X-pand into the Future

e u r e x *circular 269/08*

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Contract Size: Change of Calculation Method for Options Contract Adjustment

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Content may be most important for:	**Attachment:**
Ü Front Office/Trading Ü Middle + Backoffice Ü Auditing/Security Coordination	Updated section of Contract Specifications for Futures Contracts and Options Contracts at Eurex Deutschland and Eurex Zürich

In their session on October 29, 2008 the Management Boards of the Eurex Exchanges decided on a marginal change to the calculation method for contract size upon options adjustment. The change was already announced and described in the Functional Release Notes and will be applied to options adjustments which become necessary after the implementation of Eurex Release 11.0 on **November 10, 2008**.

Present method of options adjustment:

- Strike prices are adjusted by multiplying the old strike price by the R-factor
- Contract size is adjusted as follows:

(strike price old * contract size old) / strike price new

Future method of options adjustment:

- Adjustment of strike prices will take place by multiplying the old strike price by the R-factor, as before
- Contract size will be adjusted by dividing the old contract size by the R-factor

For any questions please refer to our Functional Helpdesk Equity- and Equity Index Products, tel. +49-69-211-1 12 10.

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2.6 Subpart: Contract Specifications for Options Contracts and Low Exercise Price Options on Stocks

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2.6.10 Alterations of Exercise Prices und Expiration Days

The following subsection 2.6.10.1 shall generally determine the alterations of exercise prices und expiration days for all stock options. Any alteration of exercise prices as well as expiration days of options contracts on stocks with group ID CH11 and CH12 assigned in Annex B is determined in subsection 2.6.10.2. Any alteration of the exercise prices and the expiration days for LEPOs is determined in subsection 2.6.10.2.

2.6.10.1 Alterations of Contract Sizes, Exercise Prices und Expiration Days of Stock Options

(1) Exercise prices shall basically not be adjusted upon the payment of any dividends.

Dividends are also capital reductions by reduction of the nominal value of the shares if the company pays the amount of the reduction of the nominal value instead of a dividend or if the dividends are part of the regular dividends - as well as guaranteed cash compensations of subscription rights and other comparable rights offered instead of a dividend.

(2) Additional distributions, in particular extraordinarily high dividends, bonuses, ~~or~~ other cash distributions, ~~as well as~~or dividends which are not distributed within the scope of the regular dividend policy or which are declared as non-regular dividend by the company (e.g. special dividends, anniversary bonus) shall not be deemed to be dividends within the meaning of paragraph (1). In the event of such distributions, the respective stock options contracts shall be adjusted. The adjustments of such options contracts shall be carried out via the R-factor procedure. ~~the exercise price for stock options written prior to the day of such distribution shall be reduced by an amount that reflects the value of the distribution, as determined in accordance with~~ The R-factor shall be calculated pursuant to a formula established by the Eurex Exchanges, such formula considering the amount of the distribution. The adjustment of stock options contracts shall be carried out by multiplying the respective exercise price of the options contracts with the R-factor. In addition, the number of shares underlying the respective options contract shall be divided by the R-factor. By means of the R-factor procedure, the original value of the adjusted stock options contracts shall be maintained.~~; correspondingly, the number of shares underlying the contract shall be increased in such a manner that the original value of the contract is maintained.~~

For stock options with group ID RU11 assigned in Annex B, the part of a dividend pursuant to Paragraph 1 which supersedes 5 % of the volume-weighted average price of all transactions of the trading day preceding the ex-day shall be handled as a distribution within the meaning of Paragraph 2. The adjustment of ~~the~~ such options ~~series~~ contracts shall be carried out ~~by multiplication of the original contract size by the R-~~ by way of the R-factor procedure described in Paragraph 2.

In case the announcement of a distribution is executed after the due date of the dividend (record date) only, the relevant options series shall immediately be suspended from trading. The adjustment of the options series shall be carried out with effectiveness as of the next trading day.

If a distribution is announced without indicating its amount and if such announcement cannot be expected before the record date, the relevant options series shall be suspended from trading on the record date. The adjustment of the options series shall be carried out on basis of the difference of the value of the volume-weighted average price of the underlying on the Exchange day before the record date and of the value on the record date. The adjustment shall become effective on the Exchange day after the record date.

If a distribution is announced without indicating its amount and if such announcement takes place after the record date only, the relevant options series shall immediately be suspended from trading. The adjustment of the options series shall be carried out on basis of the difference of the volume-weighted average price of the underlying on the Exchange day before the announcement and the day of announcement. The adjustment shall become effective on the Exchange day after the day of announcement of the distribution.

When an option is exercised, the Eurex Exchanges will provide cash settlement for the fractional part of the new contract size.

The amount of such cash settlement shall be determined on the basis of the difference between the reduced exercise price of the option and the reference price (Chapter II, number 3.6.4 of the Clearing Conditions of Eurex Clearing AG).

(3) If subscription rights are granted, ~~the exercise prices of stock options for those options series written prior to the first trading day of such subscription rights shall be reduced by an amount that reflects the value of the subscription right, as determined in accordance with a formula established by the Eurex Exchanges; correspondingly, the number of shares underlying the contract shall be increased such that the original value of the contract is maintained~~an adjustment of the relevant options contracts shall be carried out by way of the R-factor procedure described in Paragraph 2.

