X-pand into the Future

# e u r e x *circular 058/04*

**Date:** Frankfurt, May 7, 2004
**Recipients:** All Eurex members and vendors
**Authorized by:** Peter Reitz

⚠ **High Priority**

## Changes to the Expiry Cycle for Dutch Stock Options

**Related Eurex Circulars:** 112/02, 006/04

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**Content may be most important for:**

- ➲ Front Office / Trading
- ➲ Middle + Back Office
- ➲ IT /System Administration

**Attachments:**

1. Contract Specifications for Dutch Stock Options
2. Contract Specifications for LEPOs on Dutch Stocks
3. Market Maker Quote Obligations for Dutch Stock Options
4. Contract Specifications for Futures Contracts and Options Contracts at Eurex Deutschland and Eurex Zürich, Subpart 2.19.5 and 2.20.4
5. Permanent Market Making Agreement for Dutch Stock Options

**Summary:**

In order to establish the same standard across all European stock options segments of Eurex, the Management Boards of the Eurex Exchanges have approved the following measures for the Dutch Stock Options with effect from **May 24, 2004**:

- Change of expiry cycle for Dutch Stock Options to the March, June, September, December cycle
- Introduction of additional expiry months
- Adjustments to Permanent Market Making obligations

For the corresponding update of the Rules and Regulations (subpart 2.19.5 and 2.20.4), the contract specifications and the Permanent Market Making obligations please see Attachments 1 to 5.

# Changes to the Expiry Cycle for Dutch Stock Options

In order to establish the same standards across all European stock options segments of Eurex, the Management Boards of the Eurex Exchanges have approved the following measures with effect from **May 24, 2004**.

## 1. Expiry Cycle Change and Introduction of Additional Contract Months

As of May 24, 2004 Eurex will change the expiry cycle for Dutch Stock Options from the current expiry cycle January, April, July, October (J/A/J/O) to the Eurex standard cycle of March, June, September, December (M/J/S/D). Besides the already listed expiries of the J/A/J/O cycle, maturities with a maximum lifetime of up to 60 months following the new cycle will be immediately available on the Eurex system.

The expiry cycle J/A/J/O will no longer be supported with new expiry months as of that date and thus will disappear gradually. Trading in options series of the J/A/J/O cycle will be ceased as soon as there is no more open interest.

In contrast to the current expiry cycle, the new expiry cycle will additionally list four semi-annual contract months following the June, December cycle. The following contract months of the new cycle will be available for trading as of May 24, 2004:

The three nearest calendar months (JUN04, JUL04, AUG04), the three following quarterly months of the M/J/S/D cycle thereafter (SEP04, DEC04, MAR05), the four following semi-annual months of the June and December cycle thereafter (JUN05, DEC05, JUN06, DEC06) and the two following annual months of the December cycle thereafter (DEC07, DEC08).

Please be aware that in order to simulate this expiry cycle change prior to introduction in the production environment, the May expiry of the product PHI1 in the Eurex Permanent Simulation environment will take place on May 13, 2004 (instead of May 19, 2004 as announced earlier in the simulation calendar).

## 2. Adjustments to Permanent Market Making Parameters

Permanent Market Making requirements for the Dutch Stock Options will be adjusted in order to create a balance between the number of expirations to be quoted and the risk exposure of Permanent Market Makers. Effective May 24, 2004 Permanent Market Makers will be required to fulfill the existing Permanent Market Making obligations **for the three nearest calendar months as well as all further expiry months of the M/J/S/D cycle only, with a total coverage of up to 36 months.**

No adjustments will be made to the existing requirements for quotation on request for Dutch Stock Options.

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# Contract Specifications

## *Options on*
## Dutch Stocks

**Contract Size**

Generally, an options contract gives the buyer of a call the right to buy - or, in the case of a put, the right to sell - 100 shares of the underlying security.

**Minimum Price Movement**

Options prices have price gradations of EUR 0.01.

**Delivery**

Physical delivery of 100 shares of the underlying security.

