

# Next Generation ETD Contracts

11 May 2022

# Motivation for NextGen ETD Contracts Initiative

Establish a future proof concept to stay best-in-class with changing market needs



## Key Motivation

- **Enable a more flexible setup of ETD products** by supporting more than one expiration per month on product level (i.e. **change contract logic** from MM/YYYY to YYYY-MM-DD)
- Meet demand of trading participants for **higher flexibility** and provide solution for **fully automated trading strategies**
- Allow **shorter time to market** for product implementation



## Three new business initiatives

- **Integration of Weekly contracts** into main options products
- **Volatility strategies** in Equity Options
- **Basis Trading (T+X)** for MSCI futures



## Additional initiatives after NextGen

- **Monday & Wednesday Weekly Options** into main options products
- **EEX / ECC: Integration of Daily contracts** into main futures products

# Integration of weekly and month-end contracts

Offering higher trading flexibility and execution certainty in strategy trading

## Current Trading Process



## Future Trading Process

-  **Monthly contracts** (e.g. OESX, OGBL)
-  **Weekly and Month-end options**  
(e.g. OES1, OES2, OMSX, OGB1, OGB2...)
-  Ease of strategy execution ✗
-  Calendar spreads between monthly/weeklies ✗
-  Strategy trades ✗
-  Combined risk settings (pre-trade risk limits, market maker protection) ✗
-  Expansion of further intraweek contracts (e.g. Monday, Wednesday options) ✗

-  **Monthly and weekly contracts** (e.g. OESX W1, OESX W2, OESX, OGBL W1, OGBL W2, OGBL)
-  Ease of strategy execution ✔
-  Calendar spreads between monthly/weeklies ✔
-  Strategy trades ✔
-  Combined risk settings (pre-trade risk limits, market maker protection) ✔
-  Expansion of further intraweek contracts (e.g. Monday, Wednesday options) ✔

# Integration of weekly and month-end contracts

Offering higher trading flexibility and execution certainty in strategy trading

1) Expiry selection within the same instrument ID:

The screenshot shows the 'EnLight Requester' interface. A table is displayed with columns for Expiry, ContractDate, and ExpiryType. The table lists various contracts for instrument NOA3, including weekly and monthly expiries. A red box highlights the table.

Expiry	ContractDate	ExpiryType
Feb22-2Fr	10.02.2022	Week_of_month
Feb22	17.02.2022	Month
Feb22-4Fr	24.02.2022	Week_of_month
Mar22-1Fr	04.03.2022	Week_of_month
Mar22-2Fr	10.03.2022	Week_of_month
Mar22	17.03.2022	Month
Apr22	14.04.2022	Month
Jun22	16.06.2022	Month
Sep22	15.09.2022	Month
Dec22	15.12.2022	Month

2) Strategy creation between Weeklies/Weeklies or Weeklies/Monthlies:

The screenshot shows the 'Add Order' interface for a strategy. A table lists the orders for the strategy. A red box highlights the table.

Contract	Type	Ratio	O/C	Act	Tot	TotQty
NOA3 Feb22-2Fr	SELL	1	O	A1	✓	100
NOA3 Feb22	BUY	1	O	A1		

# Volatility strategies in Single Stock Options

Full STP of delta neutral strategies

## Current Trading Process

 **Single Stock Option**

---

 **Underlying** (back-to-back / Trade confirmation)

-  Delta neutral trading with straight-through-processing ❌
-  Eurex CCP risk framework for both legs ❌
-  Mitigation of counterparty risk ❌
-  Access full variety of liquidity providers ❌
-  Choice of trading channels including EnLight ❌



## Future Trading Process

**Strategy Trade:**

 **Single Stock Option + Physically settled single stock future** (with same day expiry)

-  Delta neutral trading with straight-through-processing ✅
-  Eurex CCP risk framework for both legs ✅
-  Mitigation of counterparty risk ✅
-  Access full variety of liquidity providers ✅
-  Choice of trading channels including EnLight ✅

# Volatility strategies in Single Stock Options

## Full STP of delta neutral strategies

1) Creation of volatility strategy (i.e. Call-U) with selection of the respective physically settled single stock future with same day expiry (T0):

**Eurex EnLight Request Details - OPT ON BAYER**

EnID	Contract	Type	Ratio	Eff B/S	Eff Volume	NegStatus	Reques
	BUY BAY Mar22	4800 C 0					INOH
	<b>SELL BAYP T0</b>	<b>48.6800</b>					nMinC 350

