X-pand into the Future

# e u r e x *circular 232/13*

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**Recipients:** All Trading Participants of Eurex Deutschland and Eurex Zürich and Vendors
**Authorized by:** Michael Peters

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

## Market-Making in options: Change of quotation on request obligations for outright options and options strategies

**Related Eurex Circulars:** 145/13, 189/13

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| **Content may be most important for:** | **Attachments:** |
|---|---|
| **Ü** All departments | none |

**Summary:**

On 23 October 2013, the Management Board of Eurex Deutschland and the Executive Board of Eurex Zürich AG decided to change the Market Maker Obligations in select options products and packages with respect to:

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

The changes will be effective as of **1 November 2013**.

# Market-Making in options: Change of quotation-on-request obligations for outright options and options strategies

## 1. Summary

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

The changes will be effective as of 1 November 2013.

## 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.

The evaluation of the fulfilment of these requirements takes place on a monthly basis.

**The following conditions for responding to quote requests (RFQ) will be changed or amended:**

1. Monitoring of RFQ responses starts at 09:15 CET (08:15 CET in OGBL, OGBM and OGBS)
2. The monitoring of RFQ responses ends at 17:25 CET (17:20 CET in Swiss options, 18:55 CET in OGBL, OGM and OGBS)
    - Quote requests outside the start and end times are deemed “INVALID”.
3. For the assessment of the Market Maker fulfilment, a floor will be applied at the end of the last trading day of the month in the following way:
    - If on the last trading day of the month 100 or less “VALID” quote requests were observed in a product during the month, the response to the quotation-on-request requirement in the product is deemed “fulfilled” for this month.
    - If on the last trading day of the month more than 100 (i.e. at least 101) “VALID” quote requests were observed in a product, Market Makers need to have responded to 50 percent of the total number of observed “VALID” quote requests during the month in that product.
    - The daily and monthly reporting of Market Maker performance remains unchanged.
    - The daily maximum of 150 RFQs (see 2.1) is unaffected.
4. The monthly floor does not apply to the components of the AMM package EFIO (OGBL, OGBM, OGBS).

### 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 **and series where the current market is wider than 50 percent of the allowed Market Maker maximum spread.**
- RFQs in options with a previous day settlement price of more than three times the minimum price increment. RFQs in options with a previous day settlement price of three times or less of the minimum price increment are deemed “INVALID”.

- On a daily basis, 50 per cent of all incoming “VALID” quote requests need to be answered, up to a maximum of 150 quote requests. The Market Maker performance is measured as a monthly average.

Quote Requests are deemed “VALID”

- within the times that are specified above,
- within the expiration range in which a given product must be quoted in the AMM/PMM model,
- for options in series where the previous day settlement price is above three times the minimum price increment,
- for options in series that are not covered by a valid Market Maker quote and in series where the current market is wider than 50 percent of the allowed Market Maker maximum spread.

### 2.2 Product scope

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

### 2.3 Quotation parameters

RFQs need to be responded

- 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,
- for the last two expirations, the admitted Market Maker maximum spread will be increased to two times the regular maximum spread.

  This is valid for
  - products, in which 6 expirations need to be permanently quoted, the spread doubles for expirations 5 and 6.
  - products in which 8 expirations need to be permanently quoted, the spread doubles for expirations 7 and 8.
  - not only the response to RFQs **but also for permanent quotation.**

### 2.4 Reporting

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

- RPTD941 daily PMM RFQ performance
- RPTD942 daily AMM RFQ performance
- RPTD946 month-to-date PMM RFQ performance
- RPTD947 month-to-date AMM RFQ performance

## 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 (creation of a complex instrument):

- Respond to incoming strategy requests with a **response time** of max. 20 seconds;
- **Holding time** – hold a quote for **20 seconds (changed from previously one minute)**. If a strategy quote is traded before the end of holding time, 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 holding time.

- If the same strategy is **re-requested**, a new quote must be entered and again held for **20 seconds (changed from previously one minute)**.

**The following conditions for responding to quote requests (RFQ) in options strategies will be changed or amended:**

1. Monitoring of RFQ response will start at 09:15 CET (08:15 CET in OGBL, OGBM and OGBS)
2. Monitoring of RFQ response ends at 17:25 CET (17:20 CET in Swiss options, 18:55 CET in OGBL, OGM and OGBS)
    - Quote requests outside the start and end times are deemed “INVALID”.
3. A monthly floor will be applied at the end of the last trading day of the month
    - if on the last trading day of the month 100 or less “VALID” strategy quote requests were observed during the month in a product, the response to quote request requirement in the product is deemed “fulfilled” for this month,
    - if on the last trading day of the month more than 100 “VALID” quote requests were observed in a product, Market Makers need to have covered 50 percent of the total number of “VALID” quote requests during the month in that product,

The daily and monthly reporting of Market Maker performance stays unchanged.
The monthly floor does **also** apply to the components of the AMM package EFIO.

### 3.1 Limitation

- Per product and day, a maximum number of 200 valid strategy requests in option strategies are counted of which **50 (changed from previously 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®, EURO STOXX 50® and SMI®) and options on the 20 most liquid single names (see 3.3, tables 1-4).

### 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® 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.

**The following tables describe the four sets of strategies and respective quotation parameters.**

Differences to the parameters which were announced in Eurex circular 145/13 are marked by means of "strikethrough".

