

Eurex/ISE Link – User Trading Guide

Deutsche Börse AG (DBAG), Clearstream Banking AG (Clearstream), Eurex Frankfurt AG, Eurex Clearing AG (Eurex Clearing) as well as Eurex Bonds GmbH (Eurex Bonds) and Eurex Repo GmbH (Eurex Repo) are corporate entities and are registered under German law. Eurex Zürich AG is a corporate entity and is registered under Swiss law. Clearstream Banking S.A. is a corporate entity and is registered under Luxembourg law. U.S. Exchange Holdings, Inc. and International Securities Exchange Holdings, Inc. (ISE) are corporate entities and are registered under U.S. American law. Eurex Frankfurt AG (Eurex) is the administrating and operating institution of Eurex Deutschland. Eurex Deutschland and Eurex Zürich AG are in the following referred to as the "Eurex Exchanges".

All intellectual property, proprietary and other rights and interests in this publication and the subject matter hereof (other than certain trademarks and service marks listed below) are owned by DBAG and its affiliates and subsidiaries including, without limitation, all patent, registered design, copyright, trademark and service mark rights. While reasonable care has been taken in the preparation of this publication to provide details that are accurate and not misleading at the time of publication DBAG, Clearstream, Eurex, Eurex Clearing, Eurex Bonds, Eurex Repo as well as the Eurex Exchanges and their respective servants and agents (a) do not make any representations or warranties regarding the information contained herein, whether express or implied, including without limitation any implied warranty of merchantability or fitness for a particular purpose or any warranty with respect to the accuracy, correctness, quality, completeness or timeliness of such information, and (b) shall not be responsible or liable for any third party's use of any information contained herein under any circumstances, including, without limitation, in connection with actual trading or otherwise or for any errors or omissions contained in this publication.

This publication is published for information purposes only and shall not constitute investment advice respectively does not constitute an offer, solicitation or recommendation to acquire or dispose of any investment or to engage in any other transaction. This publication is not intended for solicitation purposes but only for use as general information. All descriptions, examples and calculations contained in this publication are for illustrative purposes only.

Eurex and Eurex Clearing offer services directly to members of the Eurex exchanges respectively to clearing members of Eurex Clearing. Those who desire to trade any products available on the Eurex market or who desire to offer and sell any such products to others or who desire to possess a clearing license of Eurex Clearing in order to participate in the clearing process provided by Eurex Clearing, should consider legal and regulatory requirements of those jurisdictions relevant to them, as well as the risks associated with such products, before doing so.

Eurex derivatives (other than Dow Jones EURO STOXX 50® Index Futures contracts, Dow Jones EURO STOXX® Select Dividend 30 Index Futures contracts, Dow Jones STOXX 50® Index Futures contracts, Dow Jones STOXX® 600 Index Futures contracts, Dow Jones STOXX® Large/Mid/Small 200 Index Futures contracts, Dow Jones EURO STOXX® Banks Futures contracts, Dow Jones STOXX® 600 Banks/Industrial Goods & Services/Insurance/Media/Personal & Household Goods/Travel & Leisure/Utilities Futures contracts, Dow Jones Global Titans 50 IndexSM Futures contracts, DAX® Futures contracts, MDAX® Futures contracts, TecDAX® Futures contracts, SMIM® Futures contracts, SLI Swiss Leader Index® Futures contracts, RDXxt® USD – RDX Extended Index Futures contracts, Eurex inflation derivatives, Eurex commodity derivatives, Eurex weather derivatives, Eurex property derivatives and Eurex interest rate derivatives) are currently not available for offer, sale or trading in the United States or by United States persons.

Trademarks and Service Marks

Buxl®, DAX®, DivDAX®, eb.rexx®, Eurex®, Eurex Bonds®, Eurex Repo®, Eurex Strategy WizardSM, Euro GC Pooling®, EXTF®, FDAX®, FWB®, GC Pooling®, GCPI®, MDAX®, ODAX®, SDAX®, TecDAX®, USD GC Pooling®, VDAX®, VDAX-NEW®, Xetra® and XTF Exchange Traded Funds® are registered trademarks of DBAG.

