X-pand into the Future

e u r e x *circular 007/02*

Date: Frankfurt, 24 January, 2002
Recipients: All Eurex members and vendors
Authorized by: Daniel Gisler

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

Introduction of Automatic Exercise for All Options

Related Eurex Circulars: 098/01

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Content may be most important for:	**Attachments:** None
➲ Middle + Back Office ➲ Auditing / Security Coordination	

Currently, exercise of positions on the P and M accounts in the Eurex cash-settled options (index options) takes place automatically on Expiration Day provided they are in-the-money by an amount equal to or greater than the exercise fee. As you are aware from the associated Functional Release Notes, following the introduction of Eurex Release 5.0 on 04 February, 2002, members will be able to define automatic exercise amounts for all options.

Using the "Automatic Exercise Parameter Maintenance" window a member is able to define individual minimum in-the-money amounts per product and per account, so that open option positions with a defined minimum in-the-money amount will be exercised automatically on Expiration Day. The minimum In-the-Money amount is defined by the member and can be an absolute value or a percentage. Additionally, using the "Exercise Overview" window members can exclude individual option positions from automatic exercise.

During the conversion from Release 4.1 to Release 5.0 all minimum in-the-money amounts for cash-settled options in the P and M accounts will be given a default value of 1 point. All other product and account combinations will be given the value 99,999.99. In effect, this means that existing cash-settled option positions will be exercised automatically as before (provided they are in-the-money on Expiration Day) unless the member explicitly excludes them. No other positions will be exercised automatically unless the member changes the default conversion values.

We would like to emphasize that, according to the Eurex Rules and Regulations , it is the member's own responsibility to perform exercises and therefore particular attention should be paid to the definition of the automatic exercise parameters. We would also like to mention in this context, independent of any system automation, that in accordance with section 3.4.1 of the Exchange Rules, at least one qualified back office staff member should be present at any time during the exchange day, and that he or she is available by telephone or fax.

Full details on the use of the automatic exercise facility can be found in the Eurex @X-tract Clearing User Guide published on our web-site "eurexchange.com" under 'info for members (password protected) > manuals > Release 5.0 > Simulation Manuals - Release 5.0'.

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