X-pand into the Future

e u r e x *circular 002/03*

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Recipients: All Eurex members and vendors
Authorized by: Peter Reitz

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

Introduction of Delta-neutral Trading Products

Related Eurex Circulars: 059/01, 107/02

Contact: Michael Durica (Product Development):Tel. +49-69-21 01-59 23

Content may be most important for:	**Attachments:**
➲ All Departments	1. Application for the Granting of Market Maker Licenses 2. Market Maker Quote Obligations

Summary:

In their meeting of December 18, 2002 the Eurex Management Boards made the decision to introduce Delta-neutral Trading Products (DNTPs).

Eurex DNTPs are synthetic products which form a delta-neutral position from existing Eurex futures and options contracts. This combination makes it possible to carry out a delta-neutral trade with simultaneous execution of the futures and options components in a central order book.

Subject to the approval of the Exchange Council of Eurex Deutschland and the Administrative Council of Eurex Zürich the introduction will take place on January 20, 2003 for Index DNTP products and on January 27, 2003 for Fixed Income DNTP products.

To ensure basic liquidity in DNTPs the regular market making scheme will be available. In the initial trading months, i.e. up to and including March 31, 2003, for market makers which fulfil the regular market maker obligations, a full refund of the fees related to the futures components of DNTP trades will be made at the beginning of the following month.

This Circular contains more detailed information under the following headings:

1. Products and Introduction Dates
2. Contract specifications
3. Trading Hours
4. Transaction Fees
5. Transaction limits
6. Regular Market Making
7. Further Information

Introduction of Delta-neutral Trading Products

1. Products and Introduction Dates

At their meeting of December 18, 2002 the Eurex Management Boards made the decision to introduce Delta-neutral Trading Products (DNTPs) at Eurex.

Eurex DNTPs are synthetic products which form a delta-neutral position from existing Eurex futures and options contracts.

For Index DNTPs, the components have the same underlying (e.g. futures and options on the DAX) and for Fixed Income DNTPs the future is the underlying of the option (e.g. option on the Euro BUND Future). This combination makes it possible to carry out a delta-neutral trade with simultaneous execution of the futures and options components in a central order book.

DNTPs will be traded like an option, and for each existing option series, with the exception of LEPOs, a corresponding DNTP series will be generated.

For standardization and to concentrate liquidity the price of futures contracts (generally the front month) will be fixed close to the market on the system side for a variable period of time at the level of the nearest exercise price of the option. The quantity of futures contracts will be calculated iteratively from the Futures Fixed Price, the price input from the member side, and the number of options contracts, on the basis of the Black-76 option pricing model.

A DNTP trade does not result in an individual DNTP position. On the contrary, after the execution of the trade the futures and options components are booked as separate options and futures positions with the appropriate prices and quantities.

For further information on DNTPs please refer to the Eurex Release 6.0 Functional Release Notes published with Circular 059/02.

Subject to the approval of the Exchange Council of Eurex Deutschland and the Administrative Council of Eurex Zürich the following products will be introduced:

Index DNTPs

Introduction will take place on **January 20, 2003**.

Product ID	Product Long Name	Future Leg ID	Future Leg Long Name	Option Leg ID	Option Leg Long Name
DDAX	*DNTP FDAX ODAX*	FDAX	*FUT ON DAX INDEX*	ODAX	*OPT ON DAX INDEX*
DEXX	*DNTP FESX OESX*	FESX	*FUT ON EURO STOXX 50 INDEX*	OESX	*OPT ON DJ EURO STOXX 50 INDEX*
DSOX	*DNTP FSTX OSTX*	FSTX	*FUT ON DJ STOXX 50 INDEX*	OSTX	*OPT ON DJ STOXX 50 INDEX*
DLTS	*DNTP FSMI OSMI*	FSMI	*FUT ON SWISS MARKET INDEX*	OSMI	*OPT ON SWISS MARKET INDEX*

Fixed Income DNTPs

Introduction will take place on **January 27, 2003**.

Produkt ID	Long Name	Future Leg ID	Future Leg Long Name	Option Leg ID	Option Leg Long Name
DBUN	*DNTP FGBL OGBL*	FGBL	*FUT 8 1/2-10 1/2 Y.GOV.BOND 6%*	OGBL	*OPT ON EURO BUND FUTURE*
DBOB	*DNTP FGBM OGBM*	FGBM	*FUT 4 1/2-5 1/2Y.GOV.BONDS 6%*	OGBM	*OPT ON EURO BOBL FUTURE*
DSHZ	*DNTP FGBS OGBS*	FGBS	*FUT 1 3/4-2 1/4 Y.GOV.BONDS 6%*	OGBS	*OPT ON EURO SCHATZ FUTURE*

