

Guidelines for Trading and Clearing Flexible Options and Flexible Futures

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1 Introduction

The new Eurex Release 10.0, introduced in November 2007, has enhanced users' ability to trade tailor-made options – and for the first time introduced the same extent of customization for futures contracts. Therefore, more than 700 Eurex products are available for tailor-made OTC trading. With this step, Eurex has continued to expand and enhance its wholesale offering for market participants. Originally, the OTC Flexible Options facility was introduced in November 2005 for all equity and equity index options and with Eurex Release 9.0 extended to options on euro fixed income futures. Through Eurex Release 10.0 Eurex members benefit from the flexibility of customized OTC contracts, combined with the efficiency and security of standardized clearing and settlement processes for all equity and equity index options and futures as well as for fixed income options.

2 Key Parameters of OTC Flexible Options

Besides extending the possibilities for market participants to customize their options individually, Eurex has implemented a series of functional enhancements on OTC Flexible Options that facilitate back office processing. OTC trading in options on more than 250 individual equities, on equity indexes, Exchange Traded Funds (ETFs) and fixed income futures has thus become even more flexible. Key parameters for options to be determined according to members' individual requirements are:

· Exercise Price

The selected exercise price can be defined above the highest exercise price of the corresponding regular options series or may be the lowest exercise price of an option (e.g. LEPOs) which can be represented in the Eurex® system or an intermediate price. Maximum strikes for Flexible Options are limited to 2.5-times the highest available standard strikes in the perspective product. The choice of possible exercise prices for Flexible Options is no longer restricted by the highest and lowest exercise prices existing for the standard expirations.

· Expiration Date

The expiration date can be any business day (with some special Eurex defined exceptions) starting from the next business day until the longest currently active standard expiration date of the affected standard product.

· Exercise Style

American or European exercise can be specified.

· Settlement Type

The settlement type of OTC Flexible Options contracts is arbitrary. For OTC Flexible Equity Options or EXTF Options trades at time of conclusion members can choose to settle their trades either with cash or with the physical settlement type available for the product.

2.1 Functional Enhancements

Eurex has also implemented a series of functional enhancements on OTC Flexible Options that facilitate back office processing, such as

· Trade Separation

Participants have the ability to split the total trade into up to twenty partial trades to allow many sub-accounts to share in the same trade.

- **Partial Close-Out**¹

These partial close-outs are only possible if a member owns both the buy and sell side of a transaction. However, they are not possible for sub-trades of two different trades.

- **Partial Exercise**¹

This feature will allow participants to exercise only a portion of an option position if desired.

¹ Partial Close-Outs and/or Partial Exercises can only be performed after a user has executed a trade separation.

3 Key Parameters of OTC Flexible Futures

With Release 10.0, futures on more than 400 equities as well as 50 equity indexes and on ETFs can be customized by individual selection of maturity dates and settlement choices.

Furthermore, OTC Flexible Futures can be traded with all system features that counterparties already use within the Flexible Options facility.

Key parameters for futures 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. Tailored maturity dates can be as early as the next business day or as far out as the maturity date for the most distant respective 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).

4 Trading Flexible Contracts (Futures & Options)

The procedure for the entry of Flexible Contracts consists of two steps. Initially the buyer enters the transaction details and upon successful submission, a unique Flexible Contracts transaction ID is provided by the system, which the buyer subsequently communicates to the counterpart (seller). The seller has to retrieve the request using the transaction number received from the buyer and approves the trade. Flexible Contracts trades can be entered, modified, deleted and approved during the trading phases TRAD, FAST and POSTF (until POST1). A submitted OTC trade has to be approved by the counterparty within a time frame defined by Eurex (currently 30 minutes). The Eurex® system deletes all non-approved OTC flexible transactions automatically in the end of day batch.

More information related to Eurex Wholesale Trading facilities (General Conditions for Participating, OTC Trade Entry application forms) are also available on the Eurex website:

www.eurexchange.com > Trading > Wholesale Trading.

5 Wholesale OTC Flexible Contracts Entry Window

The following section illustrates the procedure for entering Flexible Contracts transactions and explains the different fields in the trading GUI.

