X-pand into the Future

e u r e x *circular 012/02*

Date: Frankfurt, 31 January 2002
Recipients: All Eurex members and vendors
Authorized by: Daniel Gisler

⚠ **Action Required** ⚠ **High Priority**

Introduction of the Vola Trade Entry Facility
Admission of the Option on the NEMAX® 50 to the Block Trade Facility

Related Eurex Circulars: 098/01

Contact: Stefan Brendgen (Product Development): Tel. +49 69-2101-5743, e-mail: Stefan.Brendgen@eurexchange.com
Nadja Urban (Product Development): Tel. +49 69-2101-5105, e-mail: Nadja.Urban@eurexchange.com

Content may be most important for:

- Front Office / Trading
- Middle + Back Office
- Auditing / Security Coordination

Attachments:

1. Conditions for Utilization of the OTC Trade Entry Facilities (General Conditions for Participation)
2. Acceptance of the General Conditions for the Utilization of the OTC Trade Entry Facilities for the introduction of the Vola Trade Facility
3. Declaration – Agreement of the General Clearer for the Introduction of the Vola Trade Facility
4. X-plain January, 2002

Summary:

The Management Board of Eurex Clearing AG has taken the decision, with effect from 11 February, 2002, to enable the OTC Vola Trade facility, which is technically implemented with the introduction of Eurex Release 5.0.

The Board also made the decision to admit the option on the NEMAX® 50 (ON50) to the Block Trade facility with effect from the same date.

Members who wish to make use of the new Vola trade facility are requested to complete and sign the form “Acceptance of the General Conditions for the Utilization of the OTC Trade Entry Facilities for the introduction of the Vola Trade Facility” (Attachment 2) and to return it to Eurex Clearing.

In order to make the facility available to non-clearing members, the form “Declaration - Agreement of the General Clearer for the Introduction of the Vola Trade Facility” (Attachment 3) must also be completed and returned to Eurex Clearing.

Introduction of the Vola Trade Entry Facility
Admission of the Option on the NEMAX® 50 to the Block Trade Facility

The Management Board of Eurex Clearing AG has taken the decision, with effect from 11 February, 2002, to enable the OTC Vola Trade facility, which is technically implemented with the introduction of Eurex Release 5.0. The Boards also made the decision to admit the option on the NEMAX® 50 (ON50) to the Block Trade facility on the same date. The minimum size for OTC Block Trades in this product will be 500 contracts.

The Vola Trade facility supports the entry into the Clearing system of off-exchange futures transactions agreed as part of combined options and futures transactions (volatility trades) in the products defined in section 9.3 of the attached General Participation Conditions (Attachment 1).

A prerequisite for the entry of a Vola trade in Eurex futures contracts is that, between the contracting partners of the Vola trade, a trade has previously been concluded in an options contract on the future, or in an options contract on one of the same underlyings as those on which the futures are based. This options trade can be an exchange transaction, as well as an off-exchange transaction conducted using the OTC Block Trade facility.

The number of futures contracts entered within the Vola trade will be validated by the system against the delta of the underlying options trade. The delta of the futures trade entered must not deviate by more than 10% from the delta of the options trade calculated by the system, taking into account the price of the futures trade entered within the Vola trade.

For detailed information on the use of the Vola Trade Entry facility, please refer to the Eurex Release 5.0 Functional Release notes appended to Circular 098/01, or to the X-plain attachment to the February 2002 issue of the Eurex newsletter X-pand, which is also attached to this circular (Attachment 4).

Members who wish to make use of the new Vola Trade facility are requested to complete and sign the form “Acceptance of the General Conditions for the Utilization of the OTC Trade Entry Facilities for the introduction of the Vola Trade Facility” (Attachment 2) and to return it to Eurex Clearing. In order to make the facility available to non-clearing members, the form “Declaration - Agreement of the General Clearer for the Introduction of the Vola Trade Facility” (Attachment 3) must also be completed and returned to Eurex Clearing.

Where an applicant is already authorized to use other OTC facilities of Eurex Clearing (Basis Trade and/or Block Trade facility) this should be shown on both forms by making a cross in the appropriate spaces.

Frankfurt, 31 January, 2002

Eurex Clearing AG
D-60485 Frankfurt am Main
www.eurexchange.com

Functional Member Readiness
Tel. +49-69-2101-1700
Fax +49-69-2101-1701

Geschäftsführung:
Rudolf Ferscha, Daniel Gisler
Peter Reitz, Jürg Spillmann
Michael Widmer, Thomas Lenz (stellv.)

Eurex Clearing AG
Conditions for Utilization of the OTC Trade Entry Facilities (General Conditions for Participation)

1 Scope of Application

Eurex Clearing AG provides the following OTC Trade Entry Facilities, pursuant to the conditions in their respective valid version as set out below, to companies which, pursuant to the provisions of the Exchange Rules for Eurex Deutschland and Eurex, are admitted to options and futures trading at the Eurex Exchanges and which participate, directly or indirectly, in the clearing procedure for transactions on the Eurex Exchanges ("Participants"):

- Basis Trade Facility
- Block Trade Facility
- Vola Trade Facility

2 Subject Matter

2.1 Basis Trades

2.1.1 Within the scope of transactions concluded off-exchange concerning the simultaneous purchase of a debt security as defined in section 10 and the sale of futures contracts, or vice versa, the Basis Trade Facility provides Participants, for their own account or on behalf of a customer, with the possibility to enter, pursuant to the provisions set out below, the futures contracts into the Eurex® clearing system of Eurex Clearing AG (hereinafter, "Eurex Clearing System") by means of a request to be sent to the respective Participant's interface, and to have them cleared. In future, Eurex Clearing AG may include additional contracts in the Basis Trade Facility, or may exclude previously included contracts.

2.1.2 A "Basis Trade" within the meaning of these Conditions shall have occurred if a Participant, for its own account or on behalf of a customer, has agreed, off-exchange, with another Participant or with another customer, on the purchase/sale of futures contracts and, simultaneously, on the sale/purchase of debt securities as defined in section 10, provided that the specifications of such futures contracts are identical to the contract specifications set forth in the Conditions for Trading at Eurex Deutschland and Eurex Zürich (hereinafter "Eurex Trading Conditions"), and provided that Eurex Clearing AG has admitted these futures contracts to the Basis Trade Facility pursuant to section 9.1 of these Conditions. Furthermore, the contract price of Basis Trades must fulfil the requirements set out in section 5 of these Conditions.

2.2 Block Trades

2.2.1 The Block Trade Facility provides Participants, for their own account or on behalf of a customer, with the possibility to enter, pursuant to the provisions set out below, transactions concluded off-exchange concerning futures and options contracts which are tradable on Eurex and which are admitted to the Block Trade Facility pursuant to section 9.2, into the Eurex Clearing System by means of a request to be sent to the respective Participant's interface, and to have them cleared. In future, Eurex Clearing AG may include additional contracts in the Block Trade Facility, or may exclude previously included contracts.

2.2.2 A "Block Trade" within the meaning of these Conditions shall have occurred if a Participant, for its own account or on behalf of a customer, has agreed, off-exchange, with another Participant or another customer, on the purchase/sale of one or more of the products set out in section 9.2, provided that the number of contracts is not less than the minimum number specified in section 9.2, and provided further that the specifications of such contracts correspond to the contract specifications for these products pursuant to the Eurex Trading Conditions. Furthermore, the contract price of Block Trades must fulfil the requirements set out in section 5 of these Conditions.

2.3 Vola Trades

2.3.1 After conclusion of an options transaction which exists in the Eurex Clearing System with a transaction number, the Vola Trade Facility provides Participants, for their own account or on behalf of customers, with the possibility to enter, pursuant to the provisions set out below, transactions concluded off-exchange concerning futures contracts pursuant to the combinations defined in section 9.3, into the Eurex Clearing System by means of a request to be sent to the respective Participant's interface, and to have them cleared. In future, Eurex Clearing AG may include additional contracts in the Vola Trade Facility, as well as exclude previously included contracts.

2.3.2 A "Vola Trade" within the meaning of these Conditions shall have occurred if, in a first step, a Participant, for its own account or on behalf of a customer, has concluded an on-exchange or off-exchange options transaction with another Participant or another customer, and such transaction has been entered into the Eurex Clearing System, and if, simultaneously or in a second step, such parties have agreed on the off-exchange purchase/sale of the futures contract underlying the options transaction or of the futures contracts of the underlying instrument underlying the options contract pursuant to the combinations defined in section 9.3, and the characteristics of such contracts correspond to the relevant contract specifications of the Eurex Trading Conditions. Furthermore, the contract price of Vola Trades must fulfil the requirements set out in section 5 of these Conditions.

3 Clearing of OTC Trades

3.1 Provided that the prerequisites of these General Conditions for Participation have been fulfilled Participants may, to the extent that they or their customers have agreed on one of the OTC Trades defined above, utilize the OTC Trade Entry Facilities of Eurex Clearing AG for the processing, collateralisation and settlement (“Clearing”) of the futures or options contracts contained in such OTC Trades.

