X-pand into the Future

e u r e x *circular 053/02*

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Recipients: All Eurex members and vendors
Authorized by: Peter Reitz

High Priority

Modifications to Market Making Conditions

Related Eurex Circulars: 050/02

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Content may be most important for:

- Front Office / Trading
- Middle + Back Office
- Auditing / Security Coordination

Attachments:

1. Market Maker Quote Obligations and Quote spread Classification for Options
2. Amended sections of the Price List

Summary:

The Management Boards of Eurex have made a number of changes to the Market Making Conditions.

Market Maker Obligation Parameter Adjustments

The Management Boards of the Eurex Exchanges have made the decision to adjust certain parameters of the current 'quote on request' Market Making model for stock options. With effect from 1 July, 2002, the maximum delay in responding to a quote request for stock options will be reduced from **five minutes to one minute**. In the "Fast Market" state the response time will be reduced by 50 percent to 30 seconds.

Also with effect from 1 July, 2002, the minimum quote size for a number of stock options will be increased from **20 contracts to 50 contracts**.

Discontinuation of Volume-related pricing

The Management Board of Eurex Clearing AG have decided to abolish the volume-related pricing scheme for Market Makers with effect from 1 July, 2002. This affects market making in DAX options, German stock options in Group C, and Swiss Stock options in Group C.

Market Quality Improvement

Two measures will be introduced on 1 July 2002 to improve the quality of certain areas of the Eurex market:

1. Permanent Market Making Model

Associated with the initiatives related to trading in Dutch Stock options announced in Circular 050/02, the Management Boards of the Eurex Exchanges will introduce a market making model for permanent market making in Dutch stock options with effect from 1 July, 2002. Members fulfilling the quote obligations will receive a full refund of Dutch stock option transaction fees for the period from 1 July, 2002 until the end of December, 2003.

2. Revenue Sharing Scheme for Dutch Stock Option Trading

The ten members (market makers, or not) with the highest monthly contract volume in Dutch stock options (combined totals on the A, P, and M Accounts - pre-Give-up/Take-up) will benefit from a new revenue-sharing scheme. On a monthly basis, Eurex will re-distribute 50 percent of all transaction fee revenue (trading and clearing fees) from Dutch stock option trading to these ten members.

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Modifications to Market Making Conditions

The Management Boards of Eurex have recently made a number of modifications to the Market Making conditions.

Market Maker Obligation Parameter Adjustments

In measures aimed at improving the quality of the market in stock option trading, the Management Boards of the Eurex Exchanges have made the decision to adjust certain parameters of the current 'quote on request' Market Making model for stock options.

With effect from 1 July, 2002, the maximum delay in responding to a quote request for stock options will be reduced from **five minutes to one minute**. In the "Fast Market" state the response time will be reduced by 50 percent to 30 seconds.

This aligns the maximum delay to respond to stock option quote requests with that currently defined for responses to quote requests on index options.

The minimum holding time of ten seconds remains unchanged for stock option and index option quotes.

Also with effect from 1 July, 2002, the Boards made the decision to increase the minimum quote size for a number of stock options from **20 contracts to 50 contracts**. Based on criteria of underlying value of the contract, liquidity and volatility, the increased minimum size will apply to the following products:

Options on German Stocks

- BASF, Deutsche Bank, Metro, E.ON, Deutsche Telekom, DaimlerChrysler, BMW, RWE, Bayer, VW, Thyssen Krupp, Siemens, Bayerische Hypo- und Vereinsbank.

Options on Finnish Stocks

- Nokia

Options on Swiss Stocks

- Novartis N, Swisscom, UBS N, Credit Suisse Group N, Roche Holding

The minimum quote size for all other stock options subject to the 'quote on request' market maker model will retain the current size of 20 contracts.

In order to avoid potential problems with meeting market maker obligations after 1 July, 2002, we would ask all affected market makers to take these new response time obligations and minimum quote size changes into account, particularly in any automated quote systems.

The revised market maker obligations and quote spread parameters for stock options valid from 1 July, 2002 (also distributed as Attachment 4 to Eurex Circular 050/02) can be found in Attachment 1.

Discontinuation of Volume-related pricing

The Management Board of Eurex Clearing AG have decided to discontinue the volume-related pricing scheme for Market Makers with effect from 1 July, 2002. This affects market making in DAX options, German stock options in Group C, and Swiss stock options in Group C.