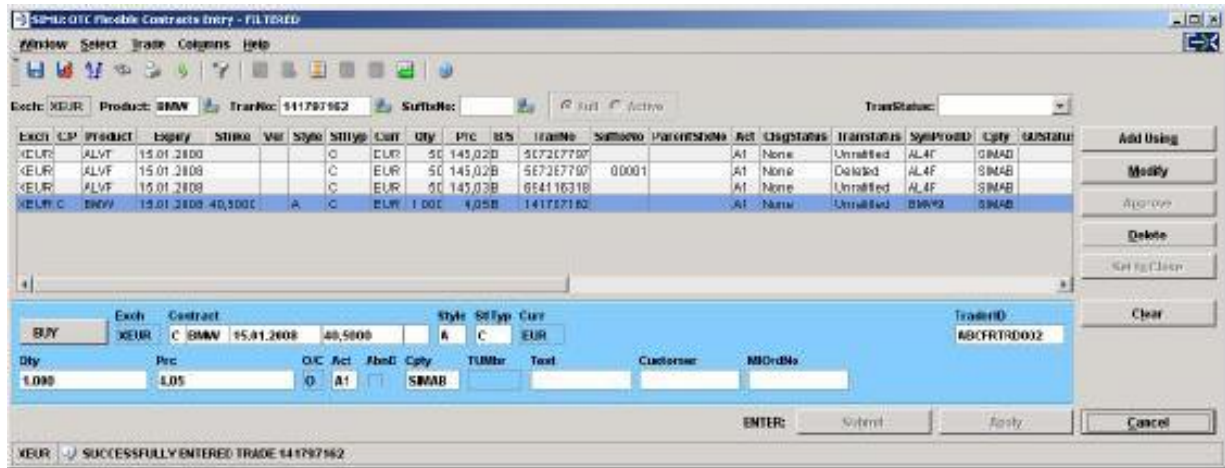


Figure 1 - @X-ceed Trading GUI: OTC Flexible Contracts Entry

The OTC Flexible Contracts windows of the @X-ceed trading GUI, as shown above, offers a number of options for the addition, modification and deletion of Flexible Contracts transactions.

5.1 Templates

The Flexible Contracts Entry window provides the possibility of using particular trade specifications of a previously entered trade such as contract, exercise style, currency, counterparty, quantity, settlement type, et cetera. The use of this feature facilitates a faster entry. This button is named "Add Using"

5.2 Modify

Each modification of the submitted transaction, for example a price change, increases the suffix number by one. Flexible Contract prices are validated by the system during entry, similar to the validation performed on OTC Block Trades in regular options and futures.

5.3 Approve

A member can ratify a Flexible Contracts trade which another member entered as soon as the transaction number received from the counterparty has been inquired.

5.4 Delete

An OTC Flexible Contracts transaction can be deleted as long as the counterparty has not approved the Flexible Contracts trade.

5.5 Set to Close

Both counterparties (the initiator and the approver) involved in an OTC Flexible Contracts transaction are able to close their interest. The "Set to Close" facility triggers an OTC Flexible

Contracts transaction with either the original or any other counterparty. The OTC Flexible Contracts transaction has, for the member initiating the close, the same value for the buy/sell flag as the original one; the open/close indicator is set to “Close”. For the member accepting a trade to close, the counterparty will always receive a new opening transaction. If required, this trade can be closed out later using the close-out functionality in the clearing GUI.

The initiator of a set to close will reduce its open interest. The accepting original counterparty will have a long and short transaction with the identical transaction number, which can be netted via the Close Out in the Clearing GUI (see § 6.3).

For a closed transaction the closing status (ClsgStatus) will be “complete” and the transaction status (Tran status) will be “closed”. The approver of the set to close transaction will have the closing status “complete” and the transaction status “ratified”.

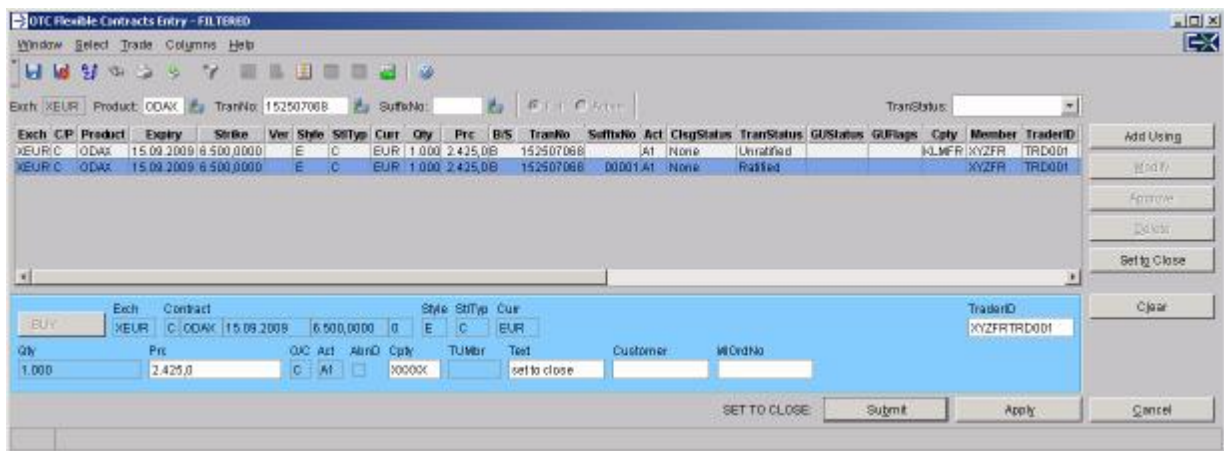


Figure 2 - @X-ceed Trading GUI: OTC Flexible Contracts Set to Close

5.6 Transaction Status

To avoid confusions in the Flexible Contracts Trading and Clearing screens, the transactions to be displayed can be selected. By clicking the small arrow on the top right hand side in the “TranStatus” one of the following may be chosen: Unratified, Ratified, Closed, Given Up, Position Transfer, Exercised, Assigned.

