Eurex Bonds

Excessive system usage concept

December 2002

Summary

- At the end of the first quarter of 2003 Eurex Bonds will be introducing a concept for the limitation of quote transactions in the Eurex Bonds market making segments.
- The aim of this measure is to ensure fair and efficient usage of the Eurex Bonds system by all market members.
- The new concept will take both member and segment specific aspects into account.
- The basic structure is based on the “excessive system usage” concept for quote transactions on the Xetra and Eurex systems.
- Under the new transaction limit concept quote transactions per market making segment which exceed a pre-defined basis load limit and simultaneously exceed a pre-defined turnover ratio limit could be charged according to a sliding scale.
- Eurex Bonds Market Makers will be informed about their individual quote transactions and ratios in the Market Making Reports on a daily and month-to-date basis.
- Eurex Bonds reserves the right to adjust the indicated parameters based upon actual market conditions. In the event of a parameter change, market participants will be informed in due time via circular.

Increased system load as a potential performance threat

- The number of quote transactions are growing significantly but are not directly linked with turnover development.
- The actual total number of quotes per day jeopardizes the system capacity constraints.
- Eurex Bonds aims to keep existing system performance and provide equal bandwidth to all market makers.
- Introducing excessive system usage measures ensures fair and efficient usage to the Eurex Bonds system benefiting all market members.

Excessive system usage parameters

Basis load

- Is defined as a reference value per market maker for daily quote transactions in a specific segment.
- The parameter serves as a benchmark figure.

Ratio

- Is defined as a turnover-dependant reference value per segment.
- The ratio indicates the number of quotes per million Euro traded in a specific segment.
- Is used to calculate the higher turnover-dependant limit of the member.
- The parameter serves as a benchmark figure.

- Eurex Bonds Market Makers will be informed about their individual quote transactions and ratios in the Market Making Reports on a daily and month-to-date basis.
- Eurex Bonds reserves the right to adjust the indicated parameters based upon actual market conditions. In the event of a parameter change, market participants will be informed in due time via circular.

Calculation of excessive system usage fees

- Excessive system usage fees will be applied if:
  - The member's individual ratio on a monthly basis is higher than the ratio of the segment

  and

  - The member's average number of quotes on a monthly basis is higher than the basis load for the segment.
- Before charging the associated fees, Eurex Bonds will investigate the excessive system usage on a case by case basis.
- Fees could be charged according to a sliding scale based on the excessive system usage.
- There is a monthly cap of € 20,000.

Parameters for the calculation of excessive system utilization

Eurex Bonds Quote transaction parameters

Segment	Instrument group	Basis load (per day)	Ratio	Excess Transactions		
				< 50%	50-100%	> 100%
Benchmarks	BOND	3,000	100	0.01 €	0.02 €	0.03 €
Liquids	BOND	4,000	250	0.01 €	0.02 €	0.03 €
Basis	BASE	1,500	100	0.01 €	0.02 €	0.03 €
Jumbo Mortage Bonds	JUMB	1,000	100	0.01 €	0.02 €	0.03 €
Sub-Sovereigns	SUBS	600	100	0.01 €	0.02 €	0.03 €

- Eurex Bonds has defined the above listed parameters by measuring the segments contribution to the total turnover and the number of Market Makers within the segment.
- Eurex Bonds reserves the right to adjust the indicated parameters based upon actual market conditions. In the event of a parameter change, market participants will be informed in due time via circular.

Calculation examples

Transactions and turnover of a sample Member XYZEB

	Member XYZEB in October 2002					
Segment	**Average Daily Quote Transactions**	**Average Daily Volume in mio. Euro**	**Ratio (Quote Transactions / Volume)**	**Individual Limit (Segment Ratio * Daily Volume)**	**Monthly fees**	
Benchmarks	3,858	23.91	161.35	2,391	399.97	Example 1
Liquids	6,292	36.78	171.07	9,195	na	Example 2
Basis	1,224	30.23	40.49	3,023	na	Example 3
Jumbo Mortage Bonds	965	15,61	61.82	1,561	na	Example 4
Sub-Sovereigns	625	6.34	98.58	634	na	Example 4

Pricing

Example 1	Member Transactions	> Basis load for the relevant segment	3,858	>	3,000
	Member Ratio	> Ratio for the relevant segment	161.35	>	100

No pricing

Example 2	Member Transactions	> Basis load for the relevant segment	6,292	>	4,000
	Member Ratio	< Ratio for the relevant segment	171.07	<	250
Example 3	Member Transactions	< Basis load for the relevant segment	1,224	<	1,500
	Member Ratio	> Ratio for the relevant segment	378.95	>	100
Example 4	Member Transactions	< Basis load for the relevant segment	965	<	1,000
	Member Ratio	< Ratio for the relevant segment	61.82	<	100

Steps for the calculation of excessive usage fees

Example 1

Member Transactions	**>**	**Basis load for the relevant segment**	**3,858**	**> 3,000**
Member Ratio	**>**	**Ratio for the relevant segment**	**161.35**	**> 100**

1. Calculation of the individual limit

Individual Limit = Average turnover * Ratio of the relevant segment = 23.91 * 100 = 2,391

2. Calculation of the excessive transactions

Member Transactions - Individual Limit = 3,858 – 2,391 = 1,467

Calculation of transactions within the different fee-groups (basis individual limit of 2391)

Member Transactions < 50% above individual limit	50% *	2,391	= 1,195.5
Member Transactions between 50 % and 100% above individual limit	1,467 –	1,195.5	= 271.5
Member Transactions > 100% above individual limit			= 0

3. Fee calculation

Member Transactions < 50% above individual limit	1,195.5	*	0.01	= 11.96 €
Member Transactions between 50 % and 100% above individual limit	271.5	*	0.02	= 5.43 €
Member Transactions > 100% above individual limit	0	*	0.03	= 0

Average fees per business day 17.39 €

Monthly fees (23 business days) **399.97 €**