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Introduction of Pro Rata Matching Principle for Eurex EURIBOR Futures

The introduction of Pro Rata Matching Principle for Eurex EURIBOR Futures is planned for September 14, 1999.

Eurex EURIBOR Futures

On September 18, 1998 the One and Three-Month EURIBOR Futures were introduced, followed by the Option on the Three-Month EURIBOR Future on September 22, 1998. With a trading volume of more than 1.9 million contracts (year-to-date), the Eurex Three-Month EURIBOR Future has exceeded the total volume in Eurex Money Market products (831,328 contracts) for all of last year. This is attributed the derivatives' positive development due to the high level of acceptance of the EURIBOR reference interest rate and to the numerous market participants from nearly all EMU member countries who are trading the Three-Month EURIBOR Future on Eurex.

To further support the trading activities Eurex has extended the fee holiday for EURIBOR products until the end of 1999 and has decided to invest in functional enhancements for trading in Eurex STIR products. As a first step, the introduction of the Graphical User Interface "X-ceed" and the planned pro rata matching for STIR products will be realized.

Pro Rata Matching

Due to the relatively low intra day price volatility in Money Market Futures compared to other exchange traded derivatives, traders who join an existing inside market sometimes only have a small chance that their order is matched if they are at the back of the queue.

Therefore market participants suggested to replace the existing "first-come-first-served" matching principle by an allocation algorithm.

A pro rata matching image is exclusively based on price priority. All orders listed at the same best price are considered for a match according to their respective percentage of the overall quantity at that best price.

The Matching Principle

If the accumulated size of all book orders at the best price is smaller than or equal to the incoming order, all book orders at that best price are completely filled. The pro rata matching is either terminated (if price limit is reached, or remaining quantity is zero) or repeated with the next best price in the book.

If the accumulated size of all book orders at the best price is larger than the incoming order, all orders listed at the same price are considered for a match according to their respective percentage of the overall quantity.

Example 1: Matching with time/price priority

Orderbook before matching

	B/S	price	Qty	time stamp
1.	Buy	97.68	100	10:01:58
2.	Buy	97.68	300	10:02:23

Incoming order: **Sell** 97.68; **Qty** 100

Execution

1.	**Price** 97.68; **Qty** 100	1st Bookorder is completely matched 2nd Bookorder is not executed due to lesser time priority

Orderbook after matching

	B/S	price	Qty	time stamp
2.	Buy	97.68	300	10:02:23

Example 2: Matching with pro rata principle

Orderbook before matching

	B/S	price	Qty	time stamp	% total qty per price
1.	Buy	97.68	100	10:01:58	25 % (100/400)
2.	Buy	97.68	300	10:02:23	75 % (300/400)

Incoming order: **Sell** 97.68; **Qty** 100

Execution

1.	**Price** 97.68; **Qty** 25	1st Bookorder gets 25 % of 100 = 25
2.	**Price** 97.68; **Qty** 75	2nd Bookorder gets 75 % of 100 = 75

Orderbook after Matching

	B/S	price	Qty	time stamp	% total qty per price
1.	Buy	97.68	75	10:01:58	25 % (75/300)
2.	Buy	97.68	225	10:02:23	75% (225/300)

Introduction Schedule

Planned introduction date given the agreement of the corresponding exchange councils is September 14, 1999. The introduction is planned exclusively for Eurex STIR futures One and Three-Month EURIBOR (FEU1, FEU3) and Three-Month Euromark (LIB3).

A functional description of the pro rata matcher has been published with Eurex Circulars No. 48/99 "Eurex Release 3.0 Functional Release Notes" and No. 67/99 "Introduction of Pro Rata Matching for Money Market Products (FEU1, FEU3, LIB3)".

Simulation Schedule

- *Since July 26, 1999 the products FEU1, FEU3, and LIB3 have been assigned to the pro rata matcher in the simulation environment. Members may simulate trading with this matching algorithm until September 3, 1999.*
- *On August 3, 1999 (System date February 25, 2000), there will be a focus trading day for pro rata matcher in order to concentrate trading activities in these products. Members are kindly asked to actively participate in simulation trading in FEU1 and FEU3 on August 3, 1999 to ensure a profound testing of the pro rata matching.*
- *Incentive for simulation participation on August 3, 1999: The 20 most active traders (max. one per member) will receive a gift from Eurex. Activity is measured by number of transaction requests (Order Add, Change, Delete, etc.) entered by the respective trader.*

Further Information

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