Phase	BQty	Bid	Ask	AQty
CLOB Implied				

Susp	Firm/Indic	Anon	Side	Total	Open
	Indic		B/S		

BidQty	Bid	Ask	AskQty	Info	AckStatus	ShownSide
	MySellLimit	MyBuyLimit				

**ToB**

**Strategy** Detected  
CALL-U Call Volatility Trade

Leg 1 Underleg

ODAX	Underleg
BAY	BAYP
Mar22	T0
Apr22	Mar22
May22	Apr22
Jun22	May22
Sep22	Jun22

4200 4400 4600 4800 5000 5250 5500 6000

48.6800 EUR

Fix Ref and Delta

50.00 50.00

CALL

- 100 + - 50 +

EffSide EffSide

# Basis Trading (T+X) for MSCI Futures

Full straight-through-processed basis trading

## Current Trading Process



## Future Trading Process



Trade agreement at t



Settlement of the trade at t+x



Calendar spread:

MSCI Futures (Expiry t+x) vs.  
MSCI Futures (Standard Expiry)

 Straight-through-processed basis trading 

 CCP risk framework immediately after trade 

 Mitigation of counterparty risk 

 Access full variety of liquidity providers 

 Choice of trading channel and transparency of the basis 

 Straight-through-processed basis trading 

 CCP risk framework immediately after trade 

 Mitigation of counterparty risk 

 Access full variety of liquidity providers 

 Choice of trading channels and transparency of the basis 

# Trading of MSCI Futures

Especially for MSCI indices (because of multi-time zones, -countries, -currencies), the ways to execute differ:



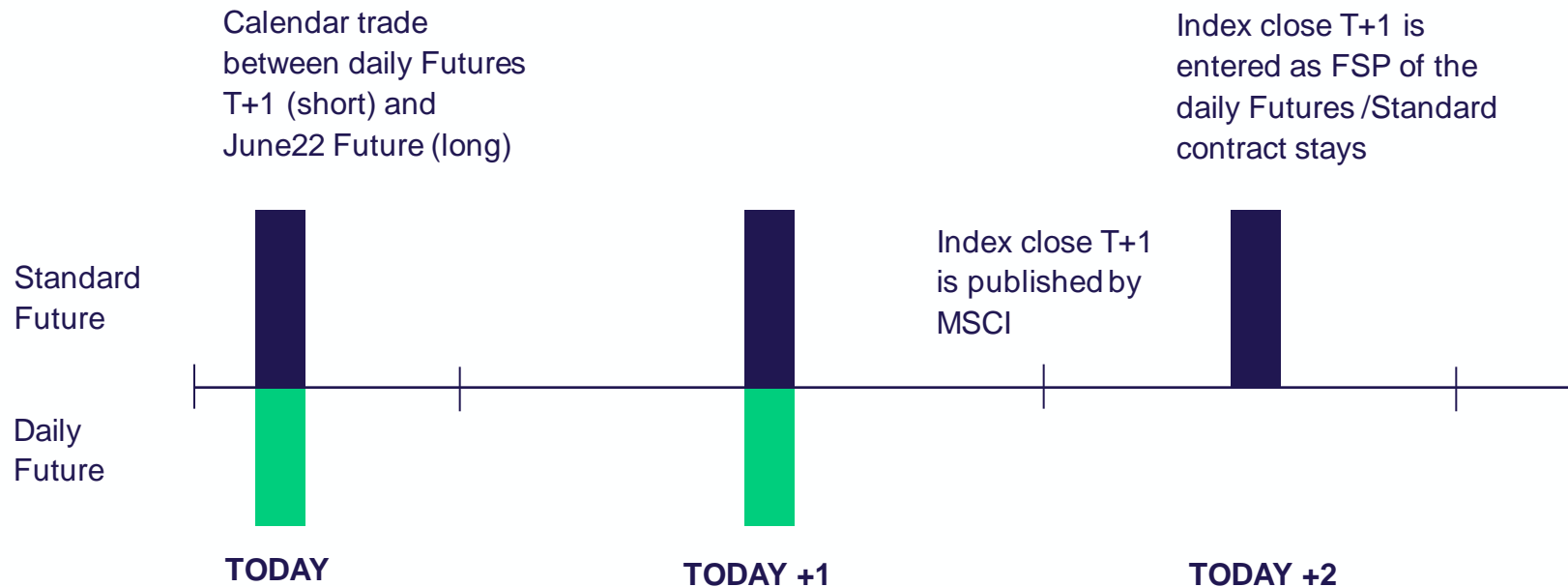


# MSCI Basis Trading at Eurex

Allowing fully automated basis trade functionality

➤ Futures	=	Index	+	Basis
➤ Quarterly Fut	=	Daily Fut	+	Spread between Daily & Quarterly

