eurex Xpand

Newsletter 75 / February 2005

Eurex Expands Its European Equity and Equity Index Options Initiative

On January 1, 2005, Eurex expanded its European Equity and Equity Index Options Initiative, enhancing its position as the leading pan-European equity derivatives exchange. The core element of the initiative is a Continuous Market-Making model, which will leave Eurex well-positioned to attract additional order flow.

The European Equity and Equity Index Options Initiative is primarily based on the implementation of a Continuous Market-Making model, combined with a segmentation of equity derivatives in line with market indexes. At the same time, the contract specifications of all European equity options will be harmonized wherever possible. This is designed to further deepen order book liquidity.

More Transparency, More Liquidity, More Efficiency

Market-Making is a core element of the Eurex market model. The exchange already introduced Continuous Market-Making for selected products, and thus further improved order book quality. Since January 1, 2005, Eurex has made the new scheme available for all individual equity, equity index and EXTF options – initially alongside the current Regular Market-Making model.

The Continuous Market-Making model will have two separate components: Permanent Market-Making and Advanced Market-Making. Permanent Market-Making requires Market Makers to continuously quote for equity, equity index or EXTF options. The newly-introduced Advanced Market-Making comprises continuous quotation for pre-defined product packages. Currently, there are six of these available (see table below). More than 20 institutions have already committed to continuous quotation, including nine that have opted for Advanced Market-Making. Each of the defined, index-based quoting packages (Dow Jones EURO STOXX℠ 50, DAX®, SMI®) is currently covered by at least two Market Makers.

Advanced Market-Making Quoting Packages:

Dow Jones EURO STOXX℠ 50 Index	Option on the Dow Jones EURO STOXX℠ 50 Index. All equity options on Dow Jones EURO STOXX℠ 50 index components.
DAX®	Option on the DAX®. All options on DAX® components.
SMI®	Option on the SMI®. All options on SMI® components.
Dutch stock options	All Dutch stock options listed on Eurex.
French stock options	All French stock options listed on Eurex.
Italian stock options	All Italian stock options listed on Eurex.

CONTENT

Under the new scheme, Market Makers will be obliged to maintain quotes, for a minimum quote size and subject to a maximum bid/ask spread, during 85 percent of the trading session. Maximium spread and quote size will depend on the liquidity of the underlying issue and the lifetime of the options.

By implementing the Continuous Market-Making model, Eurex will provide a higher-quality order book in all of its European equity, equity index and EXTF options, including products which are currently less liquid. Initial analyses have shown that in January, the number of quotes – and hence, liquidity – has increased by 60 percent compared to the average of the two previous months. Eurex market participants will thus benefit from new trading opportunities, thanks to enhanced liquidity and tighter bid/ask spreads. Taking advantage of the exchange's global liquidity network, they can exploit these new advantages quickly, efficiently and regardless of location. In particular, this will facilitate the on-exchange transaction of popular OTC equity options strategies, such as volatility dispersion and correlation trades.

Once the Continuous Market-Making scheme is fully operational, the current Regular Market-Making system will be transformed with the introduction of additional risk management tools into Permanent Market-Making in the course of the year.

Lowering the Cost of Trading

Participants in the Advanced Market-Making scheme will receive a 90 percent discount on the current contract fees.

Recognizing the higher potential risk exposure for Market Makers – given the stricter requirements of continuous quotation, with tighter spreads – Eurex will phase in new functionality to significantly mitigate such risks. Eurex will provide a **Market Maker Connection Monitor** during the roll-out phase of its European Equity and Equity Index Options Initiative. The software will monitor the connection between the Eurex back end and the Market Maker's MISS (**M**ember **I**ntegrated **S**ystem **S**erver). If the connection is interrupted, all outstanding quotes of the affected Market Makers will be automatically deleted, thus reducing the participant's exposure in the event of technical problems.

Throughout 2005, further features will be added, including **Heartbeat** and **Delta-protection**. Heartbeat will help the Market Maker to monitor the connection between the interface facing his quote machine and the Eurex back end. If a regular signal (the "heartbeat") exchanged between the interface and the Eurex back end is interrupted, all of the Market Maker's quotes will be automatically deleted.

The Delta Protection function monitors risk limits, such as the number of contracts traded and the Market Maker's delta and vega risk. Any exceeding of the Market Makers' predefined risk limits will trigger a mass deletion of all pending quotes. These risk parameters will be monitored at fixed time intervals defined by the Market Maker.

