# **e u r e x** *circular 121/99*

To: All Eurex members and vendors

Date: Frankfurt, 9th December 1999

**Extension of the Designated Market Making Agreement for Three-month Euribor Futures at Eurex**

Dear Sir or Madam,

Since the introduction of the product in September 1998, Designated Market Making has applied to the Three-month Euribor Future at Eurex. In order to continue to provide the necessary liquidity and to extend the current market share in Euribor Futures, the Eurex Executive Board have made the decision to continue with Designated Market Making next year.

In future, a two-stage Market Making Scheme for Three-month Euribor Futures is envisaged. Within the scope of **Designated Market Making Scheme I and II** an exchange participant who is a Designated Market Maker for the Three-month Euribor Future is obliged to provide continual bid and ask prices (Quotes) with a maximum spread, for a specified minimum number of contracts, for a defined time duration. For the time being, the duration of both agreements has been limited to one year.

For **Designated Market Making Scheme I**, the existing Designated Market Maker agreement will continue with a reduced quote duration obligation. Each Designated Market Maker must quote for at least five expirations according to the conditions listed below:

| Year | Description | Month | Quote Size | Bid/Ask Spread* | Quotation Duration |
|---|---|---|---|---|---|
| 1 | 'Serial' Months | Calendar months 1-2 | 100 | 2 bp | 30 % |
| 1 | 'White' Months | Quarter months 1-4 | 300** | 2 bp | 30 % |
| 2 | 'Red' Months | Quarter months 5-8 | 100 | 3 bp | 30 % |
| 3 | 'Green' Months | Quarter months 9-12 | 100 | 3 bp | 30 % |

* 1 Basis point = 2 Ticks

** For quotes with narrower spreads, a smaller size of 100-299 contracts may be quoted.

In return, Eurex will refund the Designated Market Maker's trading and clearing fees (EUR 0.25 per contract) for all contracts traded on the M-account until December 2000.

To participate in **Designated Market Making Scheme II** it is first necessary for interested exchange participants to submit a written proposal stating the quote obligations they are willing to undertake with respect to the Three-month Euribor Future. Such proposals must contain the following details:

- Quote duration
- Number of expirations
- Minimum Quote size
- Bid/Ask Spread

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Executive Board:
Dr. Jörg Franke, Otto E. Nägeli
Andreas Preuß, Jürg Spillmann

The acceptance of such a proposal by Eurex requires that the submitted proposal will, in the opinion of Eurex on the basis of the Quote obligations (duration) and number of expirations with respect to the Three-month Euribor Future, lead to an improvement in the current market situation, and that the potential quote obligations include at least four 'Red' or 'Green' months.

Eurex will check each application for Designated Market Making Scheme II, and will evaluate whether the proposed quotation obligations with regard to the Three-month Euribor Future will lead to an improvement in the current market situation. Eurex will then accept the proposals which it considers to be the best, so that these applicants will participate in Designated Market Making Scheme II. In return, in addition to the refund of fees as in Market Making Scheme I, the selected participants will receive an additional sum for advertising costs which will be defined in detail with the selected applicants. Eurex reserves the right to limit the number of Designated Market Makers.

The attached application form for Designated Market Making Scheme I and the written proposal for Designated Market Making Scheme II should be returned **no later than 16th December 1999** to the Eurex Product Development department for the attention of Christine Heyde (Tel. +49 (0)69-2101-5698, Fax +49 (0)69-2101-4461; e-mail: christine_heyde@exchange.de).

Yours sincerely,



Jörg Franke



Hartmut Klein

Attachments

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**Application form Designated Market Making Scheme I**

**To Eurex**
**Product Development**
Christine Heyde
60284 Frankfurt am Main

**Fax no.: +49-(0)69-2101-4461**

**Application for the Status of Designated Market Maker in Three-Month-Euribor futures contract (FEU3)**

1. We _____
(name of member)

herewith apply for the status of Designated Market Maker in the Three-Month-Euribor futures contract for the period from January 3, 2000 until December 30, 2000 in accordance with the terms and conditions stated in the Quote obligations (enclosure).

2. As a Designated Market Maker

a) we will provide bid and ask quotes on both sides of the market

- for the minimum number of contracts specified in the quote obligation
- in compliance with the Maximum Spreads (see quote obligation); and
- for the period of time specified in the quote obligation (also, and in particular, on a daily basis at the beginning of trading and at the end of trading in the contract, in response to quote requests as well as after significant changes in the underlying market interest rates)

b) we will give you the name of a manager who has the authorization and expertise necessary to make decisions and act as the coordinator in our firm, who will be available for Eurex with respect to this agreement;

c) we will ensure that a Eurex trading screen and a qualified trader are available for Designated Market Making; and

d) we will inform Eurex within one business day in the event that we find ourselves no longer in a position to fulfill these obligations.