5.7 Example: Entering a Flexible Options Transaction on BMW

Member SIMAA enters a Flexible Call Options transaction in BMW with the following parameters: Strike Price: 40.5000, Expiry: 18.01.2008, Exercise Style: American and Account A1



Please note that the transaction is displayed in the @X-tract Clearing GUI after the ratification from the counterparty has taken place.

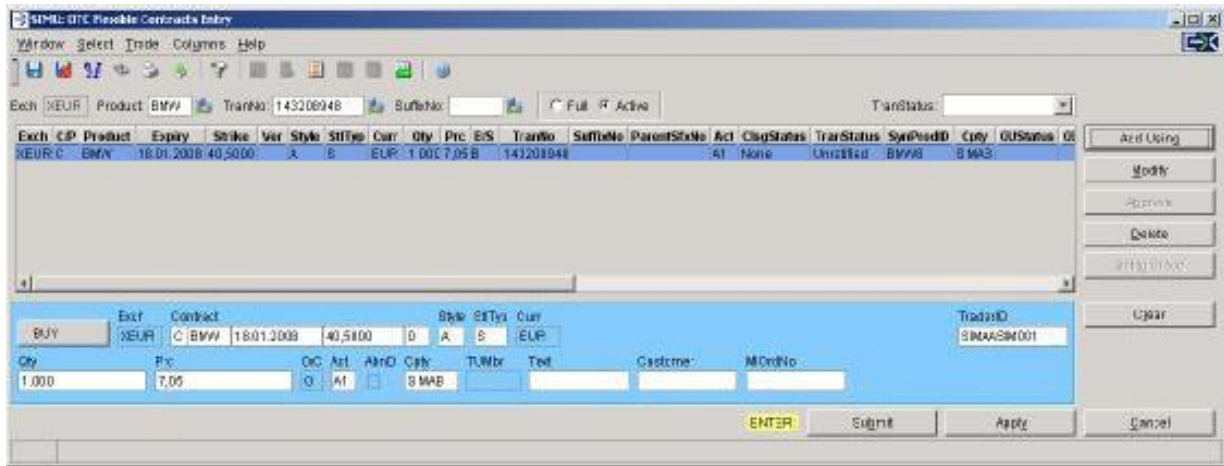


Figure 3 - @X-ceed Trading GUI: OTC Flexible Contracts Entry

After the member entered the transaction following states are shown in the trading GUI:

Closing Status	“None”	This is a new transaction which is being opened
TranStatus	“Unratified”	This transaction has not been ratified yet by member
SIMAB		
GUSatus	“None”	Since the transaction is not yet ratified a “Give-Up” cannot be performed
Suffix		This suffix is not displayed in the trading GUI prior to ratification
Cpty	“SIMAB”	This field displays the counterparty of the transaction
SynProdID	“BMW8”	The SynProdID shows that an American style BMW Flexible Option with physical delivery (“S”hare settlement) was entered.

Now, member SIMAA communicates the transaction number to member SIMAB who subsequently inquires this Flexible Options transaction. The corresponding screenshot is shown below:

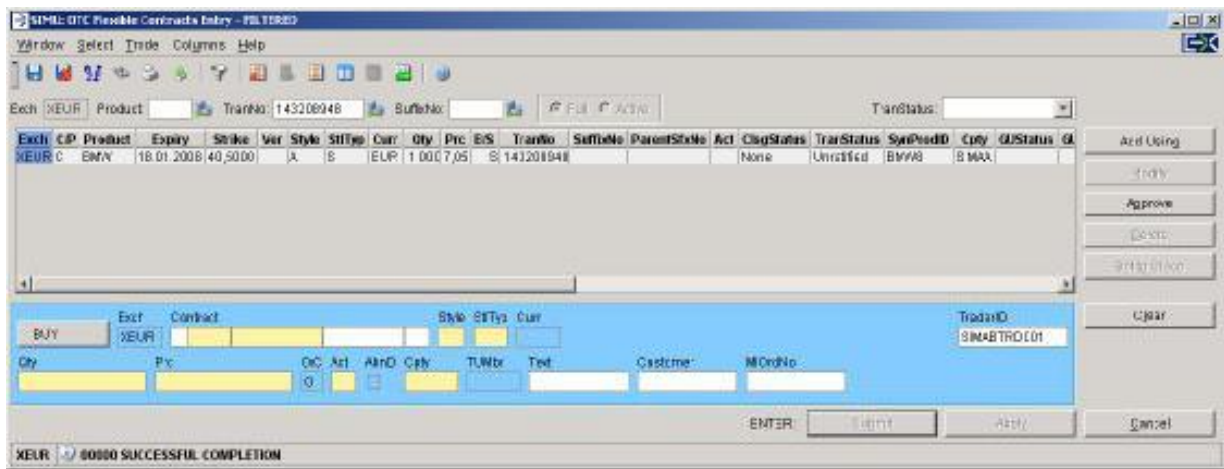


Figure 4 - @X-ceed Trading GUI: OTC Flexible Contracts Prior to Ratification

After SIMAB has inquired the transaction the following states are shown in the trading GUI:

Closing Status	“None”	This is a new transaction which has been opened
TranStatus	“Unratified”	This transaction has not yet been ratified by SIMAB
GUStatus	“None” No	“Give-Up” is performed with this transaction
Suffix		This suffix is not displayed in the trading GUI prior to ratification
Cpty	“SIMAA”	This field displays the counterparty for the transaction

Member SIMAB ratifies the Flexible Options transaction. The corresponding screenshot is shown below:

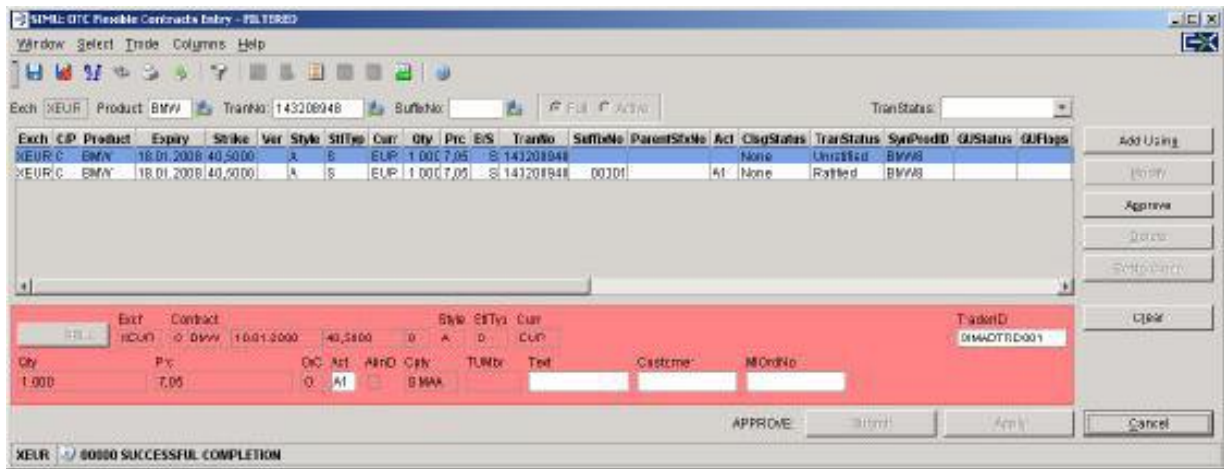


Figure 5 - @X-tract Trading GUI: OTC Flexible Contract Ratification

After the approval of the transaction by SIMAB the following states are shown in the trading GUI:

Closing Status	“None”	This is a new transaction which has been opened
TranStatus	“Ratified”	This transaction has been ratified by SIMAB
GUStatus	“Allow Give-Up”	As this transaction is in account A1 give-ups may be performed on T, T+1 and T+2
Suffix	“00001”	This suffix is displayed in the trading GUI and in the clearing GUI as well

6 Clearing of Flexible Contracts

6.1 Functionality

In the Clearing GUI the Flexible Contracts transaction can be adjusted, a give-up can be entered or deleted, the counterparty can accept the give-up, a take-up or a position transfer can be entered and confirmed and exercises can be carried out. With Eurex Release 10.0 OTC Flexible Contracts trades can be split in up to 20 sub trades. Trade separations are possible for OTC Flexible Contracts transactions with the status “Ratified”. Members can maintain the separated sub trades individually, that is all functionality applied to complete OTC Flexible Contracts transactions is also supported for these sub trades. A trade separation request can be entered from the Flexible Contracts Trade Separation window. Moreover members will be able to enter a give-up for their trades up to the second consecutive business day after conclusion of the distinct transaction.



Please note: OTC Flexible Contracts transactions, although guaranteed by the Eurex Clearing AG, are maintained as bilateral transactions and are not included in the regular clearing positions. Please note that random assignment takes place only within the various legs of the transaction if partial exercises are performed.

6.2 Netting of Positions



Flexible Contracts transactions within a margin class are not considered for position netting. Instead, each Flexible Contracts transaction is considered as an individual stand-alone series. During margin calculations in a margin class, premium margins are calculated for each Flexible Option transaction and added to the regular option series. Margin offsets between Flexible Options transactions and regular positions within the same margin class will be provided. Flexible Option positions are not considered for short option compensation.