**Delivery Day**

Three exchange trading days after the exercise (T+3).

**Last Trading Day**

The third Friday of the expiration month, if that is an exchange trading day; otherwise, on the exchange trading day immediately prior to that Friday.

**Daily Settlement Price**

The last-paid price of the trading day; or, if the last-paid price is older than 15 minutes or does not reasonably reflect actual market conditions, then Eurex will establish the official settlement price.

**Exercise Period**

American style, i.e. an option can be exercised up to 18:30 CET on any exchange trading day during the life of the option. In addition, options can be exercised up to 21:00 CET on the last trading day.

**Expiration Months**

~~The three nearest calendar months, as well as the following three months within the cycle January, April, July and October thereafter, and the following four October expiration months (i.e. up to a maximum lifetime of five years).~~

The three nearest calendar months, the three following quarterly months of the March, June, September and December cycle thereafter, the four following semi-annual months of the June and December cycle thereafter and the two following annual months of the December cycle thereafter.

In addition, expiries following the January, April, July and October cycle which were already introduced prior to May 24, 2004 will also be available. The January, April, July and October cycle will no longer be supported with new expiration months as of May 24, 2004. Trading in options series of the J/A/J/O cycle will be discontinued as soon as there is no more open interest.

**Exercise Prices**

Options series may have the following exercise prices:

| Exercise price in EUR | Exercise price gradation in EUR ** |
|---|---|
| 0 - 5 | 0.20 |
| 5.50 - 10 | 0.50 |
| 11 – 20 | 1.00 |
| 22 – 50 | 2.00 |
| 52.50 – 100* | 2.50 |
| 55 – 200 | 5.00 |
| >200 | 20.00 |

* only for the first and second expiration date in the at-the-money area

** for options within the annual October expiration cycle, the exercise price gradations are doubled

**Optionable Stocks**

The following options contracts on Dutch stocks are tradable at Eurex:

| | |
|---|---|
| ABN Amro | AAR |
| Aegon | AEN |
| Ahold | AHO |
| Akzo Nobel | AKU |
| ASML | ASM |
| Buhrmann | KNP |
| DSM | DSM |
| Elsevier | ELV |
| Fortis | FO4 |
| Getronics | GTO |
| Hagemeyer | HMY |
| | |

| | |
|---|---|
| Heineken | HNK1 |
| IHC Caland | IHC |
| ING | INN |
| KPN | KPN |
| Van Der Moolen Holding | VMH |
| Numico | NUT |
| Philips | PHI1 |
| Royal Dutch | ROY |
| TPG | TPG |
| Unilever | UNI |
| VNU | VNU |
| Wolters Kluwer | WOS |

**Trading hours**

08:50 until 17:30 CET.

**Option Premium**

Payable in full on the exchange trading day immediately following the buy date.

# Contract Specifications

## *Low Exercise Price Options (LEPOs) on*
## Dutch Stocks

### Underlying Stocks with LEPOs

| | |
|---|---|
| ABN Amro | AAR |
| Aegon | AEN |
| Ahold | AHO |
| Akzo Nobel | AKU |
| ASML | ASM |
| Buhrmann | KNP |
| DSM | DSM |
| Elsevier | ELV |
| Fortis | FO4 |
| Getronics | GTO |
| Hagemeyer | HMY |
| | |

| | |
|---|---|
| Heineken | HNK |
| IHC Caland | IHC |
| ING | INN |
| KPN | KPN |
| Van Der Moolen Holding | VMH |
| Numico | NUT |
| Philips | PHI1 |
| Royal Dutch | ROY |
| TPG | TPG |
| Unilever | UNI |
| VNU | VNU |
| Wolters Kluwer | WOS |

**Contract Size**

Each contract is generally based on 100 shares of the underlying security.

**Minimum Price Movement**

The minimum price change for options is EUR 0.01.

**Delivery**

Physical delivery of 100 shares of the underlying security.

**Delivery Day**

Three exchange trading days after exercise.

