OEM4). The three Market-Making schemes will run from 1 July 2014 until 31 December 2015. They are designed to ensure and further improve liquidity in the order book and on the phone.

As a Market Maker, the Eurex participant undertakes to continually provide bid and ask prices (quotes) for a specified minimum number of contracts and in compliance with maximum spreads for a predefined period of time. For the three aforementioned schemes, Eurex Exchange offers both "Quotation on Request" Market-Making and "Permanent" Market-Making. For "Quotation on Request" Market-Making, participants can opt between order book and telephone quotation; where "Permanent" Market-Making is selected, order book quotation is obligatory.

Market Makers who fulfil their obligations will in return receive a refund of 85 to 95 percent of transaction and clearing fees for the contracts concluded by the Market Maker on M-accounts. Please refer to attachment 2 for the detailed quoting obligations.

2. Introduction of a long-term revenue sharing programme in EURIBOR Options and EURIBOR Mid-Curve Options for Market Makers in EURIBOR Options

Market Makers in EURIBOR Options (OEU3) and one year- and two year-EURIBOR Mid-Curve Options (OEM1, OEM2), who fulfil their obligations, qualify for participation in a long-term revenue sharing programme for EURIBOR Options (OEU3) or EURIBOR Mid-Curve Options (OEM1, OEM2, OEM3, OEM4). The revenue sharing programmes will run from 1 July 2014 until 31 December 2019.

The revenue sharing programmes are both limited to a maximum of ten Market Makers. The overall yearly revenue sharing amount will be determined by Eurex Exchange's net revenues in EURIBOR Options (OEU3) and EURIBOR Mid-Curve Options (OEM1, OEM2, OEM3, OEM4). It will be 100 percent from 1 July 2014 and diminish to 30 percent in the year 2019. Each year, 30 percent of the revenue sharing amount will be distributed evenly among the qualified Market Makers. The remaining 70 percent will be distributed according to the volume traded on the M-account of the qualified Market Maker in the respective year. Please refer to attachment 2 for details of the revenue sharing programmes.

3. Introduction of a long-term revenue sharing programme in EURIBOR Futures (FEU3) for Market Makers in EURIBOR Options

Market Makers in EURIBOR Options (OEU3) and one year- and two year-EURIBOR Mid-Curve Options (OEM1, OEM2), who fulfil their obligations, qualify for participation in a long-term revenue sharing programme for EURIBOR Futures (FEU3). The revenue sharing programme will run from 1 July 2014 until 31 December 2019.

The revenue sharing programme for EURIBOR Futures (FEU3) is limited to a maximum of five Market Makers. The overall revenue sharing amount will be determined by Eurex Exchange's net revenues in EURIBOR Futures (FEU3). It will be 20 percent from 1 July 2014 and recede to six percent in the year 2019. Each year, 50 percent of the respective revenue sharing amount will be distributed evenly among the qualified Market Makers. The remaining 50 percent will be distributed according to the volume traded on the M-account of the qualified Market Maker in the respective year. Please refer to attachment 2 for details of the revenue sharing programmes.

4. Introduction of a Market Maker volume incentive model in EURIBOR Options for Market Makers in EURIBOR Options

Eurex Exchange will offer a volume incentive model for Market Makers in EURIBOR Options (OEU3) and EURIBOR Mid-Curve Options (OEM1, OEM2, OEM3, OEM4) running from 1 July 2014 until 31 December 2015. Market Makers who fulfil their obligations in EURIBOR Options (OEU3) and one year- and two year- EURIBOR Mid-Curve Options (OEM1, OEM2), have the opportunity to benefit from further volume rebates in all EURIBOR options products (OEU3, OEM1, OEM2, OEM3, OEM4) on contracts traded in the M- and P-accounts. Please refer to attachment 2 for the detailed conditions of the programme.

For participants who are interested in participating in the revenue sharing programmes and volume rebates, registration is a requirement. These participants are requested to fill out and return the Market Maker application (attachment 1) by 30 June 2014 to Joachim Heinz, fax +49-69-211-61 59 55 or e-mail: joachim.heinz@eurexchange.com, for registration.