Phelix Base® and Phelix Peak® are registered trademarks of European Energy Exchange EEX.

The service marks MSCI Russia and MSCI Japan are the exclusive property of Morgan Stanley Capital International, Inc.

RDXxt® is a registered trademark of Wiener Börse AG (Vienna Stock Exchange).

iTraxx® is a registered trademark of International Index Company Limited (IIC) and has been licensed for the use by Eurex. IIC does not approve, endorse or recommend Eurex or iTraxx® Europe 5-year Index Futures, iTraxx® Europe HiVol 5-year Index Futures and iTraxx® Europe Crossover 5-year Index Futures.

Eurex is solely responsible for the creation of the Eurex iTraxx® Credit Futures contracts, their trading and market surveillance. ISDA® neither sponsors nor endorses the product's use. ISDA® is a registered trademark of the International Swaps and Derivatives Association, Inc.

IPD UK Annual All Property Index is a registered trademark of Investment Property Databank Ltd. IPD and has been licensed for the use by Eurex for derivatives.

SLI®, SMI®, SMIM®, and VSMI® are registered trademarks of SIX Swiss Exchange AG.

STOXX®, Dow Jones STOXX® 600 Index, Dow Jones STOXX® Large 200 Index, Dow Jones STOXX® Mid 200 Index, Dow Jones STOXX® Small 200 Index, Dow Jones STOXX® TMI Index, VSTOXX® Index, Dow Jones EURO STOXX 50® DVP, Dow Jones EURO STOXX® Select Dividend 30 Index, Dow Jones EURO STOXX®/STOXX® 600 Sector Indexes as well as the Dow Jones EURO STOXX 50® Index and Dow Jones STOXX 50® Index are service marks of STOXX Ltd. and/or Dow Jones & Company, Inc.

Dow Jones, Dow Jones Global Titans 50 IndexSM and Dow Jones Sector Titans IndexesSM are service marks of Dow Jones & Company, Inc. Dow Jones-UBS Commodity IndexSM and any related sub-indexes are service marks of Dow Jones & Company, Inc. and UBS AG. All derivatives based on these indexes are not sponsored, endorsed, sold or promoted by STOXX Ltd., Dow Jones & Company, Inc. or UBS AG, and neither party makes any representation regarding the advisability of trading or of investing in such products.

All references to London Gold and Silver Fixing prices are used with the permission of The London Gold Market Fixing Limited as well as The London Silver Market Fixing Limited, which for the avoidance of doubt has no involvement with and accepts no responsibility whatsoever for the underlying product to which the Fixing prices may be referenced.

PCS® and Property Claim Services® are registered trademarks of ISO Services, Inc.

The names of other companies and third party products may be trademarks or service marks of their respective owners.

Eurex/ISE Link		
		Version 1.0
User Trading Guide		
		9.02.2010
		Page 4

Abstract

This document sets out to summarize the essential facts on trading US option instruments via the Eurex/ISE Link by illustrating the different types of members, accounts or orders that are enabled for trading. Secondary goal of this Trading Guide is to familiarize the participating trading member with the consequences from generating order flow under customer status (A1 Account) or under professional customer status (P1/P2 Account) respectively.

Keywords

Eurex, Eurex Clearing AG (ECAG), International Securities Exchange (ISE), Member, customer order, professional customer order, pro-rata allocation

List of Abbreviations

AON	All or Nothing Order
BBO	Best Bid Offer
CPO	Customer Price Improvement Order
FAS	Fill and Store Order
FOK	Fill or Kill Order
EDP	Electronic data processing (system)
GCM	General Clearing Member
GTC	Good until Cancelled Order
IOC	Immediate OR Cancel
ISE	International Securities Exchange
NBBO	National Best Bid Offer
NCM	Non-Clearing Member
OCC	The Options Clearing Corporation

