X-pand into the Future

e u r e x *circular 115/02*

Date: Frankfurt, December 13, 2002
Recipients: All Eurex members and vendors
Authorized by: Peter Reitz

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

1. Revision of Concept for Connection to the Eurex Exchanges

2. Extension of Market Making Concept

3. Reduction of Transaction Fees for Finnish Stock Options

Related Eurex Circulars: 1. 020/01 **2.** 050/02, 053/02 **3.** 124/99, 077/00, 122/01

Contact: Topics 1 and 3 – Functional Member Readiness: Tel +49-69-2101-1700
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Content may be most important for:	**Attachments:**
➲ All Departments	1. Market Making Quotation Obligations – Permanent Quotation 2. Registration for Permanent Quotation in Swiss, Italian, and US Equity Options, and SMI Options

Summary:

1. Revision of Concept for Connection to the Eurex Exchanges

The Management Boards of the Eurex Exchanges have defined a new fee structure for technical connection to trading on the Eurex Exchanges. An important change to the pricing system is the separation between fees for technical connection and fees associated with a minimum level of transactions. The @Eurex connection alternative will no longer be offered in future. The changes will come into effect from **April 1, 2003.**

2. Extension of Market Making Concept

Permanent quotation, which was introduced for Dutch stock options in July, 2002 as an extension to Quotation on Request (See Circulars 050/02 and 053/02) will be implemented in stages for all stock options and stock index options. From **February 3, 2003** the Market maker obligations in Italian, US and Swiss stock options, as well as options on the SMI, can be met either by fulfillment of the requirements for permanent quotation or those related to quotation on request. Different transaction fees will apply to the two market making models. Introduction of permanent quotation for the remaining stock options and stock index options is also planned for 2003. The exact dates will be announced in good time.

3. Reduction of Transaction fees for Finnish Stock Options

With effect from **February 3, 2003** Eurex will reduce the transaction fees for trading Finnish stock options and LEPOs. In conjunction with the reduction, differential pricing for trades conducted through the order book and those entered via the OTC trade entry facilities will be introduced.

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Peter Reitz, Michael Widmer

1. Revision of Concept for Connection to the Eurex Exchanges
2. Extension of Market Making Concept
3. Reduction of Transaction Fees for Finnish Stock Options

1. Revision of Concept for Connection to the Eurex Exchanges

The Management Boards of the Eurex Exchanges have defined a new fee structure for technical connection to trading on the Eurex Exchanges. The revision simplifies the pricing system such that, in future, only two prices will apply for technical connections:

Connection Component	Price	
64 Kbps Bandwidth fixed line	1,000 €	Per Installation per Month
64 Kbps Internet connection	500 €	Per Installation per Month

The price of a connection will consist of the number of connection components installed at a Member location multiplied by the corresponding price. Fixed line connections are in principle to be configured redundantly, either through the installation of a second fixed line, or via an Internet back-up connection.

As previously, Clearing Members (GCMs, DCMs) must be connected with at least one fixed line.

Due to the low level of take-up of the @Eurex connection alternative it will no longer be offered. In the coming weeks, Eurex will contact current @Eurex users individually to discuss potential connection migration strategies.

An important change to the pricing system is the separation between fees for technical connection and fees associated with a minimum level of transactions. In future connection fees can no longer be offset against transaction fees. Instead, minimum transaction fees of EUR 9,000 per quarter will be charged.

Charges for changes of connection type or node changes will no longer be applied.

Subject to the agreement of the different Exchange bodies, the changes will come into effect from **April 1, 2003**.

2. Extension of Market Making Concept

Eurex will extend the current market making model in stages during 2003 with the addition of a second component. Market makers in options contracts will be able to fulfill their obligations either through continuous price display (Permanent Quotation) or via the current model of responding to quote requests (Quotation on Request).

Within the scope of the Dutch initiative, a model was introduced for Dutch stock options in July, 2002 which provided the opportunity for permanent quotation as well as quotation on request. In the next stage, a similar concept will be applied to Swiss, Italian and US stock options as well as options on the SMI.

Essentially, the following rules apply to permanent quotation:

- Quotations are required for Calls and Puts in each of four of the seven series round the current cash price for each of the next six expirations, resulting in quotations in a total of 24 Call and Put series each
- The exercise prices for quoting Calls and Puts may be selected independently from each other, so that, for example, more out-of- the-money series can be quoted than in-the-money series
- 90% of the Trading and Fast Market phases must be covered by valid quotes. For US stock options, the 90% refers to the period between 09:00 and 17:30 CET. A market maker may fall short of this figure on a maximum of three trading days each month, provided that the difference is made up on other days to reach a monthly average of 90 percent.
- The minimum quotation size and maximum spreads are the same as for regular market making.

