



e u r e x c l e a r i n g

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*Introduction to Eurex OTC  
Wholesale Trade Facilities*

*October 2008*

## Introduction

- Acknowledging the benefits of Clearing and Settlement of OTC-negotiated trades via a central counterparty Eurex (at that point in time still DTB) introduced the first OTC-trade entry functions in 1995 and continuously extended this service afterwards
- With the recently introduced Flexible Contract Trade Entry market participants can benefit from the flexibility of customized trading and the advantages of standardized clearing and settlement
- A further enhancement has been made available on July 1st 2008: the new Multilateral Trade Registration facility supports the entry of a block trade involving several counterparties. At the same date Eurex lowered fees for Block Trades in single equity derivatives (equity options and single stock futures)
- Besides the information on the changes fees this presentation provides an overview on all existing OTC trade entry facilities and the benefits of clearing OTC-transactions via Eurex Clearing

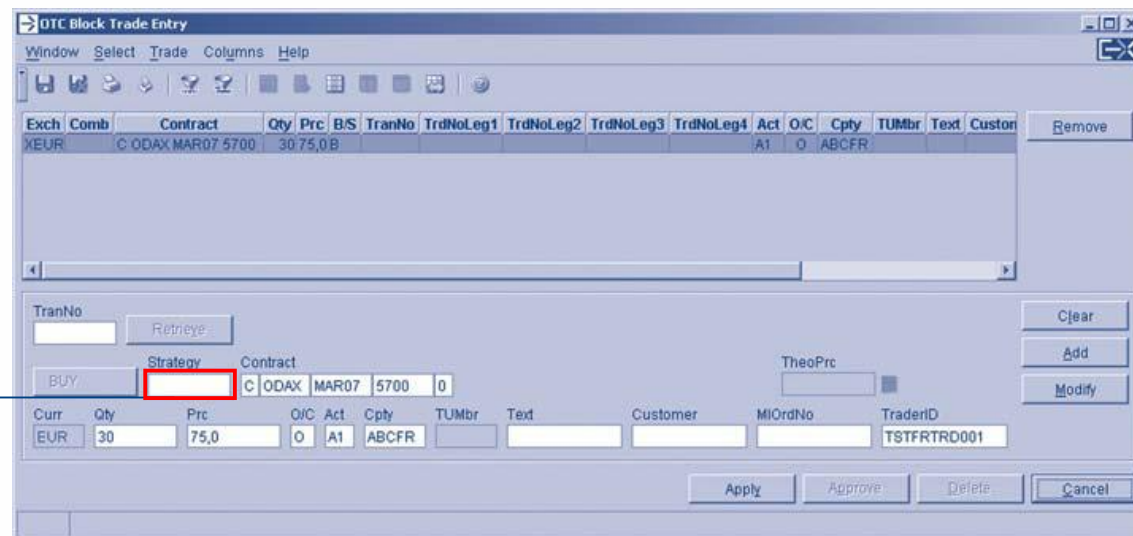
## Overview – Existing OTC Trade Entry Facilities

OTC Facility	Short Description
OTC Block Trade Entry	Purchase or sale of a listed Eurex contract
Flex Options Trade	Purchase or sale of a user-defined series of a traditional style (Cash or share settled) or futures style option
Flex Futures Trade	Purchase or sale of a user-defined series of a future
Vola-Trade	Purchase or sale of a future as a delta-weighted hedge to an existing option position on the same underlying instrument
Exchange for Physicals – Equity Index Futures (EFPI Trade)	Simultaneous purchase of a equity index future and sale of qualifying cash equities
Exchange for Physicals – Fixed Income Futures (EFP Trade)	Simultaneous purchase of a fixed income future and sale of qualifying bond
Exchange for Swaps (EFS Trade)	Simultaneous purchase of a future and sale of plain-vanilla swap denominated in the currency of the future

