X-pand into the Future

eurex circular 083/07

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Recipients: All Trading Members of Eurex Deutschland and Eurex Zürich and Vendors
Authorized by: Peter Reitz

⚠ **Action required** ⚠ **High priority**

Market-Making: Change of Exchange Rules and Regulations

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Content may be most important for:

➲ All departments

Attachments:

Updated sections of:

1. Exchange Rules for Eurex Deutschland and Eurex Zürich
2. Implementation Regulations of Eurex Deutschland and Eurex Zürich Concerning Technical Equipment
3. Conditions for Trading at Eurex Deutschland and Eurex Zürich
4. Clearing Conditions for Eurex Clearing AG

The Management Boards of the Eurex Exchanges and the Executive Board of Eurex Clearing AG decided to restructure the status of Market Makers at Eurex. As of **June 1, 2007,** the following changes will become effective:

- In order to become a Market Maker, licenses are no longer required.
- In order to start quoting any of the Market Maker programs or packages offered by Eurex, application forms no longer need to be filled out. Instead, all participants will be automatically checked for possible fulfillment of Market Maker Obligations.
- Members can send quotes or mass quotes out of the M-account.
- M-account position limits are set in accordance with A/P account position limits.

All obligations as well as the basic structure of all Market-Making programs will remain unaffected by these changes. In addition, these changes will have no direct effect on the performance and obligation measurement of existing Market Makers. The current fee rebate model is also unaffected by the changes.

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3 Admission to Trading at Eurex Deutschland and Eurex Zürich

[....]

~~3.3 Admission as Market Maker~~

~~(1) Exchange Participants may apply for admission as Market Maker. A Market Maker admission is subject to the status of the admission as Exchange Participant. The Boards of Management of the Eurex Exchanges are responsible for granting of a Market Maker admission. Market Maker admissions can be provided with ancillary provisions, in particular with a limitation. The products for which a Market Making is supposed to be implemented, shall be determined and published by the Boards of Management of the Eurex Exchanges.~~

~~(2) The Boards of Management of the Eurex Exchanges shall determine the requirements for execution of the Market Maker function. The Boards of Management may also individually determine the requirements for execution of the Market Maker function for each product and provide such requirements with ancillary provisions. As a rule, a Market Maker is authorised to place quotes for the bid and offer side and to conclude transactions regarding such quotes.~~

~~(3) A Market Maker may at any time return its Market Maker admission by written notification of the respective Exchange to the Board of Management. The Market Maker admission expires with the beginning of the Exchange day following the receipt of such notification. The Boards of Management of the Eurex Exchanges may revoke the Market Maker admission, in particular if the Exchange Participant violates against the rules and regulations of the Eurex Exchanges or does not comply with the regulations of the Boards of Management of the Eurex Exchanges. In case the Boards of Management of the Eurex Exchanges revoke the Market Maker admission or if the Exchange participant has returned its admission and re-applies for Market Maker admission, the Boards of Management of the Eurex Exchanges decide, within the scope of their own dutiful discretion, about the application, thereby being allowed to give a waiting period of ten Exchange days for the new admission.~~

~~(4) Number 3.12.2 Clause 4 applies mutatis mutandis.~~

3.3 deleted

[....]

3.10 Evidence of the Conditions for Admission

Evidence that the conditions for the admission of enterprises and~~,~~ Exchange Traders ~~and Market Makers~~ have been fulfilled must be furnished by the applicant. The Boards of Management of the Eurex Exchanges shall satisfy themselves in an appropriate manner that the necessary conditions for admission to the respective Eurex Exchange are met. The Boards of Management may, either themselves or through an authorized agent, undertake a pertinent examination of the applicant at the applicant's expense and require the applicant to submit such statements and documents as they may deem appropriate. They may also request information from third parties, after prior notice thereof to the applicant.

[....]

4 General Provisions

[....]

4.7 Position Limits

[....]

~~4.7.4 Position Limits for Market Makers~~

~~For Exchange Participants with Market Maker admission (Market Makers), the Boards of Management of the Eurex Exchanges may determine specific position limits.~~

~~A Market Maker is authorised to temporarily exceed the position limits during the trading period. Upon closing of the trading period, the position limits may not be exceeded any more.~~

[....]