In order to replicate a basis trade, a calendar spread is traded between the daily futures and the standard future



## Example:

- An end client wants to build a long position in the June 22 MSCI World Index Future (FMWO)
- As Australia & Japan are already closed for the day, trade should be based on T+1 index close
- Client trades the calendar between daily Future (T+1) and the quarterly (= basis)
- The index close of T+1 is entered as Final Settlement Price for the daily Future
- At the end, client has paid basis + index close for the standard future

# MSCI Basis Trading

## Eurex T7 GUI

Market														
fmwn		Product	Edit	Up to: Expiry	Strike	+/-	<input checked="" type="checkbox"/> S	<input checked="" type="checkbox"/> C	<input type="checkbox"/> M	=	Type	<input type="checkbox"/>	<input type="checkbox"/>	
	MC	CPhase	TrdUnit	CPrevSetlPrc	CVol	CBQty	CBid	CAsk	CAQty	CLst	CPotAuct	CQRI	Contract	Curr
<input type="checkbox"/>		Cont	1.0000	408.25000	100	120	406.050	406.150	100				FMWN T0	EUR
<input type="checkbox"/>		Cont	1.0000	436.52000									FMWN T1	EUR
<input type="checkbox"/>		Cont	1.0000	408.25000	100	260	406.850	407.000	100				FMWN Mar22	EUR
<input type="checkbox"/>		Cont	1.0000	411.95000									FMWN Jun22	EUR
<input type="checkbox"/>		Cont	1.0000	410.85000									FMWN Sep22	EUR
<input type="checkbox"/>		Cont	1.0000	410.00000									FMWN Dec22	EUR
<input type="checkbox"/>		Cont	1.0000	409.80000									FMWN Mar23	EUR
<input type="checkbox"/>		Cont	1.0000	410.20000									FMWN Jun23	EUR
<input type="checkbox"/>		Cont	1.0000	410.80000									FMWN Sep23	EUR
<input type="checkbox"/>		Cont	1.0000	411.55000									FMWN Dec23	EUR
<input type="checkbox"/>		Cont	1.0000	405.35000									FMWN Mar24	EUR
<input type="checkbox"/>		Cont	1.0000	406.10000									FMWN Jun24	EUR
<input type="checkbox"/>		Cont	1.0000	406.85000									FMWN Sep24	EUR
<input type="checkbox"/>		Cont	1.0000	407.60000									FMWN Dec24	EUR
<input type="checkbox"/>		Cont			100	100	-0.600	-0.500	50	-0.800			FMWN SPD T0 Mar22	EUR
<input type="checkbox"/>		Cont											FMWN SPD T1 Mar22	EUR

### Populated calendar spreads:

#### FMWN T0 vs. Front month contract

- Basis Trading works exactly like normally quarterly rolling:
- It can be done either by entering two separate blocks (here: T0 & Mar22), but ideally by trading the **calendar instrument** (red box)
- This would also guarantee the fee advantage (see later in this presentation) and allows (in some products) a smaller order book tick size than the outright

**Note:** initially, Bloomberg may not show the calendars between dailys and quarterlies, as they are struggling with the rotation: every day a new T+2 contract is added and the T+2 contract of the previous day becomes the T+1 contract

# Basis Trading for MSCI Futures

Current version vs new version

## Current Trading Process















## Future Trading Process

<b>Description</b>	Trade is bilaterally agreed, thereafter you need to wait for index close, do a reconfirmation and trade entry (1 or 2 days later)	Trade is done (orderbook) or entered (TES) in Calendar instrument
<b>Operational</b>	Trade needs to be handled twice	Trade needs to be handled only once
<b>Trade date</b>	Recorded Trade date 1 or 2 days after trade	Trade date matches the day when trade was agreed
<b>Trade entry times</b>	Counterparties need to assure regulatory compliance (15min rule) when trade details are known	Trade is entered and processed immediately
<b>Counterparty Risk</b>	Trade is outside CCP until it is entered. Until then, default risk of the counterparty	Trade is in the CCP straight away
<b>Brokerage</b>	Brokerage commission needs to be paid	No Brokerage commission if traded via order book