## OTC Block Trade Entry (1/2)

- An OTC Block Trade is a trade in a standardized Eurex product where the price has been negotiated off-exchange
- The exchange defines a minimum number of contracts for an OTC Block trade for each product admitted to Block trading
- The buyer always has to enter the details of the trade first, along with their specific buy-side parameters (e.g. client account number)

The built-in  
Eurex Strategy  
Wizard<sup>SM</sup>  
facilitates trading  
option and option  
volatility  
strategies in 45  
different flavors



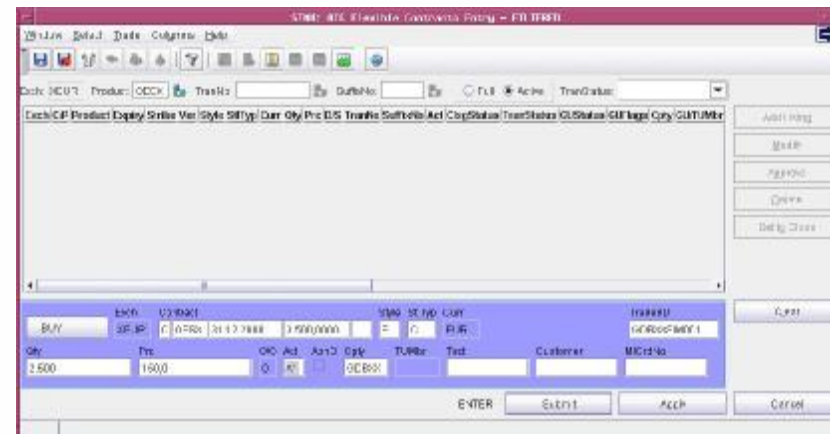
Exch	Comb	Contract	Qty	Prc	BS	TranNo	TrdNoLeg1	TrdNoLeg2	TrdNoLeg3	TrdNoLeg4	Act	O/C	Cpty	TUMbr	Text	Custom
XEUR	C	ODAX, MAR07	5700	30, 75,0	B						A1	O	ABCFR			

## OTC Block Trade Entry (2/2)

- Entering the trade generates a transaction number that must be communicated to the seller
- The seller then adds sell-side parameters and approves the trade
- The OTC Block Trade is termed „open“ until it has been approved by the seller and is deleted at the end of the current exchange day if it remains unapproved
- The OTC Block Trade is automatically added to the Own Trade Overview Window (marked with Flag O)
- The Trade, due to its nature, is not an official exchange trade; therefore the prices are not official exchange prices

## Flexible Contracts Trade Entry

- The OTC Flexible Contracts Trade Entry functionality combines the flexibility of the OTC market with the advantages of exchange-traded derivatives, such as fungibility and anonymity
- Additional benefits result from Eurex Clearing being the central counterparty to all trades:
  - Elimination of counterparty risk
  - Fully automatic trade processing, use of existing clearing infrastructure
  - Margin offsets between Flexible Options and Futures and regular positions with the same margin class
- Wide range of products available



