EUREX Architects of trusted markets

Next Generation ETD Contracts Initiative

07 April 2022

Motivation for NextGen ETD Contracts Initiative

Establish a future proof concept to remain best-in-class with changing market demands

Key Motivation

- **Enable a more flexile setup of ETD products** by allowing more than one expiration per month on product level meaning **usage of contract identification logic** based on contract date YYYYMMDD (instead of expiry month/year" MM/YYYY)
- Meet demand of trading participants for **higher flexibility** and provide solution for **fully automated trading strategies**
- Allow **shorter time to market** for product implementation

Three new business initiatives

- **Integration of weekly expiring options contracts** into one options product
- **Volatility strategies** in Equity Options
- **Basis Trading** (T+X) for MSCI futures

Potential initiatives after NextGen

- **Monday & Wednesday Weekly Options** into main options products
- **EEX / ECC: Integration of daily expiring contracts** into main futures products

Three business initiatives to be rolled out as part of NextGen

Further initiatives in this and other asset classes are considered for future implementation

NextGen business initiatives

Following business initiatives are enabled and build up on the new ETD contract concept:

- Integration of **weekly expiring options contracts** into one options product
- **Daily expiring Single Stock Futures** to support volatility strategies in Single Stock Options
- **Daily expiring MSCI futures** to allow basis trading in the MSCI futures markets (MOC T+X)

Integration of weekly and month-end contracts

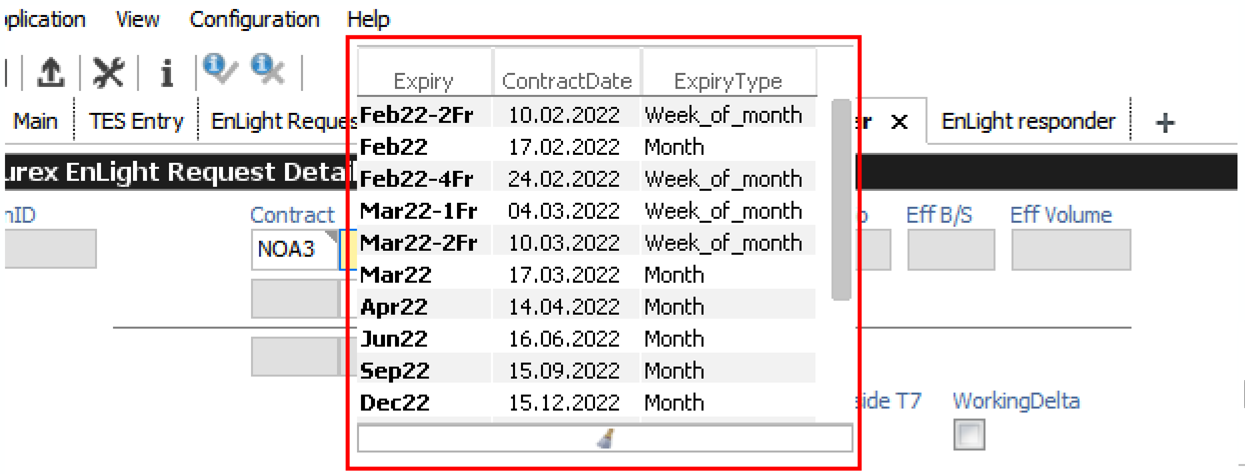
Offering higher trading flexibility and execution certainty in strategy trading

Current Trading Process		Future Trading Process	
Monthly contracts (e.g. OESX, OGBL) **Weekly and Month-end options** (e.g. OES1, OES2, OMSX, OGB1, OGB2…)		**Monthly and weekly contracts** (e.g. OESX W1 OESX W2, OESX, OGBL W1, OGBL W2, OGBL)	
Ease of strategy execution	✗	Ease of strategy execution	✓
Calendar spreads between monthly/weeklies	✗	Calendar spreads between monthly/weeklies	✓
Strategy trades	✗	Strategy trades	✓
Combined risk settings (pre-trade risk limits, market maker protection)	✗	Combined risk settings (pre-trade risk limits, market maker protection)	✓
Expansion of further intraweek contracts (e.g. Monday, Wednesday options)	✗	Expansion of further intraweek contracts (e.g. Monday, Wednesday options)	✓