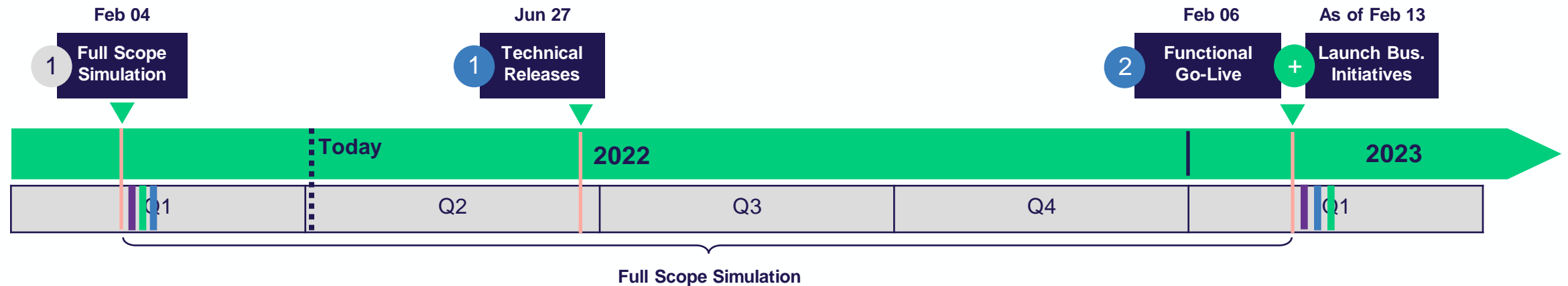
# Basis Trading

## Different exchanges, different solutions

#	Alternative	Description	Examples	Trade to be handled	Right trade date?	Counter-party Risk?	Rebooking necessary ?
1	<b>Separate product for the basis</b>	Trade the basis as a separate product and re-book it / transfer position into the standard future after close is known	<ul style="list-style-type: none"> <li>▪ MOC for Euro STOXX 50 (Eurex)</li> <li>▪ BTIC (CME)</li> <li>▪ TIC+ (ICE US)</li> </ul>	once 	no* 	no 	yes 
2	<b>Book transaction only after close</b>	Wait until the index close is known and only enter the Basis trade thereafter in the standard future	<ul style="list-style-type: none"> <li>▪ BIC (ICE US)</li> <li>▪ Block trade / TAIC (Eurex)</li> </ul>	twice 	no* 	yes 	no 
3	<b>Trade basis via Calendar</b>	Trade the calendar of a daily & standard future (or two individual legs)	<ul style="list-style-type: none"> <li>▪ <b>MOC T+x</b> (Eurex)</li> </ul>	once 	yes 	no 	no 

\* Not if Index is only available a day or more later

# Timeline NextGen Roll-Out Approach



## Simulation

- Since Feb 2022, following sub-monthly expiring contracts are supported (T7 10.0, C7 8.1):
  - Integrated weekly expiring contacts in
    - stock options AXA, BAY, CSGN, NOA3
    - index options ODAX, OSMI
    - Bund options OGBL
  - Daily expiring contracts in SSF AXAP, BAYP, NO3P
  - Daily expiring contracts in MSCI Futures FMEA, FMWN

Additional sub-monthly contracts are planned for Oct / Nov 2022

## Production




- 1 Technical Releases** (Jun 27): T7 10.1, C7 8.1, Prisma 11.1
- 2 Functional Go-Live in Feb 2023**  
Feb 06: YYYYMMDD logic becomes mandatory for all market participants for all ETD contracts
  - Launch of Business Initiatives**
    - As of Feb 13: Integration weekly expiring contacts
    - Feb 20: MSCI Basis Trading (Market-on-close)
    - Feb 27: Volatility strategies Equity Options (Daily expiring SSF)

# Integration of Weekly Options – Sequential Approach

Example: ODAX (main option) and ODX1/2/4/5 (weekly options) starting 2<sup>nd</sup> Friday in Feb 2023