3.2 With the entry of an OTC Trade into the Eurex Clearing System using one of the OTC Trade Entry Facilities defined above, the provisions of the Clearing Conditions for Eurex Clearing AG (hereinafter “Eurex Clearing Conditions”) in their then valid version concerning the conclusion of transactions shall apply to the contractual relationships between Eurex Clearing AG and the Participants in an OTC Trade, or their clearing

institutions, as the case may be. Consequently, in the case of each OTC Trade, Eurex Clearing AG shall be the contractual counterparty of the relevant Participants or their clearing institutions, as the case may be.

3.3 Furthermore, the Eurex Clearing Conditions in their then valid version shall apply accordingly for the clearing of any futures and options contracts entered using one of the OTC Trade Entry Facilities.

3.4 OTC Trades entered into the Eurex Clearing System may be transferred via the system to another Participant which has acknowledged these Conditions, by means of the give-up facility within the meaning of subsection 1.4.5 paragraph (7) of the Eurex Trading Conditions to the extent that the transfer of the transaction was notified to the other Participant and this Participant has confirmed the acceptance of the transaction; subsection 1.2.2 paragraph (3) of the Eurex Clearing Conditions shall apply accordingly.

3.5 If OTC Trades do not correspond to the specifications and requirements defined in these General Conditions for Participation, or if Participants do not comply with the general conditions for utilization pursuant to section 6 of these General Conditions for Participation, Eurex Clearing AG can refuse to clear such OTC Trades.

4 Evidence of Cash Transactions in the Case of Utilization of the Basis Trade Facility

4.1 Participants using the Basis Trade Facility are obliged to provide evidence to Eurex Clearing AG that, for futures contracts cleared on their behalf, there is an underlying, offsetting cash transaction in one of the debt securities defined in accordance with section 10.

4.2 Participants shall be deemed to have fulfilled their obligation to provide evidence pursuant to 4.1 above, provided that they authorize Eurex Clearing AG to gain knowledge of the underlying cash transaction or the completed delivery, as the case may be, by means of respective authorizations. By means of a written declaration, the following institutions can be authorized to provide information to Eurex Clearing AG, on request, concerning the cash transaction which is the subject of a Basis Trade according to section 2.1 of these General Conditions:

- Clearstream Banking Frankfurt and/or
- Clearstream Banking Luxembourg and/or
- Isma, Zürich and/or
- SIS SegaInterSettle AG Zürich

4.3 Regardless of section 4.2 above, such proof must be effected on demand of Eurex Clearing AG by means of presentation of the corresponding confirmation of delivery within one week of the value date of such cash transaction. The transaction reference number and the transaction date of the futures transaction related to such cash transaction must be evident in such confirmation of delivery.

4.4 If a transaction in futures contracts is transferred to another Participant pursuant to section 3.4 of these Conditions, the obligation to provide evidence of the cash transaction shall also be transferred to the other Participant.

5 Contract Price of OTC Trades

5.1 The contract price of OTC Trades entered into the Eurex Clearing System using one of the OTC Trade Entry Facilities must lie within an interval determined by Eurex Clearing AG as set out below:

5.2 For futures contracts, the interval is between the daily high and low prices of the respective futures contracts recorded on the Eurex Exchanges on the respective exchange trading day , up to the time of entry of an OTC Trade.

5.3 For options contracts, theoretical maximum and minimum values for the option price of a Block Trade are determined during the trading day on the basis of the daily high and low prices of the respective underlying instrument, as recorded up to the time of entry of the Block Trade, and the respective implied volatilities established within the options market of the Eurex Exchanges. The interval thus determined is extended at its extreme values by 50 per cent of the maximum Market Maker Quote Spread permissible for the respective product, resulting in the range of permissible option prices for Block Trades.

6 General Conditions of Utilization

6.1 The utilization of at least one of the OTC Trade Facilities requires that Participants have accepted, in writing, the General Conditions for Participation. In the case of Participants not admitted to clearing pursuant to the Eurex Clearing Conditions, such Participants must provide a declaration of their clearing institution by which such clearing institution guarantees to Eurex Clearing AG the fulfillment of transactions entered into the Eurex Clearing System using the corresponding OTC Trade Facility, pursuant to the Eurex Clearing Conditions, and to undertake any and all obligations for the collateralisation of transactions resulting therefrom.

6.2 Eurex Clearing AG may exclude Participants from the utilization of one or more OTC Trade Facilities if such Participants have not complied with their obligations pursuant to these Conditions for Participation or if the prerequisites for participation have not been fulfilled initially, or have subsequently ceased to exist. In this case, such Participants shall have no claims towards the refund of costs, charges or any other damages.

6.3 Participants are permitted to utilize the OTC Trade Entry Facilities for futures and options contracts which are admitted to the OTC Trade Entry Facilities during the respective trading periods at the Eurex Exchanges.

6.4 Participants must be available by telephone or fax at any time during the business hours of OTC Trade Entry Facilities. The business hours shall correspond to the trading hours of the products underlying the respective OTC Trade Entry Facilities.

7 Technical Features

7.1 The entry of Basis or Block Trades into the Eurex Clearing System is carried out by the buyer of the futures or options contracts in the context of the Basis and Block Trade Entry Facility. The seller of the futures or options contracts must confirm the buyer's entry.

7.2 The entry of Vola Trades into the Eurex Clearing System in the context of the Vola Trade Entry Facility is carried out by the buyer or seller of the Vola Trade (the "Initiator"). The counterparty must confirm the entries of the Initiator.

7.3 OTC Trades may be entered onto Principal, Agent and M-position Accounts.

8 Mandatory Data Entries

8.1 Basis Trade Facility (OTC Basis Trade Entry window)

8.1.1 When entering a Basis Trade into the Eurex Clearing System, using the Basis Trade Entry Facility, the buyer must enter the following data:

- ISIN, nominal value, gross basis and settlement date of the debt security traded
- the future contract traded (Instrument, delivery month and year)
- the contract price;
- the number of contracts;
- the Eurex exchange system user identification code of the trader of the buyer;
- the open/close indicator;
- the position account
- the hedging method
- the settlement institution
- the seller's Participant ID code for the Eurex exchange system

Depending on the chosen hedging method, the number of contracts of the Basis Trade Future must be in a defined proportion to the nominal value of the debt security. The relation between the futures and the debt security is defined according to the chosen Nominal, Duration, or Price Factor hedging method.

8.1.2 After the buyer has entered data into the Eurex Clearing System using the Basis Trade Entry Facility, pursuant to section 8.1.1, the seller of futures contracts must enter the following data in order to confirm such Basis Trade:

- the OTC transaction reference number;
- the Eurex exchange system user identification code of the trader of the seller
- the open/close indicator; and
- the position account.

8.2 Block Trade Facility (OTC Block Trade Entry window)

8.2.1 When entering a Block Trade into the clearing system of Eurex Clearing AG, using the Block Trade Facility, the buyer must enter the following data:

- the future contract traded (instrument, delivery month and year) or the option contract traded (instrument, expiration month and year, exercise price, C/P-flag and version number)
- the contract price;
- the number of contracts;
- the Eurex system user identification code of the trader of the buyer;
- the open/close indicator;
- the position account; and
- the Eurex exchange system Participant ID code of the seller.

The number of contracts of the futures or options contracts traded may not be below the minimum number of contracts to be traded, as defined in section 9.2 of these General Conditions.

8.2.2 After the buyer has entered data into the Eurex Clearing System using the Block Trade Facility, pursuant to section 8.2.1, the seller of a Block Trade must enter the following data in order to confirm such Block Trade:

- the OTC transaction reference number;
- the Eurex exchange system user identification code of the trader of the seller;
- the open/close indicator; and
- the position account.

8.3 Vola Trade Facility (OTC Vola Trade Entry window)

8.3.1 When entering a Vola Trade into the clearing system of Eurex Clearing AG, using the Vola Trade Facility, the Initiator must enter the following data:

- the transaction number of the referring option trade
- number of the option contracts of the vola trade (not exceeding the maximum number of options contracts of the underlying options transaction)
- details of the future contract traded (instrument, delivery month and year) as well as the number of contracts and the contract price;
- the Eurex exchange system user identification code of the trader of the Initiator;
- the buy/sell flag;
- the open/close indicator;
- the position account; and
- the Eurex exchange system Participant ID code of the counterparty.

The number of futures contracts traded may not deviate by more than 10% from the number of futures contracts required to achieve a delta-neutral position in relation to the number of options contracts entered in the Vola trade, as calculated by the system.

8.3.2 After the Initiator's data entry into the clearing system using the Vola Trade Facility pursuant to section 8.3.1 above, the counterparty to the Vola Trade must enter the following data in order to confirm such Vola Trade:

- the OTC transaction reference number;
- the Eurex exchange system user identification code of the trader of the counterparty;
- the open/close indicator; and
- the position account.