3. Eurex will in return

a) mention the name of the Eurex member with the Designated Market Maker status in advertising and informative material in connection with the contracts;

b) make Eurex spokesmen and printed material available for seminars organized by the Designated Market Makers regarding the Three-Month-Euribor Future; and

c) refund all trading and clearing fees for the contracts traded by the Designated Market Makers on M accounts up to December 30, 2000. The refund for the respective month will be calculated at the beginning of the subsequent month. No refunds will be made if Three-Month-Euribor Futures are traded on A or P accounts or if the quote obligations are not fulfilled.

4. Compliance with the obligations stated under No. 2 shall be monitored by Eurex.

   In the event that the obligations stated under No. 2 are not met by us, Eurex shall have the right to:

   - terminate the agreement and to publicly disclose the termination of the Designated Market Maker status at Eurex's discretion. In this case, Eurex shall be released from its obligations pursuant to No. 3 with immediate effect.

5. In the event of a significant change in the Contract Specifications for the contract or due to a revision of the law or rules with respect to the contract, we as well as Eurex have the right to terminate this agreement with immediate effect or to renegotiate the requirements indicated in No. 2 and/or in the Enclosure.

6. Eurex shall have the right to amend or expand one or more of the conditions laid down in this agreement for limited periods of time at its sole discretion with validity for all Designated Market Makers, if it deems this appropriate (for example, in circumstances which lead to high market volatility or if such amendments or expansion is not expected to have an adverse effect on market quality). In the event that Eurex amends or expands one or more conditions, the Designated Market Makers must, for their part, ensure that the Designated Market Makers can also be promptly advised that this situation has ceased to exist.

7. Since the number of Designated Market Makers for the Three-Month-Euribor Future is limited, we grant Eurex the right to make the final selection of Designated Market Makers from the applicants.

8. Other than the aforementioned measures, no special status at Eurex shall be accorded to the participant in conjunction with the Designated Market Maker status, which expires on December 30, 2000. After that time, the title "Designated Market Maker" can no longer be used unless otherwise agreed with Eurex.

9. The "Quote Obligation" is an integral part of this application.

**SHOULD BE FILLED OUT BY THE PERSON SPECIFIED IN PARAGRAPH 2. b)**

_____
Place, date

_____ _____
Name Position

_____ _____
Phone Fax

_____ _____
(Signature / Stamp of the firm) E-mail address

Please send the completed application for the status of Designated Market Maker to the indicated fax number no later than December 16, 1999.

**Quote Obligations**
**Designated Market Making Scheme I**

**Three-Month Euribor Future**

At least five expiration months have to be quoted.

Minimum size: 100 respectively 300* contracts on both the bid and ask sides

Maximum spread: 2 Basis points (bps) for the serial and white months; 3 bps for the red and green expiration months

Quotation period: 30 percent of the total daily trading period on a monthly average for all expiration months

| Year | Description | Month | Quote Size | Bid/Ask Spread* | Quotation Duration |
|---|---|---|---|---|---|
| 1 | 'Serial' Months | Calendar months 1-2 | 100 | 2 bps | 30 % |
| 1 | 'White' Months | Quarter months 1-4 | 300** | 2 bps | 30 % |
| 2 | 'Red' Months | Quarter months 5-8 | 100 | 3 bps | 30 % |
| 3 | 'Green' Months | Quarter months 9-12 | 100 | 3 bps | 30 % |

* 1 Basis point = 2 Ticks

** For quotes with narrower spreads, a smaller size of 100-299 contracts may be quoted.

**Proposed Quote Obligations - Designated Market Making Scheme II**

**To Eurex**
**Product Development**
Christine Heyde
60284 Frankfurt am Main

**Fax no.: +49-(0)69-2101-4461**

## Offer for Participation in Market Making Scheme II for the Three-Month-Euribor Future

For participation in the Designated Market Making Scheme II for the Three-Month-Euribor futures

contract we _____ would make the following offer:
(name of member)

## Quote Obligations:

| Year | Name | Months | Quote Size | Bid/Ask Spread* | Quotation Time |
|---|---|---|---|---|---|
| 1 | Serial Months | 1st Calendar month | | Bps | % |
| 1 | | 2nd Calendar Month | | Bps | % |
| 1 | White Months | 1st Quarterly month | | Bps | % |
| 1 | | 2nd Quarterly month | | Bps | % |
| 1 | | 3rd Quarterly month | | Bps | % |
| 1 | | 4th Quarterly month | | Bps | % |
| 2 | Red Months | 5th Quarterly month | | Bps | % |
| 2 | | 6th Quarterly month | | Bps | % |
| 2 | | 7th Quarterly month | | Bps | % |
| 2 | | 8th Quarterly month | | Bps | % |
| 3 | Green Months | 9th Quarterly month | | Bps | % |
| 3 | | 10th Quarterly month | | Bps | % |
| 3 | | 11th Quarterly month | | Bps | % |
| 3 | | 12th Quarterly month | | Bbs | % |

* 1 Basis point (Bps) = 2 ticks

## Remarks:

_____
_____
_____
_____
_____
_____
_____

_____
Place, date

_____ _____
Name Position

_____ _____
Phone Fax

_____ _____
(Signature / Stamp of the firm) E-mail address

Please send the completed offer for Market Making Scheme II to the indicated fax number no later than December 16, 1999.