Implementation Regulations of Eurex Deutschland and Eurex Zürich Concerning Technical Equipment

[....]

1.16 ~~Market Maker~~ Heartbeat

The ~~Market Maker~~ Heartbeat functionality is software established upon application of an Exchange participant ensuring that the connection between a functionality of the trading participant ("Quote Machine") and the Eurex Back End will be monitored through a clock signal. If the clock signal will not be received within a time period to be bindingly defined beforehand, all quotes of the predefined user group of the trading participant will be deleted automatically. ~~The function is only available for continuous market maker.~~

1.17 ~~Market Makter~~ Protection

The ~~Market Maker~~ Protection functionality is software established upon application of an Exchange Participant which shall prevent too many transactions of the active ~~market maker~~ quotes from taking place nearly at the same time during the continuous trading period. After each matching of an active ~~market maker~~ quote, the Eurex system assigns the number of traded contracts in different risk groups. These groups numeralize the risk level of the ~~market maker~~Trading participant within a certain time period. The counters will be set on default after expiration of the time period. If the counters display a value exceeding the risk maximum which has been determined by the trading participant beforehand, an automatic stop for the quotes of the respective member group of the respective product of a trading participant will be set up. All regular and strategic quotes in options of the member sub-groups of a trading participant for this product which are currently in the order book will be set on default. ~~The function is only available for continuous market maker in each member/trader- or sub-group/product-combinations.~~

[...]

[....]

2.3 Cross Trades and Pre-arranged Trades

(1) Orders and quotes relating to the same contract or to a system-supported combination of contracts may, in case they could immediately be executed against each other, neither be entered knowingly by an Exchange Participant (a cross trade) nor pursuant to a prior understanding by two different Exchange Participants (a pre-arranged trade), unless the conditions according to paragraph (3) have been fulfilled. The same shall apply for the entry of orders as part of a quote.

(2) An Exchange Participant may submit a description of his internal and external links to the EDP system of the Eurex Exchanges to the Market Surveillance Office of Eurex Germany or to the Surveillance and Enforcement Office of Eurex Zürich, with a view to a decision on whether the Exchange Participant acted knowingly within the meaning of paragraph 1. The details of the specifications of the description of the IT linkage pursuant to sentence 1 shall be determined by the Surveillance Offices of Eurex Germany and Eurex Zürich in agreement with the Boards of Management of the Eurex Exchanges. The specifications shall be subject to publication. Disclosure of said specifications to one of the two Surveillance Offices named above shall be deemed to be disclosure to both Eurex Surveillance Offices.

(3) A cross trade or a pre-arranged trade is admissible if the / a participant in a cross-trade or a pre-arranged trade, prior to entering his order or quote, enters a cross request. The purchasing Exchange Participant shall bear responsibility for the compliance of the entry of the cross request. The purchasing participant and the selling participant must enter the order or quote giving rise to the cross trade or pre-arranged trade five seconds at the earliest and 65 seconds at the latest after having entered the cross request. The order or quote hereby must refer to at least a minimum size of contracts. Minimum size is

- in the case of options contracts, equivalent to the minimum quote size of the respective contract ~~established for Market Makers~~ or half of the intended contract amount notified with the cross request, if half of the intended contract amount notified with the cross request is smaller than the minimum quote size ~~established for Market Makers~~

- in the case of futures contracts, five contracts or half of the intended contract amount notified with the cross request, if half of the intended contract amount notified with the cross request is less than five contracts

(4) Paragraphs (1) and (3) shall not apply to transactions consummated during the netting process in the opening period (subsection 1.3 paragraph (2)).

(5) Paragraph 1 shall apply mutatis mutandis to other behaviour constituting evasion of this regulation.

[....]

3.1 Types of Orders and Quotes

(1) The following orders may be entered by Exchange Participants into the EDP system of the Eurex Exchanges:

a) Market orders

b) Limit orders

c) Combination orders

d) Stop orders on futures contracts if priority allocation on the basis of price and time in accordance with subsection 2.2 paragraph (4) shall be applicable to them.

e) Orders for the closing auction

(2) The following quotes may be entered by Exchange Participants into the EDP system of the Eurex Exchanges:

a) ~~only by Market Makers~~:

- quotes in options series,
- combined quotes with a certain demand and quoted price, if for one or several options products an Options Strategy Orderbook or, foroptions products in combination with the respective futures contract in each case an Options Volatility Orderbook is kept.

b) with respect to futures contracts and combination quotes - as well as bid-only and ask-only quotes - by any Exchange Participant;

c) with respect to Inter Product Spreads as well as Delta Neutral Products, Quotes - as well as bid-only and ask-only quotes - by any Exchange Participant.