9 Admitted Products

9.1 Eurex Clearing AG has admitted the following products to the Basis Trade Facility:

- Futures Contracts on a Notional Extra Long-Term Debt Security of the Federal Republic of Germany (“FGBX Futures“)
- Futures Contracts on a Notional Long-Term Debt Security of the Federal Republic of Germany (“FGBL Futures“)
- Futures Contracts on a Notional Medium-Term Debt Security of the Federal Republic of Germany (“FGBM Futures“)
- Futures Contracts on a Notional Short-Term Debt Security of the Federal Republic of Germany or the Treuhandanstalt (“FGBS Futures“)
- Futures Contracts on a Notional Long-Term Debt Security of the Swiss Confederation ("CONF Futures")

9.2 Eurex Clearing AG has admitted the following products to the Block Trade Facility:

Product	**Minimum number of tradable contracts**
Options Contracts on the DAX® (ODAX)	500
Options Contracts on the SMI® (OSMI)	500
Options Contracts on the HEX25® (OFOX)	250
Options Contracts on the Dow Jones Euro STOXX® 50 (OESX)	1,000
Options Contracts on the NEMAX® 50 (ON50)	500
Options Contracts on a Euro BUND Future (OGBL)	50

Options Contracts on a Euro BOBL Future (OGBM)	50
Options Contracts on a Euro SCHATZ Future (OGBS)	50
Options Contracts on Stocks of German Stock Corporations (OSTK)*	250
* Exceptions: ALV, MUV2, SAP	50
Options Contracts on Stocks of Swiss Stock Corporations (OSTK)	250
Options Contracts on Stocks of Finnish Stock Corporations (OSTK)	250
Options Contracts on Stocks of Dutch Stock Corporations (OSTK)	250
Options Contracts on Stocks of Italian Stock Corporations (OSTK)	250
Futures Contracts on a Notional Particularly Long-Term Bond of the Federal Republic of Germany (Euro BUXL Futures; FGBX)	100
Futures Contracts on a Notional Long-Term Debt Security of the Federal Republic of Germany (Euro BUND Futures; FGBL)	2,000
Futures Contracts on a Notional Medium-Term Debt Security of the Federal Republic of Germany (Euro BOBL Futures; FGBM)	3,000
Futures Contracts on a Notional Short-Term Debt Security of the Federal Republic of Germany or the Treuhandanstalt (Euro SCHATZ Futures; FGBS)	4,000
Futures Contracts on the Interest Rate for Three-Month Cash Deposits in Euro (Three-Month Euribor Future; FEU3)	100

9.3 Eurex Clearing AG has admitted the following product combinations to the Vola Trade Facility:

Options Contract	Futures Contract
Options Contracts on the DAX® (ODAX)	Futures contracts on the DAX® (FDAX)
Options Contracts on the SMI® (OSMI)	Futures Contracts on the SMI® (FSMI)
Options Contracts on the HEX25® (OFOX)	Futures Contracts on the HEX25® (FFOX)
Options Contracts on the Dow Jones Euro STOXX® 50 (OESX)	Futures Contracts on the Dow Jones Euro STOXX® 50 (FESX)
Options Contracts on the NEMAX® 50 (ON50)	Futures Contracts on the NEMAX® 50 (FN50)
Options Contracts on a Euro-BUND-Future (OGBL)	Futures Contracts on a Notional Long-Term Debt Security of the Federal Republic of Germany (Euro BUND Futures; FGBL)
Options Contracts on a Euro-BOBL-Future (OGBM)	Futures Contracts on a Notional Medium-Term Debt Security of the Federal Republic of Germany (Euro BOBL Futures; FGBM)
Options Contracts on a Euro-SCHATZ-Future (OGBS)	Futures Contracts on a Notional Short-Term Debt Security of the Federal Republic of Germany or the Treuhandanstalt (Euro SCHATZ Futures; FGBS

10 Cash Transactions

Eurex Clearing AG has determined that cash transactions in:

- Debt Securities of the Federal Republic of Germany or the Treuhandanstalt with a remaining term of no less than one year at the maturity date of the future and a term of no more than 30.5 years can be components of a Basis Trade according to section 2.1.2. Cash transactions in such debt securities can be carried out for the corresponding futures contracts according to the following rule:

	Remaining term in years		Maximum term in years	Futures Contract
>	10.5	<	30.5	FGBL and FGBX
³	8.5	£	10.5	FGBL
>	5.5	<	8.5	FGBL and FGBM
³	4.5	£	5.5	FGBM
>	2.25	<	4.5	FGBM and FGBS
³	1	£	2.25	FGBS

- Debt securities of the Swiss Confederation with a remaining term of between 8 and 13 years can be components of a Basis Trade according to section 2.1.2 using the CONF Future as the future component .

11 Liability

11.1 Eurex Clearing AG will be liable to the Participant, regardless of the legal grounds, for damages caused by intentional misconduct or gross negligence.

11.2 Eurex Clearing AG (including third parties assisting in its performance) shall, in the event of slight negligence, only be liable for damages caused by violation of its principal duties. In such a case, the liability for untypical damages and for lost profits is excluded. The liability shall, in such a case, be limited to the damages typical and foreseeable at the time of execution of the agreement.

11.3 In the event of data losses, Eurex Clearing AG shall, provided that backup copies exist, only be liable for the costs in connection with the reconstruction of such data.

12 General Provisions

12.1 The OTC Trades entered by Participants into the clearing system of Eurex Clearing AG using the OTC Trade Entry Facilities, are not made anonymous for the counterparties involved. Other Participants (third parties) cannot view via the EDP system OTC Trades in which they are not involved.

12.2 After the entry of an OTC Trade, Participants receive a "Trade Confirmation", produced by the Eurex Clearing System. All OTC Trades are expressly shown as "OTC-TRADE" on such "Trade Confirmation", since OTC Trades are off-exchange transactions.

12.3 OTC Trades are shown in the reports CB010 (Position Detail) and TC810 (Daily Trade Confirmation), produced by the Eurex Clearing System on a daily basis, and are marked as off-exchange transactions. In addition, a report recording all OTC transactions (TC545 OTC-Order Maintenance) is provided electronically, in which all OTC Transactions (Add, Change, Ratify) are indicated.

12.4 Eurex Clearing AG will report all cleared OTC Trades, marked as off-exchange transactions, to the Federal Securities Supervisory Authority (*Bundesaufsichtsamt für den Wertpapierhandel - "BAWe"*) on a daily basis, pursuant to paragraph 9 of the Securities Trading Act (*Wertpapierhandelsgesetz - "WpHG"*). Furthermore, each Participant will report separately and on a daily basis to the *BAWe*, its transactions cleared using the OTC Trade Entry Facility, marked accordingly.

12.5 The General Conditions for Participation have been issued by Eurex Clearing AG. Eurex Clearing AG has the right to change or extend these Conditions for Participation from time to time, to the extent that this may appear necessary in the light of market conditions. Participants of the OTC Trade Entry Facilities shall be notified of any changes at least ten trading days before they are to take binding effect. Changes and additions to these Conditions shall be announced by Eurex Clearing AG by means of circular letters sent electronically via e-mail.

13 Termination

13.1 Eurex Clearing AG and the Participant are entitled to terminate the utilization agreement in whole or in part by giving six months' prior written notice to the end of a year.

13.2 This agreement may, at any time, be terminated by either party in writing without notice for cause. (i) Cause exists for both parties, in particular, if a Participant is no longer admitted to options and futures trading at the Eurex Exchanges. (ii) Cause exists for Eurex Clearing, in particular, if a clearing institution has revoked its declaration vis-à-vis a Participant pursuant to section 6.1 of these General Conditions for Participation. (iii) Cause exists for the Participant, in particular, if such Participant does not agree on a change regarding the General Conditions for Participation pursuant to section 12.5 of these General Conditions for Participation.

13.3 The notice period in the event of an extraordinary termination pursuant to section 13.2 (iii) of these General Conditions for Participation shall, in such a case, be five (5) trading days. Furthermore, such termination must be received by Eurex Clearing AG before the respective change of the General Conditions for Participation becomes effective. Otherwise, the agreement may only be terminated pursuant to section 13.1 hereof. In the event of an extraordinary termination pursuant to section 13.2 (i) and (ii), the termination is made without notice.

14 Saving Clause

Should individual provisions be invalid in whole or in part, this shall not affect the validity of the remaining provisions.

15 Place of Jurisdiction; Applicable Law

The place of jurisdiction for all disputes in connection with these Conditions shall, to the extent permissible by law, be Frankfurt/Main. These Conditions shall exclusively be governed by, and construed in accordance with, the laws of the Federal Republic of Germany.

Acceptance of the General Conditions for the Utilization of the OTC Trade Entry Facilities for the introduction of the Vola Trade Facility

Member's Details

Name of Member

Address

Name of contact

Phone No. Fax No.

Eurex Clearing AG
Market Supervision/Clearing

D-60485 Frankfurt am Main

Fax: +49 (0) 69 – 2101 4334

Participation in the following OTC Trade Entry Facility(ies) of Eurex Clearing AG

☐	Basis Trade Facility already activated
☐	Block Trade Facility already activated
☒	Vola Trade Facility

We would like to participate in the Vola Trade Facility of Eurex Clearing AG.