When an option is exercised, the Eurex Exchanges will provide cash settlement for the fractional part of the new contract size.

Paragraph (2) shall apply to for any cash settlement mutatis mutandis.

(4) In the event of capital increases out of the company reserves *(Gesellschaftsmitteln)*, the number of shares underlying ~~a~~ the respective options contract will be increased proportionally to maintain the proportion of the share capital represented by these shares. ~~The exercise price shall be reduced by a value such that the original value of the contract remains unchanged.~~ The adjustment of the relevant options contracts shall be carried out by way of the R-factor procedure described in Paragraph 2.

When an option is exercised, the Eurex Exchanges shall provide cash settlement for any fractional shares the new contract size may cover; in all other respects, shares and other fractional interests, if any, shall be delivered based on the new contract size. This shall also apply with respect to stock dividends and similar events.

Paragraph (2) shall apply to such cash settlements mutatis mutandis.

(5) In case of capital reductions, the exercise prices and the standard contract size of ~~the~~ stock options contracts shall remain unchanged if the capital is reduced by decreasing the nominal value of the shares.

If a reduction of capital is realized by a reduction of the nominal value of the shares in order to pay back the nominal capital to the shareholders, the adjustment of the relevant options contracts shall be carried out by way of the R-factor procedure described in Paragraph 2~~the number of shares underlying the contract increases according to the ratio of reduction~~, ~~if~~ provided that such capital reductions ~~is~~ are accomplished independent of the payment of the dividend. ~~At the same time, the exercise price reduces by an amount which does not change the original contract value.~~

If a reduction of capital is realized by redeeming or consolidating shares, the number of shares covered by a contract shall be reduced proportionally to the proportion of the reduction of the share capital. The exercise price of the respective options contracts shall be simultaneously increased to a value such that the original value of the options contracts remains unchanged.

(6) In the event of stock splits, the exercise prices of stock options shall be reduced in proportion to the split rate. The contract size and / or the position size shall be modified in a ratio such that the option holder's original position remains unchanged.

(7) If shareholders are offered a conversion of shares in case of mergers or acquisitions, the options contracts will be adjusted, provided that the transaction has been effectively executed. A transaction is deemed executed effectively as soon as it is entered in the respective register (in case of merger) or in case the irrevocable result of an offer is announced by the acquiring company. The options contracts shall be adjusted with effect from the day on which the compensation specified in the conversion offer is available to the shareholders.

The options contracts of the target company can be adjusted provided that the compensation of the acquiring company specified in the conversion offer can be delivered via the central custodians or delivery locations recognised by Eurex Clearing AG, that derivatives can be traded on this underlying and that trading of the offered shares or of other rights on an Exchange determined by the Eurex Exchanges is possible.

If the compensation exclusively consists of shares or shares plus a cash interest, the adjustment is carried out via the R-factor method. The shares underlying the contract shall be replaced by the shares offered in the conversion offer under consideration of the relevant conversion ratio.

If the compensation is exclusively carried out in cash, the term of the option contract ends with effect from the date described in 2.6.10 paragraph 7 clause 3. Options contracts whose expiry date is after the close of trading shall be settled by their theoretically fair value. The same applies if the compensation consists of shares and cash compensation and if the cash interest exceeds a value of 67 % at the point of announcement of the offer; and if the prerequisites according to 2.6.10 paragraph 7 clause 4 are not given.

The theoretically fair value shall be determined in using the Cox-Ross Options model. The volatility which is defined for determination of the fair value is the average value of the implied volatilities of the daily settlement prices on the ten trading days prior to announcement of the takeover bid. As an alternative, the Eurex Exchanges consult a group of at least five Exchange participants and determine the average implied vola on basis of the information obtained from these Exchange participants. Further information regarding calculation of the fair value is available in the Eurex User Manual System Overview and Information Manual.

(8) If a corporate action within the meaning of the aforementioned provisions is exercised but not regulated or covered by the provisions, the Management Boards of the Eurex Exchanges will adjust the respective options in order to maintain the original contract value, to guarantee orderly market conditions and to ensure the clearing and settlement of the contracts. In case a corporate action is exercised which is not regulated by the provisions of Number 2.6.10.1 the Eurex Exchanges will also adopt a regulation which aligns to such provision. The Eurex Exchanges shall inform the Exchange Participants of the intended measures.

(9) With exercise of stock options whose contract sizes have been adjusted in the course of a corporate action, the Eurex Exchanges make cash compensation. With exercise, the cash compensation is always provided for the fractional part of the new contract size. The cash compensation is determined by the difference between the reduced exercise price of the option and the reference price (Chapter II, number 3.6.4 of the Clearing Conditions of Eurex Clearing AG).

(10) Amendments to the contract sizes and exercise prices pursuant to paragraph 1 to 7 result in an introduction of new series according to Numbers 2.6.8 and 2.6.9.

With corporate actions (paragraph 1 to 7) all orders and quotes listed in the order book in the respective options series will be deleted by the Eurex Exchanges. The Eurex Exchange informs all Exchange participants about an imminent cancellation.

(11) Regarding stock options with group ID RU11 assigned in Annex B, the price of the underlying required for adjustment of the exercise prices shall generally be calculated with the help of the volume-weighted average price.

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