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To: All Eurex members and vendors

Date: Frankfurt, 22nd July 1999

Introduction of Pro rata Matching for Money Market Products (FEU1, FEU3, LIB3)

Dear Sir or Madam,

On 13th July 1999, the executive boards of Eurex Deutschland and Eurex Zurich decided to introduce a pro rata matching allocation algorithm which operates exclusively on price priority. Subject to the agreement of the Eurex Exchange Council and the Eurex Administrative Board, matching in the One-month Euribor Future (FEU1) , the Three-month Euribor Future (FEU3) and the expiring Three-month Euromark Future (LIB3) will be changed to the pro rata basis from 14th September 1999.

In comparison to other exchange-traded derivatives, Money Market Futures exhibit a relatively low level of intra-day volatility. With the currently-used price/time priority matching procedure, this leads to a situation where a member has little chance that his entered order is executed, even when it corresponds to the current best price. This only occurs after existing orders in the order-book at the same price have been filled completely.

On this basis, many members have encouraged Eurex to replace the current 'first come first served' matching procedure with a proportional allocation.

The pro rata matching principle works exclusively according to price priority. This means that an incoming order will be matched against all existing orders on the opposite side at the same price, according to their percentage share of the combined order volume. A detailed explanation of the pro rata matching principle can be found in the attachment.

In the period 26th July until 3rd September 1999, pro rata matching for the products FEU1, FEU3, and LIB3 will be tested in the Release 3.0 simulation environment together with the potential new products FSLI and FEON announced in Eurex circular 63/99. On 3rd August (system date 25th February 2000) a special **Focus day** has been designated for testing pro rata matching. In order to concentrate the trading activity on this day, all members are asked to trade FEU1 and FEU3 during simulation on August 3rd. **The 20 most-active simulation participants in the FEU3 product on 3rd August will receive an incentive award (maximum one award per member) for their support. Only trader-related activities will be included in the transaction count (Order Add, Change, Delete, etc).**

In the near future, we will inform you via a further circular on the changes to the Rules and Regulations.

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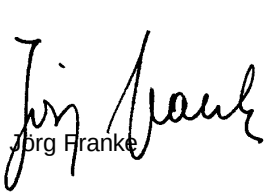
Additional information on the introduction of pro rata matching in September is given below:

- Subject to the agreement of the Eurex Exchange Council and the Eurex Administrative Board, with the conversion of the FEU1, FEU3, and LIB3 products from price/time priority to pro rata matching, all outstanding orders for these products will be deleted from the order book during the overnight batch processing on 13th/14th September 1999.
- Pro rata matching will only be applied during the Trading Period. In the Opening Period, during the netting process, existing orders and quotes for these products will be handled as before, with price/time priority.
- Unlimited orders (market orders) can only be entered with the IOC (Immediate or Cancel) restriction.
- Stop orders and Combination Orders/quotes are not supported

If you have any questions, please contact either:

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Yours sincerely,



Jörg Franke



Hartmut Klein

Attachment

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Pro Rata Matching Principle

As described in the circular, the pro rata matching principle is based exclusively on price priority. All existing orders in the order book with the same price will be executed according to their percentage proportion of the combined available order volume at that price.

When the combined volume of all book orders with the best price is smaller or equal to the volume of the incoming order, all book orders with the best price will be executed. Matching is stopped either when the price limit of the incoming order is reached, or when the remaining quantity in the order book is zero. Otherwise, matching of the remainder of the incoming order, now partially executed, continues with the next best price in the order book.

When the combined volume of all book orders with the best price is greater than the volume of the incoming order, matching proceeds on these price limited orders according to their respective share of the combined quantity available at that limit. The allocation of partial execution is handled as follows:
Firstly, the proportionate quantity of every order which can be executed at the price is determined as a whole number value, by which the quantity of the respective book order is divided by the combined volume of all book orders with the best price, and the resulting value multiplied by the volume of the incoming order. This process is carried out for all orders with the best price. Due to the calculation of a whole number value for the partial execution of book orders, it may be that the accumulated volume of executed book orders is smaller than the volume of the incoming order, and there will be a remainder for the overall trade.
The remaining part of the incoming order will then be distributed randomly among the book orders at the best price, with each such order receiving a maximum of one additional contract.

Pro Rata Matching Example:

Order book before Pro Rata Matching

Order No.	B/S	Price	Qty	Time-stamp
1	B	97.68	100	10:01:58
2	B	97.68	50	10:02:23

Incoming Order: Sell 97.68 Qty 100

Execution:

1 Price 97.68; Qty = $\left[\frac{100}{150}\right] * 100 = 66.6666 = 66$

2 Price 97.68; Qty = $\left[\frac{50}{150}\right] * 100 = 33{,}3333 = 33$

The remaining portion of the incoming order (1, in this example) is allocated to one of the two orders on a random basis.

Order book after Pro Rata Matching

Order No.	B/S	Price	Quantity	Time-stamp
1	B	97.68	33 or 34 depending on allocation	10:01:58
2	B	97.68	16 or 17 depending on allocation	10:02:23