In order to enable Eurex Clearing AG to grant access to us for the utilization of the Vola Trade Facility, we herewith accept the General Conditions for Utilization of the OTC Trade Entry Facilities in their current valid version.

In the case that we are already users of the Basis- and/or Block Trade Facility (please mark with a cross above), we are aware of the fact that the General Conditions for Utilization of the OTC Trade Entry Facilities apply for the existing Basis- and Block Trade Facilities as well as for the new Vola Trade Facility and we herewith accept them. Any previous conditions agreed upon in that context will no longer apply.

The General Conditions for Utilization of the OTC Trade Entry Facilities are at our disposal in their version as of 11 February, 2002.

We will participate in the regular operation of the OTC Trade Entry Facility(ies) marked above, and ask you to grant access to the Vola Trade Entry Facility for our institution.

Date Company Stamp and Signature

Declaration – Agreement of the General Clearer for the introduction of the Vola Trade Facility

Eurex Clearing AG
Market Supervision/Clearing

D-60485 Frankfurt am Main

Fax: +49 (0) 69 – 2101 4334

Member's Details

Name of Member

Address

Name of contact

Phone No. Fax No.

Participation of our Non Clearing Member ("NCM") in the following OTC Trade Entry Facility(ies) of Eurex Clearing AG

☐	Basis Trade Facility already activated
☐	Block Trade Facility already activated
☒	Vola Trade Facility

Name of the NCM

has informed us that they wish to participate in the Vola Trade Facility of Eurex Clearing AG.

We, therefore, declare in our function as General Clearer for our NCM, and pursuant to Section 6.1 of the Conditions for the Utilization of the OTC Trade Entry Facilities, that we will guarantee to Eurex Clearing AG the fulfilment of obligations resulting from Vola Trade transactions of the aforementioned NCM, pursuant to the Clearing Conditions for Eurex Clearing AG, and will honour any and all obligations for the settlement and collateralization of transactions resulting therefrom.

In order to enable Eurex Clearing AG to grant access to the aforementioned NCM for utilization of the Vola Trade Facility, we herewith accept the General Conditions for Utilization of the OTC Trade Entry Facilities in their current version. In the case that the aforementioned NCM is already participating in the Basis- and/or Block Trade Facility (please mark with a cross above), we are aware of the fact that the general conditions for utilization of the OTC Trade Entry Facilities apply for the existing Basis- and Block Trade Facilities as well as for the new Vola Trade Facility and herewith accept them. Any previous conditions agreed upon in that context will no longer apply.

The General Conditions for Utilization of the OTC Trade Entry Facilities are at our disposal in their version as of 11 February, 2002.

Date Company Stamp and Signature

Eurex OTC Facilities – Maximum Flexibility for Professional Users

January 2002 Zurich – Frankfurt/Main

eurex

OTC Trades "Sponsored" by an Exchange – a Paradox?

The financial markets cater to a vast array of users, with an even larger variety of needs and preferences. This is why maximum flexibility is the key to providing efficient service. The various OTC trade entry facilities offered by Eurex have been designed to do just that: to permit professional market participants to implement complex structures and large-sized trades, based on their own individual requirements.

This article takes a closer look at exactly how OTC trades can be entered into the Eurex system, and the rules that need to be followed.

Customized Degree of Regulatory Protection

But why "go OTC" in the first place? Why can't the exchange simply relax its "crossing rules" – the regulations governing the intentional, and simultaneous entry of matching orders, and thus allow participants to trade whatever they want, at prices arranged outside the market?

The answer lies in the special role assigned to an exchange under applicable law – trading at a recognized exchange is subject to regulatory supervision, and a tight set of rules governing trading operations. Whilst this level of protection is needed to protect individual investors and retail order flows coming to the exchange, it can be an impediment to the execution of larger, more complex trading strategies. Due to their very nature, these strategies are generally negotiated directly among the parties involved. Although they are happy to remain outside the trading process of the Eurex platform, they do seek the security afforded by the clearing system.

Denying these users an appropriate "entry mechanism" to submit their off-exchange trades would, in fact, drive their volumes to the OTC market.

OTC Trades Provide a Regulated Entry Mechanism

The Eurex OTC facilities provide a controlled mechanism to enter trades that are entered into outside the exchange's trading platform, provided these trades satisfy certain conditions. For these purposes, the exchange offers three different types of OTC trade entry:

• OTC Basis Trades

Basis trades involve the exchange of cash bonds against capital market futures, trading the "basis", i.e. the valuation difference between the cash and forward markets. From the perspective of the Eurex system, this means the entry of an off-exchange futures trade, based on evidence of the corresponding cash trade.

• OTC Block Trades

Originally introduced for Eurex options, this function was expanded to include capital market futures during 2001. Block trades allow for the OTC entry of large-sized tickets into the exchange's clearing system.

• New in Release 5.0: OTC Vola Trades

The introduction of volatility ("vola") trades in February 2002 will be the latest addition to the Eurex OTC functionality. Vola trades are used to enter futures that represent the delta hedge for an existing options trade.

How do Eurex OTC Trades Work?

General Characteristics

First of all, it is important to note that Eurex OTC trades always involve contracts listed on the exchange, and do not allow for customized specifications. Also, the prices at which OTC trades are entered do not represent exchange prices – this is why these trades are clearly marked throughout the Eurex system (**B** for OTC basis trades, **O** for OTC block trades and **V** for

OTC vola trades). Besides this special marking, Eurex OTC trades "behave" just like exchange trades: they form part of the same position, can be closed out using either exchange or OTC trades, and are available for give-up.

Before using the OTC functionality, members must carefully examine the Conditions for Participation published by Eurex, and must submit the necessary paperwork (for more details, please refer to the Eurex website www.eurexchange.com). NCMs also need the approval of their respective GCM.

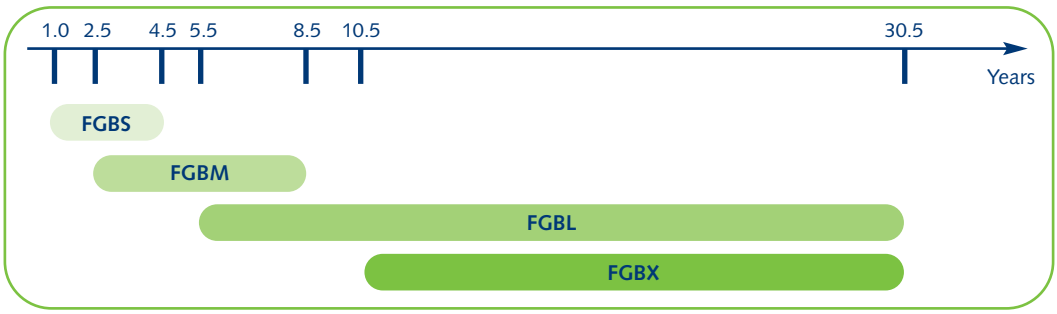
Since the Exchange's matching process is not used for OTC trades, a bilateral mechanism is required to ensure that only those trades enter the Eurex clearing system where both parties agree on all details. With all types of OTC trades, it is always the buyer of the future or option who must initiate the trade entry. Once the entry has been completed, a transaction number is assigned by the system – this number must be passed on to the seller of the derivative contract, who must use it to retrieve, check and approve the trade. Successful approval by the seller means that the trade becomes irrevocable, and is passed to the Eurex clearing process. OTC trade entries that are not approved by the end of the post-trading period of the same exchange trading day are automatically cancelled.

OTC trades do not affect the price discovery of exchange-traded products, and their prices are not broadcast. The details of OTC trades concluded are visible on the "Online Time and Sales Sheet" window on the @X-ceed GUI.

OTC Basis Trades

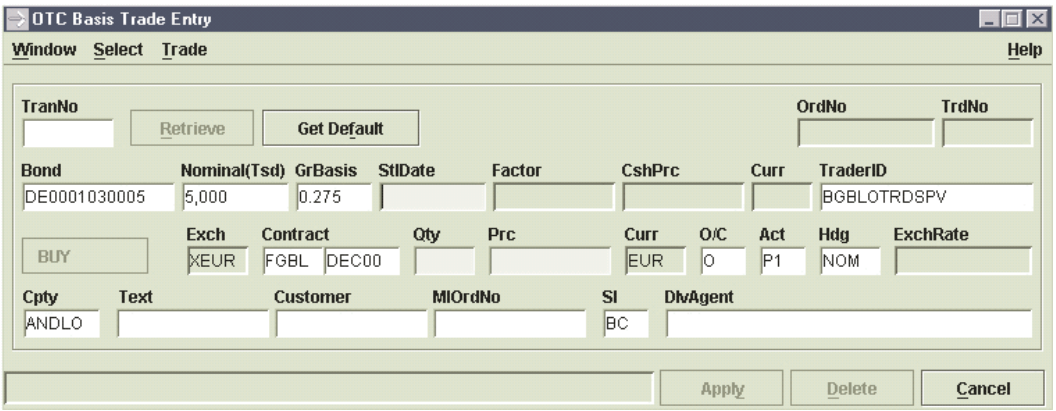
An OTC basis trade involves the simultaneous exchange of capital market futures (Euro Bund, Euro Bobl and Euro Schatz Futures) and an offsetting government bond position. This type of trade is widely used in the money market – in effect, the combination is very similar to a term deposit or term loan. The price traded is the "basis", i.e. the valuation difference between the cash bond and the futures contract. The bond does not necessarily have to be deliverable for the futures contract used; Eurex has extended the range of bonds admissible for basis trading using German government bonds:

Remaining Lifetime of Cash Bond Used for Basis Trade / Futures Products Available



This facility is also used for basis trades entered into Eurex Bonds.