## Flexible Options Trade

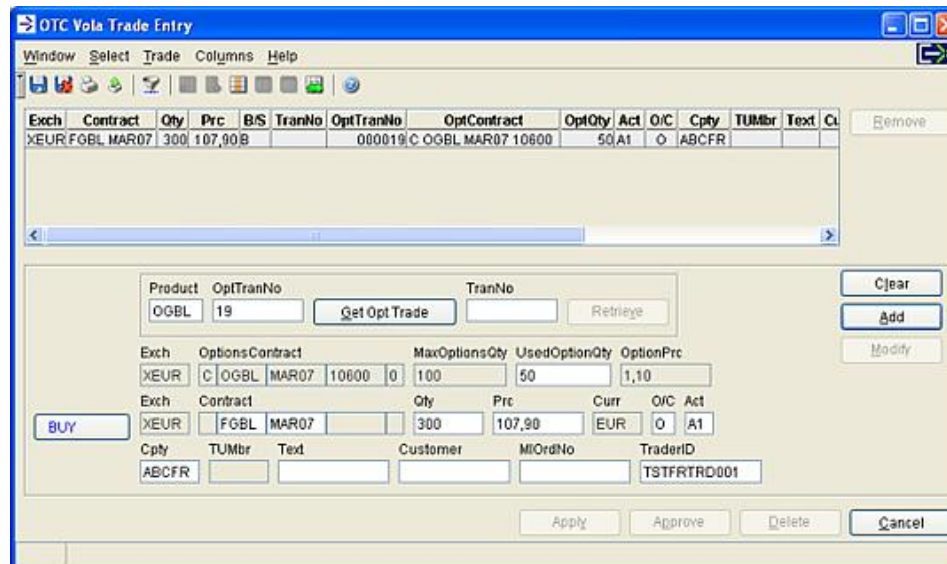
- The OTC Flexible Options functionality enables the customization of around 300 equity, equity index and fixed income options
- Flexible Options trades requires a minimum size equal to the minimum block trade size in the regular contract, i.e. they are purely OTC trades
- Customers can tailor options trades by defining the following parameters:
  - Exercise price (within highest and lowest exercise price of regular series)
  - Expiration date (no later than regular existing expiration date)
  - Exercise style (American or European)
  - Settlement type (Cash or Physical)
- Functional enhancements facilitating back-office processing have been recently implemented:
  - Trade separation (possibility to split a trade into several sub-accounts)
  - Partial close-out
  - Partial exercise

## Flexible Futures Trade

- The OTC Flexible Futures functionality enables the customization of more than 500 equity and index futures
- Key parameters to be determined according to members' individual requirements are:
  - Flexible maturity (The participants of an OTC Flexible Futures trade can create their own maturity date for the transaction. Maturity dates can be as early as the next business day or as far out as the maturity date for the most distant standard future listed on Eurex)
  - Settlement choice (Similar to OTC Flexible Options on individual equities, OTC Flexible Futures give participants, in most cases, the ability to negotiate the terms of settlement for Single Stock Futures (cash settlement or physical delivery)).
  - System features (All system features that counterparties use for OTC Flexible Options are also available for OTC Flexible Futures (if applicable))

## Vola Trade

- An OTC Vola Trade is a futures trade delta-hedging an existing options trade on the same underlying instrument
- The options trade can be either an exchange trade or an OTC Block Trade
- Either counterparty can enter an OTC Vola trade provided a valid options transaction number is submitted to the Eurex system

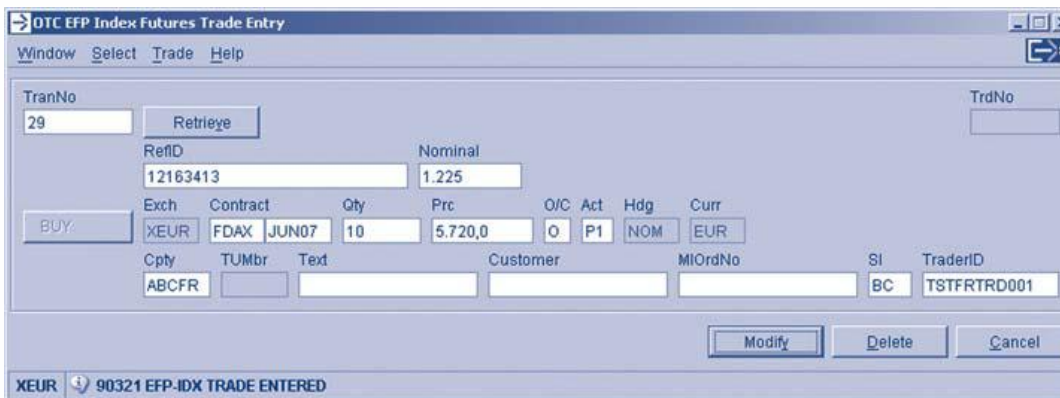


Exch	Contract	Qty	Prc	B/S	TranNo	OptTranNo	OptContract	OptQty	Act	O/C	Cpty	TUMbr	Text	Cl
XEUR	FGBL MAR07	300	107,90	B		000019	C OGBL MAR07 10600	50	A1	O	ABCFR			