OTC Flexible Futures transactions are included within the margin classes of the standard futures product. The mark-to-market calculation for OTC Flexible Futures transactions are calculated similar to standard futures and added to its variation margin balance.

6.3 Close out

Eurex provides members with sub trades on the buy and sell side of one OTC Flexible Contracts transaction, the facility to perform a close-out. This can be performed only on sub trades with the status “Ratified”. A close out is possible only between sub trades with equal quantity and the same account (A1, P1, P2). Members can use the trade separation functionality to create the sub trades with equal quantities for performing the close-out.

For a closed transaction the closing status (ClsgStatus) will be “complete” and the transaction status (Tran status) will be “closed”. The approver of the set to close transaction will have the closing status “complete” and the transaction status “ratified”.

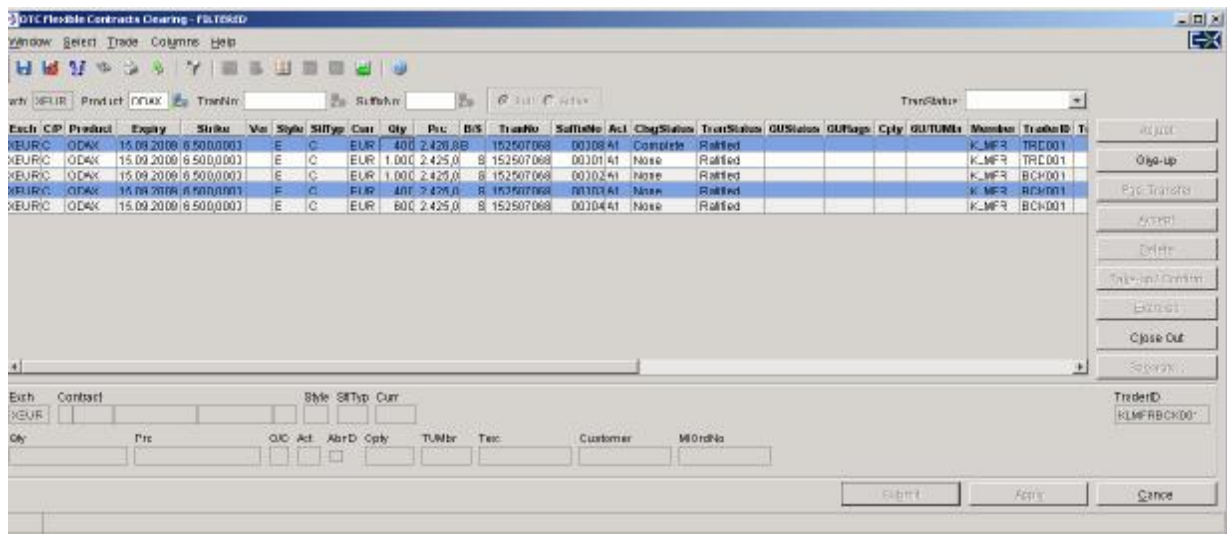


Figure 6 - @X-tract Clearing GUI: Close Out

The first highlighted part of the flexible transaction is the result of the approval of a “set to close” transaction (complete ratified). This part can be closed out against the short transaction with the same quantity and the same account.

After the successful close out the status will be “complete closed”.

In case the radio-button “Active” is set, complete closed transaction are not visible anymore.

6.4 Give up Take up / Position transfers

Flexible transactions can be transferred to another member either by give/take up from the A1 account for T to T-2 transactions or by position transfer from P1/P2 account or transactions from the A1 account older than T-2.

Depended on the auto give up take up flag set in Member Relationship Overview the CM (clearing member) must approve the give/take up. For a position transfer all involved members must approve.

The GU status indicates whether a give up/position transfer is entered. The GU status “designated” indicates a pending give up. The Tran Status given up in combination with the GU status Complete indicates that the flexible transaction was successfully taken up by the counterparty.

The CM approves the flexible give up by “accept” the give up for his NCM.