The "OTC Basis Trade Entry" window is used by the buyer of futures contracts (= the seller of the basis) to enter the trade details into the system:



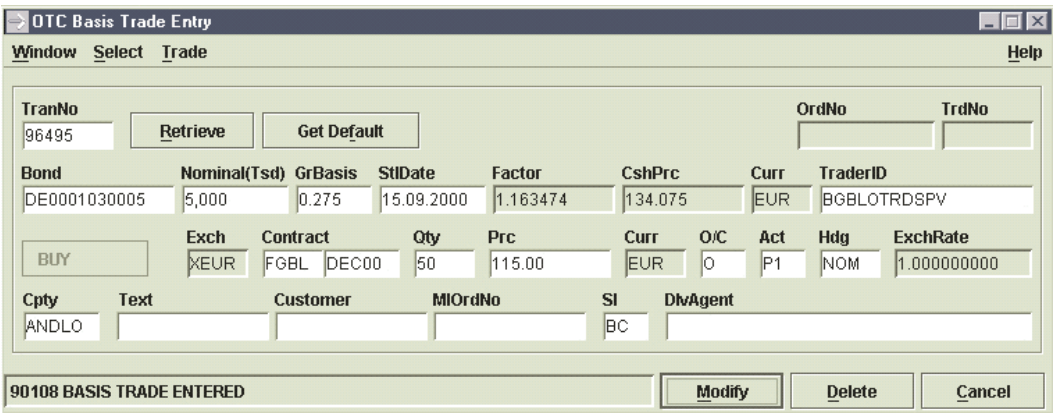
The futures buyer (= the seller of the basis) enters the main details of the basis trade.

Some points to note:

- To use the "Get Default" button, all mandatory fields (except those covered by the "Get Default" function) must have been filled, as shown in the screenshot depicted above.
- The futures price must be within the high/low range of the same exchange trading day, at the point of trade entry. Leaving the field blank, the "Get Default" button will retrieve the last traded price in the futures contract specified.
- The price for the cash bond is calculated automatically, on the basis of the futures price and basis entered.
- The number of futures contracts can be calculated using various methods (nominal values, duration, price factor, price factor CTD), and is verified by the system. Leaving the field blank, the "Get Default" button will calculate the required number of contracts.
- It is possible to enter one's own member code as the counterparty – this facilitates the entry of both sides to the trade for brokers.
- Eurex Clearing AG verifies that cash deliveries for basis trades have actually taken place.

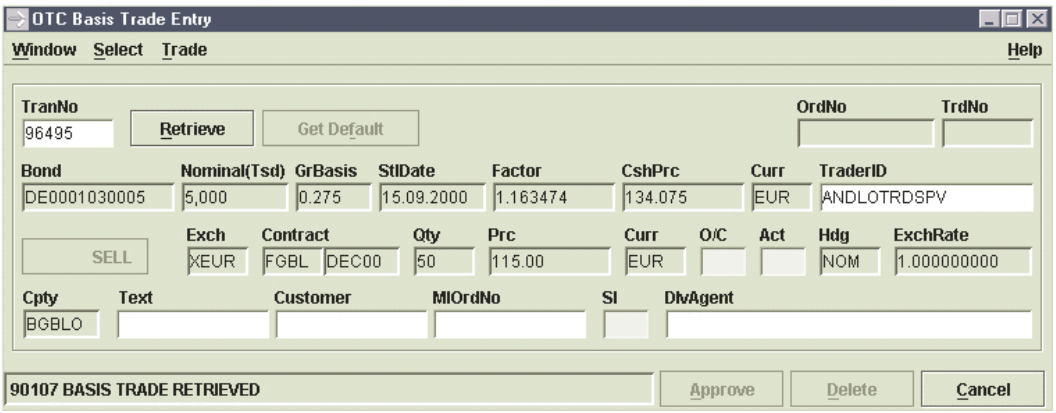
For more details, please refer to the Help function in the @X-ceed GUI, or the Trading Quick Reference Guide for Eurex Release 5.0.

Once the trade has been entered, the system assigns a transaction number:



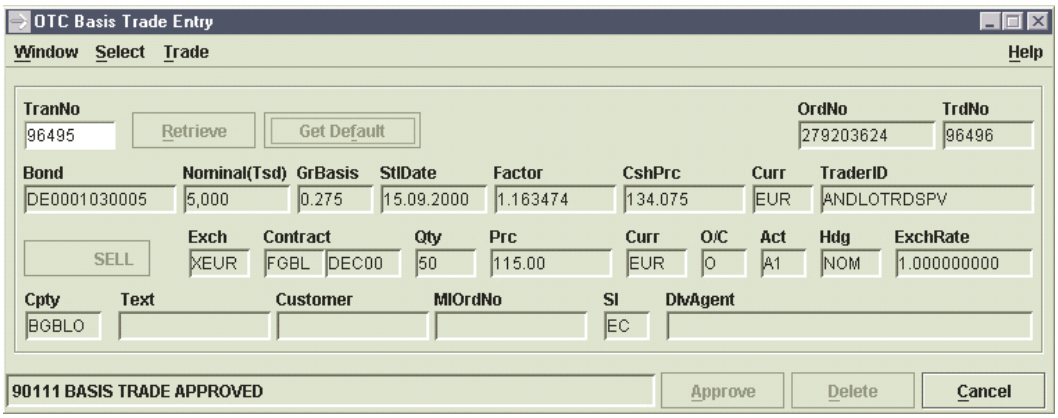
Having completed the remaining details (using "Get Default"), the futures buyer enters the trade – the system assigns the transaction number ("TranNo").

Using this number, the initiator can retrieve the trade to make amendments (provided approval has not yet taken place). The number must be passed on to the counterparty (e.g. by phone or e-mail), who can retrieve the trade for approval:



The futures seller (= the buyer of the basis) retrieves the basis trade entry (using the "TranNo").

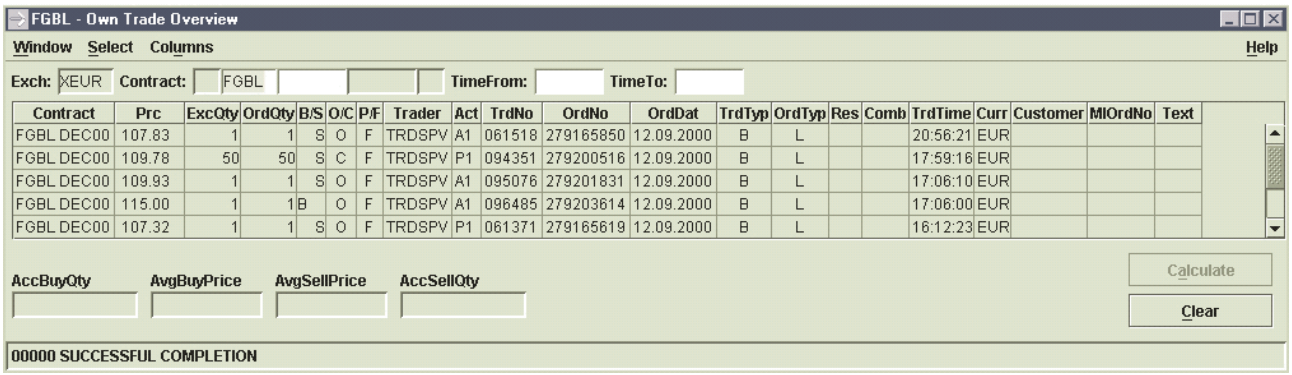
The futures seller (= the buyer of the basis) needs to check the details (note that any discrepancies must be rectified by the initiator). If all details are correct, the seller approves the trade:



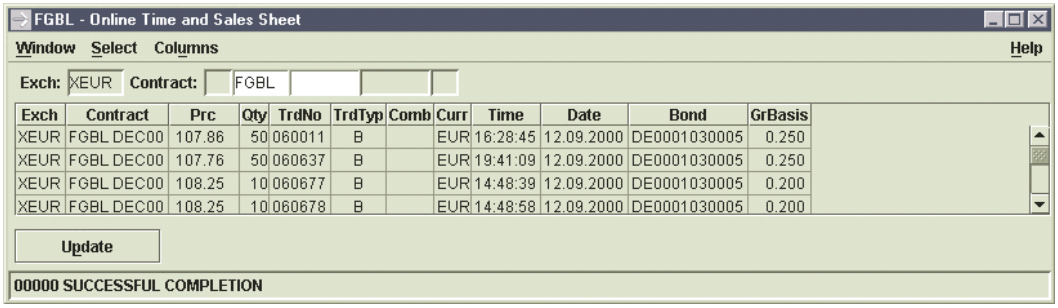
Having completed the remaining details, the futures seller approves the trade.