13 June 2014



Application Form - Market Making Scheme EURIBOR Options and EURIBOR Mid-Curve Options

To Eurex Product Development

Joachim Heinz
Mergenthalerallee 61
65670 Eschborn

Fax no.: +49-69-211-61 59 55

Application for the Status of Market Maker in EURIBOR Options and EURIBOR Mid-Curve Options

1. We _____
(name of member)

herewith apply for the status of Market Maker in the following contracts (please tick)

Quotation on Request / Permanent MM

EURIBOR Options (OEU3):	<input type="checkbox"/>	<input type="checkbox"/>
1-2 year EURIBOR Mid-Curve Options (OEM1, OEM2):	<input type="checkbox"/>	<input type="checkbox"/>
3-4 year EURIBOR Mid-Curve Options (OEM3, OEM4):	<input type="checkbox"/>	<input type="checkbox"/>

for the period from **July 1, 2014 until December 31, 2015 (Market Making & Volume Incentives)** and from **July 1, 2014 until December 31, 2019 (Revenue Sharing in EURIBOR Options, EURIBOR Mid-Curve Options, EURIBOR Futures)** in accordance with the terms and conditions stated in the Quote Obligations and Incentives (attachment 2).

2. As a Market Maker

- a) we will provide bid and ask quotes or orders on a continuous basis
- for the minimum number of contracts specified in the quote obligations
 - in compliance with the Maximum Spreads specified in the quote obligations; and
 - for the period of time specified in the quote obligations
 - answer at least 70 percent of all quote requests on a monthly average, but only up to a maximum of 30 quote requests per day
 - In case of "Permanent MM", the measurement of "Quotation on Request" will be included by default.
 - support Eurex with theoretical options prices and to assist Eurex with settlement prices and intra-day modelling



- b) we will give you the name of 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 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) – if desired - mention the name of the Eurex member with the Market Maker status in advertising and informative material in connection with the contracts;
 - b) – if desired - make Eurex spokesmen and printed material available for seminars organized by the Market Makers regarding the fixed income futures; and
 - c) upon fulfillment, refund 80% to 95% of the standard trading and clearing fees for the contracts traded by the Market Makers on Market Maker (M) - accounts and pay the incentives from July 1, 2014 up to December 31, 2015 as stated in the quote obligations and incentives in attachment 2
 - d) offer an additional volume incentive scheme. Market Makers who fulfilled the quote obligations in EURIBOR Options can participate in an additional volume incentive scheme and further reduce their trading fees from July 1, 2014 until December 31, 2015 as stated in the quote obligations and incentives in attachment 2
 - e) offer a long-term revenue sharing of net-revenues in EURIBOR Options (OEU3). Market Makers who fulfilled the quote obligations in EURIBOR Options (OEU3) can participate in a long-term revenue sharing of net-revenues in EURIBOR Options (OEU3) from July 1, 2014 until December 31, 2019 as stated in the quote obligations and incentives in attachment 2
 - f) offer a long-term revenue sharing of net-revenues in 1-4 year EURIBOR Mid-Curve Options (OEM1, OEM2, OEM3, OEM4). Market Makers who fulfilled the quote obligations in 1-2 year EURIBOR Mid-Curve Options (OEM1, OEM2) can participate in a long-term revenue sharing of net-revenues in 1-4 year EURIBOR Mid-Curve Options from July 1, 2014 until December 31, 2019 as stated in the quote obligations and incentives in attachment 2
 - g) offer a long-term revenue sharing of net-revenues in EURIBOR Futures (FEU3). Market Makers who fulfilled the quote obligations in EURIBOR Options (OEU3) or 1-2 year EURIBOR Mid-Curve Options (OEM1, OEM2) can participate in a long-term revenue sharing of Net-Revenues in EURIBOR Futures (FEU3) from July 1, 2014 until December 31, 2019 as stated in the quote obligations and incentives in attachment 2



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 met by us, Eurex shall have the right to terminate the agreement. 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 or expand 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 or expansion is not expected to have an adverse effect on market quality). In the event that Eurex amends or expands 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 Market Maker status, which expires on December 31, 2015 (for long-term revenue sharing programs on December 31, 2019). After that time, the title "Market Maker" can no longer be used unless otherwise agreed with Eurex.
8. The associated Quote Obligations (attachment) 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 send the completed application for the status of Designated Market Maker to the indicated fax number latest by June 30th, 2014.

Quote Obligations for Market Making “Quotation on Request” and “Permanent Market Making” in EURIBOR Options, 1+2 year EURIBOR Mid-Curve Options and 3+4 year EURIBOR Mid-Curve Options:

Product	"Quotation on Request"	"Permanent Market Making"
EURIBOR Options	<ul style="list-style-type: none"> each Market Maker has the choice to quote on-screen or over the phone 	<ul style="list-style-type: none"> each Market Maker has to quote on-screen
1+2 year EURIBOR Mid-Curve Options	<ul style="list-style-type: none"> max. fee reduction from 0.20 EUR to 0.04 EUR 	<ul style="list-style-type: none"> max. fee reduction from 0.20 EUR to 0.02/0.01 EUR
3+4 year EURIBOR Mid-Curve Options	<ul style="list-style-type: none"> measurement subject to minimum volume threshold of 2000 lots (500 lots for 3+4y Mid-Curve Options) 	<ul style="list-style-type: none"> measurement subject to on-screen fulfilment