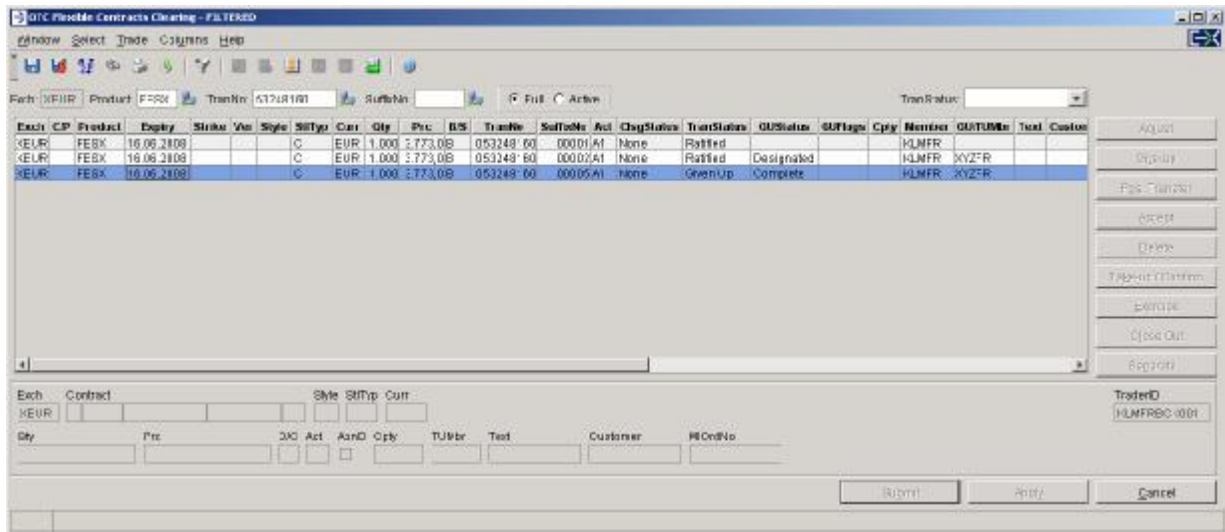


Figure 7 - @X-tract Clearing GUI: Give Up

Contrary to the give upper, the take upper can use the GU flags, Tran Status and GU Status; whereas the give upper can only use the Tran Status and the GU Status.

The GU Flags indicates who already accepted and who still has to accept. The first character stands for the give upper side. The second character stands for the GCM of the take upper. The third and last character stands for the take upper it selves.

Example GU flags. YNY: The CM of the give upper already accepted and the take upper already confirmed. Outstanding is the acceptance of the CM of the take upper.

As long as the take up is still pending the Tran Status is "given up" and the GU status is "designated" After all members involved confirmed/accepted, the status for the take upper will be Tran Status "ratified" and Give Status "Complete" with GU flags "YYY"

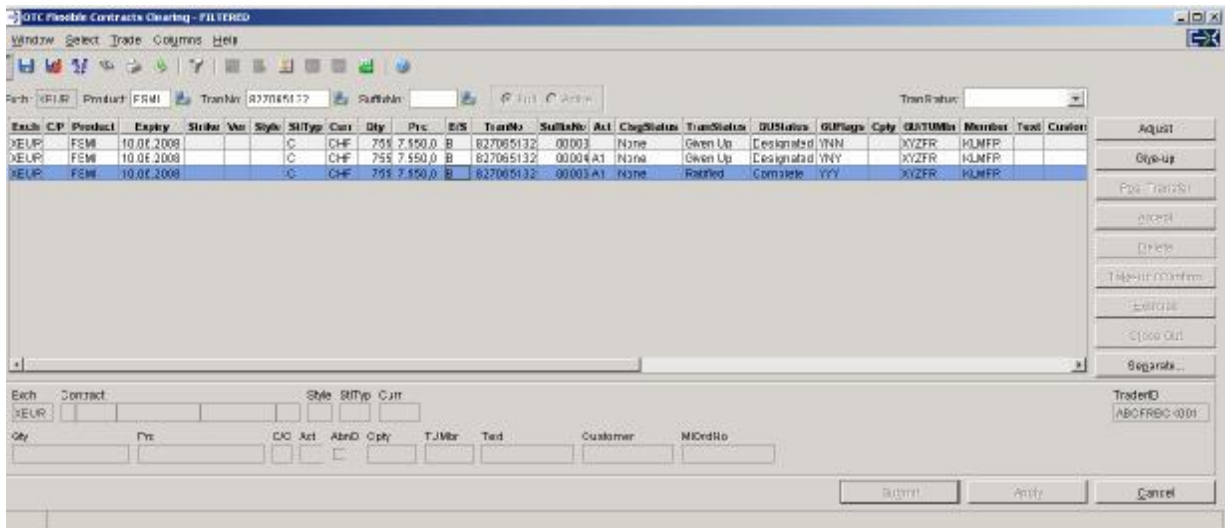


Figure 8 - @X-tract Clearing GUI: Take Up

Position transfers behave similar to give up/take up. Traditional style flexible options are transferred at a price of “zero”, whereas future style options and futures are transferred against the previous settlement price; although the GUI shows a zero. Therefore on the first day a position transfer in a future style flexible product is not allowed. Please note that the flexible position transfer is not done in batch, but is transferred online.

7 Resource Access Levels (RALs)

Participants who wish to use the Flexible Contracts Facility are requested to have their Security Administrator assign the following RALs to the different users:

- Trading Flexible Contracts: RAL238/239
- Clearing Flexible Contracts: RAL 238/240

The different resource access levels enable the following functions:

RAL 238 Flexible Contracts Inquiry (2)

RAL 239 Flexible Contracts Trading (3)

RAL 240 Flexible Contracts Clearing (3)

Exercise rights for flexible options are linked to RAL 171



Modifications of trades that are not ratified will only be possible for users with trading rights, those of ratified trades for users with clearing rights.