First Day Available for Trading	Expiry Date	Friday of Month	Contracts of Weekly Options Products	Contracts of Main Options Product
2022-09-30	2022-12-30	5	ODX5 Dec22	
2022-12-02	2023-01-06	1	ODX1 Jan23	
2022-12-09	2023-01-13	2	ODX2 Jan23	
	2023-01-20	3		ODAX Jan23
2022-12-23	2023-01-27	4	ODX4 Jan23	
2023-01-06	2023-02-03	1	ODX1 Feb23	
2023-01-13	2023-02-10	2	ODX2 Feb23	
	2023-02-17	3		ODAX Feb23
2023-01-27	2023-02-24	4	ODX4 Feb23	
2023-02-03	2023-03-03	1	ODX1 Mar23	
2023-02-10	2023-03-10	2	ODX2 Mar23	ODAX Mar23-W2Fri
	2023-03-17	3		ODAX Mar23
2023-02-20	2023-03-24	4	ODX4 Mar23	ODAX Mar23-W4Fri
2023-02-20	2023-03-31	5	ODX5 Mar23	ODAX Mar23-W5Fri
2023-02-27	2023-04-07	1	ODX1 Apr23	ODAX Apr23-W1Fri
2023-03-06	2023-04-14	2		ODAX Apr23-W2Fri
	2023-04-21	3		ODAX Apr23
2023-03-20	2023-04-28	4		ODAX Apr23-W4Fri
2023-03-27	2023-05-05	1		ODAX May23-W1Fri

**Legend**

-  Monthly expiration & creation cycle valid in different weekly options products (*current approach*)
-  Sequential integration of weekly contracts during integration phase (*temporarily valid*)
-  Weekly expiration & creation cycle in main option products consisting of a rolling 6 week life cycle (*new approach*)

- Sequential Approach means that there is no overlap between monthly expiring contracts in weekly products (e.g. ODX1/2/4/5) versus integrated weekly expiring contracts in the main options product (e.g. ODAX)
- Outlined approach is valid for all main options products absorbing integrated weekly expiring contracts except for OESX (rolling 11 week life cycle instead of 6 weeks) and OGBL (monthly contracts are expiring either on the 3<sup>rd</sup> or 4<sup>th</sup> Friday)

# Readiness Checkpoints

- Check readiness with your **Clearing colleagues** and/or **General Clearing Member**
- Timeline for Integration of Weekly Options Contract is **February / March 2023**
- Check with your **ISVs** for readiness of trading systems and **order routing systems**
- If access available, **use simulation environment** to test your systems
- Find industry recordings, circulars or general updates on the **Eurex webpage**:  
<https://www.eurex.com/ex-en/support/initiatives/project-readiness/>
- **Please ask your Eurex representative in case of any open questions!**

# Disclaimer

© Eurex 2022

Deutsche Börse AG (“DBAG”), Clearstream Banking AG (“Clearstream”), Eurex Frankfurt AG (“Eurex”), Eurex Clearing AG (“Eurex Clearing”), Eurex Securities Transactions Services GmbH (“Eurex STS”) and Eurex Repo GmbH (“Eurex Repo”) are corporate entities and are registered under German law. Eurex Global Derivatives AG is a corporate entity and is registered under Swiss law. Clearstream Banking S.A. is a corporate entity and is registered under Luxembourg law. Eurex Frankfurt AG is the administrating and operating institution of Eurex Deutschland. Eurex Deutschland is in the following also referred to as the “Eurex Exchange”.

All intellectual property, proprietary and other rights and interests in this publication and the subject matter hereof (other than certain trademarks and service marks listed below) are owned by DBAG or its affiliates and subsidiaries or used under authorization by their respective owners, including, without limitation, all patent, registered design, copyright, trademark and service mark rights. While reasonable care has been taken in the preparation of this publication to provide details that are accurate and not misleading at the time of publication DBAG, Clearstream, Eurex, Eurex Clearing, Eurex Repo as well as the Eurex Exchange and their respective subsidiaries, servants and agents (a) do not make any representations or warranties regarding the information contained herein, whether express or implied, including without limitation any implied warranty of merchantability or fitness for a particular purpose or any warranty with respect to the accuracy, correctness, quality, completeness or timeliness of such information, and (b) shall not be responsible or liable for any third party’s use of any information contained herein under any circumstances, including, without limitation, in connection with actual trading or otherwise or for any errors or omissions contained in this publication.

This publication is published for information purposes only and shall not constitute investment advice respectively does not constitute an offer, solicitation or recommendation to acquire or dispose of any investment or to engage in any other transaction. This publication is not intended for solicitation purposes but only for use as general information. All descriptions, examples and calculations contained in this publication are for illustrative purposes only.