Mitigating the risk exposure for Market Makers, these functional enhancements will improve the quality of order books. Ultimately, all market participants will benefit from tighter bid/ask spreads, higher liquidity and lower transaction costs.

For any further information on the European Equity and Equity Index Options Initiative, please feel free to contact Axel Vischer on T +49-69-211-1 72 74, e-mail: Axel.Vischer@eurexchange.com.

New Russell Futures Benefit from Extensive Network of Market Makers

Eurex US launched futures contracts on the U.S. large-cap Russell 1000® Index and the U.S. small-cap Russell 2000® Index on February 4, 2005. Thanks to extensive support by Market Makers and a three-month fee holiday, Eurex US customers around the world will benefit from new trading opportunities, at attractive cost.

Eurex US already received a firm Market-Making commitment from 15 members for the new Russell products. These firms will provide additional liquidity and increase order book depth by continuously quoting prices, at competitive bid/ask spreads. Market Makers will be active during the core U.S. trading hours (08:30 to 15:00 CST). Market Makers fulfilling set minimum trading volumes and complying with quoting obligations will be exempt from exchange fees for the first twelve months of trading. In addition, they will receive a financial incentive of USD 10,000 per month, for the first three trading months. The six most active Market Makers will continue to obtain this incentive for another three months. In addition to further incentives for those Market Makers generating the highest trading volumes in each of the two products, Eurex US will guarantee a share in the revenues to all Market Makers fulfilling their obligations.

Furthermore, Eurex US will waive all trading fees for all market participants for the first three months of trading in the Russell products. After this initial fee holiday, proprietary and Market Maker transaction fees will be USD 0.025 for trades executed in the order book and USD 0.30 per side for OTC trades. Customer transaction fees will be USD 0.50 per side for trades executed in the order book; OTC trades will be subject to a surcharge of USD 0.30 per side.

Contract Specifications: Russell 1000® and Russell 2000® Index Futures

<table>
<tr><th>Underlying</th><th>Contract Size</th><th>Delivery</th><th>Minimum Tick Size</th><th>Contract Months</th><th>Last Trading Day</th><th>OTC Block Trading</th></tr>
<tr><td>Russell 1000® Index</td><td rowspan="2">index × 100</td><td rowspan="2">cash settled</td><td>0.10 index points (USD 10)</td><td rowspan="2">March June September December*</td><td rowspan="2">third Friday of the expiration month</td><td rowspan="2">250 minimum threshold</td></tr>
<tr><td>Russell 2000® Index</td><td>Calendar Spreads 0.02 index points (USD 2)</td></tr>
</table>

*the three successive quarterly months within the March, June, September and December cycle

Further information, such as detailed product specifications and vendor product codes, is available from the Eurex US website **www.eurexUS.com**. Or contact the Eurex US Sales Team, T +1-312-544-11 00, e-mail: info@eurexUS.com.

Your feedback is important to us.

Do you have feedback about our newsletter? Please send an e-mail to:
Xpand.feedback@eurexchange.com

Eurex US Expands Short-Term USD Fixed Income Derivatives

As the only exchange worldwide, Eurex US launched 3 Year U.S. Treasury Note Futures and Options on Futures on February 1, 2005. Eurex US simultaneously modified the contract specifications of its 2 Year U.S. Treasury Note Futures. The exchange has thus created additional, attractive trading opportunities for its market participants at the short end of the U.S. yield curve.

The contract size of the new 3 Year U.S. Treasury Note Futures is USD 200,000 and the deliverable basket comprises U.S. Treasury Notes with a remaining term of between two years and eight months and three years and one month.

With the introduction of the new product, Eurex US continues to be the innovator in the U.S. marketplace. At the same time the 3 Year U.S. Treasury products mark a new tradable point on the U.S. Treasury yield curve and will create extended trading opportunities for market participants active at the short end of the curve. Eurex US extended its product range in response to strong market demand in the light of the regular issuance activities of the U.S. Treasury Department in short-term U.S. Treasury Notes.

In addition, Eurex US has modified its 2 Year U.S. Treasury Note Futures and Options on these Futures as of February 1, 2005, raising the contract value from USD 200,000 to USD 1 million. The larger contract size has brought the new 2 Year Jumbo U.S. Treasury Note Futures in line with ticket sizes in the cash market. As the transaction fees per contract traded have remained unchanged, Eurex US has, in effect, cut transaction costs by factor five. The range of deliverable maturities has also been extended to include bonds with a remaining term between one year and six months and two years and three months. (The previous delivery window ranged from one year and nine months to a maximum of two years.) Deliverable bonds must have been issued with an original term not exceeding three years and three months (down from five years previously).