This approval must take place within 30 minutes of the submission of the trade; failing this, the OTC trade will be deactivated.

Following successful approval, the trade is visible in the "Own Trade Overview" window of the two parties involved…



...as well as in the "Online Time and Sales Sheet" window when filtered by trade type "B" (for the market as a whole):



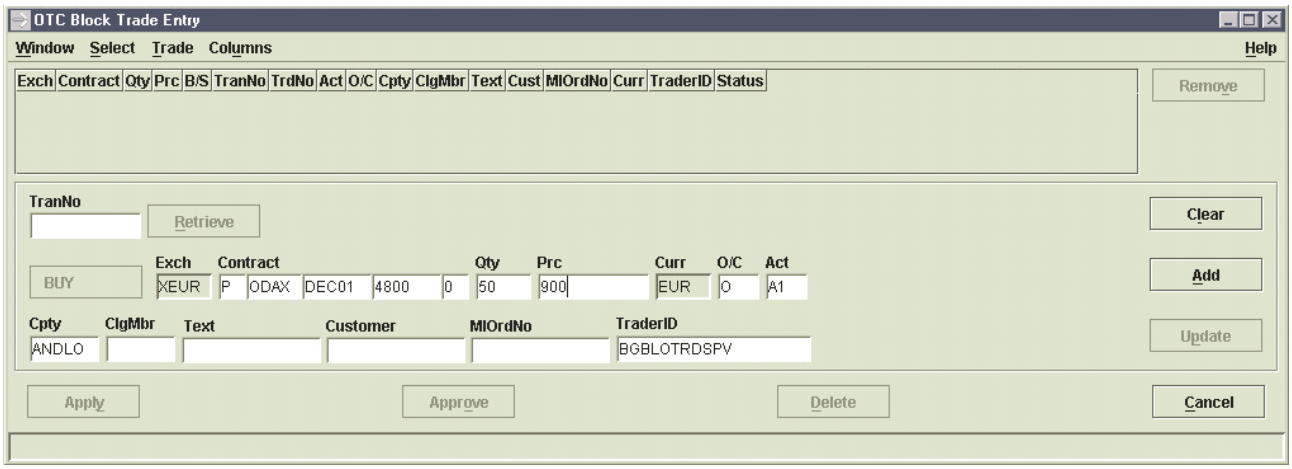
OTC Block Trades

OTC block trades facilitate the entry of large "blocks", or of multi-segment strategies that are either too complex to be executed on the exchange (e.g. "Butterfly" or "Condor" spreads), or are linked to a reference price. This allows members to establish such trades without having to go through the crossing procedure on the exchange, and avoids the associated execution risk.
Using the OTC Block Trade Facility is subject to certain minimum trade sizes:

Product	Minimum Block Trade Size (contracts)
Futures	
FEU3	100
FGBS	4,000
FGBM	3,000
FGBL	2,000
FGBX	100

Product	Minimum Block Trade Size (contracts)
Options	
OGBS, OGBM, OGBL	50
ODAX, OSMI	500
OESX	1,000
OFOX	250
Equity options (except ALV / MUV2 / SAP3)	250
ALV / MUV2 / SAP3	50

The "OTC Block Trade Entry" window is used by the buyer of futures or options contracts to enter the trade details into the system:

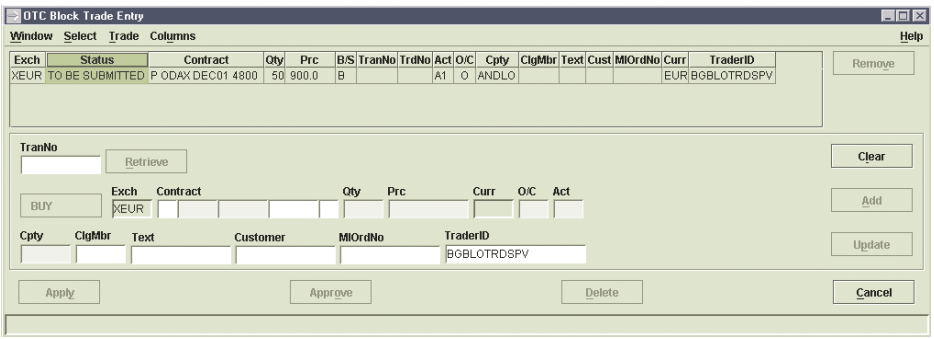


The options buyer enters the details of the block trade.

Some points to note:

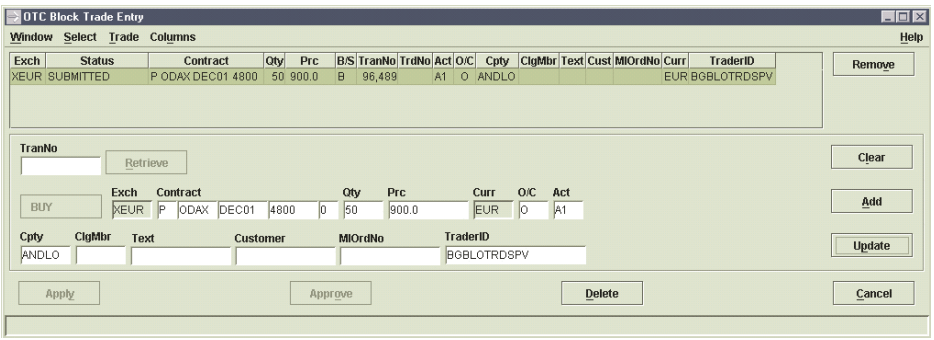
- The futures price must be within the high/low range of the same exchange trading day, at the point of trade entry. The options price must be within a range of theoretical prices determined on the basis of the current high and low of the underlying instrument.
- The "OTC Block Trade Entry" window has been designed to facilitate the multiple entry of several block trades. Details are entered in the field group, and entries added to the list box above (using "Add"). To submit these trades, they must be selected in the list box and submitted by pressing "Apply".
- It is possible to enter one's own member code as the counterparty – this facilitates the entry of both sides to the trade for brokers.

For more details, please refer to the Help function in the @X-ceed GUI, or the Trading Quick Reference Guide for Eurex Release 5.0.



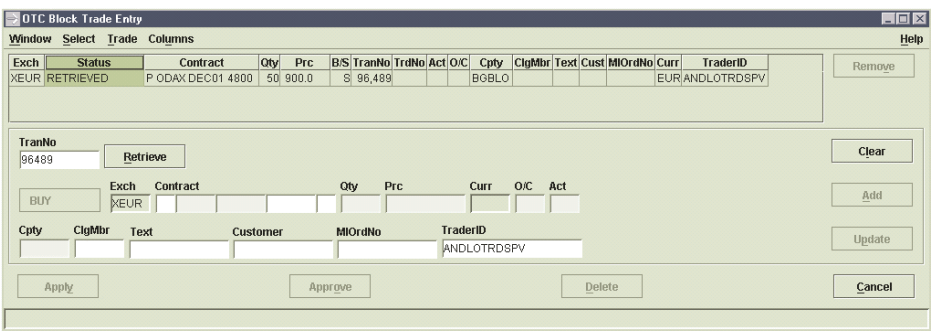
Using the "Add" button, the buyer enters the trade into the window ledger.

Once a trade has been entered, the system assigns a transaction number:

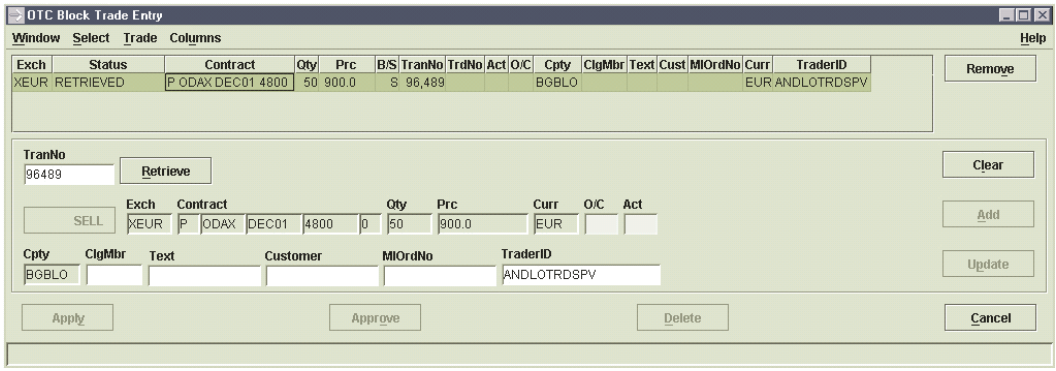


The buyer selects the trade in the list box and hits "Apply" to submit the trade.