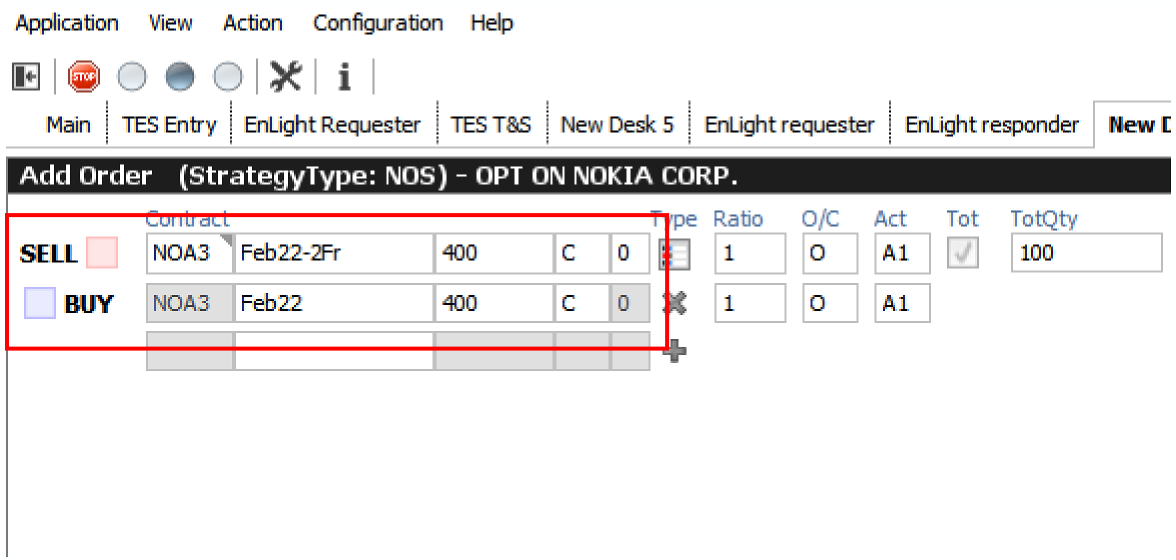
Integration of weekly and month-end contracts

Offering higher trading flexibility and execution certainty in strategy trading

1) Expiry selection within the same instrument ID:



2) Strategy creation between Weeklies/Weeklies or Weeklies/Monthlies:



Volatility strategies in Single Stock Options

Full STP of delta neutral strategies

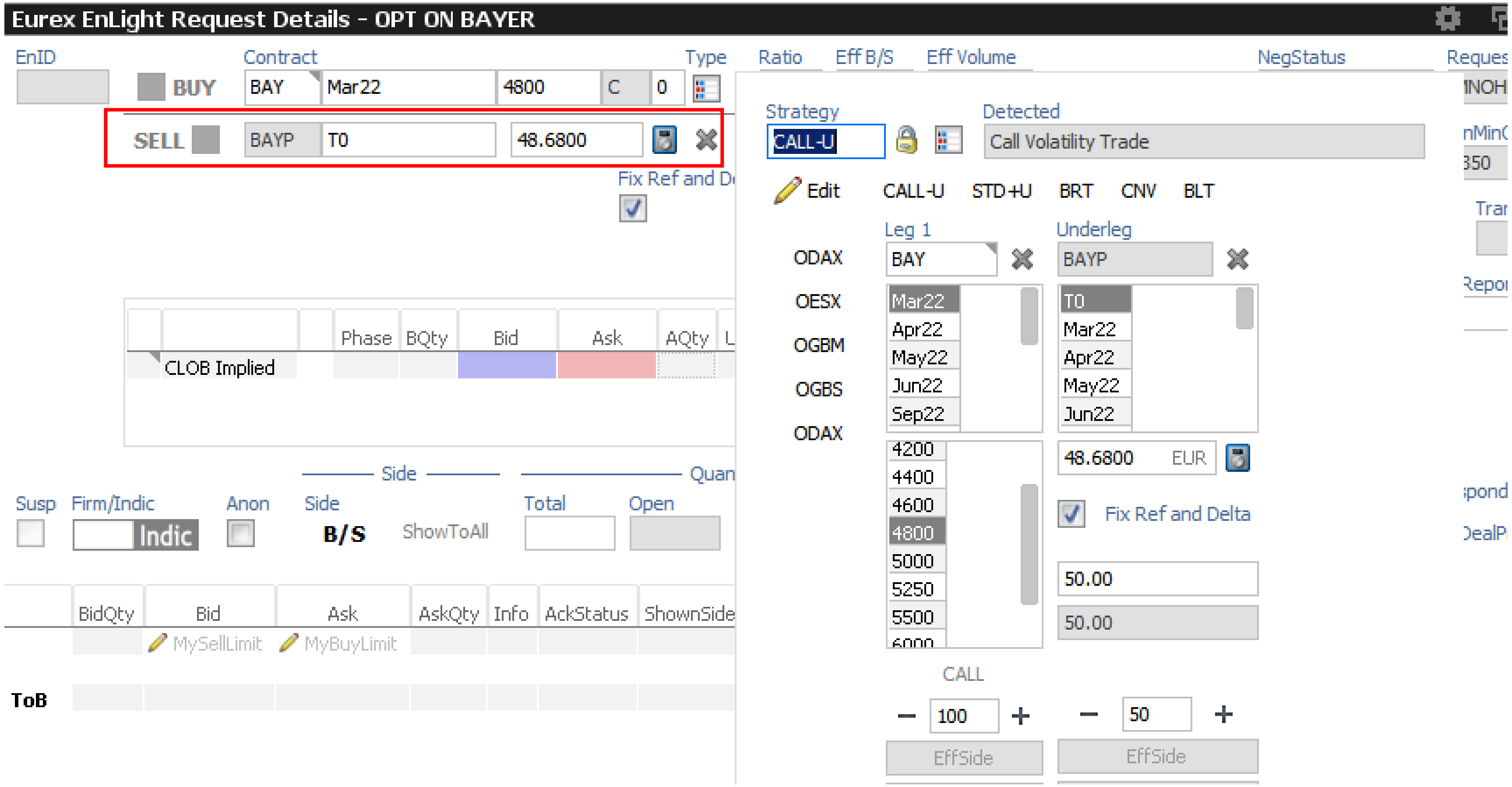
Current Trading Process	Future Trading Process
Single Stock Option	**Strategy Trade:**
Underlying (back-to-back / Trade confirmation)	**Single Stock Option +** **Physically settled single stock future** (with same day expiry)