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To compensate for the difference in the risk associated with each type of market making, different transaction fees will apply. Subject to fulfillment of the quotation obligations, from **February 3, 2003** a refund of fees from transactions on the market maker accounts will be awarded according to the following rules:

- If the market maker requirements determined by the Boards of Management of the Eurex Exchanges for permanent quotation are met, transaction fees paid for trades (Market Maker) shall be subject to a refund such that on a monthly basis, the actual fees per contract for order matching and exercise of options on M-accounts will be as shown in the table below:

Products	Matching of Trades	Exercise of Options
Italian Stock Options	EUR 0.04	EUR 0.04
US Stock Options	EUR 0.06	EUR 0.06
Swiss Stock Options	CHF 0.08	CHF 0.08
Options on the SMI	CHF 0.30	CHF 0.30

- If the requirements for permanent quotation are not met, in a second step, Eurex will evaluate whether the requirements for quotation on request have been met. If so, transaction fees paid for trades (Market Maker) shall be subject to a refund such that on a monthly basis, the actual fees per contract for order matching and exercise of options on M-accounts will be as shown in the table below:

Products	Matching of Trades	Exercise of Options
Italian Stock Options	EUR 0.06	EUR 0.06
US Stock Options	EUR 0.09	EUR 0.09
Swiss Stock Options	CHF 0.12	CHF 0.12
Options on the SMI	CHF 0.45	CHF 0.45

- If the requirements for neither permanent quotation nor quotation on request are met, no refund will be given

Market makers who take on the permanent quotation obligations are authorized, but not required to respond to quote requests. The conditions for quotation on request and the entry of quote requests will remain unchanged.

The requirements for permanent quotation and the associated registration form can be found in Attachments 1 and 2 respectively. Interested members should return the completed form to Eurex Product Development, for the attention of Mehtap Dinc (Fax +49 (0)69 2101-4461) by **January 17, 2003** at the latest.

3. Reduction of Transaction Fees for Finnish Stock Options

With effect from **February 3, 2003** Eurex will reduce the transaction fees for trading Finnish stock options and LEPOs. In conjunction with the reduction, the differential pricing for trades conducted through the order book and those entered via the OTC trade entry facilities will be introduced, in line with the pricing policy already in place for trading derivatives on Exchange Traded Funds.

The current fees for matching/recording of transactions in Finnish stock options and the exercise fee (€ 1.35, and € 0.20 for transactions on the A/P accounts and M-accounts respectively) will be reduced as shown in the table below:

Account	Matching of orders Per contract	Recording of OTC trade transactions Per Contract	Exercise Per Contract
A/P account	€ 1.10	€ 1.15	€ 1.10
M account	€ 0.15	€ 0.20	€ 0.15

Frankfurt, December 13, 2002

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Market Maker Quote Obligations – Permanent Quotation
For Swiss, US and Italian Equity Options and SMI Option

Market Making Quotation Obligations – Permanent Quotation

Committed Quotation Time:

90% of the daily trading period between

9:00 a.m. to 5:20 p.m. for Swiss equity options
9:30 a.m. to 5:30 p.m. for Italian equity options
9:00 a.m. to 5:30 p.m. for US equity options;

8:25 a.m. to 5:20 p.m. for the SMI option

on exchange trading days per calendar month for the first six expirations. Calls and puts for four strikes from a strike price window of seven strikes around the current underlying price must be quoted. Asymmetrical quoting is allowed, i.e. strike prices chosen for calls and puts need not be identical.

Exemption from Obligation:

Three trading days per month; the shortfall must be compensated for from additional coverage on the remaining trading days of the month so that an average coverage of 90% of the trading period is achieved over the month.

Minimum Quote Sizes and Maximum Spreads:

In line with current market making obligations (reproduced below).

Market Maker Fees:

See Circular 115/02

Fast Market State:

In the Fast Market state, the maximum spreads will increase by 50%, the minimum quote size will be reduced by 50%

Minimum Sizes and Maximum Spreads for Equity Options

Minimum Size:

20 contracts on the bid and ask side in all option series, except for the following which have a minimum size of 50 contracts:

Options on Swiss Stocks

- Credit Suisse Group N, Nestlé N, Novartis N, Swisscom, Schweizer Rückversicherung N, UBS N, Roche Holding

Maximum Spread:

Equity Options quoted in EUR

Class I		**Class II**		**Class III**	
Bid up to	*Spread*	*Bid up to*	*Spread*	*Bid up to*	*Spread*
0 - 1.00	0.20	0 - 2.00	0.40	0 - 5.00	1.00
1.01 - 15.00 > 15.00	20% 3.00	2.01 - 30.00 > 30.00	20% 6.00	5.01 - 50.00 > 50.00	20% 10.00