From 1 July, 2002 , subject to fulfillment of the corresponding Market Making obligations, the following pricing levels will apply to all trades concluded on the M-Account for the following products:

- DAX Options EUR 0.20 per contract
- German Stock Options EUR 0.04 per contract
- Swiss Stock Options CHF 0.08 per contract

The updated sections of the Price List can be found in Attachment 2.

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Market Quality Improvement

Two separate, but related, measures will be introduced on 1 July, 2002 with the aim of improving the quality of the market in certain areas at Eurex. Firstly, in order to give members access to a permanently liquid market, a supplementary market making scheme has been devised under which market makers undertake to make a permanent market in chosen stock options. Fee concessions will be given to those members. Furthermore, to encourage active participation in the improved market, Eurex is introducing a revenue sharing scheme which rewards those members who offer the most support.

Permanent Market Making Model

Associated with the initiatives related to trading in Dutch Stock options announced in **Circular 050/02**, the Management Boards of the Eurex Exchanges will introduce a model for permanent market making in Dutch stock options with effect from 1 July, 2002.

The permanent market maker obligations for Dutch stock options are included in Attachment 1. Under the model, members may elect to make a permanent market in any Dutch stock option for which they also have a regular market making license. Subject to fulfillment of the quotation obligations, they will receive a full refund of all Dutch option transaction fees for trades on the A, P or M accounts. This fee holiday will start from 1 July, 2002 and last until the end of 2003.

Revenue Sharing Scheme for Dutch Stock Option Trading

As a further incentive to assist Eurex in improving the quality of the market in Dutch equity options, a revenue sharing scheme will be introduced which offers considerable advantages to the most active members in the Dutch segment.

The ten members (market makers, or not) with the highest monthly contract volume in Dutch stock options (combined totals on the A, P, and M Accounts - pre-Give-up/Take-up) will benefit from the scheme.

On a monthly basis, Eurex will re-distribute 50% of all transaction fee revenue (trading and clearing fees) from Dutch stock option trading to members. The distribution will be made to the top ten members according to their volume ranking, proportionately, as follows:

Member Ranking	Participation in 50% of all Revenue
1	20%
2	18%
3	16%
4	13%
5	10%
6	8%
7	6%
8	4%
9	3%
10	2%

Members who are active in the Dutch segment will be informed individually of their ranking position on a monthly basis. Payments due as a result of qualifying for the revenue distribution will be made at the year-end.

The revenue distribution scheme for Dutch stock option trading will begin from 1 July, 2002 and last until December 31, 2003.

Frankfurt, 27 June, 2002

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Market Maker Quote Obligations

And Quote Spread Classification of Equity Options

1. Equity Options Quote Obligations for Non-Dutch 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 German Stocks

- BASF, Deutsche Bank, Metro, E.ON, Deutsche Telekom, DaimlerChrysler, BMW, RWE, Bayer, VW, Thyssen Krupp, Siemens, Bayerische Hypo- und Vereinsbank.

Options on Finnish Stocks

- Nokia

Options on Swiss Stocks

- Novartis N, Swisscom, UBS N, Credit Suisse Group 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 - 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

Equity Options quoted in CHF

Class I		**Class II**		**Class III**	
Bid up to	*Spread*	*Bid up to*	*Spread*	*Bid up to*	*Spread*
0 - 5.00	1.00	0 - 10.00	2.00	0 - 20.00	4.00
5.01-15.00	20%	10.01-30.00	20%	20.01 - 50.00	20%
>15.00	3.00	> 30.00	6.00	> 50.00	10.00

Class IV		**Class V**		**Class VI**	
Bid up to	*Spread*	*Bid up to*	*Spread*	*Bid up to*	*Spread*
0 - 20.00	4.00	0 - 30.0	6.00	0 - 50.0	10.00
20.01 - 250.0	20%	30.1 - 250.0	20%	50.1 - 500.0	20%
> 250.00	50.00	> 250.0	50.00	> 500.0	100.0

Response to quote requests: At least 50 % of all Quote Requests have to be answered (up to a max. of 150 quote requests per day):

- within 1 minute

- with a minimum holding time of 10 seconds.

Market Maker Fees: See Price List.

Fast Market: In the Fast Market state, the maximum spreads will increase by 50%, the minimum quote size will be reduced by 50% and the maximum response time will be reduced by 50%.