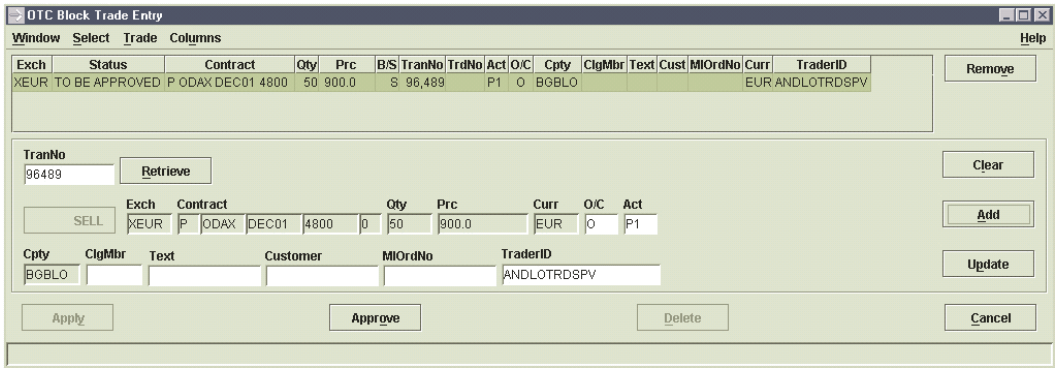
Using this number, the initiator can retrieve the trade to make amendments (provided approval has not yet taken place). The number must be passed on to the counterparty (e.g. by phone or e-mail), who can retrieve the trade for approval. The options seller needs to check the details (note that any discrepancies must be rectified by the initiator). If all details are correct, the seller approves the trade:



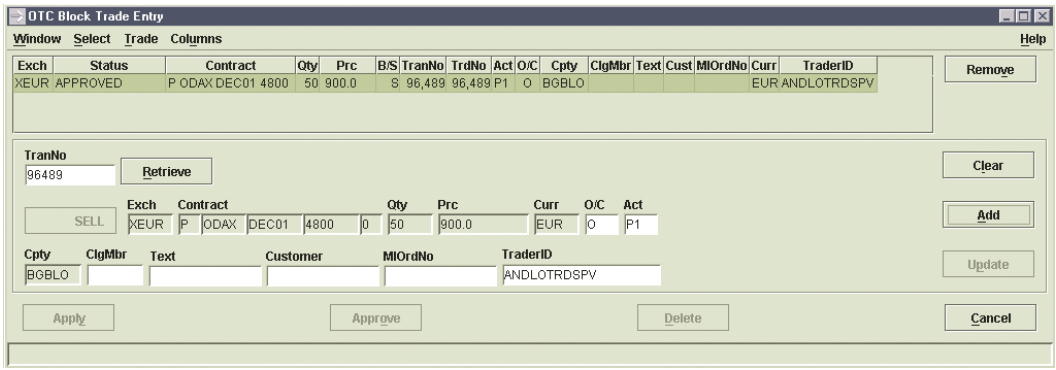
The options seller retrieves the block trade entry (using the "TranNo").



The options seller selects the trade to be approved in the list box, ...



... completes the remaining details, ...



... and approves the trade.

Following successful approval, the trade is visible in the "Own Trade Overview" window of the two parties involved, as well as in the "Online Time and Sales Sheet" window when filtered by trade type "O" (for the market as a whole).

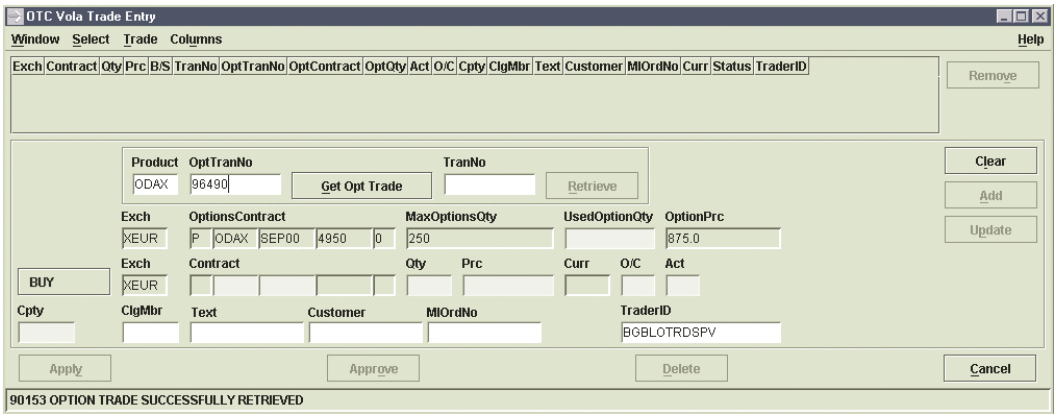
New in Eurex Release 5.0: OTC Vola Trades

The introduction of OTC vola trades in February 2002 comes in response to numerous requests from members. Whilst before, it was possible to enter into complex or large-sized options trades using the OTC Block Trade Facility, establishing the (futures) delta hedge to match such strategies represented a problem, since this required going through a crossing procedure on the exchange. In doing so, members were subject to execution risk, and could not ensure that the hedge was entered into at the reference price upon which the option strategy was based.

The OTC Vola Trade Entry Facility has solved this issue by allowing members to enter such futures positions as an OTC trade – irrespective of whether the underlying options trade was an exchange trade, or an OTC block trade. The facility is available for all Eurex options which are activated

for the Block Trade Facility. (Note that Xetra® also offers an OTC Entry Facility that can be used for delta hedges of equity options.)

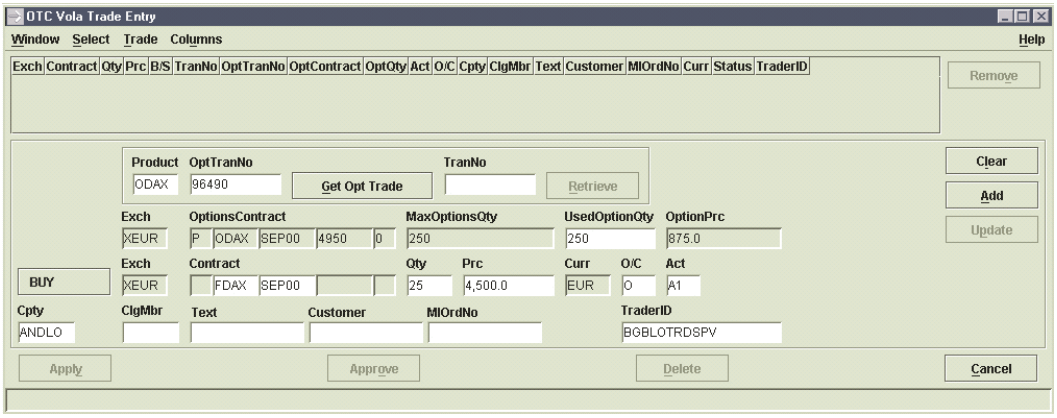
The first step to enter an OTC vola trade is to retrieve an existing options trade that must have been concluded on the same exchange trading day. To do so, the trade number of that trade must be entered into the "OptTranNo" field and the "Get Opt Trade" button pressed:



The futures buyer retrieves the option trade on which the vola trade entry is to be based.

Note that both exchange and OTC block trades are eligible as the basis of an OTC vola trade – obviously, the options trade must have been executed prior to entering the hedge (note: the identity of the counterpart has to be known).

Now the number of options contracts used as the basis of the hedge must be specified in the "Used Option Qty" field; this may be the full size of the selected options trade, or a part thereof. At the same time, the details of the futures hedge must be specified:



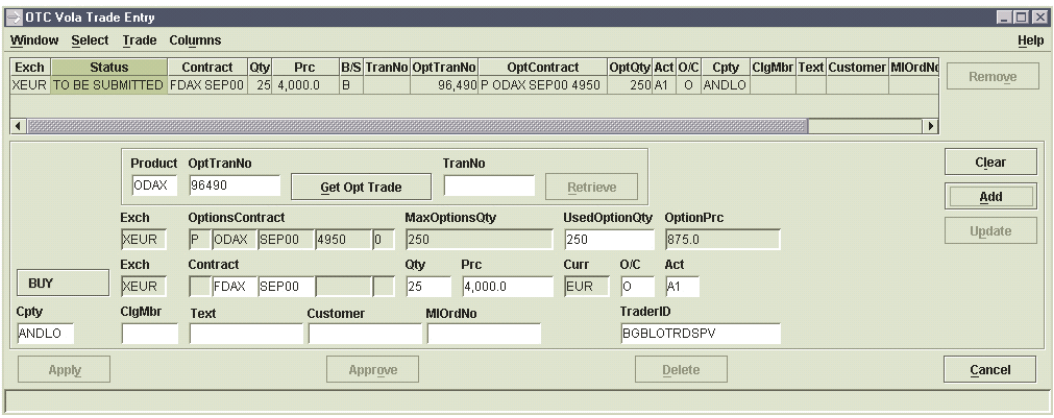
The futures buyer specifies the number of options contracts to be used for the delta hedge, and enters the details of the futures trade.