- Once the options trade is retrieved, the number of contracts to be devoted to the OTC Vola Trade must be entered
- In this case, the size of the futures trade is not subject to the minimum block trade size and depends solely on the delta of the options position

## Exchange for Physicals – Equity Index Futures (EFPI Trade)

- The OTC EFPI facility allows participants to organize and execute transactions involving a combination of an approved share basket (cash leg) and an appropriate number of offsetting equity index futures contracts (futures leg) based on the relative value of the basket of equity securities and the contract value of the corresponding equity index futures contracts
- The market value of the share basket must amount a minimum of EUR 1 Mio., CHF 1.5 Mio. or USD 1Mio. and must not deviate from the contract value of the futures position by more than 20%
- The share basket has to consist of at least 10 different index components or a number of share titles which represents at least half of the share index underlying the futures contract



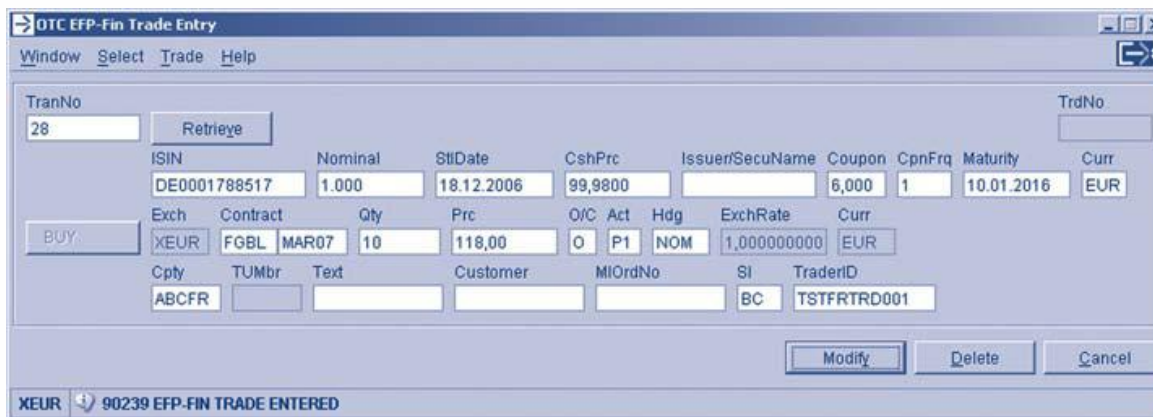
The screenshot shows a software window titled "OTC EFPI Index Futures Trade Entry" with a menu bar (Window, Select, Trade, Help) and a toolbar. The main area contains the following fields and controls:

- TranNo: 29 (with a Retrieve button)
- TrdNo: (empty)
- RefID: 12163413
- Nominal: 1.225
- BUY button
- Exch: XEUR
- Contract: FDAX
- Qty: 10
- Prc: 5,720,0
- O/C: O
- Act: P1
- Hdg: NOM
- Curr: EUR
- Cpty: ABCFR
- TUMbr: (empty)
- Text: (empty)
- Customer: (empty)
- MIOrdNo: (empty)
- SI: BC
- TraderID: TSTFRTRD001
- Modify, Delete, and Cancel buttons at the bottom.
- Status bar: XEUR 90321 EFP-IDX TRADE ENTERED

- The market value of shares in the basket that are part of the index underlying of the futures contract must represent at least 20% of the cash transaction amount

## OTC Exchange for Physicals (EFP + EFP-Fin)

- The OTC EFP/EFP-Fin functionalities enable the purchase or sale of fixed income futures contracts and simultaneously the sale or purchase of the underlying, defined as debt securities, which shows a price correlation- or in case of credit spread correlation to the exchanged futures contract so that the futures contract describes an appropriate hedge instrument for cash transactions, money market or fixed income futures
- The underlying for the EFP facility can be only a government debt instrument whereas for the EFP-Fin facility the underlying can be any kind of debt instrument
- Eurex requires, after conclusion of the cash transaction, that both counterparties provide the delivery confirmation\* within one week of the settlement date