	Current Trading Process	Future Trading Process
Delta neutral trading with straight-through-processing	✗	✓
Eurex CCP risk framework for both legs	✗	✓
Mitigation of counterparty risk	✗	✓
Access full variety of liquidity providers	✗	✓
Choice of trading channels including EnLight	✗	✓

Volatility strategies in Single Stock Options

Full STP of delta neutral strategies

1) Creation of volatility strategy (i.e. Call-U) with selection of the respective physically settled single stock future with same day expiry (T0):



Basis Trading (T+X) for MSCI Futures

Full straight-through-processed basis trading

Current Trading Process

Trade agreement at t

Settlement of the trade at t+x

Straight-through-processed basis trading	✗
CCP risk framework immediately after trade	✗
Mitigation of counterparty risk	✗
Access full variety of liquidity providers	✗
Choice of trading channel and transparency of the basis	✗

Future Trading Process

Calendar spread:

MSCI Futures (Expiry t+x) **vs.**
MSCI Futures (Standard Expiry)

Straight-through-processed basis trading	✓
CCP risk framework immediately after trade	✓
Mitigation of counterparty risk	✓
Access full variety of liquidity providers	✓
Choice of trading channels and transparency of the basis	✓

MSCI Basis Trading

Eurex T7 GUI

Market

FMWN Product | Edit | Up to: Expiry | Strike | +/- | S | C | M | = Type

MC	CPhase	Contract	Curr	CPrevSetlPrc	CNetChg	SetlPrcNetChg	CBQty	CBid	CAsk	CAQty	CLst
	Cont	**FMWN T0**	EUR	404.25000	118.60000	-284.25000	30	**404.300**	**406.300**	30	120.000
	Cont	**FMWN T1**	EUR	404.25000		-285.25000	20	**404.400**	**406.350**	20	119.000
	Cont	**FMWN T2**	EUR								
	Cont	**FMWN Jun22**	EUR	411.05000		0.00000	10	**409.300**	**411.900**	10	411.050
	Cont	**FMWN Sep22**	EUR	410.25000							
	Cont	**FMWN Dec22**	EUR	409.55000							
	Cont	**FMWN Mar23**	EUR	409.85000							
	Cont	**FMWN Jun23**	EUR	411.05000							
	Cont	**FMWN Sep23**	EUR	412.25000							
	Cont	**FMWN Dec23**	EUR	413.25000							
	Cont	**FMWN Mar24**	EUR	406.85000							
	Cont	**FMWN Jun24**	EUR	406.65000							
	Cont	**FMWN Sep24**	EUR	406.45000							
	Cont	**FMWN Dec24**	EUR	406.25000							
	Cont	**FMWN Mar25**	EUR								
	Cont	**FMWN SPD T0 Jun22**	EUR				100	**-6.600**	**-3.600**	100	
	Cont	**FMWN SPD T1 Jun22**	EUR								
	Cont	**FMWN SPD T2 Jun22**	EUR								
	Cont	**FMWN SPD Jun22 Sep22**	EUR								
	Cont	**FMWN SPD Jun22 Dec22**	EUR								