8 Reporting Flexible Contracts Transactions to Members

Three reports are available for Flexible Contracts:

- CB063 “Flexible Contracts Transaction Overview”
- CB064 “Flexible Contracts Daily Transactions”
- CB195 “Flexible Contracts Fee Statement”

The report (CB063) lists all open Flexible Contracts transactions separated into account and products for each exchange member. Within account and product the contract will be classified by type (call before put), expiration date (nearest first), strike price (smallest first) and exercise style (A before E).

This report (CB064) displays the transactions processed on the current business day for the Flexible transactions. The report is grouped by Clearing Member, Currency, Exchange Member, Product, Transaction Id, Buy/Sell Indicator and Suffix.

The report (CB195) contains the Flexible Contracts transaction fees on transaction level as well as fee adjustments.

In addition, Flexible Contracts are included in the following reports.

The Premium Overall Summary report (CB090) lists all premium credits and debits by exchange member and current business day, month and year. The variation margin resulting from flexible futures is shown, as a total, in the CB095 variation Margin Overall Summary

The Cash Settlement Contracts report (CB102) shows the contracts settled in cash on the

Delivery Day, detailing the profits and losses produced by these contracts. It shows the previous day net long and net short positions. The previous day cash settlement amount of the net position is calculated by evaluating the Daily Settlement Prices (for futures) or the strike prices (for exercised options) against the Final Settlement Price. The individual results are added for each currency, per contract, product and account.

Please note that Flexible Equity Options contracts with settlement type “cash settlement” are shown on the Settled Cash Transactions report (CD250) which is a CCP report. The Option on Future Exercise Assignment Summary (CE071) lists exercised long and assigned short positions of options on futures (including Flexible Options) per exchange member, account type and underlying futures contract. It will be delivered as a daily report.

9 Appendix: Product Codes

In general product codes for Flexible Contracts are derived from the product code of the regular contract. The three-digit product code of **Equity Options and options on ETFs** is followed by “6” for European style exercise/cash settlement, by “7” for European style exercise/physical settlement, “8” for American style exercise/physical settlement and “9” for American style exercise/cash settlement. The product code for Flexible Equity Options consists of four digits.

Equity Options by Country Segment	Minimum Trade Size	Currency	NEW!	Exercise Style		NEW!
			European	European	American	American
			Settlement Type			
			Cash	Physical	Physical	Cash
Austria	250	EUR	X	X	X	X
Belgium	250	EUR	X	X	X	X
Finland	250	EUR	X	X	X	X
France	250	EUR	X	X	X	X
Germany	250	EUR	X	X	X	X
Italy	250	EUR	X	X	X	X
Netherlands	250	EUR	X	X	X	X
Russia	250	USD	X	X	X	X
Spain	250	EUR	X	X	X	X
Sweden	250	EUR	X	X	X	X
Switzerland	250	CHF	X	X	X	X
U.S.	250	EUR	X	X	X	X
Synthetic Product IDs for Flexible Options on Equities						
3rd digit of product code FOLLOWED by 6, 7, 8 or 9			6	7	8	9
Example: ALV...			ALV6	ALV7	ALV8	ALV9
Contract Specifications Standard						
Contract Specifications Flexible Products						

Flexible EXTF Options

Options on Exchange Traded Funds	Product ID	Minimum Trade Size	Currency	NEW!	Exercise Style		NEW!			
				European	European	American	American			
								Settlement Type		
				Cash	Physical	Physical	Cash			
iShares DJ EURO STOXX 50® Options	EUN2	1,000	EUR	X	X	X	X			
iShares DAX® (DE) Options	EXS1		EUR							
XMTCH on SMI® Options	XMT		CHF							
Synthetic Product IDs for Flexible EXTF Options										
3rd digit of product code FOLLOWED by 6, 7, 8 or 9				6	7	8	9			
Example: EXS1 ...				EXS6	EXS7	EXS8	EXS9			

For the four-digit product code of the **equity index and fixed income options** the third digit is replaced by “7” or “8” depending on the European respectively American style exercise.