The screenshot shows a software window titled "OTC EFP-Fin Trade Entry" with a menu bar (Window, Select, Trade, Help) and a close button. The main area contains several input fields and buttons:

- TranNo:** 28, with a "Retrieve" button.
- TrdNo:** (empty field)
- ISIN:** DE0001788517
- Nominal:** 1.000
- SttDate:** 18.12.2006
- CshPrc:** 99,9800
- Issuer/SecuName:** (empty)
- Coupon:** 6,000
- CpnFrq:** 1
- Maturity:** 10.01.2016
- Curr:** EUR
- BUY:** (button)
- Exch:** XEUR
- Contract:** FGBL MAR07
- Qty:** 10
- Prc:** 118,00
- O/C:** O
- Act:** P1
- Hdg:** NOM
- ExchRate:** 1,000000000
- Curr:** EUR
- Cpty:** ABCFR
- TUMbr:** (empty)
- Text:** (empty)
- Customer:** (empty)
- MIOrdNo:** (empty)
- SI:** BC
- TraderID:** TSTFRTRD001

At the bottom, there are "Modify", "Delete", and "Cancel" buttons. A status bar at the very bottom displays "XEUR 90239 EFP-FIN TRADE ENTERED".

The EFP functionalities offer an enhanced ability to hedge and conduct basis and arbitrage trading

\* The delivery confirmation must clearly state that the cash transaction has been concluded in conjunction with the corresponding EFP Trade's future transaction.

## Exchange for Swaps (EFS Trade)

- The OTC EFS facility allows participants to organize and execute transactions involving an interest rate swap or swaption and interest rate futures
- Cash transactions in EFS trades must have the following characteristics:
  - EFS for Fixed Income: Interest rate swap or swaption
  - EFS for Credit: OTC Credit Default Swap (CDS) or iTraxx index or single reference entity
  - EFS for Inflation: all versions of inflation swaps are eligible (Zero Coupon Inflation Swaps, Multiplicative Inflation Swaps, Inflation linked Annuity Swaps...)



The screenshot shows the 'OTC EFS Trade Entry' window with the following data:

SwapCust1	SwapCust2	SwapType	BDDate				
ABC Corp.	Brown Ltd	payer	15.12.2008				
Nominal	CpnFixRat	CpnFreq	CpnVarRef	CpnVarOfs	StrtDat	EndDat	Curr
1,000	2,0000	1	EURIBOR-1M	1,0000	15.12.2008	15.12.2008	EUR
Exch	Contract	Qty	Prs	OTC Act	Hdg	ExchRate	Curr
XEUR	FOBL MAR07	10	118.00	0	P1	DUR 1,000000000	EUR
Copy	TUMbr	Text	Customer	MICedNo	TradeID		
ABCFR					TSTFRTRD001		

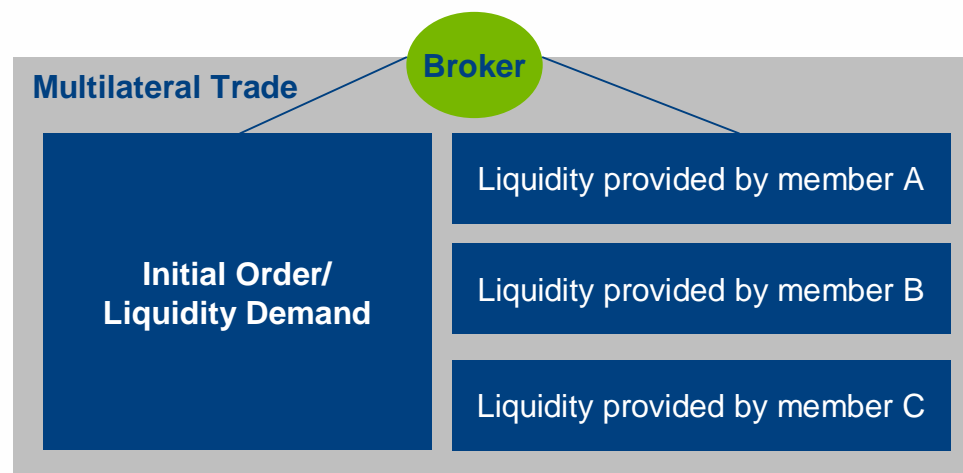
Buttons: Retry, Buy, Modify, Delete, Cancel