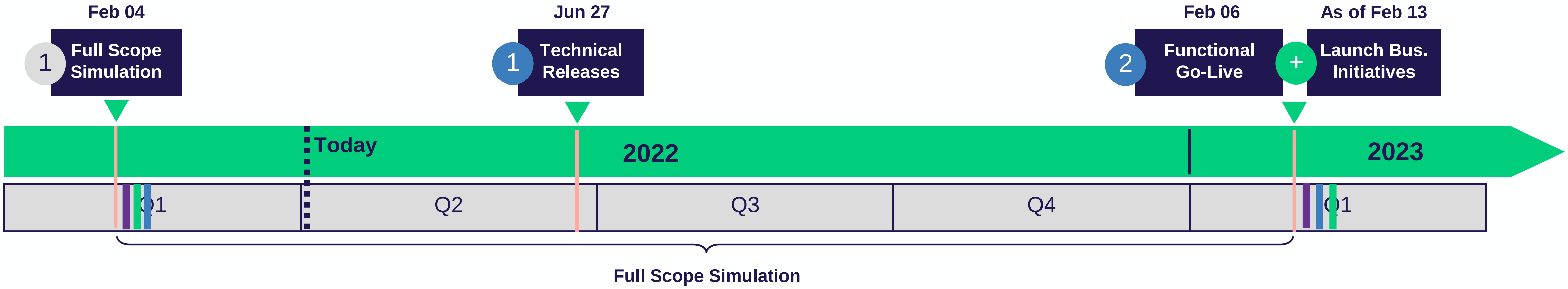
Note: Initially, Bloomberg may not show the calendars between dailys and quarterlies, as they are struggling with the rotation: every day a new T+2 contract is added and the T+2 contract of the previous day becomes the T+1 contract

Populated calendar spreads:

FMWN T0 vs. Front month contract

- Basis Trading works exactly like normally quarterly rolling:
- It can be done either by entering two separate blocks (here: T0 & Mar22), but ideally by trading the **calendar spread instrument** (red box)
- This would also guarantee the fee advantage and allows (in some products) a smaller order book tick size than in the outright contracts

Timeline NextGen Roll-Out Approach



Simulation

1 Activation of sub-monthly expiring contracts (T7 10.0, C7 8.1)
Since Feb 2022, following sub-monthly expiring contracts are supported

- Integrated weekly expiring contacts in
  - stock options AXA, BAY, CSGN, NOA3
  - index options ODAX, OSMI
  - Bund options OGBL
- Daily expiring contracts in SSF AXAP, BAYP, NO3P
- Daily expiring contracts in MSCI Futures FMEA, FMWN

Additional sub-monthly contracts are planned to be activated in Oct / Nov 2022 during member simulation of year end releases.

Production

1 **Technical Releases** (Jun 27): T7 10.1, C7 8.1, Prisma 11.1

2 **Functional Go-Live in Feb 2023**
Feb 06: YYYYMMDD logic becomes mandatory for all market participants for all ETD contracts

Launch of Business Initiatives

- **As of Feb 13: Integration weekly expiring contacts**
- **Feb 20: MSCI Basis Trading (Market-on-close)**
- **Feb 27: Vola strategies Equity Options (Daily expiring SSF)**

Sub-monthly Expiring Contracts of Existing Eurex Products

Initiative 1: Integration of Weekly and End-of-Month Options

- Affected products: 78 selected equity and equity index options incl. OESX and bund options (OGBL)
- Enhancement: rolling weekly creation & expiration cycle with cycle frequency of 5 weeks (8 weeks for OESX)
- Options products to be decommissioned: 313 (incl. OES1, OES2, OES4, OMSX)

Initiative 2: OVS in Single Stock Options

- Affected products: 94 physical single stock futures
- Enhancement: rolling daily creation & expiration cycle with cycle frequency of 1 business day in single stock futures; allowing daily expiring single stock futures to be used as underlying leg in OVS of corresponding options product

Initiative 3: Basis Trading in MSCI Futures

- Affected products: 149 (all) MSCI futures
- Enhancement: rolling daily creation & expiration cycle with cycle frequency of 3 business days;
  allowing daily expiring MSCI futures to be used as near-term leg of calendar spread which is representing the basis instrument of quarterly futures used as long term leg

