

Successful Launch of Euro-Buxl® Futures

With the Euro-Buxl® Futures, Eurex has launched a new product designed to satisfy constantly rising market demand for liquid and cost-efficient hedging tools for debt securities with extra-long maturities. With more than 11,000 contracts traded on the launch date, the market response to the new futures contracts was enthusiastic.

Following the successful launch of Euro-Buxl® Futures on September 9, 2005, more than 140,000 contracts changed hands during the first four weeks of trading. More than half of trading volumes was attributable to customer business executed through the "A" (Agent) account.

Open interest, a major leading indicator for future trading volumes, showed continuous growth during the same period, to a level of over 17,000 contracts. Euro-Buxl® Futures were traded with a tight bid/ask spread of between 1 and 2 ticks (EUR 0.02–0.04).

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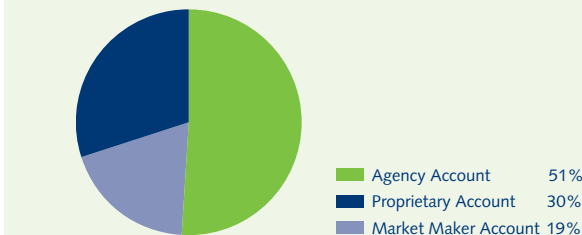
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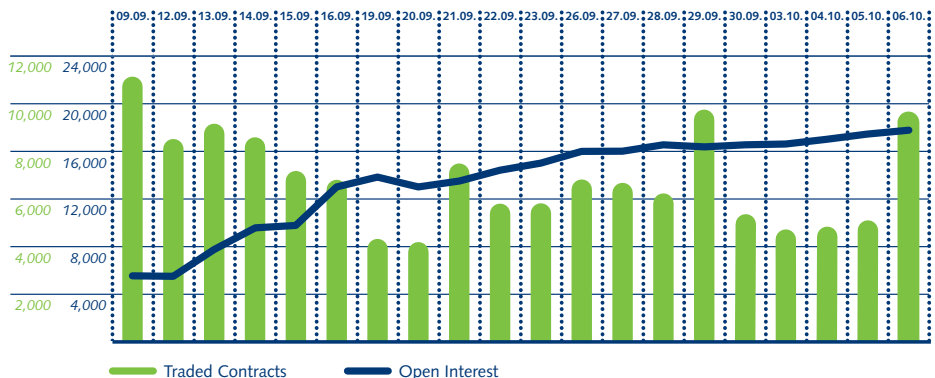
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Market Share per Account



Euro-Buxl® Futures: Traded Contracts and Open Interest



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Eurex to Expand Product Portfolio with Futures on Individual Equities

Eurex will launch futures on selected individual equities on October 24, 2005. Eurex will initially list individual futures on all component issues of the European benchmark indexes Dow Jones EURO STOXX 50® and DAX®, as well as ten components of the Swiss SMI®.

With the new equity futures, Eurex will provide professional investors with a comprehensive product portfolio of futures and options on individual equities – all on the same platform. At the same time, the exchange will offer professional OTC market users further opportunities for non-traditional yield enhancement.

Timing is Everything – Changes in EU Legislation Facilitates Use of Derivatives

Demand for futures on individual equities has risen in the wake of recent changes to the legal environment. Recent changes in the regulatory framework, with the implementation of the amended EU directive UCITS III (Undertakings for Collective Investments in Transferable Securities) have facilitated investment in derivatives by fund management companies. Equity futures offer fund management companies attractive opportunities to invest in cash-settled derivatives.

Wide Range of Applications

Futures on individual equities can be used as an alternative to direct equity investment. The technique uses a much smaller capital outlay compared to buying cash equity, and is particularly attractive if the equity future is “cheap” to its fair value. Professional investors benefit from a diverse range of strategies:

- **Stock Picking** – Equity futures can be used in combination with index futures or an equity portfolio, to isolate the relative performance of one or several particular stocks to the underlying stock market. In this way the fund manager can negate outright market risk and structure a position that will benefit from the performance gap of the individual stock(s) to the underlying equity portfolio. The attraction of such a technique is that it leaves the existing portfolio intact.
- **Cash Equitisation** – Equity futures equities can be used for cash flow management. For example, a fund manager is anticipating receiving EUR X million in funds in the very near future. He has carried out his research and knows what specific stocks he wants to invest in. However, he is worried that by the time he receives the investment the market in the particular stocks will trade higher. He uses futures on individual equities to “forward fix” the cost of his future intended investment.
- **Switching Investments within a Stock Market** – Equity futures can be used to alter the profile of individual stock investments within a market. A fund manager holding a portfolio of Dow Jones EURO STOXX 50® Index stocks can reduce the investment of one stock and increase the holding of another – simply by buying and selling futures on individual equities.
- **Switching Investments between Stock Markets** – Different futures on individual equities based on different equity indexes can be used to adjust the asset allocation of individual stocks between two different stock markets. By selling equity futures based on one stock index and buying futures

from another index, the fund manager can switch a single stock investment into a single stock investment in another market. As with switching investments within a market, the existing two equity portfolios are left intact.