Further information, such as detailed contract specifications and vendor product codes, is available from the Eurex US website **www.eurexUS.com**. Or contact the Eurex US Sales Team,
T +1-312-544-11 00, e-mail: info@eurexUS.com.

Treasury Futures Incentive Program to be Continued in 2005

Eurex US will continue to offer a package of incentive programs to further increase trading activity in its U.S. Treasury futures segment in 2005. In addition to an enhanced U.S. Market Maker program, the multi-year revenue-sharing initiative started in 2004 will be continued.

Market Makers who already participated in the 2004 program may now choose between two product groups in which they want to make markets – the short end of the U.S. yield curve (2 Year, 3 Year, and 5 Year Treasury Notes products), or the long end (10 Year and 30 Year Treasury Bonds products). Each Market Maker will undertake to trade a minimum volume of 10,000 contracts in the chosen product group. Provided that they also fulfill their quoting obligations, Market Makers will be entitled to a financial incentive of USD 5,000 per month, during the first three months of 2005.

From April 2005 onwards, the most active Market Makers will receive an incentive payment of USD 10,000 per month if all requirements are fulfilled. All Market Makers will generally receive a credit for each contract traded. Those fulfilling all requirements (minimum trading volume and quoting commitments) will double their volume credit.

Furthermore, Eurex US will distribute a minimum of USD 5 million in 2006 revenues to the participants of its revenue-sharing program, to be split among participants on the basis of their share in trading activities 2005. All Market Makers and members who participated in the 2004 revenue-sharing program are eligible for the new program, by receiving credits for each contract traded between January 1 and August 31, 2005. Members who trade at least 3,000 contracts per day for at least 15 trading days per month between January 18 and August 31, 2005 will double their volume credit. First advanced payment will be distributed in September 2005.

For any further information, please feel free to contact the Eurex US Sales Team on T +1-312-544-11 00, e-mail: info@eurexUS.com.

EUREX REPO

Eurex Repo Achieves Record Growth in 2004

Eurex' electronic repo markets continue to enjoy strong growth, despite the rather lacklustre situation prevailing in global bond markets. Average outstanding volumes – the key measure for the strength of repo markets – further increased in 2004, as did the number of trading participants. Meanwhile, preparations for Euro GC Pooling® are in full swing. The new product is expected to boost growth even further.

The average outstanding volume on Eurex Repo as of end-December 2004 was up around 21.7 percent year-on-year, totaling EUR 52.9 billion. The Euro Repo Market proved to be particularly strong: by the end of November, average outstanding volumes had reached a total of EUR 15.9 billion, an increase of 33.4 percent on the previous year. The Swiss Franc Repo Market did also well: here, average outstanding volumes rose to a total of CHF 55.6 billion, up by 17.3 percent year-on-year.

2004 saw the admission of another eight banks and financial services providers from Great Britain, France, Germany and Switzerland, bringing the total number of institutions now actively trading on Eurex Repo to 155 from nine different countries. This has allowed the platform to further strengthen its position as the leading pan-European marketplace for repo trading.

As announced, the launch of the Euro GC Pooling® initiative is scheduled for March 17, 2005. With the new product, Eurex Repo will facilitate cash-driven international trading in a General Collateral Basket, which comprises more than 9,000 fixed income securities, which are eligible as collateral for

ECB repo transactions. This will invariably enhance efficiency with respect to both trading and the collateral management of collateralized money market transactions, thus helping repo market participants to further optimize their use of collateral.

Eurex Repo successfully completed the technical preparations for the launch of Euro GC Pooling® at the end of November, 2004. From the end of February, 2005, Euro GC Pooling® participants will have access to a simulation environment to thoroughly test the entire processing chain – from GC Pooling quote entry through to GC Pooling collateral management.

Further information is available on the Eurex Repo website at **www.eurexrepo.com**.
In case of questions, please feel free to contact Gabriele Ristau on T +49-69-211-1 57 41,
e-mail: Gabriele.Ristau@eurexchange.com or Ebru Ruffet on T +49-69-211-1 94 22,
e-mail: Ebru.Ruffet@eurexchange.com.