Integration of Weekly Options – Sequential Approach

Example: ODAX (main option) and ODX1/2/4/5 (weekly options) starting 2nd Friday in Feb 2023

First Day Available for Trading	Expiry Date	Friday of Month	Contracts of Weekly Options Products	Contracts of Main Options Product
2022-09-30	2022-12-30	5	ODX5 Dec22	
2022-12-02	2023-01-06	1	ODX1 Jan23	
2022-12-09	2023-01-13	2	ODX2 Jan23	
	2023-01-20	3		ODAX Jan23
2022-12-23	2023-01-27	4	ODX4 Jan23	
2023-01-06	2023-02-03	1	ODX1 Feb23	
2023-01-13	2023-02-10	2	ODX2 Feb23	
	2023-02-17	3		ODAX Feb23
2023-01-27	2023-02-24	4	ODX4 Feb23	
2023-02-03	2023-03-03	1	ODX1 Mar23	
2023-02-10	2023-03-10	2	~~ODX2 Mar23~~	ODAX Mar23-W2Fri
	2023-03-17	3		ODAX Mar23
2023-02-20	2023-03-24	4	~~ODX4 Mar23~~	ODAX Mar23-W4Fri
2023-02-20	2023-03-31	5	~~ODX5 Mar23~~	ODAX Mar23-W5Fri
2023-02-27	2023-04-07	1	~~ODX1 Apr23~~	ODAX Apr23-W1Fri
2023-03-06	2023-04-14	2		ODAX Apr23-W2Fri
	2023-04-21	3		ODAX Apr23
2023-03-20	2023-04-28	4		ODAX Apr23-W4Fri
2023-03-27	2023-05-05	1		ODAX May23-W1Fri

Legend

Monthly expiration & creation cycle valid in different weekly options products *(current approach)*

Sequential integration of weekly contracts during integration phase *(temporarily valid)*

Weekly expiration & creation cycle in main option products consisting of a rolling 6 week life cycle *(new approach)*

- Sequential Approach means that there is no overlap between monthly expiring contracts in weekly products (e.g. ODX1/2/4/5) versus integrated weekly expiring contracts in the main options product (e.g. ODAX)
- Outlined approach is valid for all main options products absorbing integrated weekly expiring contracts except for OESX (rolling 10 week life cycle instead of 6 weeks) and OGBL (monthly contracts are expiring either on the 3rd or 4th Friday)

New Contract Display Notation Concept

Information about GUI display of contracts is included to the reference data interface RDI

New Attribute "Contract Display Instruction" and its valid values (see also Eurex Circular 029/2022)

- "month": common month-year contract notation (default value)
- "week of month": contract notation valid for options contracts linked to a weekly creation cycle
- "end-of-month" contract notation valid for options contracts expiring on the last business day of a month
- "relative day": contract notation valid for futures contracts linked to a daily creation cycle

Attribute	Tag	Description
displayName	28791	Defines a string containing the name of the contract recommended for GUI display
contractDisplayInstruction	25186	Specifies how the contract name is generated and gives an indication to front-end applications what kind of contract it is and how to name it
displayYear	25213	Provides information on the year used for the contract name
displayMonth	25211	Provides information on the month used for the contract name
displayWeek	25212	Provides information on the week used for the contract name
displayRelativeDay	25220	Provides information how many business days are between current business day and reference day (i.e. contract date); only used for contractDisplayInstuction=RelativeDay
isPrimary	25216	Defines if a contract based on its contract creation cycle is the primary contract or not
contractFrequency	30867	Provides information how granular the creation and expiration of the contract can take place valid at contract creation; valid values are daily, weekly, monthly, flexible or end-of-month; fixed during contract lifetime
contractCycleType	30865	Indicates the kind of regular expiration pattern in which the contract is embedded to during its lifetime; valid values are daily, weekly, monthly, quarterly, semi-annually, yearly; adapted during the contract lifetime
contractCycleSubType	31865	Indicates the kind of regular expiration pattern in the context of contractCycleType; valid value is end-of-month

Readiness Checkpoints

Roadmap 2022 / 2023 and timelines

- Check readiness with your **Clearing colleagues** and/or **General Clearing Member**
- Timeline for Integration of Weekly Options Contract is **February and March 2023**
- Check with your **ISVs** for readiness of trading systems and **order routing systems**
- If access available, **use simulation environment** to test your systems
- Find industry recordings, circulars or general updates on the **Eurex webpage:** https://www.eurex.com/ex-en/support/initiatives/project-readiness/

- **Please ask your Eurex representative in case of any open questions!**

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