Eurex/ISE Link		
		Version 1.0
User Trading Guide		
		9.02.2010
		Page 5

Table of Contents

1	Introduction	6
1.1	Eurex/ISE Link	6
1.2	Reference Documentation	6
1.3	Scope	6
1.4	Out of scope	6
2	ISE Trading Principles	7
2.1	ISE Account Categories	7
2.2	ISE Representative Order Types	9
2.2.1	Market Orders	9
2.2.2	Limit Orders	9
2.2.3	Stop Market and Stop Limit Orders	11
2.3	ISE Position Account Types	12
2.4	U.S. Intermarket Linkage	12
3	ISE / US Options Market Specialties	13
3.1	ISE Cancellation Fee	13
3.2	Customer to Customer Cross	13
3.3	Transaction Rates	14
3.4	ISE's Suite of Reports	14

Table of Figures

Figure I: ISE Representative Order Types for Limit Orders	11
Figure II: ISE Account Types	12

Eurex/ISE Link		
		Version 1.0
User Trading Guide		
		9.02.2010
		Page 6

1 Introduction

1.1 Eurex/ISE Link

The Eurex/ISE Link is a transatlantic trading and clearing link between Eurex, the International Securities Exchange (ISE), Eurex Clearing AG and the Options Clearing Corporation (OCC) that will allow Eurex Members to access the world's largest equity options market through their existing Eurex membership.

Eurex Members will not need to become members of the ISE to trade nor open accounts at OCC - they will simply need to sign an agreement between Eurex Clearing AG and, if they are not a Eurex Clearing Member themselves, their Eurex Clearing Member.

The Eurex/ISE Link will provide Eurex Members with full and seamless access to the ISE options market, making initially available 430 of the following products representing ~ 85% of the ISE overall trade volume:

- U.S. Equity Options
- Options on Exchange Traded Funds (ETFs)
- Equity Index Options
- Foreign Exchange (FX) Options

1.2 Reference Documentation

Eurex/ISE Link Member Readiness Guide

Eurex 12.0 Member Simulation Guide

1.3 Scope

The scope of this Eurex/ISE Trading Guide is to familiarize Eurex Members with the trading features accompanying the introduction of this seamless transatlantic trading and clearing link.

Therefore, this Eurex/ISE Trading Guide will illustrate the different sorts of member and order types as well as different specialties related to ISE trading, such as the order handling process itself and the related fee pricing.

1.4 Out of scope

This Trading Guide will explain the cornerstones for trading at the ISE. Consequently, this guide will not illustrate what connectivity requirements are to be met by a trading member in order to participate via the Eurex/ISE Link. Furthermore, this Trading Guide will not describe how interested members should trigger a member simulation setup.

Eurex/ISE Link		
		Version 1.0
User Trading Guide		
		9.02.2010
		Page 7

For member connectivity and member simulation setup details, please refer to the aforementioned reference documentation in chapter O.

2 ISE Trading Principles

2.1 ISE Account Categories

ISE market structure affords priority for public customer orders over proprietary and broker/dealer orders and Market Maker quotes. Customer orders are ranked in price/time priority. All other account categories are allocated on a pro rata basis.

Public Customer Order

The terms "Public Customer Order," which refers to an order for the account of a person or entity that is not a broker or dealer in securities, and "Non-Customer Order," which refers to an order for the account of a person or entity that is a broker or dealer in securities, continue to be used with respect to other ISE Rules

Public customers are further classified as either Priority or Professional.

Priority Customer Order

According to ISE Rules a Priority Customer Order would be an order for the account of a Priority Customer, which would be defined as a person or entity that (i) is not a broker or dealer in securities, and (ii) does not place more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s).

Professional Customer Order

A "Professional Customer" means an order that is for the account of a Public Customer that is not a Priority Customer. Orders from professional customers are allocated based on their pro-rata share of the total displayed size at the best price.

Broker/Dealer-Firm Order

Broker/Dealer-Firm orders are for an account of a Eurex Link member who wants a trade to clear into their 'Firm' account at Eurex. This order designation should also be used for affiliates of U.S. broker-dealers when internalizing their Customer orders.