(3) Orders must be identified upon their entry as either orders as principal or on behalf of customer accounts and, for purposes of recording them, as opening or closing transactions. In the event of a closing transaction, a purchase position and a corresponding sell position shall be cancelled against one another.

After the matching of an order or quote, as the case may be, the transaction shall be recorded in the relevant position account.

[...]

[....]

Chapter II
Transactions at Eurex Deutschland and Eurex Zürich (Eurex Exchanges)

[....]

1.2 Determination of Margin to be maintained

(1) With regard to the obligation to provide margin, Chapter I Paragraph 3 applies in addition to the following provisions.

(2) The calculation of the margin to be maintained by a General or Direct Clearing Member shall be made separately for such General or Direct Clearing Member's Principal Position Accounts (including ~~Market-Maker Position~~M~~-~~Accounts) and Agent Position Accounts.

(3) The basis for the determination of margin to be maintained are the net positions in all option series and Futures contracts. The net position in each option series and in each futures contract shall be determined by setting off a long position (including transactions not yet fully performed) against a short position (including transactions not yet fully performed, but excluding transactions with matching cover). Option series and Futures contracts may be combined into a single margin class, including, for example, when the underlying security or other value is the same. Eurex Clearing AG may form margin groups out of several margin classes, including classes with differing underlyings, if their respective prices develop favourably in the same direction. If Eurex Clearing AG forms margin classes or margin groups, the following rules shall apply mutatis mutandis, in that the relevant margin requirement shall be determined for the margin class or margin group, including by netting.

(4) With respect to options transactions with immediate premium payment obligations based on German, Swiss, Finnish, French, Italian, Dutch, Swedish, Spanish and US-American stocks, the margin to be maintained must cover the costs that would be incurred upon the closing of all positions at the day's closing price ("Premium Margin").

(5) With respect to options transactions without immediate premium payment obligations, no Premium Margin, as defined in Paragraph 4 Clause 1 or Paragraph 5 Clause 1, shall be due; instead, a daily profit and loss settlement shall take place.

(6) With respect to Futures contracts, margin must, for positions that may be netted, be maintained to cover the risk that prices of contracts with different delivery months will not move in exactly the same direction ("Spread Margin"). The netting involves offsetting, to the extent possible, a net long position in one contract against a net short position in another contract with a different delivery month.

(7) In addition to the margin required under Paragraphs 3 to 6, a further margin requirement ("Additional Margin") shall be calculated in an amount sufficient to cover any change to the cost of closing all options positions and all futures positions that cannot be netted in accordance with Paragraph 6 assuming the least favourable price developments, as determined by Eurex Clearing AG, until the next calculation of the margin requirements.

(8) The sum of the margin required to be maintained pursuant to Paragraphs 3 through (7) shall be the total margin required to be maintained by a Trading Participant for one account. The total margin requirement applicable to a Trading Participant for both accounts in accordance with Paragraph 2 shall be determined by aggregating the respective margin requirements; credit balances shall not be taken into account. The total margin maintenance requirement of a Clearing Member shall be determined by aggregating the margin requirements applicable to it as well as to the Non-Clearing Members represented by it; credit balances shall not be taken into account.

(9) Clearing Members may specify shares deposited in their internal securities clearing account with Eurex Clearing AG and its pledged securities account (Pfanddepot) at Clearstream Banking AG or SegaIntersettle AG as special margin for transactions which are summed up in one margin class, provided that the shares or assigned book entry securities correspond to the underlying of the margin class. The shares or assigned book entry securities shall be evaluated until the next determination of margin determined by Eurex Clearing AG under consideration of the most disadvantageous price development and shall be taken into account on the transactions of the margin class. Surplus special margin shall not be taken into account on other margin classes. Eurex Clearing AG will use such margin as general margin for provision of the remaining liabilities of the Clearing Member.

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