Eurex Deutschland
D-60485 Frankfurt am Main
www.eurexchange.com

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

Management Board:
Rudolf Ferscha (CEO), Jürg Spillmann,
Daniel Gisler, Thomas Lenz,
Peter Reitz, Michael Widmer

2. Contract Specifications

Round Lot Size

For DNTPs a round lot size has been defined for the smallest tradable quantity for the options contracts

	DDAX	DEXX	DSOX	DLTS	DBUN	DBOB	DSHZ
Round Lot Size	250	100	100	100	100	100	100

Future Fixed Price Trigger

To guarantee near-market levels of the Futures Fixed Prices they will be adjusted when the price of the underlying futures contract deviates from them by a defined threshold. The threshold boundaries are calculated from the current Future Fixed Price and the Future Fixed Price Range, whereby the latter is multiplied by the size of the exercise price interval of the option. When the deviation exceeds the threshold boundary, in either direction, the Futures Fixed Price will be re-fixed at the level of the nearest exercise price, and new threshold boundaries will apply.

	DDAX	DEXX	DSOX	DLTS	DBUN	DBOB	DSHZ
Future Fixed Price Range	60%	60%	60%	60%	60%	60%	70%

Example for DDAX:

If the current Futures Fixed Price is at 3000 points, with an exercise price interval of the ODAX of 50 points, the upper threshold boundary for the DDAX Futures Fixed Price trigger, will be 3030 points. If a trade price of 3030.5 or higher (up to 3080 points) occurs in the DAX future a re-fixing of the Futures Fixed Price will be made at the level of the nearest exercise price of the option (3050 points). In this case the lower threshold boundary will be re-defined at 3020 points and the upper boundary will be 3080 points.

Last Trading Day:

The series available in a DNTP will be available for trading until one day before expiry of the underlying options contract.

Change of DNTP Futures:

The front contract is the underlying future contract of a DNTP. On the maturity of the front contract the first succeeding maturity month will become the underlying future contract.

3. Trading Hours

From the system side, DNTPs will be available for trading when both the corresponding futures and options components are open for trading. In the case of suspension of trading in one or both components, the DNTP will not be available for trading.

4. Transaction Fees

For both positions of a DNTP the applicable fees for the corresponding options and futures transactions will be charged.

5. Transaction Limits

Transaction limits applying to DNTPs correspond to those of the appropriate options product (see Circular 107/02).

	DDAX	DEXX	DSOX	DLTS	DBUN	DBOB	DSHZ
Normal	7.000	7.000	7.000	7.000	12.000	12.000	12.000
Mass Quote	3.500	3.500	3.500	3.500	9.000	9.000	9.000

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6. Regular Market Making for DNTPs

Eurex is offering interested members the opportunity to participate in regular market making for DNTPs. As a market maker, a Eurex member undertakes to respond to quote requests by providing bid and ask prices (quotes) subject to a maximum spread, for a minimum number of contracts, within a certain time period and for a defined duration. In the initial trading months, i.e. up to and including March 31, 2003, for market makers which fulfil the regular market maker obligations, a full refund of the fees related to the futures components of DNTP trades will be made at the beginning of the following month.

With the exception of the minimum quote size which is set at the level of the appropriate round lot size, the market maker obligation for DNTPs correspond to those for quotation on request for the appropriate options products. The market maker application form as well as the market maker obligations can be found in the attachments.

Interested participants are requested to return the completed application form (Attachment 1) for the attention of Michael Durica to fax number +49-69-2101 4461 by January 14, 2003 at the latest.

7. Further Information

Additional information on the trading of DNTPs at Eurex (e.g. Trading conditions, Mistrade regulation, vendor codes) will be supplied in a further circular prior to the introduction.

Frankfurt, January 7, 2003

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Application for the Granting of Market Maker Licences at Eurex

Eurex

Product Development

60485 Frankfurt

(Fax: ++49 69 2101-4461)

Applicant

Name of applying exchange participant

Address

Name of contact

Phone No. Fax No.

Application for the Granting of Market Maker Licences pursuant to Subsection 3.3 of the Eurex Exchange Rules

I. We herewith apply for admission as Market Maker pursuant to Subsection 3.3 of the Eurex Exchange Rules.

Provided that the applying company is admitted as exchange participant at Eurex Zürich, this application applies to Eurex Zürich as well.