The contract specifications of the new futures on individual equities are in line with the corresponding equity options, with maturities of up to one year and an OTC block trading size of one contract. Initial liquidity in the new futures contracts will be provided by Market Makers.

Contract Specifications: Futures on Individual Equities

Contract Standard	Underlying equity
Contract Size	In line with the contract size of the corresponding Eurex equity option
Settlement	Cash settlement
Minimum Price Change	In line with the minimum price change of the corresponding Eurex equity option
Contract Months	The next four quarterly months, plus the serial maturities of April, May, and July
Last Trading Day	Third Friday in the contract month (for futures on Italian stocks, the exchange trading day preceding the third Friday in the contract month)
Minimum Size for OTC Block Trades	One contract

For detailed contract specifications and vendor product codes, please refer to the Eurex website at www.eurexchange.com; for any further information, please feel free to contact Daniel Koller on T +49-69-211-132 24, e-mail: Daniel.Koller@eurexchange.com.

EUREX US

FX Futures Covered by 20 Market Makers

Eurex US started trading in foreign exchange (FX) futures contracts on September 23, 2005. In addition to 20 Market Makers – including international banks and proprietary trading houses – eight “Early Volume Adopters” provide a constant flow of daily trading volumes.

By entering the FX futures market, Eurex has added a new asset class to its global liquidity network. Contracts are initially listed on six major USD currency pairs (euro, Australian dollar, pound sterling, yen, Swiss franc, Canadian dollar) and four cross-currency pairs (euro/yen, sterling/yen, euro/Swiss franc, euro/sterling).

Detailed contract specifications are available from www.euexUS.com > **Products > Foreign Exchange Futures**. For any further information, please feel free to contact Lenka Greplova on T +49-69-211-135 86, e-mail: Lenka.Greplova@eurexchange.com.

Capturing the Trend: Exchange Traded FX Contracts

With around USD 2 billion traded every day, foreign exchange (FX) is one of the biggest financial markets in the world. At the moment, the vast majority of business takes place over-the-counter (OTC). However, exchange traded FX has many advantages over the OTC market and it is growing at a far faster rate. Eurex customers can now benefit from this growth momentum.

Debate has been going on for years whether the FX market will ever migrate to an exchange trading platform. While some market participants may still feel this is unlikely, an increasing number of traders realizes that trading FX on an exchange has numerous advantages over the OTC market.

Higher Growth Rates Compared to the OTC Market

The foreign exchange market is one of the largest financial markets worldwide, with strong growth momentum. According to statistics compiled by the Bank for International Settlements (BIS), daily trading volumes rose by nearly 60 percent between April 2001 and April 2004, to around USD 1.9 trillion. Recent studies from the Bank of England and the New York Federal Reserve Bank show this trend is continuing.

It is important to note that the volume of exchange traded FX is growing far more quickly than OTC currency trading. Over the same period analysed by BIS, FX futures activity increased by over 180 percent by notional volume. So it is not surprising that many experts believe it is only a matter of time until the market migrates further to the exchange environment.

A Fully Level FX Playing Field

There are numerous reasons why it is more attractive to trade currencies on a regulated market – such as Eurex – than in an OTC environment. Regulated markets, particularly for retail investors, represent a less risky environment than the largely unregulated FX market. There have been numerous examples of FX investors losing money in fraudulent scams. For instance, the Commodities and Futures Trading Commission (CFTC), the US regulator, has taken action in over 70 cases since 2000 to counter FX fraud. This is more than one a month and all involved off-exchange trading.

Credit is also growing in importance as a consideration for where to trade FX. Exchanges provide a level and fully transparent playing field to all their users. Everyone has equal access to the same price at the same time. There is no credit differentiation as in the OTC market. There, even relatively large banks cannot always trade on the best price. FX prime brokerage offers a solution, but in reality it is an expensive imitation of the clearing member concept utilised by exchanges.