Response to Quote Request	The following quotation on request obligations are valid for all incoming quote requests in all option series (Calls and Puts): At least 70 percent of all quote requests have to be answered on a monthly average, but only up to a maximum of 30 quote requests per day: - within one minute / with a minimum holding time of ten seconds
Quotation Requirements	MM will be obliged to quote 6 calls and puts out of a strike price window of 14 strikes. For each call and put 7 strikes (1 at the money and 3 in- and out-of the money) will be monitored.
Fast Market	In Fast Market (definition and announcement by the Exchange) maximum spreads will be increased by 100 percent and the minimum quote size will be reduced by 50 percent.
Exchange Support	Each Market Maker will be required to support Eurex with theoretical options prices to assist Eurex with settlement prices and intra-day modelling.

* Rebates apply for the entire member-firm market making volume (on the M-accounts).

The Market Making scheme starts on July 1, 2014 and ends on December 31, 2015. The Market Making obligations are subject to review by the end of 2014.

Quote Obligations and incentives for Market Making in EURIBOR Options (OEU3):

QUOTE OBLIGATIONS				INCENTIVES	
Months	Expiries	Minimum Quotation Size	Quotation Time	Incentives "Quotation on Request"	Incentives "Permanent Market Making "
White Months	4 quarterly expiries	500 symmetrical	80% of the trading day (8:00 a.m. - 07:00 p.m.CET)	0.04 EUR subject to a minimum volume of 2,000 contracts per month	0.02 EUR
Red Months	4 quarterly expiries	250 symmetrical	80% of the trading day (8:00 a.m. - 07:00 p.m.CET)		
White Months	first 2 serial expiries	250 symmetrical	80% of the trading day (8:00 a.m. - 07:00 p.m.CET)		

Maximum Spreads

Bid prices up to	Maximum Spread (first three expiry months)	Maximum Spread (all other quarterly expiry months)	Maximum spread five trading days prior to expiration
0.09	0.02	0.03	0.03
0.29	0.02	0.04	0.03
1.00	0.03	0.06	0.04
999.99	0.04	0.08	0.04

The Market Making scheme starts on July 1, 2014 and ends on December 31, 2015. The Market Making obligations are subject to review by the end of 2014.

Quote Obligations and incentives for Market Making in 1-2 year EURIBOR Mid-Curve Options (OEM1, OEM2):

OBLIGATIONS				INCENTIVES	
Months	Expiries	Minimum Quotation Size	Quotation Time	Incentives "Quotation on Request"	Incentives "Permanent Market Making"
Red/Green-Month Mid-Curve's	1.+2. quarterly expiry	500 symmetrical	80% of the trading day (8:00 a.m. - 07:00 p.m.CET)	0.04 EUR subject to a minimum volume of 2,000 contracts per month	0.02 EUR
Red/Green-Month Mid-Curve's	3.+4. quarterly expiry	200 symmetrical	80% of the trading day (8:00 a.m. - 07:00 p.m.CET)		
Red/Green-Month Mid-Curve's	1.+2. serial expiry	200 symmetrical	80% of the trading day (8:00 a.m. - 07:00 p.m.CET)		

Maximum Spreads

Bid prices up to	Maximum Spread (first three expiry months)	Maximum Spread (all other quarterly expiry months)	Maximum spread five trading days prior to expiration
0.09	0.03	0.06	0.06
0.29	0.04	0.08	0.06
1.00	0.06	0.12	0.08
999.99	0.08	0.16	0.08

The Market Making scheme starts on July 1, 2014 and ends on December 31, 2015. The Market Making obligations are subject to review by the end of 2014.

Quote Obligations and incentives for Market Making in 3-4 year EURIBOR Mid-Curve Options (OEM3, OEM4)

OBLIGATIONS				INCENTIVES	
Months	Expiries	Minimum Quotation Size	Quotation Time	Incentives "Quotation on Request"	Incentives "Permanent Market Making "
Blue/Gold-Month Mid-Curve's	1.+2. quarterly expiry	100 symmetrical	60% of the trading day (8:00 a.m. - 07:00 p.m.CET)	0.03 EUR subject to a minimum volume of 500 contracts per month	0.01 EUR
Blue/Gold-Month Mid-Curve's	3.+4. quarterly expiry	50 symmetrical	60% of the trading day (8:00 a.m. - 07:00 p.m.CET)		
Blue/Gold-Month Mid-Curve's	1.+2. serial expiry	50 symmetrical	60% of the trading day (8:00 a.m. - 07:00 p.m.CET)		

