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Eurex OTC Trade facilities

Meeting the needs of the asset management industry





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Given the current turmoil in financial markets, the greatest challenge currently facing the asset management industry is counterparty risk. The introduction of the UCITS III legislation, the growth of portable alpha investing and, recently, extension (i.e., 130/30) investing have all contributed to the huge growth in the use of derivatives by the fund management industry. The Eurex OTC Trade facilities meet the needs of asset managers by allowing the flexibility of customised off-exchange trading in derivatives with the benefit of substantially reduced counterparty risk and standardised clearing and settlement through a central clearing house – in both equity and fixed income derivative products – with the added benefit of margin offset between existing exchange-traded derivatives positions and the OTC derivative transactions brought on exchange.

Also, recent fee reductions for Eurex's OTC transactions have made the Exchange's OTC services extremely price competitive. Equally, Eurex introduced a new OTC functionality and generally enhanced its OTC service offering. Due to the added benefits, Eurex's OTC Trade volume has shown spectacular growth, reaching a record high of 99,383,966 contracts in May 2008 (see figure 1).

Eurex OTC Trade product offering

Eurex is providing an extensive range of OTC Trade facilities to meet asset managers' needs:

- OTC Block Trade
- OTC Flexible Futures and Options
- Exchange for Physicals – Eurex Equity Index Futures (EFPI) and Eurex Fixed Income Futures (EFP) trades
- Exchange for Swaps (EFS)
- Multilateral Trade Registration

OTC Block Trade

Eurex's OTC Block Trade facility (BTF) promotes maximum liquidity and trading flexibility for an asset manager, facilitating – among others – portfolio overlay or global tactical asset allocation strategies across European asset classes using Eurex products. The BTF allows market participants to enter off-exchange transactions in Eurex futures and options contracts and still have the transactions cleared by Eurex clearing. The exchange sets a minimum number of contracts for each specific product admitted to block trading.¹ For example, Eurex Single Stock Futures and the new Dow Jones EURO STOXX 50® index dividend futures have a minimum block trade limit of just one contract, whereas Dow Jones EURO STOXX 50® Index Futures have a block trade limit of 1,000 contracts. Option strategies or option volatility strategies using Eurex futures and options contracts can also use the BTF.²

The Eurex OTC Trade facilities are also very price competitive – fee caps for block trades for equity options have recently been reduced by 50–75% and for Single Stock Futures by up to 83%.

Equity options

- Fee caps for OTC Block Trades will be reduced to EUR*200 for A-account transactions in all equity options. That's a 50% reduction for German, Swiss and Scandinavian equity options.
- Fee caps for OTC Block Trades on P-accounts will be reduced to EUR*100 for all equity options, giving a reduction of 50–75%.

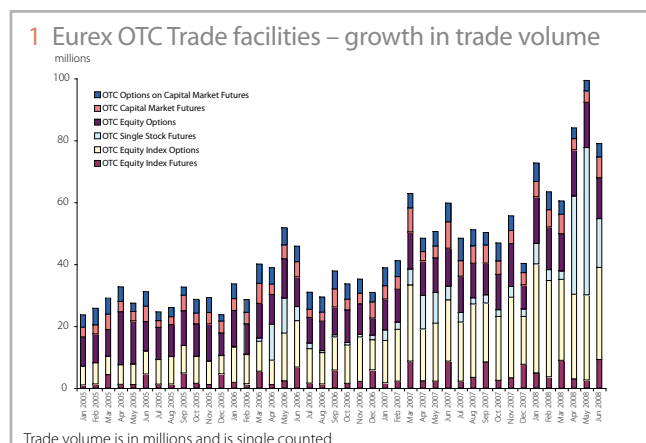
Single Stock Futures

- Fees for order book trading will be reduced for all Single Stock Futures products to EUR*0.20 per contract.
- Fee caps for block trades will be reduced to EUR*200 for all Single Stock Futures products, meaning a reduction of:
 - 83% for Scandinavian products
 - 66% for German and Swiss underlyings
 - 33% for most other Single Stock Futures

OTC Flexible Futures and Options

The flexible futures facility allows fund managers to customise their Eurex futures contracts in terms of:

- Maturity – Participants of an OTC Flexible Futures trade can create their own maturity date for the transaction: dates can be as early as the next business day or as far out as the maturity for the most distant futures listed on Eurex.



¹ See http://www.eurexchange.com/trading/wholesale/block_trades_en.html for minimum block trade limits for all Eurex contracts.