2. Equity Options Quote Obligations for Dutch Equity Options

Minimum Size for Regular and Permanent Market Making and Maximum Spreads *:

		DJ Euro STOXX 50 Components	Non-DJ Euro STOXX 50 Components
Term: Minimum Contract Size	**Bid Price**	**Maximum Spread**	**Maximum Spread**
< 12 months :	0.00 – 0.50	0.15	0.15
Regular : 20 Contracts	0.51 – 2.50	0.15	0.20
Permanent: 50 contracts	2.51 – 5.00	0.20	0.30
	5.01 – 10.00	0.30	0.40
	10.01 – 20.00	0.40	0.50
	>20.00	0.60	0.65
12- 24 months	0.00 – 0.50	0.15	0.20
Regular 20 Contracts	0.51 – 2.50	0.15	0.30
Permanent: 30 contracts	2.51 – 5.00	0.20	0.40
	5.01 – 10.00	0.30	0.50
	10.01 – 20.00	0.40	0.60
	>20.00	0.60	0.70
> 24 months:	0.00 – 0.50	0.15	0.30
Regular: 20 contracts	0.51 – 2.50	0.20	0.40
> 24 to 36 months	2.51 – 5.00	0.30	0.50
Permanent: 20 Contracts	5.01 – 10.00	0.40	0.60
	10.01 – 20.00	0.50	0.70
	>20.00	0.60	0.80

*** The Maximum Spreads apply to both Regular and Permanent Market Making**

Regular Market Making

Response to quote requests: At least 50 % of all Quote Requests have to be answered (up to a max. of 150 quote requests per day):

- within 1 minute
- with a minimum holding time of 10 seconds.

Market Maker Fees: See Price List.

Fast Market: In the Fast Market state, the maximum spreads will increase by 50%, the minimum quote size will be reduced by 50% and the maximum response time will be reduced by 50%.

Permanent Market Making

Committed Quotation time: Average of 90% of the period between 09:00 and 17:30 CET on Exchange trading days per calendar month for all expirations up to 36 months. PMMs will be obliged to quote Calls and Puts in maturities up to 3 years for all at-the-money strikes. Additionally, quotes are required on two in-the-money or out-of-the-money strike prices on either side (asymmetrical quoting is allowed) such that a total of six quotes are outstanding.

Exemption from Obligation 3 Exchange trading days per month

Market Maker Fees: See Circular 051/02.

Fast Market: In the Fast Market state, the maximum spreads will increase by 50%, the minimum quote size will be reduced by 50% and the maximum response time will be reduced by 50%.

3. Quote Spread Classification – Non-Dutch Options Quoted in Euro

German Stock Options

Class I		Class II		Class III	
Adidas	ADS	Marschollek + Partner	MLP	Allianz	ALV
BASF	BAS	SAP	SAP	Münchner Rückversicherung	MUV2
Bayer	BAY			Porsche	POR3
BMW	BMW				
Commerzbank	CBK				
Continental	CON				
Deutsche Börse	DB1				
Deutsche Bank	DBK				
DaimlerChrysler	DCX				
Degussa	DGX				
Deutsche Post World Net	DPW				
Dresdner Bank	DRB				
Deutsche Telekom	DTE				
E.ON	EOA				
Epcos	EPC				
Fresenius Medical Care	FME				
Henkel	HEN3				
Hypo- und Vereinsbank	HVM				
Infineon	IFX				
Karstadt	KAR				
Lufthansa	LHA				
Linde	LIN				
MAN	MAN				
Metro	MEO				
Preussag	PRS				
RWE	RWE				
Schering	SCH				
Siemens	SIE				
Thyssen-Krupp	TKA				
Volkswagen	VOW				

Market Maker Quote Obligations

And Quote Spread Classification of Equity Options

Neuer Markt Stock Options

Class I		Class II		Class III	
Broadvision	BDN	Aixtron	AIX		
Consors	CSO	Mobilcom	MOB		
EM.TV	ETV				
Intershop	ISH				
Qiagen	QIA				
T-Online	TOI				

Finnish Stock Options

Class I		Class II		Class III	
Elisa Communications	EIA				
Stora Enso	ENUR				
Nokia	NOA3				
UPM-Kymmene	RPL				
Sonera	SOY				
TietoEnator	TTEB				

French Stock Options

Class I		Class II		Class III	
Aventis	AVE	TotalFinaElf	TOTB		
AXA-UAP	AXA				
BNP Paribas	BNP				
Carrefour	CAR				
France Telecom	FTE				
L'Oréal	LOR				
Orange	OAG				
Vivendi	VVU				