Eurex/ISE Link		
		Version 1.0
User Trading Guide		
		9.02.2010
		Page 8

Priority/Professional Customer Order Handling

In order to properly represent orders entered at ISE according to the above stated definitions, the sponsored member has to indicate whether Public Customer Orders are "Priority Customer Orders" or "Professional Customer Orders."

Orders for any trading member that had an average of more than 390 orders per day during any month of a calendar quarter must be represented as Professional Customer Orders for the next calendar quarter.

Eurex Clearing AG is required to conduct a quarterly review and to make any appropriate changes to the way in which they are representing orders within five days after the end of each calendar quarter.

Eurex Clearing AG only is required to review its accounts on a quarterly basis but if during a quarter ISE identifies a customer for which orders are being represented as Priority Customer Orders but that has averaged more than 390 orders per day during a month then ISE will inform Eurex Clearing AG that such trading member's orders must be represented as "Professional Customer Orders" for the next calendar quarter.

In case the trading member plans to place above 390 orders per day in average throughout an entire month, this decision will lead to a member type transition during the next calendar quarter as the trading member will no longer benefit from order book priority.

Instead, order allocation to non-customer market participants will be based on their pro-rata share of the total displayed size at the best price. While order book priority for non-customer market participants is not available, order cancellation fees do not apply either.

Please note: As a consequence of entering above 390 orders per day on average during the month, the Eurex Member will be transformed into professional customer status at the beginning of the next month. The Eurex Member is then required to enter his new orders under professional customer status only, leading to pro-rata matching.

However, while order book priority is lost (only for priority customer orders) the professional customer benefits from an exception of cancellation fees (\$2) being usually applied in case of order cancellation or modification. Once an account crosses the 390 orders per day on average during any month in a given quarter, its orders must be marked Professional Customer Order for the entire next quarter.

For example, if an account places 500 orders per day on average during April, 200 orders per day on average during May, and 300 orders per day on average during June, all of the orders for that account would have to be marked Professional for the entire third quarter. If this account averages less than 390 orders per day during each month of the third quarter, orders for the account can be marked Priority during the fourth quarter.

Broker/Dealer-Firm Order Handling

Broker/Dealer-Firm orders will trade on a pro-rata basis according to ISE Rule 713. Facilitation orders submitted by a Broker/Dealer-Firm have allocation entitlements defined in ISE Rule 716(d). Specifically, the facilitating Broker/Dealer-Firm will execute at least forty percent (40%) of the original size of the facilitation order, but only after better-priced Responses, orders and quotes, as well as Priority Customer Orders at the facilitation price, are executed in full. Thereafter, Responses, quotes

Eurex/ISE Link		
		Version 1.0
User Trading Guide		
		9.02.2010
		Page 9

and Professional Orders at the facilitation price will participate in the execution of the facilitation order based upon the percentage of the total number of contracts available at the facilitation price that is represented by the size of the Response, Professional Order or quote. Any remaining quantity is then allocated to the Broker/Dealer-Firm.

2.2 ISE Representative Order Types

2.2.1 Market Orders

Market orders may be entered as buy orders or sell orders via the Sponsored Membership¹ provided by Eurex Clearing. Using such Sponsored Membership the participant can enter Market Orders (on behalf of its customers). These orders have a price of zero and their validity may vary.

2.2.2 Limit Orders

The following types of orders stating a specific price ("limit orders") exist

- a) Unrestricted limit orders (paragraph 2)
- b) Limit orders valid for one day (paragraph 3)
- c) Restricted limit orders (paragraph 4)

The validity of unrestricted limit orders must be subject to the following condition:

"Good-till-cancelled" (Valid until contract expiration or European trading holiday, whichever occurs first)

Limit orders entered without validity conditions or limitations on their execution shall be valid only until the end of the Trading Period of an Exchange day. To the extent that they have not been executed, limit orders shall be automatically deleted from the EDP system of the ISE after the Trading Period of the relevant Exchange day.