Status bar: XEUR 00232 EFS TRADE ENTERED

- The buyer of the futures enters the EFS Trade and the seller, after communication of the transaction number by the buyer, will ratify the trade
- Proof of the swap transaction must be faxed to Eurex Market Supervision upon request

## New Multilateral Trade Registration Facility – Key Features (1/2)

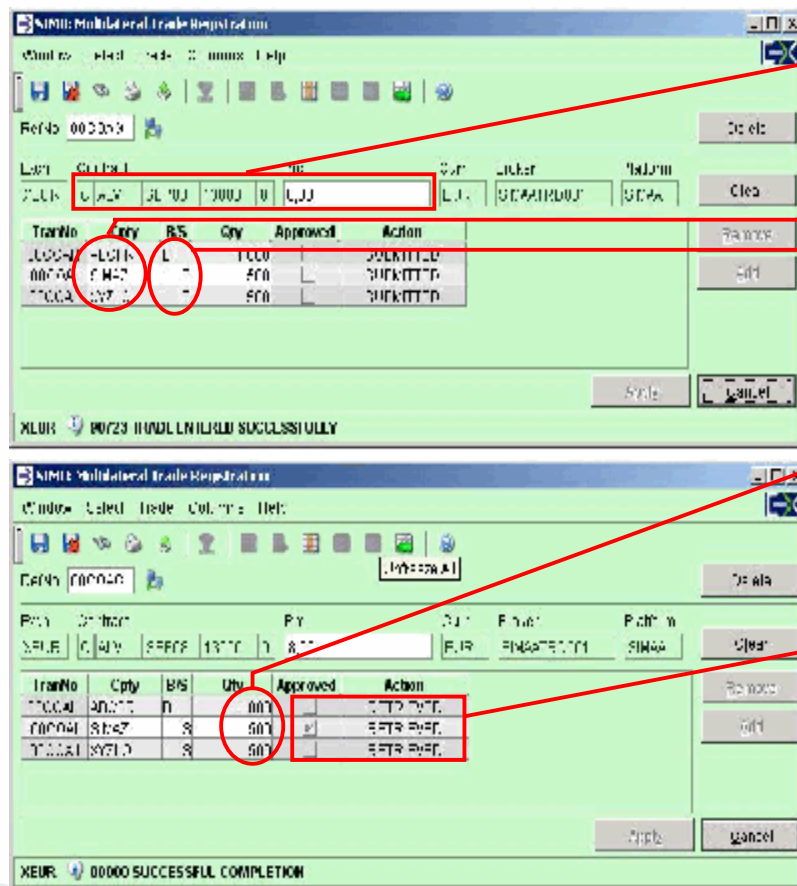
- Eurex enhanced its OTC trade entry facilities by introducing the Multilateral Trade Registration functionality on July 1st, 2008, initially for equity options only.
- The new Multilateral Trade Registration facility allows the entry of Block Trades with one buyer or seller and several counterparties – instead of entering separate bilateral block trades
- The broker entering the trade has not necessarily be counterparty to the trade itself, but may enter the half trades directly for the actual beneficiary owners



## New Multilateral Trade Registration Facility – Key Features (2/2)

- For Equity Options, the block trade fee caps are also applied to all partial trades entered via the Multilateral Trade Registration facility – thereby providing a real cost benefit for members: Regardless of the order size, exchange fees apply only up to the fee cap as large orders do not have to be split up on several bilateral block trades where the fee cap is applied to each single trade
- The trade is only successfully entered into the Eurex Clearing system once all counterparties have approved their partial trade – no risk that parts of the trade were already closed while the remaining parts can not be accomplished at the conditions intended