Italian Stock Options

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

Market Maker Quote Obligations

And Quote Spread Classification of Equity Options

U.S. Stock Options

Class I		Class II		Class III	
AOL Time Warner	AOL	IBM	IBM		
Cisco Systems	CIS	Microsoft	MSF		
EMC	EMP				
General Electric	GEC				
Intel	INL				
Oracle	ORC				
Sun Microsystems	SSY				
Citigroup	TRV				

4. Dutch Stock Options

The following Dutch Stock Options are available for quotation under Regular or Permanent Market Making

Stock Option	Eurex Code	DJ Euro STOXX 50 Component
ABN Amro	AAR	Y
Aegon	AEN	Y
Akzo Nobel	AKU	N
Ahold	AHO	Y
ASML Holding	ASM	N
ING	INN	Y
DSM	DSM	N
Elsevier	ELV	N
Fortis	FO4	Y
Getronics	GTO	N
Gucci Group	GUCN	N
Hagemeyer	HMY	N
Heineken	HNK	N
Buhrmann	KNP	N
KPN	KPN	N
Numico	NUT	N
Philips	PHI1	Y
Royal Dutch	ROY	Y
TPG	TPG	N
Unilever	UNI	Y
Moolen Holding	VMH	N
VNU	VNU	N
Wolters Kluwer	WOS	N

5. Quote Spread Classification – Options Quoted in CHF

Class I		Class II		Class III	
ABB	ABB2	Adecco	ADEN	Givaudan	GIVN
Richemont	CFR	Ciba Spezialitätenchemie	CIBN	Holcim	HOL
Clariant	CLN	Roche	ROG	Kudelski	KUD
Credit Suisse Group	CSGN	Syngenta	SYNN	Nestlé	NESN
Novartis	NOVN			Schweizer Rückversicherung	RUKN
Swatch Group	UHRN			Swisscom	SCMN
UBS Group	UBSN			Sulzer	SUN
				Unaxis	UNAX
				Zürich Financial Services	ZURN

Class IV		Class V		Class VI	
		Julius Bär	BAER		
		Lonza	LONN		
		Rentenanstalt	RAN		
		Serono	SEO		

Price List

2 Transaction Fees of Eurex Deutschland and Eurex Zürich

2.2 the following fees with respect to options contracts:

2.2.1 German Stock Options

with respect to German Stock Options, fees for

a. order matching		
- trade	per contract	0.20 EUR
- trade (Market Maker)	per contract	0.20 EUR

If the Market Maker requirements in German Stock Options – as determined by the Boards of Management of the Eurex Exchanges – are met, transaction fees paid for trades (Market Maker) shall be subject to a refund so that the actual fee is as follows:

	per contract	0.04 EUR

b. trade administration		
- trade separation	per transaction	0.00 EUR
- trade transfer	per transaction	0.00 EUR
- adjustment of an opening/closing transaction	per transaction	0.00 EUR
c. position administration		
- position closing transaction	per transaction	0.00 EUR
- position transfer	per transaction	0.00 EUR
- position transfer from Market Maker account	per contract	0.00 EUR
d. settlement of trades and positions		
- exercise	per contract	0.20 EUR
- exercise (Market Maker)	per contract	0.20 EUR
- exercise adjustment	per transaction	0.00 EUR

If the Market Maker requirements have been met, so that transaction fees will be subject to a refund in accordance with section 2.2.1 a), then rebates for such fees paid will be given to Market Makers for exercise, so that the actual fee for exercises (Market Maker) is as follows:

	(actual) fee per exercised contract:
	0.04 EUR

2.2.2 Options on the German Stock Index (DAX)

with respect to Options on the German Stock Index (DAX) (round lot and odd lot), fees for:

a. order matching		
- trade	per contract	0.75 EUR
- trade (Market Maker)	per contract	0.75 EUR

If the Market Maker requirements in Options on the German Stock Index (DAX) – as determined by the Boards of Management of the Eurex Exchanges – are met, transaction fees paid for trades (Market Maker) shall be subject to a refund so that the actual fee is as follows:

	per contract	0.20 EUR
b. trade administration		
- trade separation	per transaction	0.00 EUR
- trade adjustment	per transaction	0.00 EUR
- trade transfer	per transaction	0.00 EUR
c. position administration		
- position closing transaction	per transaction	0.00 EUR
- position transfer	per transaction	0.00 EUR
- position transfer from Market Maker account	per contract	0.00 EUR
d. settlement of trades and positions		
- exercise	per contract	0.75 EUR
- exercise (Market Maker)	per contract	0.75 EUR
- exercise adjustment	per transaction	0.00 EUR