Restricted limit orders for options contracts can be subject to the limitation on execution "Immediate-or-cancel" (immediate execution of the order to the extent possible and cancellation of the unexecuted part). Below table shows the different ISE representative order types for limit orders

¹ Sponsored Membership: Legally "sponsored membership" is a technical term only. There is no connection between a sponsored membership within that meaning and the (legal) ISE membership

Eurex/ISE Link		
		Version 1.0
User Trading Guide		
		9.02.2010
		Page 10

A - Single legged Order Types	
Stop Orders	<ul style="list-style-type: none"> - Stop limit (and Stop Market) orders are automatically activated by an order or quote. - Executed as limit (or market) order - Stop Buy triggered by buy side and vice versa
Reserve Orders	<ul style="list-style-type: none"> - Order with a visible and invisible reserve quantity; visible quantity refilled from invisible quantity after traded out - Receives new time stamp at refill
Cabinet Orders	<ul style="list-style-type: none"> - Order to liquidate worthless out-of-money positions before expiry
B Customer to Customer Crossings	
Facilitation Orders	<ul style="list-style-type: none"> - Crossing Order, where customer requests EAM to facilitate - Min. size: 50 contracts - Auction for responses on the facilitation side - Publishing of customer interest only
Solicitation Orders	<ul style="list-style-type: none"> - Crossing Order with unsolicited and solicited part with AoN condition - Min. size: 500 contracts - Auction for responses on unsolicited part: does only match if responses fulfill AoN, solicited part vanishes from the system
Customer Match Orders	<ul style="list-style-type: none"> - Crossing Order for two Priority Customers - No min. size - Order is not exposed for auction, and will match unless another Priority Customer is resting on the book - Cannot be used for Professional Customer or Broker/Dealer-Firm orders

Eurex/ISE Link		
		Version 1.0
User Trading Guide		
		9.02.2010
		Page 11

PIM Orders	- Price Improvement Order: one-second auction. Requires the EAM to trade at least one cent better than the National Best Bid or Offer (NBBO) if the ISE BBO is equal to the NBBO. IF ISE BBO does not match the NBBO, the EAM may match the NBBO without having to provide further price improvement. -> Responses are broadcast to all
C - Specialties on Order Types	
Preferred Orders	- Order by adding specific PMM or CMM to be preferred at allocation process to certain percentage

Figure I: ISE Representative Order Types for Limit Orders

2.2.3 Stop Market and Stop Limit Orders

- Stop Market and Stop Limit orders are identified by a non-zero Stop Price. Valid stop orders must include a Stop Price (election price) and a Premium (execution price).
- A stop order is held in the ISE system and is not displayed to any other member until it is elected. After a Stop order is elected, it is processed like a regular order.

Eurex/ISE Link		
		Version 1.0
User Trading Guide		
		9.02.2010
		Page 12

2.3 ISE Position Account Types

Below table illustrates how the different account types vary in their order book and position cancellation/ modification handling:

Order Entry	Account Components/ Features	Account Type at ECAG
Customer Account	<ul style="list-style-type: none"> Order book priority/ position cancellation or modification fees 	A1
Customer Professional Account	<p>Applies to customer accounts entering > 390 order per day:</p> <ul style="list-style-type: none"> No order book priority but pro-rata matching No Position cancellation or modification fees apply 	A1
Firm/ Proprietary Accounts	<p>Applies to non-customer accounts</p> <ul style="list-style-type: none"> No order book priority but pro-rata matching <p>No Position cancellation or modification fees apply</p>	P1

Figure II: ISE Account Types

Eurex Clearing Members have full overview and can monitor all position accounts from their NCMs. In addition, Eurex Clearing Members receive all trade confirmations of all trades executed by its NCMs. Every NCM has per default 2 proprietary firm accounts (P1/P2) and one agency account (A1) for customer orders at ECAG. Please note that no market making in the ISE order book is enabled via the Eurex/ISE Link.

All trading members participating in the Eurex/ISE Link need to be aware of the fact that customer orders traded under customer account do benefit from ISE order book priority; however, in case of order cancellations or modifications the trading member may be subjected to ISE cancellation fees as described in chapter 0.