Eurex and Eurex Clearing offer services directly to members of the Eurex Exchange respectively to clearing members of Eurex Clearing. Those who desire to trade any products available on the Eurex market or who desire to offer and sell any such products to others or who desire to possess a clearing license of Eurex Clearing in order to participate in the clearing process provided by Eurex Clearing, should consider legal and regulatory requirements of those jurisdictions relevant to them, as well as the risks associated with such products, before doing so.

Only Eurex derivatives that are CFTC-approved may be traded via direct access in the United States or by United States persons. A complete, up-to-date list of Eurex derivatives that are CFTC-approved is available at: <https://www.eurex.com/ex-en/rules-regs/eurex-derivatives-us/direct-market-access-from-the-us> .

In addition, Eurex representatives and participants may familiarize U.S. Qualified Institutional Buyers (QIBs) and broker-dealers with certain eligible Eurex equity options and equity index options pursuant to the terms of the SEC’s July 1, 2013 Class No-Action Relief. A complete, up-to-date list of Eurex options that are eligible under the SEC Class No-Action Relief is available at: <https://www.eurex.com/ex-en/rules-regs/eurex-derivatives-us/eurex-options-in-the-us-for-eligible-customers>. Lastly, U.S. QIBs and broker-dealers trading on behalf of QIBs may trade certain

single-security futures and narrow-based security index futures subject to terms and conditions of the SEC’s Exchange Act Release No. 60,194 (June 30, 2009), 74 Fed. Reg. 32,200 (July 7, 2009) and the CFTC’s Division of Clearing and Intermediary Oversight Advisory Concerning the Offer and Sale of Foreign Security Futures Products to Customers Located in the United States (June 8, 2010).

## Trademarks and Service Marks

Buxl®, DAX®, DivDAX®, eb.rexx®, Eurex®, Eurex Repo®, Strategy Wizard, Euro GC®, FDAX®, FTSE 100, FWB®, GC Pooling®, GCPI®, MDAX®, ODAX®, SDAX®, TecDAX®, USD GC Pooling®, VDAX®, VDAX-NEW® and Xetra® are registered trademarks of DBAG or its affiliates and subsidiaries. All MSCI indexes are service marks and the exclusive property of MSCI Barra. ATX®, ATX® five, CECE® and RDX® are registered trademarks of Vienna Stock Exchange AG. IPD® UK Quarterly Indexes are registered trademarks of Investment Property Databank Ltd. IPD and have been licensed for the use by Eurex for derivatives. SLI®, SMI® and SMIM® are registered trademarks of SIX Swiss Exchange AG. The STOXX® indexes, the data included therein and the trademarks used in the index names are the intellectual property of STOXX Limited and/or its licensors. Eurex derivatives based on the STOXX® indexes are in no way sponsored, endorsed, sold or promoted by STOXX and its licensors and neither STOXX nor its licensors shall have any liability with respect thereto. PCS® and Property Claim Services® are registered trademarks of ISO Services, Inc. Korea Exchange, KRX, KOSPI and KOSPI 200 are registered trademarks of Korea Exchange Inc. The names of other companies and third-party products may be trademarks or service marks of their respective owners.

FTSE® is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited (“FTSE”) under license. All rights in the FTSE®100 Index (the “Index”) vest in FTSE or its licensors. Neither FTSE nor any of their affiliates or licensors (a) assumes any liability, losses, damages, expenses or obligations in connection with any derivative product based on the Index; or (b) accepts any liability for any errors or omissions, fitness for a particular purpose or the results to be obtained from the use of the Index or related data. No party may rely on the Index or related data contained in this communication which Index and data is owned by FTSE or their affiliates. No use or distribution of the Index is permitted without FTSE’s express written consent. FTSE does not promote, sponsor or endorse the content of this communication nor any financial or derivative product that it relates to.

PRIIPs: Eurex Deutschland qualifies as manufacturer of packaged retail and insurance-based investment products (PRIIPs) under Regulation (EU) No 1286/2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs Regulation), and provides key information documents (KIDs) covering PRIIPs traded on Eurex Deutschland on its website under the following link: <https://www.eurex.com/ex-en/rules-regs/priips-kids>.

In addition, according to Art. 14(1) PRIIPs Regulation the person advising on, or selling, a PRIIP shall provide the KID to retail investors free of charge.