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

<table>
<thead>
<tr>
<th>Current Trading Process</th>
<th>Future Trading Process</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Monthly contracts</strong> (e.g. OESX, OGBL)</td>
<td><strong>Monthly and weekly contracts</strong> (e.g. OESX W1, OESX W2, OESX, OGBL W1, OGBL W2, OGBL)</td>
</tr>
<tr>
<td><strong>Weekly and Month-end options</strong> (e.g. OES1, OES2, OMSX, OGB1, OGB2...)</td>
<td></td>
</tr>
<tr>
<td>Ease of strategy execution</td>
<td>✔</td>
</tr>
<tr>
<td>Calendar spreads between monthly/weeklies</td>
<td>✔</td>
</tr>
<tr>
<td>Strategy trades</td>
<td>✔</td>
</tr>
<tr>
<td>Combined risk settings (pre-trade risk limits, market maker protection)</td>
<td>✔</td>
</tr>
<tr>
<td>Expansion of further intraweek contracts (e.g. Monday, Wednesday options)</td>
<td>✔</td>
</tr>
</tbody>
</table>
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:

2) Strategy creation between Weeklies/Weeklies or Weeklies/Monthlies:
## Volatility strategies in Single Stock Options

**Full STP of delta neutral strategies**

<table>
<thead>
<tr>
<th>Current Trading Process</th>
<th>Future Trading Process</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Single Stock Option</strong></td>
<td><strong>Strategy Trade:</strong></td>
</tr>
<tr>
<td><strong>Underlying</strong> (back-to-back / Trade confirmation)</td>
<td>Single Stock Option + Physically settled single stock future (with same day expiry)</td>
</tr>
<tr>
<td>Delta neutral trading with straight-through-processing</td>
<td>Delta neutral trading with straight-through-processing</td>
</tr>
<tr>
<td>Eurex CCP risk framework for both legs</td>
<td>Eurex CCP risk framework for both legs</td>
</tr>
<tr>
<td>Mitigation of counterparty risk</td>
<td>Mitigation of counterparty risk</td>
</tr>
<tr>
<td>Access full variety of liquidity providers</td>
<td>Access full variety of liquidity providers</td>
</tr>
<tr>
<td>Choice of trading channels including EnLight</td>
<td>Choice of trading channels including EnLight</td>
</tr>
</tbody>
</table>

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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):

![Image of Eurex Enlight Request Details - OPT ON BAYER interface]
# Basis Trading (T+X) for MSCI Futures

Full straight-through-processed basis trading

<table>
<thead>
<tr>
<th>Current Trading Process</th>
<th>Future Trading Process</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade agreement at t</td>
<td>Calendar spread:</td>
</tr>
<tr>
<td>Settlement of the trade at t+X</td>
<td>MSCI Futures (Expire t+x) vs. MSCI Futures (Standard Expiry)</td>
</tr>
</tbody>
</table>

- 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:

**Risk prices:** Trading in the order book at a price level, which reflects the current level of all index components.

Prices reflect where Market Makers see the current value of stocks, even if cash markets are currently closed.

**Basis Trading:** Trading (via TES = Trade Entry Service) at a level linked to an index close.

Prices reflect the closing level of the individual markets.

Majority* of MSCI trading happens here, as liquidity of stocks is higher in closing auctions.

* TES share: FESX ~20% / FDAX <2% / MSCI ~85%
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

<table>
<thead>
<tr>
<th>Market</th>
<th>Product</th>
<th>Edit</th>
<th>Up to</th>
<th>Expiry</th>
<th>Strike</th>
<th>Type</th>
<th>Curr</th>
</tr>
</thead>
<tbody>
<tr>
<td>FMWN</td>
<td>T0</td>
<td>100</td>
<td>100</td>
<td>-0.800</td>
<td>-0.500</td>
<td>50</td>
<td>-0.800</td>
</tr>
</tbody>
</table>

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.

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 outrights.

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# Basis Trading for MSCI Futures

## Current version vs new version

<table>
<thead>
<tr>
<th>Current Trading Process</th>
<th>Future Trading Process</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Description</strong></td>
<td>Trade is bilaterally agreed, thereafter you need to wait for index close, do a reconfirmation and trade entry (1 or 2 days later)</td>
</tr>
<tr>
<td><strong>Operational</strong></td>
<td>Trade needs to be handled twice</td>
</tr>
<tr>
<td><strong>Trade date</strong></td>
<td>Recorded Trade date 1 or 2 days after trade</td>
</tr>
<tr>
<td><strong>Trade entry times</strong></td>
<td>Counterparties need to assure regulatory compliance (15min rule) when trade details are known</td>
</tr>
<tr>
<td><strong>Counterparty Risk</strong></td>
<td>Trade is outside CCP until it is entered. Until then, default risk of the counterparty</td>
</tr>
<tr>
<td><strong>Brokerage</strong></td>
<td>Brokerage commission needs to be paid</td>
</tr>
</tbody>
</table>