Market Maker Quote Obligations – Permanent Quotation For Swiss, US and Italian Equity Options and SMI Option

Equity Options quoted in CHF

Class I		**Class II**		**Class III**	
Bid up to	*Spread*	*Bid up to*	*Spread*	*Bid up to*	*Spread*
0 - 2.00	0.40	0 - 5.00	1.00	0 - 10.00	2.00
2.01-15.00	20%	5.01-30.00	20%	10.01 - 50.00	20%
>15.00	3.00	> 30.00	6.00	> 50.00	10.00

Minimum Size and Maximum Spreads for Index Options

Minimum Size: 20 contracts on the bid and ask

Maximum Spread:

Product	**Options bid price (in index points)**	**Maximum spread (in index points)**
SMI options	0.10 – 29.90	6.00
	30.00 – 249.90	20%
	250.00 and over	50.00

Equity Option Quote Spread Classifications

Swiss Stock Options

Class I		**Class II**		**Class III**	
ABB	ABB2	Holcim	HOL	Givaudan	GIVN
Adecco	ADEN	Julius Bär Holding	BAER	Serono	SEO
Ciba Spezialitätenchemie	CIBN	Nestlé	NESN		
Richemont	CFR	Swiss Life Holding	SLHN		
Clariant	CLN	Schweiz. Rückversicher.	RUKN		
Credit Suisse Group	CSGN	Sulzer	SUN		
Kudelski	KUD	Swisscom	SCMN		
Lonza	LONN	Unaxis Holding	UNAX		
Novartis	NOVN	Zurich Fin. Services	ZURN		
Roche Holding	ROG				
Syngenta	SYNN				
The Swatch Group	UHRN				
UBS	UBSN				

Market Maker Quote Obligations – Permanent Quotation For Swiss, US and Italian Equity Options and SMI Option

Italian Stock Options

Class I		Class II		Class III	
Generali	ASG				
ENI	ENT				
Telecom Italia	SET				

U.S. Stock Options

Class I		Class II		Class III	
AOL	AOL	IBM	IBM		
Cisco	CIS				
Citigroup	TRV				
EMC	EMP				
General Electric	GEC				
Intel	INL				
Microsoft	MSF				
Oracle	ORC				
SUN	SSY				

To Eurex Product Development
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Registration for Permanent Quoting for Swiss, Italian, US Equity Options and SMI Option

1. Preface

Eurex invites all market participants interested in Permanent Quotation in Swiss, Italian, and US Equity Options and the SMI Option traded at Eurex to complete the table below. As of February 3, 2003 Market Making obligations in these products can be fulfilled by Permanent Quotation.

Market Makers are at liberty to choose the options in which they wish to make a permanent market. However, the options chosen must already be subject to a regular market making license agreement between Eurex and the member. This declaration therefore supplements the Market Maker agreement undertaken between Eurex and the market making member firms in relation to Swiss, Italian, and US Equity Options and the SMI Option.

Permanent Quotation can only be taken up at the start of each month. Fulfillment of permanent quotation obligations will only be considered on a monthly basis. 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 by fax to **Mehtap Dinc, +49 (0)69 2101-4461**.

2. Selected Options (Please tick the appropriate boxes)

The Market Maker will participate in permanent quotation for the following options:

Swiss Stock Options	ABB	ABB2		Novartis	NOVN	
	Adecco	ADEN		Roche Holding	ROG	
	Julius Bär Holding	BAER		Schweiz. Rückversicherung	RUKN	
	Ciba Spezialitätenchemie	CIBN		Swisscom	SCMN	
	Richemont	CFR		Serono	SEO	
	Clariant	CLN		Swiss Life Holding	SLHN	
	Credit Suisse Group	CSGN		Sulzer	SUN	
	Givaudan	GIVN		Syngenta	SYNN	
	Holcim	HOL		UBS	UBSN	
	Kudelski	KUD		The Swatch Group	UHRN	
	Lonza	LONN		Unaxis Holding	UNAX	
	Nestlé	NESN		Zurich Fin. Services	ZURN	
Italian Stock Options	Generali	ASG		Telecom Italia	SET	
	ENI	ENT				
US Stock Options	AOL	AOL		IBM	IBM	
	Cisco	CIS		Intel	INL	
	Citigroup	TRV		Microsoft	MSF	
	EMC	EMP		Oracle	ORC	
	General Electric	GEC		SUN	SSY	
Option on SMI	SMI Option	OSMI				

We declare that we will participate in permanent quotation as set out in this document, in accordance with the quote obligations defined in Attachment 1 to Eurex Circular 115/02

Company Name Authorized Signature(s)