Equity Index Options	Product ID	Minimum Trade Size	Exercise Style	
			European	American
			Settlement Type	
			Cash	Cash
SLI® Options	OSLI	2,000	X	X
DJ EURO STOXX 50® Index Options	OESX	1,000	X	X
DJ STOXX 50® Index Options	OSTX			
TecDAX® Options	OTDX			
SMIM® Options	OSMM			
DAX® Options	ODAX	500	X	X
DivDAX® Options	ODIV			
SMI® Options	OSMI			
DJ STOXX® 600 Index Options	O600	250	X	X
DJ STOXX® Large 200 Index Options	O2LA			
DJ STOXX® Mid 200 Index Options	O2MI			
DJ STOXX® Small 200 Index Options	O2SM			
DJ EURO STOXX® Select Dividend 30 Index Options	OEDV			
MDAX® Options	O2MX			
OMXH25 Options	OFOX			
DJ EURO STOXX® Sector Index Options				
DJ STOXX® 600 Sector Index Options				
DJ Global Titans 50 SM Index Options	OGTI	100	X	X
MSCI Russia Index Options	OMXR			
Synthetic Product IDs for Flexible Options on Equity Indexes				
3rd digit of product code REPLACED by 7 or 8			7	8
Example: OESX ...			OE7X	OE8X
Contract Specifications Standard				
Contract Specifications Flexible Products				

Flexible Options on Fixed Income Futures

Options on Fixed Income Futures	Product ID	Minimum Trade Size	Exercise Style	
			European	American
			Settlement Type	
			Physical (Derivatives)	Physical (Derivatives)
Options on Euro-Schatz Futures	OGBS	50	X	X
Options on Euro-Bobl Futures	OGBM			
Options on Euro-Bund Futures	OGBL			
Synthetic Product IDs for Flexible Options on Fixed Income Futures				
3rd digit of product code REPLACED by 7 or 8			7	8
Example: OGBL ...			OG7L	OG8L

For the four-digit product code of **Single Stock Futures, equity index futures and futures on EXTFs** the third digit is replaced by “4” for cash settlement or “5” for physical settlement.

Flexible Futures on Single Stocks

NEW! Single Stock Futures by Country Segment	NEW! Minimum Flex Futures Trade Size	NEW! Currency	NEW! Settlement Type	
			Cash	Physical
Austria	1	EUR	X	X
Belgium	1	EUR	X	X
Finland	1	EUR	X	X
France	1	EUR	X	X
Germany	1	EUR	X	X
Greece	1	EUR	X	-
Ireland	1	EUR	X	-
Italy	1	EUR	X	X
Netherlands	1	EUR	X	X
Norway	1	EUR	X	-
Russia	1	USD	X	-
Portugal	1	EUR	X	-
Spain	1	EUR	X	-
Sweden	1	EUR	X	-
Switzerland	1	EUR	X	X
U.K.	1	GBP	X	-
Synthetic Product IDs for Flexible Futures on Single Stocks				
3rd digit of product code REPLACED by 4 or 5			4	5
Example: ALVF ...			AL4F	AL5F
Deviation from standard synthetic Product IDs for Flexible Futures on Single Stocks				
4th digit of product code REPLACED				
Example: ALTF ...			ALT4	ALT5
Contract Specifications Standard				
Contract Specifications Flexible Products				

NEW! Equity Index Futures	NEW! Product ID	NEW! Minimum Flex Futures Trade Size	NEW! Settlement Type Cash
SLI® Futures	FSLI	2,000	X
DJ EURO STOXX 50® Index Futures	FESX	1,000	X
TecDAX® Futures	FTDX		
SMIM® Futures	FSMM		
DivDAX® Futures	FDIV	500	X
SMI® Futures	FSMI		
DJ STOXX 50® Index Futures	FSTX	250	X
DJ STOXX® 600 Index Futures	F600		
DJ STOXX® Large 200 Index Futures	F2LA		
DJ STOXX® Mid 200 Index Futures	F2MI		
DJ STOXX® Small 200 Index Futures	F2SM		
DAX® Futures	FDAX		
MDAX® Futures	F2MX		
OMXH25 Futures	FFOX		
DJ EURO STOXX® Select Dividend 30 Index Futures	FEDV		
DJ EURO STOXX® Sector Index Futures			
DJ STOXX® 600 Sector Index Futures			
DJ Global Titans 50 SM Index Futures	FGTI	100	X
MSCI Russia Index Futures	FMXR		
RDXxt® USD – RDX Extended Index Futures	FRDX		
Synthetic Product IDs for Flexible Futures on Equity Indexes			
3rd digit of product code REPLACED by 4			4
Example: FESX ...			FE4X
Contract Specifications Standard			
Contract Specifications Flexible Products			

Flexible Futures on Exchange Traded Funds

NEW! EXTF Futures	NEW! Product ID	NEW! Currency	NEW! Settlement Type	
			Cash	Physical
iShares DJ EURO STOXX 50® Futures	EUNF	EUR	X	X
iShares DAX® (DE) Futures	EXSF	EUR		
XMTCH on SMI® Futures	XMTF	CHF		
Synthetic Product IDs for Flexible Futures on EXTFS				
3rd digit of product code REPLACED by 4 or 5			4	5
Example: EXSF ...			EX4F	EX5F



Please note that exceptions to the above rules are possible. For a complete overview of the flexible product id's on a single product basis please see www.eurexchange.com > **Trading > Wholesale Trading**.