---

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### Basis Trading

**Different exchanges, different solutions**

<table>
<thead>
<tr>
<th>#</th>
<th>Alternative</th>
<th>Description</th>
<th>Examples</th>
<th>Trade to be handled</th>
<th>Right trade date?</th>
<th>Counter-party Risk?</th>
<th>Rebooking necessary?</th>
</tr>
</thead>
</table>
| 1  | Separate product for the basis   | Trade the basis as a separate product and re-book it / transfer position into the standard future after close is known | ▪ MOC for Euro STOXX 50 (Eurex)  
▪ BTIC (CME)  
▪ TIC+ (ICE US)  | once                | no*               | no                  | yes               |
| 2  | Book transaction only after close | Wait until the index close is known and only enter the Basis trade thereafter in the standard future | ▪ BIC (ICE US)  
▪ Block trade / TAIC (Eurex)  | twice               | no*               | yes                 | no                  |
| 3  | Trade basis via Calendar         | Trade the calendar of a daily & standard future (or two individual legs)     | ▪ MOC T+x (Eurex)  | once               | yes               | no                  | no                  |

* Not if Index is only available a day or more later
### Timeline NextGen Roll-Out Approach

#### Full Scope Simulation
- **Today**
- **2022**
  - Q1
  - Q2
  - Q3
  - Q4
- **2023**
  - Q1

#### Technical Releases
- **Jun 27**
- **Feb 06**
- As of Feb 13

#### Functional Go-Live
- **Feb 06**
- YYYYMMDD logic becomes mandatory for all market participants for all ETD contracts

#### Launch of Business Initiatives
- **Feb 20**: MSCI Basis Trading (Market-on-close)
- **Feb 27**: Vola strategies Equity Options (Daily expiring SSF)

### Simulation
1. 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

### 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

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

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Integration of Weekly Options – Sequential Approach

Example: ODAX (main option) and ODX1/2/4/5 (weekly options) starting 2\textsuperscript{nd} Friday in Feb 2023

<table>
<thead>
<tr>
<th>First Day Available for Trading</th>
<th>Expiry Date</th>
<th>Friday of Month</th>
<th>Contracts of Weekly Options Products</th>
<th>Contracts of Main Options Product</th>
</tr>
</thead>
<tbody>
<tr>
<td>2022-09-30</td>
<td>2022-12-30</td>
<td>5</td>
<td>ODX5 Dec22</td>
<td></td>
</tr>
<tr>
<td>2022-12-02</td>
<td>2023-01-06</td>
<td>1</td>
<td>ODX1 Jan23</td>
<td></td>
</tr>
<tr>
<td>2022-12-09</td>
<td>2023-01-13</td>
<td>2</td>
<td>ODX2 Jan23</td>
<td></td>
</tr>
<tr>
<td>2023-01-20</td>
<td>2023-01-27</td>
<td>4</td>
<td>ODX4 Jan23</td>
<td>ODXA Jan23</td>
</tr>
<tr>
<td>2023-01-06</td>
<td>2023-02-03</td>
<td>1</td>
<td>ODX1 Feb23</td>
<td></td>
</tr>
<tr>
<td>2023-01-13</td>
<td>2023-02-10</td>
<td>2</td>
<td>ODX2 Feb23</td>
<td></td>
</tr>
<tr>
<td>2023-02-17</td>
<td>2023-02-24</td>
<td>3</td>
<td>ODX4 Feb23</td>
<td>ODXA Feb23</td>
</tr>
<tr>
<td>2023-02-03</td>
<td>2023-03-03</td>
<td>4</td>
<td>ODX1 Mar23</td>
<td></td>
</tr>
<tr>
<td>2023-02-10</td>
<td>2023-03-10</td>
<td>3</td>
<td>ODX2 Mar23</td>
<td></td>
</tr>
<tr>
<td>2023-03-17</td>
<td>2023-03-24</td>
<td>5</td>
<td>ODX4 Mar23</td>
<td></td>
</tr>
<tr>
<td>2023-02-20</td>
<td>2023-03-31</td>
<td>4</td>
<td>ODX5 Mar23</td>
<td></td>
</tr>
<tr>
<td>2023-02-27</td>
<td>2023-04-07</td>
<td>1</td>
<td>ODX1 Apr23</td>
<td>ODXA Apr23</td>
</tr>
<tr>
<td>2023-03-06</td>
<td>2023-04-14</td>
<td>2</td>
<td>ODX2 Apr23</td>
<td></td>
</tr>
<tr>
<td>2023-04-21</td>
<td>2023-04-28</td>
<td>3</td>
<td>ODX4 Apr23</td>
<td></td>
</tr>
<tr>
<td>2023-03-20</td>
<td>2023-05-05</td>
<td>4</td>
<td>ODX5 Apr23</td>
<td></td>
</tr>
<tr>
<td>2023-03-27</td>
<td>2023-05-05</td>
<td>1</td>
<td>ODXA May23-W1Fri</td>
<td></td>
</tr>
</tbody>
</table>

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\textsuperscript{rd} or 4\textsuperscript{th} 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:**

- **Please ask your Eurex representative in case of any open questions!**
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