The granting of a Market Maker Licence is applied for regarding the trading in Option contracts on equities with the following underlying(s):

☐ AAR (ABN Amro)	☐ BAS (BASF)	☐ DCX (Daimler Chrysler)	☐ FO4 (Fortis AG)
☐ ABB2 (ABB)	☐ BAY (Bayer)	☐ DGX (Degussa AG)	☐ GEC (General Electric)
☐ ADEN (Adecco)	☐ BDN (Broadvision)	☐ DPW (Deutsche Post)	☐ GIVN (Givaudan)
☐ ADS (Adidas)	☐ BMW (BMW)	☐ DRB (Dresdner Bank)	☐ GTO (Getronics)
☐ AEN (Aegon)	☐ BNP (BNP Paribas)	☐ DSM (DSM)	☐ GUCN (Gucci Group)
☐ AHO (Ahold)	☐ CAR (Carrefour)	☐ DTE (Deutsche Telekom)	☐ HEN3 (Henkel VZ)
☐ AIX (Aixtron)	☐ CBK (Commerzbank)	☐ EIA (Elisa Communications)	☐ HMY (Hagemeyer)
☐ AKU (Akzo Nobel)	☐ CFR (Richemont)	☐ ELV (Elsevier)	☐ HNK (Heineken)
☐ ALT (Altana)	☐ CIBN (Ciba Spezialitäten)	☐ EMP (EMC)	☐ HOL (Holcim AG)
☐ ALV (Allianz)	☐ CIS (Cisco Systems)	☐ ENT (ENI)	☐ HVM (Hypovereinsbank)
☐ AOL (AOL Time Warner)	☐ CLN (Clariant)	☐ ENUR (StoraEnso R)	☐ IBM (IBM)
☐ ASG (Assicurazioni Generali)	☐ CON (Continental AG)	☐ EOA (E.ON)	☐ IFX (Infineon Technologies)
☐ ASM (ASML Holding)	☐ CSGN (Credit Suisse Gr.)	☐ EPC (Epcos)	☐ INL (Intel)
☐ AVE (Aventis)	☐ CSO (Consors)	☐ ETV (EM. TV & Merchand.)	☐ INN (ING)
☐ AXA (AXA-UAP)	☐ DB1 (Deutsche Börse AG)	☐ FME (Fresenius Med.Care)	☐ ISH (Intershop Comm.)
☐ BAER (Julius Bär)	☐ DBK (Deutsche Bank)	☐ FTE (France Telecom)	☐ KAR (Karstadt)

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☐ KNP (Buhrmann)	☐ NOA3 (Nokia Corporation A)	☐ SCH (Schering)	☐ TRV (Citigroup)
☐ KPN (KPN)	☐ NOVN (Novartis)	☐ SCMN (Swisscom)	☐ TTEB (TietoEnator Corp.)
☐ KUD (Kudelski)	☐ NUT (Numico)	☐ SEO (Serono)	☐ TUI (TUI)
☐ LHA (Lufthansa)	☐ OAG (Orange S.A.)	☐ SET (Tele. Italia)	☐ UBSN (UBS)
☐ LIN (Linde)	☐ ORC (Oracle)	☐ SIE (Siemens)	☐ UHRN (The Swatch Group)
☐ LONN (Lonza)	☐ PHI1 (Philips St.)	☐ SLHN (Swiss Life Holding)	☐ UNAX (Unaxis)
☐ LOR (L'Oréal)	☐ POR3 (Porsche AG)	☐ SSY (Sun Microsystems)	☐ UNI (Unilever)
☐ MAN (MAN)	☐ QIA (Qiagen)	☐ SUN (Sulzer AG)	☐ VMH (Moolen Holding)
☐ MEO (Metro)	☐ ROG (Roche Holding)	☐ SYNN (Syngenta)	☐ VNU (VNU)
☐ MLP (MLP)	☐ ROY (Royal Dutch)	☐ TKA (Thyssen Krupp)	☐ VOW (Volkswagen)
☐ MOB (Mobilcom)	☐ RPL (UPM-Kymmene Corp)	☐ TLSN (Telia/Sonera)	☐ VVU (Vivendi)
☐ MSF (Microsoft)	☐ RUKN (Schweiz. Rückv.)	☐ TPG (TPG)	☐ WOS (Wolters Kluwer)
☐ MUV2 (Münchner Rück.)	☐ RWE (RWE)	☐ TOI (T-Online)	☐ ZURN (Zurich Financial)
☐ NESN (Nestlé)	☐ SAP (SAP)	☐ TOTB (Total Fina)	

Option contracts on exchange traded shares on Index funds (EXTF-Options):

☐ EXS1 (DAX EX)	☐ EXW1 (DJ EURO STOXX 50 EX)	☐ EUN2 (DJ EURO STOXX 50 LDRS)
☐ FRC1 (Fresco DJ EURO STOXX 50)	☐ XMT (XMTCH on SMI)	

Option contracts on Interest Rate Futures:

☐ OGBS
Option contracts on Euro-SCHATZ Futures

☐ OGBL
Option contracts on Euro-BUND Futures

☐ OEU3
Option contracts on the Three-Month Euribor Future

☐ OGBM
Option contracts on Euro-BOBL Futures

Option contracts on stock indices:

☐ ODAX
Option contracts on the German Stock Index (DAX®)

☐ OEST
Option contracts on the Dow Jones EURO STOXX® Telecommunications Index

☐ OESA
Option contracts on the Dow Jones EURO STOXX® Automobiles Index

☐ OSTB
Option contracts on the Dow Jones STOXX® 600 Banks Index

Application for the Granting of Market Maker Licences at Eurex

☐ OESB
Option contracts on the Dow Jones EURO STOXX® Banks Index

☐ OESE
Option contracts on the Dow Jones EURO STOXX® Energy Index

☐ OESF
Option contracts on the Dow Jones EURO STOXX® Financial Services Index

☐ OESH
Option contracts on the Dow Jones EURO STOXX® Healthcare Index

☐ OESI
Option contracts on the Dow Jones EURO STOXX® Insurance Index

☐ OESM
Option contracts on the Dow Jones EURO STOXX® Media Index

☐ OGTI
Option contracts on the Dow Jones Global Titans™ 50

☐ ON50
Option contracts on Nemax® 50

☐ OSMI
Option contracts on the Swiss Market Index (SMI®)

☐ OESU
Option contracts on the Dow Jones EURO STOXX® Utilities Index

☐ OESX
Option contracts on the Dow Jones EURO STOXX® 50

☐ OESY
Option contracts on the Dow Jones EURO STOXX® Technology Index

☐ OFOX
Option contracts on the Finnish Stock Index (HEX25)

☐ OGBM
Option contracts on Euro-BOBL Futures

☐ OSTH
Option contracts on the Dow Jones STOXX® 600 Healthcare Index

☐ OSTT
Option contracts on the Dow Jones STOXX® 600 Telecommunications Index

☐ OSTX
Option contracts on the Dow Jones STOXX® 50

☐ OSTY
Option contracts on the Dow Jones STOXX® 600 Technology Index

We herewith apply for admission as Market Maker for Delta-neutral Trading Products (an existing market maker license in the according option product is required!):

DNTP Index Products

☐ **DDAX**
Components ODAX FDAX on the German Stock Index (DAX®)

☐ **DSOX**
Components OSTX FSTX on the Dow Jones STOXX® 50

☐ **DEXX**
Components OESX FESX on the Dow Jones EURO STOXX® 50

☐ **DLTS**
Components OSMI FSMI on the Swiss Market Index (SMI®)

DNTP Fixed Income Products

☐ **DSHZ**
Components OGBS FGBS (Euro-SCHATZ)

☐ **DBUN**
Components OGBL FGBL (Euro-BUND)

☐ **DBOB**
Components OGBM FGBM (Euro-BOBL)

Application for the Granting of Market Maker Licences at Eurex

II. The functions associated with such Market Maker Licences will be carried out by the following persons who have already been admitted for trading at Eurex:

Name, first name	Product to be covered
Name, first name	Product to be covered
Name, first name	Product to be covered

We herewith declare that the persons listed above have the necessary professional and personal qualification to fulfil the Market Maker functions pursuant to Subsection 3.3 of the Eurex Exchange Rules.

III. We confirm that we know the Eurex Rules and Regulations and declare that we will comply with these provisions in their relevant current version.

Place and Date	Company Stamp and authorized Signature

Market Maker Quote Obligations

And Quote Spreads for Delta-neutral Trading Products (DNTPs)

Quote Obligations for DNTP Options

Minimum Size: Round lot size on the bid and ask side in all DNTP series

	DDAX	DEXX	DSOX	DLTS	DBUN	DBOB	DSHZ
Round Lot Size	250	100	100	100	100	100	100

Maximum Spreads:

Index DNTPs

DDAX (EUR)		DEXX (EUR)		DSOX (EUR)		DLTS (CHF)	
Bid up to	*Spread*	*Bid up to*	*Spread*	*Bid up to*	*Spread*	*Bid up to*	*Spread*
13,3	2,0	13,3	2,0	13,3	2,0	30,0	6,0
133,3	15%	133,3	15%	133,3	15%	250,0	20%
9999,8	20.0	9999,8	20.0	9999,8	20.0	9999,8	50.0

Fixed Income DNTPs

DSHZ, DBOB, DBUN (EUR)		
Bid up to	*Spread*	*Spread during last 4 trading days before expiry*
0,09	0,04	0,08
0,29	0,06	0,08
1,00	0,08	0,08
999,98	0,10	0,10

Response to quote requests: At least 50 % of all Quote Requests have to be answered (up to a max. of 150 quote requests per day):

- within 1 minute
- with a minimum holding time of 10 seconds.

Fast Market: In the Fast Market state, the maximum spreads will increase by 100% and the maximum response time will be reduced by 50%.