**Last Trading Day**

The third Friday of each contract month, if this is an exchange trading day; otherwise, the exchange trading day immediately preceding that Friday.

**Daily Settlement Price**

EUR 1 below the last-paid price of the underlying security on any given trading day.

**Exercise Period**

American style, i.e. an option can be exercised until 18:30 CET on any exchange trading day during the lifetime of the option. In addition, options can be exercised up to 21:00 CET on the last trading day.

**Expiration Months**

~~The two nearest months within the cycle January, April, July and October~~

The two nearest quarterly months within the cycle March, June, September and December.

In addition, expiration months following the January, April, July and October cycle which were already introduced prior to May 24, 2004 will also be available. The January, April, July and October cycle will no longer be supported with new expiration months as of May 24, 2004. Trading in option series of the J/A/J/O cycle will be discontinued as soon as there is no more open interest

**Exercise Prices**

All LEPO contracts have an exercise price of EUR 1.

**Option Premium**

Payable in full on the exchange trading day immediately following the buy date.

**Trading Hours**

08:50 until 17:30 CET.

# Market Maker Quote Obligations for Dutch Stock Options

## 1. Minimum Size for Quotation on Request and Permanent Quotation, and Maximum Spreads *:

| Term: Minimum Quote Size per Quotation Type | Bid Price | DJ EURO STOXX 50 Components Maximum Spread | Non-DJ EURO STOXX 50 Components Maximum Spread |
|---|---|---|---|
| **< 12 months :** | 0.00 – 0.50 | 0.15 | 0.15 |
| **On Request: 20 Contracts** | 0.51 – 2.50 | 0.15 | 0.20 |
| **Permanent: 50 contracts** | 2.51 – 5.00 | 0.20 | 0.30 |
| | 5.01 – 10.00 | 0.30 | 0.40 |
| | 10.01 – 20.00 | 0.40 | 0.50 |
| | >20.00 | 0.60 | 0.65 |
| **12- 24 months** | 0.00 – 0.50 | 0.15 | 0.20 |
| **On Request 20 Contracts** | 0.51 – 2.50 | 0.15 | 0.30 |
| **Permanent: 30 contracts** | 2.51 – 5.00 | 0.20 | 0.40 |
| | 5.01 – 10.00 | 0.30 | 0.50 |
| | 10.01 – 20.00 | 0.40 | 0.60 |
| | >20.00 | 0.60 | 0.70 |
| **> 24 months:** | 0.00 – 0.50 | 0.15 | 0.30 |
| **On Request: 20 contracts** | 0.51 – 2.50 | 0.20 | 0.40 |
| **> 24 to 36 months** | 2.51 – 5.00 | 0.30 | 0.50 |
| **Permanent: 20 Contracts** | 5.01 – 10.00 | 0.40 | 0.60 |
| | 10.01 – 20.00 | 0.50 | 0.70 |
| | >20.00 | 0.60 | 0.80 |

*** The Maximum Spreads apply to both Quotation on Request and Permanent Quotation**

## *Quotation on Request*

**Response to quote requests:** At least 50 percent 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.

**Market Maker Fees:** See Price List.

**Fast Market:** In the Fast Market state, the maximum spreads will increase by 50 percent, the minimum quote size will be reduced by 50 percent and the maximum response time will be reduced by 50 percent.

## *Permanent Quotation*

**Committed Quotation time:** Average of 90 percent of the period between 09:00 and 17:30 CET on Exchange trading days per calendar month for the three nearest expiry months as well as all further expiries of the March, June, September and December cycle, with a total coverage for up to 36 months. Permanent Market Makers will be obliged to quote Calls and Puts in the respective maturities covering up to three years for all at-the-money strikes. Additionally, quotes are required on two in-the-money or out-of-the-money strike prices on either side (asymmetrical quoting is allowed) such that a total of six quotes are outstanding.

**Exemption from Obligation** Three Exchange trading days per month

**Market Maker Fees:** See Price List

**Fast Market:** In the Fast Market state, the maximum spreads will increase by 50 percent and the minimum quote size will be reduced by 50 percent.