Some points to note:

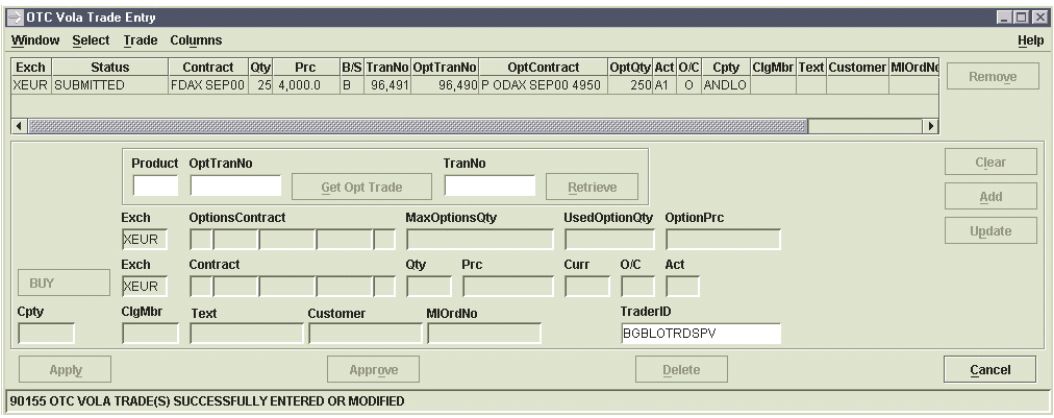
- The futures price must be within the high/low range of the same exchange trading day, at the time of trade entry.
- The hedge ratio is automatically checked by the Eurex system, on the basis of theoretical pricing parameters used to calculate the previous day's settlement prices.
- There are no minimum size restrictions for OTC vola trades – in fact, the size of the futures hedge is determined by the contract quantity of the options trade selected, and the delta factor of the option.
- It is possible to enter one's own member mnemonic as the counterparty – this facilitates the entry of both sides to the trade for brokers.

For more details, please refer to the Help function in the @X-ceed GUI, or the Trading Quick Reference Guide for Eurex Release 5.0.

Once a trade has been entered, the system assigns a transaction number:

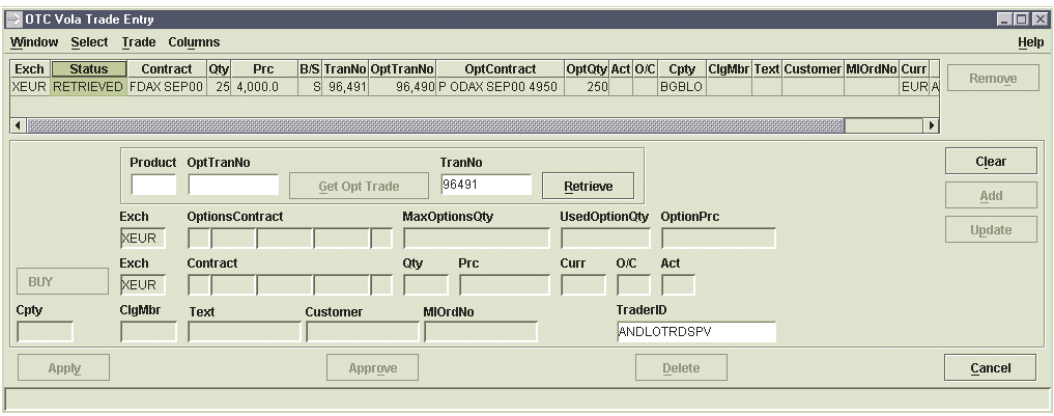


Using the "Add" button, the futures buyer enters the trade into the window ledger.

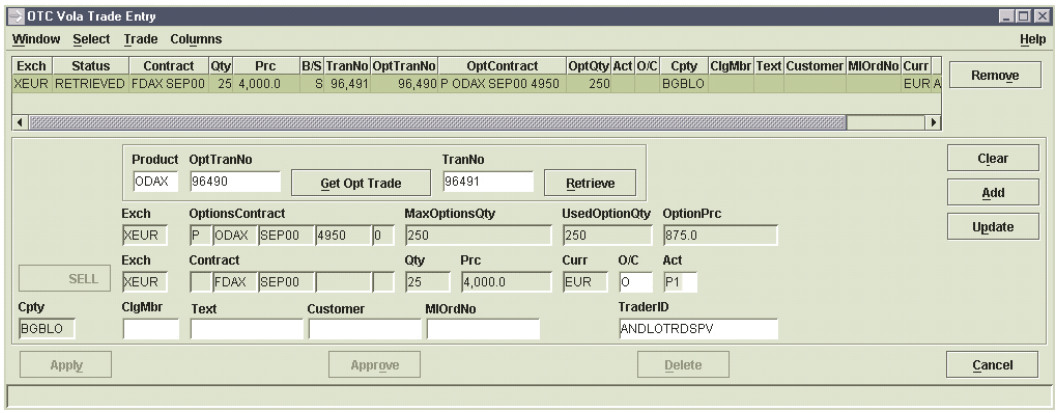


The futures buyer selects the trade in the list box and hits "Apply" to submit the trade – the system assigns the "TranNo".

Using this number, the initiator can retrieve the trade to make amendments (provided approval has not yet taken place). The number must be passed on to the counterparty (e.g. by phone or e-mail), who can retrieve the trade for approval:

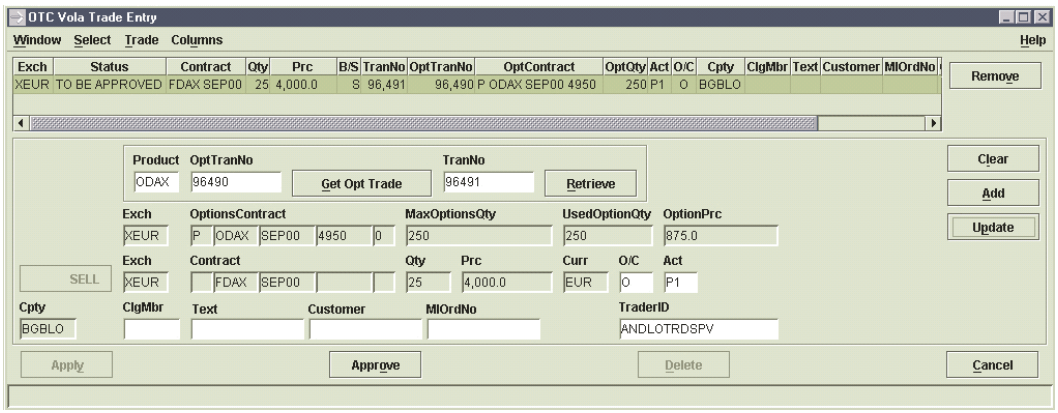


The futures seller retrieves the OTC vola trade, using the "TranNo".

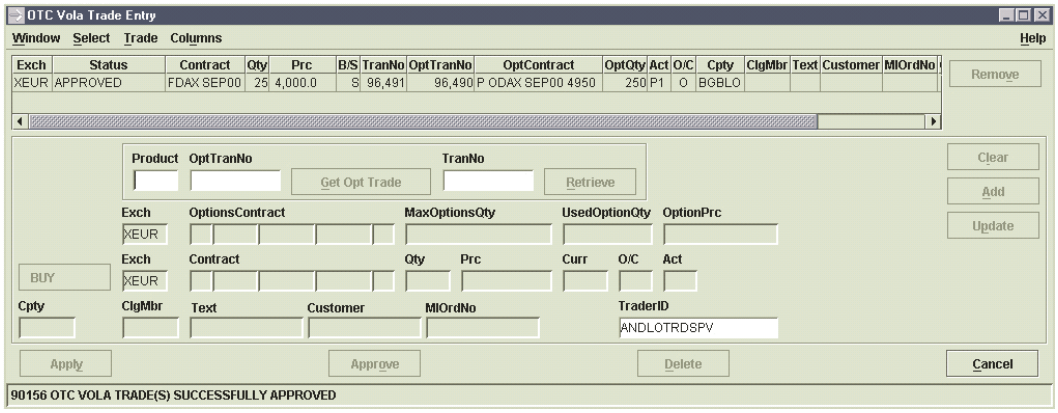


The futures seller selects the trade to be approved in the list box, ...

The futures seller needs to check the details (note that any discrepancies must be rectified by the initiator). If all details are correct, the seller approves the trade:



... completes the remaining details, ...



... and approves the trade.

Following successful approval, the trade is visible in the "Own Trade Overview" window of the two parties involved, as well as in the "Online Time and Sales Sheet" window when filtered by trade type "V" (for the market as a whole).

eurex

www.eurexchange.com

Published by:
Eurex Communications

© Eurex, January 2002

Order number:
E7E-001-0102

Eurex Frankfurt AG
Neue Börsenstraße 1
60487 Frankfurt/M., Germany

Eurex Zürich AG
Selnaustrasse 30
8021 Zürich, Switzerland

To order further copies of this brochure:
T +41 (0)1-229 29 89
F +41 (0)1-229 29 90

T +49 (0)69-21 01-15 10
F +49 (0)69-21 01-15 11

Eurex®, DAX®, MDAX®, SMI® are registered trademarks. STOXX® is a registered trademark of STOXX Limited. HEX 25™ is a trademark of Helsinki Securities and Derivatives Exchange Clearing House Ltd.