If the Market Maker requirements have been met, so that transaction fees will be subject to a refund in accordance with section 2.2.2 a), then rebates for such fees paid will be given to Market Makers for exercise, so that the actual fee for exercises (Market Maker) is as follows:

(actual) fee per exercised contract:
0.20 EUR

2.2.7 LEPOs on Stocks of German Stock Corporations

with respect to LEPOs on Stocks of German Stock Corporations, fees for:

a.	order matching		
	- trade	per contract	0.20 EUR
	- trade (Market Maker)	per contract	0.20 EUR

If the Market Maker requirements in LEPOs on Stocks of German Stock Corporations – as determined by the Boards of Management of the Eurex Exchanges – are met, transaction fees paid for trades (Market Maker) shall be subject to a refund so that the actual fee is as follows:

	per contract	0.04 EUR

b.	trade administration		
	- trade separation	per transaction	0.00 EUR
	- trade transfer	per transaction	0.00 EUR
	- adjustment of an opening/closing transaction	per transaction	0.00 EUR
c.	position administration		
	- position closing transaction	per transaction	0.00 EUR
	- position transfer	per transaction	0.00 EUR
	- position transfer from Market Maker account	per contract	0.00 EUR
d.	settlement of trades and positions		
	- exercise	per contract	0.20 EUR
	- exercise (Market Maker)	per contract	0.20 EUR
	- exercise adjustment	per transaction	0.00 EUR

If the Market Maker requirements have been met, so that transaction fees will be subject to a refund in accordance with section 2.2.7 a), then rebates for such fees paid will be given to Market Makers for exercise, so that the actual fee for exercises (Market Maker) is as follows:

	(actual) fee per exercised contract:
	0.04 EUR

2.2.15 Swiss Stock Options

with respect to Swiss Stock Options, fees for:

a. order matching		
- trade	per contract	0.40 CHF
- trade (Market Maker)	per contract	0.40 CHF

If the Market Maker requirements in Swiss Stock Options – as determined by the Boards of Management of the Eurex Exchanges – are met, transaction fees paid for trades (Market Maker) shall be subject to a refund so that the actual fee is as follows:

	per contract	0.08 CHF

b. trade administration		
- trade separation	per transaction	0.00 CHF
- trade transfer	per transaction	0.00 CHF
- adjustment of an opening/closing transaction	per transaction	0.00 CHF

c. position administration		
- position closing transaction	per transaction	0.00 CHF
- position transfer	per transaction	0.00 CHF
- position transfer from Market Maker account	per contract	0.00 CHF

d. settlement of trades and positions		
- exercise	per contract	0.40 CHF
- exercise (Market Maker)	per contract	0.40 CHF
- exercise adjustment	per transaction	0.00 CHF

If the Market Maker requirements have been met, so that transaction fees will be subject to a refund in accordance with section 2.2.15 a), then rebates for such fees paid will be given to Market Makers for exercise, so that the actual fee for exercises (Market Maker) is as follows:

	(actual) fee per exercised contract:
	0.08 CHF

2.2.16 LEPOs on Swiss Stock Corporations

with respect to LEPOs on Swiss Stock Corporations, fees for:

a. order matching		
- trade	per contract	0.40 CHF
- trade (Market Maker)	per contract	0.40 CHF

If the Market Maker requirements in LEPOs on Swiss Stock Corporations – as determined by the Boards of Management of the Eurex Exchanges – are met, transaction fees paid for trades (Market Maker) shall be subject to a refund so that the actual fee is as follows:

	per contract	0.08 CHF

b. trade administration		
- trade separation	per transaction	0.00 CHF
- trade transfer	per transaction	0.00 CHF
- adjustment of an opening/closing transaction	per transaction	0.00 CHF

c. position administration		
- position closing transaction	per transaction	0.00 CHF
- position transfer	per transaction	0.00 CHF
- position transfer from Market Maker account	per contract	0.00 CHF

d. settlement of trades and positions		
- exercise	per contract	0.40 CHF
- exercise (Market Maker)	per contract	0.40 CHF
- exercise adjustment	per transaction	0.00 CHF

If the Market Maker requirements have been met, so that transaction fees will be subject to a refund in accordance with section 2.2.16 a), then rebates for such fees paid will be given to Market Makers for exercise, so that the actual fee for exercises (Market Maker) is as follows:

(actual) fee per exercised contract:
0.08 CHF