## 2. Quote Spread Group Classification

| Stock Option | Eurex Code | DJ Euro STOXX 50 Component |
|---|---|---|
| ABN Amro | AAR | Y |
| Aegon | AEN | Y |
| Akzo Nobel | AKU | N |
| Ahold | AHO | Y |
| ASML Holding | ASM | N |
| ING | INN | Y |
| DSM | DSM | N |
| Elsevier | ELV | N |
| Fortis | FO4 | Y |
| Getronics | GTO | N |
| Hagemeyer | HMY | N |
| Heineken | HNK | N |
| IHC Caland | IHC | N |
| Buhrmann | KNP | N |
| KPN | KPN | N |
| Numico | NUT | N |
| Philips | PHI1 | Y |
| Royal Dutch | ROY | Y |
| TPG | TPG | N |
| Unilever | UNI | Y |
| Van Der Moolen Holding | VMH | N |
| VNU | VNU | N |
| Wolters Kluwer | WOS | N |

## 2.19 Subpart: Specifications for Options Contracts on Stocks of Dutch Stock Corporations (Dutch Stock Options)

**[…]**

### 2.19.5 Term, Close of Trading, Expiration Day

(1) Options are available at the Eurex Exchanges with terms up to and including the next, the second and third succeeding expiration days as well as up to and including the next three succeeding quarterly expiration days (January, April, July and October) thereafter and up to the next four succeeding yearly expiration days (October) (old cycle[1]) as well as options with terms up to and including the next, the second and the third succeeding expiration days as well as up to and including the next three succeeding quarterly expiration days (March, June, September, December) thereafter and up to the next four succeeding half-year expiration days (June, December) as well as up to the next two succeeding yearly expiration days (December) (new cycle).

(2) The last trading day of an option series shall be the last day on which such option series is available to Exchange Participants for trading and clearing through the EDP system of the Eurex Exchanges. The last trading day shall generally be the third Friday of the relevant month; provided that such Friday is an Exchange day, otherwise the Exchange day prior to such Friday. The expiration day of an option series shall generally be the Exchange day following the last trading day.

(3) An option series may not be cancelled so long as any Exchange Participant continues to hold open positions in such option series.

**[…]**

[1] After the May 2004 expiry no new expiration months will be introduced on the basis of the old cycle.

## 2.20 Subpart: Specifications for Low Exercise Price Options (LEPO) on Stocks of Dutch Stock Corporations

**[...]**

### 2.20.4 Term, Close of Trading, Expiration Day

(1) Options are available at the Eurex Exchanges with two terms up to and including the next two succeeding quarterly expiration days of the cycle (January, April, July, October) thereafter (old cycle[2]) as well as options with two terms up to and including the next two succeeding quarterly expiration days of the cycle March, June, September and December (new cycle).

(2) The last trading day of an option series shall be the last day on which such option series is available to Exchange Participants for trading and clearing through the EDP system of the Eurex Exchanges. The last trading day shall generally be the third Friday of the relevant month; provided that such Friday is an Exchange day, otherwise the last trading day shall be the Exchange day prior to such Friday.

The expiration day of an option series shall generally be the Exchange day following the last trading day of the option series.

(3) An option series may not be cancelled so long as any Exchange Participant continues to hold open positions in such option series.

**[...]**

[2] After the May 2004 expiry no new expiration months will be introduced on the basis of the old cycle.

# Permanent Market Making Agreement For Dutch Stock Options

## 1. Preface

Eurex addresses the following proposal to all market participants interested in the status of Permanent Market Maker (hereafter denoted as PMM) in the Dutch stock options listed at Eurex.

Permanent quotation will be permitted in all Dutch stock option classes listed by Eurex.

PMMs are at liberty to choose the stock options in which they wish to make a Permanent Market. However, the stock options chosen must also be subject to a regular market making license agreement between Eurex and the member. This agreement therefore supplements the regular Market Maker agreement undertaken between Eurex and market making member firms in relation to Dutch stock options.