# Multilateral Trade Registration Facility – Trade Entry

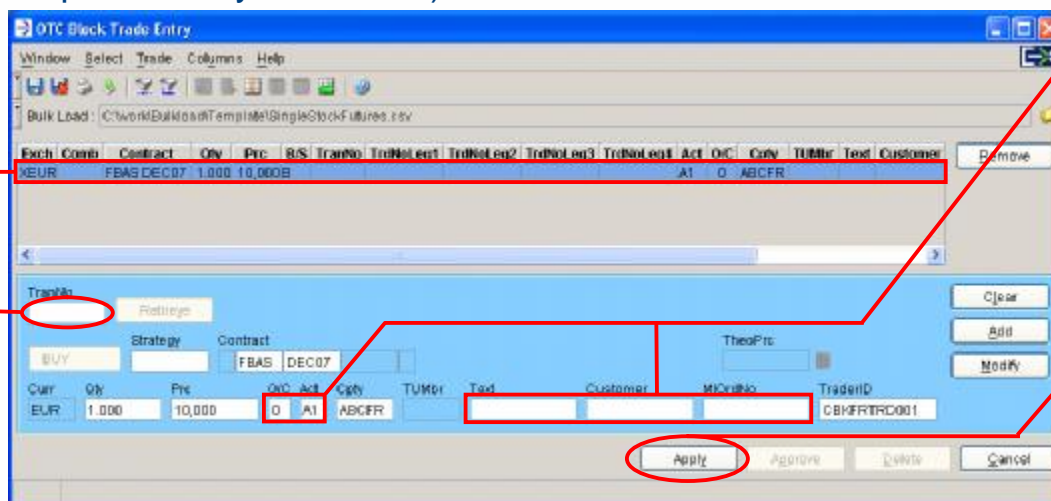


- The broker needs to enter the contract and the trade price only once
- All members involved in the trade have to be entered.
- Buyers and seller are identified by setting the Buy/Sell flag. There can be either only one buyer or one seller trading against several counterparties
- Each counterparty's trade quantity has to be entered\*. The total quantity of all buy trades has to equal the total quantity of all sell trades
- The fields "Approval" and "Action" always inform on the current status of the trade. After all parties have approved the trade it is finally registered for clearing

\* The quantity for each partial trade has to be in excess the Minimum Block Trade Size Requirement

## Multilateral Trade Registration Facility – Trade Approval

- Each counterparty involved in a Multilateral Trade has to approve its part of the trade. Only after approval of all counterparties the Multilateral Trade is actually recorded at Eurex Clearing
- Once the broker submitted the Multilateral Trade the partial trades automatically appear in the trade list of each counterparty's OTC Block Trade Entry window, provided this window was already open at the time of trade submission
- If the OTC Block Trade Entry window was not open at the time of trade submission, the member has to inquire his partial trade by entering the respective transaction number (to be provided by the broker)



- The approving member needs to enter the account information and set the open/close flag. The member may also fill the free format text fields according to his needs
- By clicking the “Apply” button the member approves his part of the Multilateral Trade

## Reduced Fee Levels for Equity Options OTC Trades

- As of July 1st 2008 significant fee reductions for OTC-transactions in Equity Options apply:
  - Fee caps for Block Trades reduced to 200 EUR\* for A-Account Transactions in all Equity Options, meaning a reduction by 50% for German, Swiss and Scandinavian Equity Options
  - Fee caps for Block Trades on P-Account are reduced to 100 EUR\* for all Equity Options, meaning a reduction between 50% and 75%
  - The Multilateral Trade Registration facility allows further cost reductions:

### Example:

- An order over 15,000 contracts in Daimler is executed on the A-Account against three counterparties, each contributing 5,000 contracts
- Currently, the order would need to be executed in three separate block trades with a trade size of 5,000 contracts each, resulting in  $3 \times 400 \text{ EUR} = 1,200 \text{ EUR}$  exchange fees – 8 Ct. per contract
- After the introduction of the fee reductions and in combination of the Multilateral Trade Registration only 200 EUR exchange fees apply for the entire 15,000 lots order – 1.3 Ct. per contract

\* For non EUR-denominated products the (rounded) equivalents in domestic currency apply

## Reduced Fee Levels for Single Stock Futures

- As of July 1st, 2008 fees for Single Stock Futures are significantly reduced for on exchange order book trading and entries of OTC transactions
- Fees for order book trading are reduced for all Single Stock Futures products to 0.20 EUR\* per contract. Currently, most Single Stock Futures are priced 0.30 EUR.
- Fee Caps for Block Trades are reduced to 200 EUR for all Single Stock Futures products, meaning a reduction of 83% for Scandinavian products, 66% for Futures on German and Swiss underlyings and 33% for most of other Single Stock Futures.

\* For non EUR-denominated products the (rounded) equivalents in domestic currency apply

## New Fee Levels – Overview

### Equity Options

	German, Swiss & Scandinavian Equity Options				Other Equity Options			
	A-account	P-accounts	M-accounts (RMM/PMM)	M-accounts (AMM)	A-account	P-accounts	M-accounts (RMM/PMM)	M-accounts (AMM)
<b>Current Fee Caps*</b>	400 €	400 €	80 €	40 €	200 €	200 €	40 €	20 €
<b>New Fee Caps*</b>	200 €	100 €	80 €	40 €	200 €	100 €	40 €	20 €
<i>Bclear Fee Caps</i>	200 € (400 €)**	100 €	100 €	100 €	200 €	100 €	100 €	100 €

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

\*\* The 400€ fee cap applies to Swiss and Scandinavian equity options

### Equity Futures

	Scandinavian SSFs		German & Swiss SSFs		Other SSFs	
	Fee per contract**	Fee Cap**	Fee per contract**	Fee Cap**	Fee per contract**	Fee Cap**
<b>Current Fees*</b>	0,60 €	1.200 €	0,30 €	600 €	0,30 €	300 €
<b>New Fees*</b>	0,20 €	200 €	0,20 €	200 €	0,20 €	200 €
<i>Bclear Fee Caps</i>	0,20 €	200 €	0,20 €	200 €	0,20 €	200 €

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

\*\* All accounts

## Eurex Contacts

- Eurex Sales London:  
Murat Baygeldi  
[murat.baygeldi@eurexchange.com](mailto:murat.baygeldi@eurexchange.com) Tel.: +44- (0) 207-862 72 30
- Eurex Sales Paris:  
Alexandra Morelle,  
Laurent Ortiz  
[alexandra.morelle@eurexchange.com](mailto:alexandra.morelle@eurexchange.com),  
[laurent.ortiz@eurexchange.com](mailto:laurent.ortiz@eurexchange.com) Tel.: +33- (0) 1-5527- 6772
- Eurex Sales Zurich:  
Shamini Kannan  
[shamini.kannan@eurexchange.com](mailto:shamini.kannan@eurexchange.com) Tel.: + 41- (0) 58 85 42946
- Traditional Asset Managers London:  
Byron Baldwin  
[byron.baldwin@eurexchange.com](mailto:byron.baldwin@eurexchange.com) Tel.: +44- (0) 207-862 72 32
- Traditional Asset Managers Frankfurt:  
Peter Noha  
[peter.noha@eurexchange.com](mailto:peter.noha@eurexchange.com) Tel.: +49- (0) 69-2111 4717
- Traditional Asset Managers Zurich:  
Juan Martini  
[juan.martini@eurexchange.com](mailto:juan.martini@eurexchange.com) Tel.: + 41- (0) 58 85 42814
- Markets Services Team  
(for simulation, clearing & settlement infrastructure)  
[customer.support@eurexchange.com](mailto:customer.support@eurexchange.com) Tel.: +49- (0) 69-2111 1700