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

| Strategy name | Strategy symbol | Expiration range (months) | Relative to outright spread | Quote size/ multiple of outright |
|---|---|---|---|---|
| Call Spread | BUL | 1-5 | 1 | 3 |
| Call Spread | BUL | 6-8 | 2 | 3 |
| Put Spread | BER | 1-5 | 1 | 3 |
| Put Spread | BER | 6-8 | 2 | 3 |
| Call Butterfly | CBUT | 1-8 | ~~2~~4 | ~~3~~1 |
| Put Butterfly | PBUT | 1-8 | ~~2~~4 | ~~3~~1 |
| Call Calendar Spread | BLT | 1-5 | 1 | ~~3~~1 |
| Call Calendar Spread | BLT | 1-8 | 2 | ~~3~~1 |
| Put Calendar Spread | BRT | 1-5 | 1 | ~~3~~1 |
| Put Calendar Spread | BRT | 1-8 | 2 | ~~3~~1 |
| Straddle | STD | 1-8 | 2 | 1 |
| Straddle Calendar Spread | STDT | 1-5 | 1 | 1 |
| Straddle Calendar Spread | STDT | 1-8 | 2 | 1 |
| Strangle | STG | 1-8 | 2 | 1 |
| ~~Call 2x1 Ratio Spread~~ | ~~RBUL~~ | ~~1-5~~ | ~~3~~ | ~~2~~ |
| ~~Put 2x1 Ratio Spread~~ | ~~RBER~~ | ~~1-5~~ | ~~3~~ | ~~2~~ |

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

| Strategy name | Strategy symbol | Expiration range (months) | Spread multiplier | Quote size/ multiple of outright |
|---|---|---|---|---|
| Call Spread | BUL | 1-2 | 1 | 2 |
| Put Spread | BER | 1-2 | 1 | 2 |
| Call Butterfly | CBUT | 1-2 | ~~2~~4 | ~~3~~1 |
| Put Butterfly | PBUT | 1-2 | ~~2~~4 | ~~3~~1 |
| Call Calendar Spread | BLT | 1-2 | ~~1~~2 | ~~2~~1 |

| Strategy name | Strategy symbol | Expiration range (months) | Spread multiplier | Quote size/ multiple of outright |
|---|---|---|---|---|
| Put Calendar Spread | BRT | 1-2 | ~~1~~2 | ~~2~~1 |
| Straddle | STD | 1-2 | 2 | 1 |
| ~~Straddle Calender Spread~~ | ~~STDT~~ | ~~1-2~~ | ~~2~~ | ~~1~~ |
| Call Condor | CCOND | 1-2 | 4 | 1 |
| Put Condor | PCOND | 1-2 | 4 | 1 |
| Strangle | STG | 1-2 | 2 | 1 |
| ~~Call 2x1 Ratio Spread~~ | ~~RBUL~~ | ~~1-2~~ | ~~4~~ | ~~1~~ |
| ~~Put 2x1 Ratio Spread~~ | ~~RBER~~ | ~~1-2~~ | ~~4~~ | ~~1~~ |

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

| Strategy name | Strategy symbol | Expiration range (months) | Spread multiplier | Quote size/ multiple of outright |
|---|---|---|---|---|
| Call Spread | BUL | 1-5 | 1 | 1 |
| Call Spread | BUL | 6-8 | 2 | 1 |
| Put Spread | BER | 1-5 | 1 | 1 |
| Put Spread | BER | 6-8 | 2 | 1 |
| Call Butterfly | CBUT | 1-8 | ~~2~~4 | 1 |
| Put Butterfly | PBUT | 1-8 | ~~2~~4 | 1 |
| Call Calendar Spread | BLT | 1-5 | 1 | 1 |
| Put Calendar Spread | BRT | 1-5 | 1 | 1 |
| Straddle | STD | 1-8 | 2 | 1 |
| Straddle Calendar Spread | STDT | 1-5 | 1 | 1 |
| Strangle | STG | 1-8 | 2 | 1 |
| ~~Call 2x1 Ratio Spread~~ | ~~RBUL~~ | ~~1-5~~ | ~~3~~ | ~~1~~ |
| ~~Put 2x1 Ratio Spread~~ | ~~RBER~~ | ~~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 | Expiration range | Spread multiplier | Quote size/ multiple of outright |
|---|---|---|---|---|
| Call Spread | BUL | 1-5 | 1 | 3 |
| Call Spread | BUL | 6-8 | 2 | 3 |
| Put Spread | BER | 1-5 | 1 | 3 |
| Put Spread | BER | 6-8 | 2 | 3 |
| Call Butterfly | CBUT | 1-8 | ~~2~~4 | ~~3~~1 |
| Put Butterfly | PBUT | 1-8 | ~~2~~4 | ~~3~~1 |
| Call Calendar Spread | BLT | 1-5 | 1 | ~~3~~1 |
| Put Calendar Spread | BRT | 1-5 | 1 | ~~3~~1 |
| Straddle | STD | 1-8 | 2 | 1 |
| Straddle Calendar Spread | STDT | 1-5 | 1 | 1 |
| Strangle | STG | 1-8 | 2 | 1 |
| ~~Call 2x1 Ratio Spread~~ | ~~RBUL~~ | ~~1-5~~ | ~~3~~ | ~~2~~ |
| ~~Put 2x1 Ratio Spread~~ | ~~RBER~~ | ~~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

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