Resignation from the responsibilities is subject to the general rules for Eurex Market Making. In the table below, members are requested to indicate the options in which they wish to make a permanent market in accordance with this agreement and to sign and return the document to **Mehtap Dinc by Fax at +49-69-211-1 44 61.**

## 2. Stock Options

PMM will provide liquidity as Market Maker in Dutch companies on a near-continuous basis. Currently, the following companies are included:

| Company Name | Eurex Code | PMM |
|---|---|---|
| ABN AMRO HOLDING NV * | AAR | |
| AEGON NV* | AEN | |
| AHOLD NV* | AHO | |
| AKZO NOBEL NV | AKU | |
| ASML HOLDING NV | ASM | |
| BUHRMANN NV | KNP | |
| DSM | DSM | |
| ELSEVIER NV | ELU | |
| FORTIS* | FO4 | |
| GETRONICS NV | GTO | |
| HAGEMEYER | HMY | |
| | | |

| Company Name | Eurex Code | PMM |
|---|---|---|
| HEINEKEN NV | HNK | |
| IHC Caland NV | IHC | |
| ING GROEP NV* | INN | |
| KPN NV | KPN | |
| NUMICO NV | NUT | |
| PHILIPS ELECTRONICS* | PHI1 | |
| ROYAL DUTCH PETROLEUM* | ROY | |
| TPG | TPG | |
| UNILEVER NV* | UNI | |
| VAN DER MOOLEN HOLDING NV | VMH | |
| VNU | VNU | |
| WOLTERS KLUWER | WOS | |

* DJ Euro STOXX 50$^{SM}$ Components

## 3. Trading Parameters for Permanent Market Makers

The trading parameters of PMMs in Dutch stock options are outlined in Attachment 3 to Eurex Circular 058/04. Fulfillment of Permanent quotation obligations are required for the three nearest calendar months as well as all further expiry months of the March, June, September and December cycle, with a total coverage of up to 36 months. PMMs will be obliged to quote Calls and Puts in the respective maturities up to three years for all at-the-money strikes. Additionally quotes are required on two in-the-money or out-of-the-money strike prices on either side (asymmetrical quoting is allowed) such that a total of six quotes is maintained.

## 4. Fees

Eurex PMMs in Dutch stock options will receive a full refund of related fees until December 31, 2004, subject to fulfillment of the obligations set out in Attachment 3 to Eurex Circular 058/04.

## 5. Promotion of PMMs

Eurex will promote the PMMs and the permanent market making concept via the following measures:

- Publicizing the PMM concept via circular, internet publications, direct mailings and further marketing and promotional initiatives
- Eurex media releases with a general representation and promotion of the PMM concept
- Direct calls to Eurex members to generate the necessary awareness and trading commitment among the relevant market participants (banks/online banks, brokers, trading houses etc.)
- Communication and marketing initiatives to retail customers.

## 6. Measures for non-Fulfillment of Minimum Requirements

Should the minimum requirements for PMMs not be fulfilled, the following measures will be taken:

- The member will revert from PMM to standard Market Maker status
- Promotion as a PMM will be discontinued

The reimbursement of exchange fees as described in Section 4 will not be granted unless the market maker obligations for PMMs are fulfilled.

For resignation, cancellation or revocation of PMM status, the current rules for Eurex Market Makers apply.

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# Commitment to PMM status in Dutch stock options

**We declare that we will quote in Dutch Stock options as a Permanent Market Maker on Eurex as set out in Attachment 3 to Eurex Circular 058/04.**

| Company | Name | Date/Signature |
|---|---|---|
| _____ | _____ | _____ |

**We agree to Eurex publishing our name within the Permanent Market Maker concept.**

| Company | Name | Date/Signature |
|---|---|---|
| _____ | _____ | _____ |

Please return this document by fax to **Mehtap Dinc at +49-69-211-1 44 61**