² See http://www.eurexchange.com/trading/wholesale/vola_trades_en.html for combinations of Eurex futures and option contracts acceptable under the block trade facility

German, Swiss and Scandinavian equity options

	A-accounts	P-accounts	M-accounts (RMM/PMM)	M-accounts (AMM)
Current fee caps*	€400	€400	€80	€40
New fee caps*	€200	€100	€80	€40

Other equity options

	A-accounts	P-accounts	M-accounts (RMM/PMM)	M-accounts (AMM)
Current fee caps*	€200	€200	€40	€20
New fee caps*	€200	€100	€40	€20

* For non EUR-denominated products, converted and rounded amounts in the respective product currency apply

Scandinavian Single Stock Futures

	Fee per contract**	Fee cap**
Current fee caps*	€0.60	€1,200
New fee caps*	€0.20	€200

German and Swiss Single Stock Futures

	Fee per contract**	Fee cap**
Current fee caps*	€0.30	€600
New fee caps*	€0.20	€200

Other Single Stock Futures

	Fee per contract**	Fee cap**
Current fee caps*	€0.30	€300
New fee caps*	€0.20	€200

* For non EUR-denominated products, converted and rounded amounts in the respective product currency apply
 ** All accounts

- Settlement – In most cases, the ability to negotiate the terms of settlement for Single Stock Futures via either cash settlement or physical delivery.

Whereas the Flexible Options facility³ allows asset managers to customise Eurex options contracts in terms of:

- Exercise price – The selected exercise price can be defined above the highest exercise price of the corresponding regular option series or may be the lowest exercise price that is low exercise price options or somewhere in between. Maximum exercise prices for Flexible Options are limited to 2.5 times the highest available standard exercise price in the respective product.
- Expiration date – The expiration date can be any exchange day starting from the next business day until the longest currently active standard expiration date of the standard contract.
- Exercise style – American or European exercise can be selected.
- Settlement – Cash or physical settlement.

³ The Flexible Futures facility is available for Single Stock Futures, equity index futures and EXTF Futures, whereas the Flexible Options facility is also extended to include options on fixed income and money market futures as well as the equity options/LEPOs, equity index options and EXTF Options.
⁴ See http://www.eurexchange.com/trading/wholesale/efpi_en.html
⁵ See http://http://www.eurexchange.com/trading/wholesale/efs_en.html
⁶ See http://www.eurexchange.com/download/trading/flyer_enhancement_wholesale.pdf
⁷ See http://www.eurexclearing.com/services/eurex_derivatives/multi_trade_en.html
⁸ See Eurex publication, Eurex Clearing, OTC Multilateral Trade Registration. Trade More for less. At http://www.eurexchange.com/download/documents/publications/EC_OTC.pdf

Exchange for Physicals (EFPI and EFP) and EFS

The OTC EFPI and EFP functionalities⁴ allow for the simultaneous purchase (sale) of an EFPI or EFP and sale (purchase) of qualifying cash equities or cash bonds, whereas the EFS facility⁵ allows for the simultaneous purchase (sale) of a Eurex Fixed Income Future and sale (purchase) of a plain vanilla swap. To meet the needs of the asset management industry, the EFP and EFS trade facilities were recently enhanced to include non-Eurex interest futures and duration-weighted trades, that is yield curve and barbell trades in the EFP functionality and interest rate swaptions in the EFS facility.

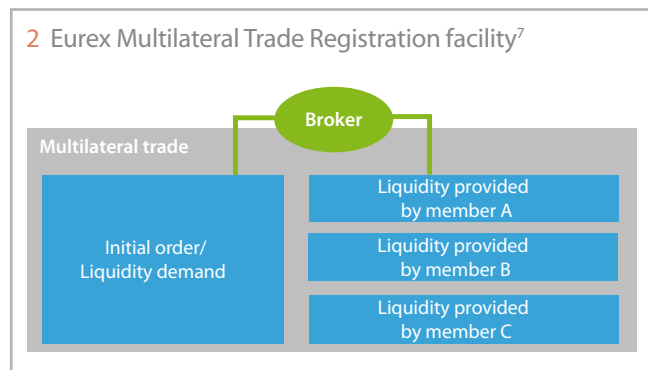
The asset manager is now able to trade, for example, Euro-Schatz versus Euro-Bund, a Euro-Bobl/Euro-Schatz/Euro-Bund barbell, Euribor Futures versus swaps and swaptions versus Euro-Bobl all off-exchange with the benefit of clearing the futures positions on exchange.⁶

Multilateral Trade Registration facility

The innovative Multilateral Trade Registration (MTR) facility allows the entry of block trades with one buyer or seller and several counterparties – instead of entering separate bilateral block trades. For equity options, the block trade applies to all partial trades entered via the MTR facility – a significant cost saving to the asset manager. Also, the MTR facility alleviates the administrative burden of dealing in derivatives by reducing the number of transactions the portfolio manager has to record (see figure 2).

More benefits at lower risks

Trading via the Eurex OTC Trade functionalities means trading at low costs⁸ – recent fee reductions for OTC transactions have made the service extremely price competitive. Currently, more than 700 Eurex products are available for OTC trading. The Eurex OTC Trade facilities give the asset management industry the flexibility of trading in tailor-made off-exchange derivative products plus enabling them to enjoy the same benefits as on-exchange customers do: substantially reduced counterparty risk and standardised clearing and settlement processes. By entering their trades via the Eurex OTC Trade functionalities, asset managers have access to Eurex’s state-of-art clearing services.



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