2.4 U.S. Intermarket Linkage

When the ISE's Best Bid/Best Offer (BBO) is inferior to the national market (NBBO), a customer order submitted to the ISE would be linked to the away market(s) for execution. In any case, the ISE Primary Market Maker (PMM) is responsible for away market handling.

Eurex/ISE Link		
		Version 1.0
User Trading Guide		
		9.02.2010
		Page 13

3 ISE / US Options Market Specialties

3.1 ISE Cancellation Fee

The ISE cancellation fee is currently set at USD 2.00 per cancelled order in excess of traded orders. The fee applies to an Electronic Access Member that cancels at least 500 Public Customer options orders in a month for itself or for an introducing broker. For example, given that 550 Public Customer options orders had been entered and of those 550 orders 501 have been cancelled. In such case the Electronic Access Member would have to pay cancellation fees on 49 cancelled orders which would equal USD 81.00

All Public Customer options orders from the same Eurex Member for itself or for such introducing broker within a 300 second period will be aggregated and counted as one executed order for purposes of this fee. This fee shall not apply to the cancellation of options orders that improve ISE's disseminated quotes at the time the orders were entered.

Also, if an order is altered so it changes the price, or increases the size (QTY), it is considered a cancel/replace. It would count as a cancel for the cancellation fee.

If an order is altered to reduce the size is considered an "alter" and not a cancel/replace. It would not count towards the cancellation fee.

Please be aware that an order flow of above 390 orders in average per day during any month leads to a professional customer status at ISE, accompanied by the loss of order book priority having order allocation being based on pro-rata share of the total displayed size at the best price.

Brokers are responsible for monitoring and marking their Customer orders as Professional.

3.2 Customer to Customer Cross

The customer match functionality, which allows the crossing of customer orders without exposure to the market, will be available through the Eurex/ISE Link and could be utilized by participants when they are crossing two customer orders. However, under ISE Rules the definition of a customer-to-customer cross-eligible member excludes

- (i) any non-U.S. broker-dealer that is a very high-frequency trader (i.e. professional customer) or
- (ii) any firm that is an affiliate of a U.S. broker-dealer.

ISE Rules do not allow a non-U.S. affiliate of a U.S. broker- dealer to cross with (or "internalize") its own customers without exposing the customer orders.

According to ISE Rule 717(d) the above described cannot use customer match functionality due to the need for market exposure in order to comply with internalization rules.

Eurex/ISE Link		
		Version 1.0
User Trading Guide		
		9.02.2010
		Page 14

3.3 Transaction Rates

Eurex/ISE Link participants are allotted transaction rates of up to 48 transactions per second for each individual Eurex/ISE Link participant.

3.4 ISE's Suite of Reports

All Eurex/ISE Link participants are able to access a wide array of reports that are generated and directly supplied by the ISE. These reports provide the member with the ability to monitor and document their ISE activity.

To request access to the ISE Reports, please contact linkhelpdesk@ise.com

Report Type	Description	Frequency
Order History Report	Provides detailed order history for orders entered by a firm for the day including alters, cancels and executions. Generated in .csv format.	Daily
Combo Order History Report	Provides detailed order history for multi-leg/complex orders entered by a firm for the day including alters, cancels, and executions. Generated in .csv format.	Daily
OCC 410 Matched Trade History Report	Provides firm and counter party details of trades sent to the OCC for clearing. Generated in .dat format.	Daily
Execution History Report	Derived from the OCC 410 Matched Trade History Report and contains a subset of firm and of counter party details of trades sent to the OCC for clearing. Generated in .txt format.	Daily
Comprehensive Trade Reports (CTR)	Provides members with full trade details, corresponding order and quote information as well as counterparty information into a single file for more efficient processing and enhanced analysis. Generated in .csv format.	Daily / Monthly
Open Order Report	Provides details of Good Till Cancelled (GTC) open orders on the Exchange for a firm. Generated in .csv format.	Daily
Combo Open Order Report	Provides details of Good Till Cancelled (GTC) open multi-leg/complex orders on the Exchange for a firm. Generated in .csv format.	Daily