EUREX SERVICES

FOW Derivatives & Securities World in Frankfurt

Eurex will participate at the FOW Derivatives & Securities World in Frankfurt as an exhibitor and platinum sponsor. The conference will take place in the Forum Messe Frankfurt, Ludwig-Erhard-Anlage 1, 60327 Frankfurt on March 1–2, 2005.

Eurex, Deutsche Börse and Clearstream Participants:

Rudolf W. Ferscha, Chief Executive Officer, Eurex	Keynote Speaker	Keynote Speach	Tuesday, 03.01.2005, 09:00 CET
Peter Reitz, Member of the Executive Board, Eurex	Panel	Seminar 1: Breaking down the silos in financial markets	Tuesday, 03.01.2005, 09:05–11:20 CET
Daniel Gisler, Member of the Executive Board, Eurex	Panel	Seminar 3: Future of clearing and settlement in a changing European landscape	Tuesday, 03.01.2005, 11:50–13:20 CET
Volker Potthoff, Managing Director, Banking & Custody Services, Clearstream	Panel	Seminar 3: Future of clearing and settlement in a changing European landscape	Tuesday, 03.01.2005, 11:50–13:20 CET
Christoph Helm, Key Account Manager, Deutsche Börse Systems	Panel	Seminar 6: Fix protocol Ltd Breakfast briefing: Financial messaging for derivatives & securities markets	Wednesday, 03.02.2005, 08:30–10:30 CET
Michael Roczinki, Head of Sales, Eurex	Panel	Seminar 7: Trading costs and competition in the exchange traded world	Wednesday, 03.02.2005, 09:00–10:30 CET
Rainer Riess, Managing Director Stock Market Business Development, Deutsche Börse	Moderator	Seminar 10: Securities markets: Generating best execution to the final client	Wednesday, 03.02.2005, 14:00–15:00 CET

Additional information about the exhibition is available on the FOW website:
www.fow.com > events > frankfurt.

Eurex Screensaver: Now Available for Free Download

Experience the global Eurex liquidity network – live on your own screen. The new Eurex screensaver is available for free download from the Eurex website, at **www.eurexchange.com > About Eurex > Press & Communication > Publications**. There, you will also find various installation tips, for easy download of the files.

EVENTS

Events and Conferences February / March

	Location	Date
MFA Network 2005	The Ritz-Carlton, Key Biscayne, Florida	February 06–08
Assiom Forex Summit	Milan	February 11–12
Euromoney Bonds Investors Congress	Queen Elizabeth II Conference Centre, London	February 22–23
Super Hedge 2005	Congress Center Frankfurt	February 28–March 01
Derivatives & Securities World 2005	Forum Messe Frankfurt	March 01–02
NAPF Investments Summit	Edinburgh International Conference Centre	March 16–18
FIA 30th Annual International Futures Industry Conference	Boca Raton Resort and Club, Boca Raton, Florida	March 16–19

NEW MEMBERS

New Eurex Members December

Name	Clearing Type	Country
AHH Aktienhandel Hamburg GmbH	NCM	Germany
BHF-BANK Aktiengesellschaft	GCM	Germany
Directa SIM	NCM	Italy
DZ Bank International S.A. Luxembourg	NCM	Luxemburg
eQ Bank Ltd.	NCM	Finland
IW Bank S.p.A.	DCM	Italy
Total Number of Eurex Participants: 407		

Trainingscenter Derivatives Market February / March

	Course	February	March
Special Courses	Preparatory Course Eurex Complete Exam	**07** London **10** Paris	**01** Paris **04** London
	Preparatory Course Eurex Partial Exam	**07** London **10** Paris	**01** Paris **04** London
System Training Courses	Eurex System Training Trading	**04** London **14** Paris	**15** Paris **15** Chicago **29** London
	Eurex System Training Clearing	**15** Paris	**16** Paris **16** Chicago **30** London
	Eurex System Training Security		**03** London **14** Paris
	Eurex Repo System Training CHF Repo Market	**22** Zurich	
Examinations / Tests	Eurex Complete Exam	**01** Chicago **14** London **15** London **21** Paris **25** Madrid	**01** Chicago **07** Helsinki **15** London **21** Paris
	Eurex Partial Exam	**01** Chicago **14** London **15** London **22** Paris **25** Madrid	**01** Chicago **07** Helsinki **15** London **22** Paris
	Eurex Clearer Test	**01** Chicago **14** London **15** London **23** Paris **25** Madrid	**01** Chicago **07** Helsinki **15** London **23** Paris