*Market Making in 4y EURIBOR Mid-Curve Options on voluntary basis. Incentives subject to fulfilment in 3y EURIBOR Mid-Curve Options

Maximum Spreads

Bid prices up to	Maximum Spread (first three expiry months)	Maximum Spread (all other quarterly expiry months)	Maximum spread five trading days prior to expiration
0.09	0.03	0.06	0.06
0.29	0.05	0.10	0.10
1.00	0.08	0.16	0.16
999.99	0.10	0.20	0.20

The Market Making scheme starts on July 1, 2014 and ends on December 31, 2015. The Market Making obligations are subject to review by the end of 2014.

Additional Monthly Volume Incentive 2014 and 2015 for Market Maker in EURIBOR Options:

Monthly Volume (Traded Contracts)		Reduced Exchange Fee (Standard Fee: 0.20 €incl. Clearing)	Fee Reduction in % of Standard Fee
1	200,000	€ 0.04	80%
200,001	400,000	€ 0.03	85%
400,001	800,000	€ 0.02	90%
> 800,001		€ 0.01	95%

Conditions	
	Valid for volumes traded on- or off-order book on M- and P-Account
	Further volume incentive for market makers, provided that the market maker fulfilled his quote obligations.
	Market Makers will be eligible for the reduced fees. Measurement is only possible on NCM-Level and per single Member-ID.
	The initial bill will be calculated on the basis of standard fees and will be refunded through the clearer.
	In case a customer or exchange participant participates in the program, the corresponding clearer or NCM is responsible for refunding fees received by the exchange.
	Additional volume rebates apply to all volumes traded.
	Market Makers have to register and inform the exchange if they want to participate in the programm.

The additional volume scheme in EURIBOR Options includes EURIBOR Options (OEU3) and EURIBOR Mid-Curve Options (OEM1-4). The scheme is valid between July 1, 2014 to December 31, 2015. The Market Making obligations are subject to review by the end of 2014.

Revenue Sharing in EURIBOR Options and EURIBOR Mid-Curve Options for Market Maker in EURIBOR Options and EURIBOR Mid-Curve Options:

Year	EURIBOR Options (OEU3)	EURIBOR Mid-Curve Options (OEM1-4)
2014	100%	100%
2015	70%	70%
2016	50%	50%
2017	30%	30%
2018	30%	30%
2019	30%	30%

Revenue Sharing	in % of Eurex Net-Revenues in the respective product per year, provided that the market maker has fulfilled their quoting obligations.
	The Revenue Sharing in EURIBOR Options (OEU3) is based on the sum of Eurex Net-Revenues in EURIBOR Options.
	The Revenue Sharing in EURIBOR Mid-Curve Options (OEM1-4) is based on the sum of Eurex Net-Revenues in all EURIBOR Mid-Curve Options.
	The Revenue Sharing for both schemes is split between the Top 10 market makers. 30% of the Revenue Sharing is distributed equally between the TOP 10 market makers for each year and 70% is distributed due to their share on M-Account in the respective year and provided that they fulfilled their quoting obligations.

The revenue sharing programs in EURIBOR Options and EURIBOR Mid-Curve Options are valid between July 1, 2014 to December 31, 2019, The Market Making obligations are subject to a semi-annual review.

Revenue Sharing in EURIBOR Futures for Market Maker in EURIBOR Options:

Revenue Sharing in EURIBOR Futures (FEU3) for Options Market Maker

Year	"X"% Revenue Sharing in EURIBOR Futures (FEU3) for Market Making in EURIBOR Options
2014	X = 20%
2015	X = 20%
2016	X = 14%
2017	X = 6%
2018	X = 6%
2019	X = 6%

Pool for Options Market Maker	"X"% of Eurex Net-Revenues in EURIBOR Futures (FEU3) are shared for market making in EURIBOR Options in the respective product per year, provided that the market maker has fulfilled their quoting obligations in EURIBOR Options (OEU3 or OEM1-2) and traded at least an average of 2,000 lots per calendar month in EURIBOR Futures.
	The revenue sharing is split between the Top 5 options market makers and distributed equally for each year, provided that they fulfilled the obligations. In case if there are more than 5 qualified options market makers, the Top 5 are determined by their ranking in terms of volumes on the M- and P-Account in EURIBOR Futures.

The revenue sharing program starts on July 1, 2014 and ends on December 31, 2019. The Market Making obligations are subject to a semi-annual review.