X-pand into the Future

e u r e x *circular 069/02*

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High Priority

Treatment of the Citigroup Spin-off

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Content may be most important for:	**Attachments:**
➲ Front Office / Trading ➲ Middle + Back Office ➲ Auditing / Security Coordination	None

Summary:

On August 21, 2002 Citigroup plans a spin off whereby, for each Citigroup share held, shareholders will receive a distribution of 0.0430422 Travelers Property Casualty Corp. Class A (TAPA) shares and 0.0884326 Travelers Property Casualty Corp. Class B (TAPB) shares.

The circular describes the procedure for the associated adjustment of the Citigroup option.

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Treatment of the Citigroup Spin-off

On August 21, 2002 Citigroup plans a spin off whereby, for each Citigroup share held, shareholders will receive a distribution of 0.0430422 Travelers Property Casualty Corp. Class A shares (TAPA / US89420G1094) and 0.0884326 Travelers Property Casualty Corp. Class B (TAPB / US89420G4064) shares.

When the spin-off becomes effective, an adjustment to the Citigroup option at Eurex (TRV) is required. The form of the adjustment has been chosen so that the result at the time of the adjustment is value-neutral. A description of the required steps is given below:

- From the time of the spin-off, the underlying security of the Citigroup option will be a basket consisting of 1 Citigroup share ex, plus 0.0430422 TAPA and 0.0884326 TAPB shares .
- Exercise prices and contract size of Citigroup options will remain unchanged
- On exercise, a basket consisting of Citigroup, TAPA and TAPB shares will be delivered (for details, see below under 'Exercise')

In order to be able to settle the basket, the Citigroup option will be converted into a dummy option, and the Citigroup share will be converted into a dummy underlying which represents the basket of Citigroup ex, TAPA and TAPB.

The procedure is explained in detail below:

The last trading day-cum is **August 20, 2002**.

On **August 19, 2002** a dummy Citigroup underlying will be set up in the Eurex system:

On **August 20, 2002** after close of trading, the following entries will be made:

- the security symbol and the ISIN of the existing Citigroup option and the Citigroup underlying will be converted to those of the basket (TRVB / DE0007200578)
- the dummy Citigroup underlying set up on August 19, 2002 will be converted to the original Citigroup share (TRV / US1729671016)
- All open orders and quotes will be deleted

On August 20, 2002, in all Eurex reports, in the theoretical price file, and in all back-office messages transmitted during the batch, the old data will apply. During the conversion, no back-office messages will be transmitted to members' systems. At the start of trading on August 21, 2002, only the new data will be valid in all areas of the Eurex system.

Following the spin-off, the value of a contract can be calculated according to the following formula:

Contract size = 100 * Citigroup ex price + 100 * 0.0430422 * TAPA price + 100 * 0.0884326 * TAPB price

C*S1 = C*SB = C*S2 + C*S3 + C*S4

C = Contract size
S1 = Price of Citigroup cum
S2 = Price of Citigroup ex
S3 = Price of TAPA
S4 = Price of TAPB
SB = Price of the basket

This formula is always applicable for the valuation of an option series after a spin-off.

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Citigroup Options

After the spin-off, no new series will be introduced in the basket option.

On **August 22, 2002** after close of trading, a new Citigroup option (TRV / US1729671016), will be set up in the Eurex system with Citigroup shares as the underlying. Corresponding back office messages will be transmitted. The margin parameter will be the same (10%) as for the current Citigroup option.

Trading in the new option will start on **August 23, 2002**. Orders and quotes may be entered into the Eurex system from 07:30 CET onwards.

Exercise

On exercise of the basket option after the spin-off, three delivery instructions will be transmitted to SIS SegaInterSettle/Clearstream;

Trade 1:	Delivery of 100 Citigroup-ex shares against payment of C* exercise price
Trade 2:	Delivery of 4 TAPA shares against payment of EUR 0.00
Trade 3:	Delivery of 8 TAPB shares against payment of EUR 0.00

The amount calculated will be reduced by the following cash settlement per contract:

0.30422 * price of TAPA plus 0.84326 * price of TAPB on the day of exercise.

Eurex is assuming that the TAPB share, like the Citigroup and TAPA shares will be included in the collective custody of Clearstream Banking Frankfurt, so that cross-border deliveries with SIS SegaInterSettle will be possible. If deliveries in TAPB become due, but the inclusion in collective safe custody has not been confirmed at that time, Eurex will decide on a different method of delivery.

Covering Short Call Positions in the Basket Option

After the spin-off, for technical reasons, Citigroup shares cannot be pledged as cover for short Call positions in the Basket option.

Reports

Citigroup shares will appear in the reports RPTCE080 (Pending Delivery) RPTCE090 (Late Delivery) and RPTCE100 (Settled Delivery). In the report RPTCE080 however, these will first appear **one day later**. On the day of exercise, Report RPTCE080 will firstly show the basket. On the following day, the report will show Citigroup and TAPA as individual components of the basket. For technical reasons it is not possible to display TAPB as a component of the basket in addition.

Frankfurt, August 16, 2002

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