Trading FX on Eurex Often Cheaper than in the OTC Market

The lack of transparency in the OTC FX market extends to explicit brokerage costs. The brokerage fees of the two big electronic OTC brokers are not only extremely variable, but also differ by volume, based on a sliding scale. In addition to brokerage fees, trades in the major currencies are generally settled through the Continuous Linked Settlement System (CLS), thus incurring additional fees. If prime brokerage fees are added on top of that, the explicit cost of OTC FX trading will be higher than what it will cost to trade FX on Eurex.

Eurex US will waive all exchange fees until the end of 2005. Thereafter, the exchange will charge USD 0.10 per contract side for exchange participants' orders; customer trades will incur exchange fees of USD 0.50 per contract side. With a contract size of 250,000 currency units, this means that the exchange fees for every million currency units traded will not exceed USD 2.

High Transparency

A further advantage for Eurex's FX market is the high transparency of order book liquidity. OTC brokers can provide this only to a limited degree. Moreover, currently there are 20 Market Makers who have committed to provide liquidity by quoting tight bid/offer prices.

EUREX BONDS

Eurex Bonds Celebrates Fifth Anniversary

Interview with Christian Klapproth, General Manager of Eurex Bonds

Eurex Bonds, the international fixed income trading platform jointly operated by Eurex and leading bond trading houses, celebrates its fifth anniversary in October. Christian Klapproth, General Manager of Eurex Bonds, comments on current trends in electronic fixed income trading.

What was the rationale for establishing Eurex Bonds five years ago? What were the objectives?

Five years ago, Eurex joined forces with leading market players to create an off-exchange, electronic bond trading platform. This initiative was built on the success of electronic stocks and derivatives trading, leveraging Deutsche Börse's experience with Xetra® and Eurex® – two leading international trading platforms. Our motivation was to extend the concept of electronic trading to interbank fixed income trading. The active participation of market participants was a core success factor from the very beginning, and continues to provide support today: these institutions not only helped design the market platform, they also continue to hold a participation in the private limited company running Eurex Bonds. Our joint vision is to develop a highly-liquid electronic market for European bonds – to enhance transparency for market participants, while significantly reducing risks and costs.

Back in 2000, electronic trading of stocks and derivatives was already very well-established.

Why did fixed income resist electronic trading for such a long time?

Traditionally, the bond market – and particularly interbank, or “wholesale” trading – was not organized through exchanges. Trading usually took place by way of direct, bilateral interaction among banks, or through brokers. One of the reasons for initial reservations vis-à-vis electronic fixed income trading with an open order book was that although, given sufficient liquidity, it enhances transparency, it also tends to reduce profit margins in this business. Hence, Xetra® and Eurex® had to overcome strong resistance at the outset – particularly on an international level – before today's market standing was achieved. However, reservations usually dissipate with increasing success – and Eurex Bonds is no exception.

According to a recent study, there are more than 40 electronic fixed income trading platforms across Europe. What gives Eurex Bonds its competitive edge?

The existence of so many different platforms demonstrates that other providers are just as convinced that in the long term, electronic trading will prevail over trading by phone. However, it is important to note the diversity among these platforms. They include proprietary trading platforms operated by brokers, inhouse systems operated by banks offering their products to end-customers, as well as decentralized platforms open to a multitude of market participants. Eurex Bonds belongs to the latter category, which probably comes closest to an exchange. Although the platforms identified in the study thus do not all compete among each other, the market is much more competitive than exchange markets.

The main competitive advantages of Eurex Bonds are its market model, its outstanding range of products and services, and the integrated clearing. As a central counterparty, Eurex Clearing settles each transaction and guarantees its performance. This allows for a multitude of benefits, such as anonymous trading, assured deliveries, position netting, margin offset against futures positions, lower credit risks and hence lower capital requirements. Thanks to direct links to Clearstream Banking in Frankfurt and Luxembourg, and to Euroclear, trades entered into are forwarded to the settlement process straight after execution.

As an additional benefit, since mid-2003 our participants have been able to enter trades into the system which were concluded outside the platform, but which they wish to settle within the risk-protected system of the Clearing House. Typically, this function is used for very large transactions, which are still generally being negotiated and concluded on a bilateral basis. This so-called "Pre-arranged Trade Functionality" has proven to be extremely popular, with around 50 percent of trades being executed in this way.

The German Finance Agency uses Eurex Bonds as a secondary market platform. What are the benefits for your customers?

The German Finance Agency – a special debt management entity established by the German government – has been active on Eurex Bonds since 2002, alongside Deutsche Bundesbank, who have been participating since the platform was launched. Nowadays, the Agency executes the majority of its market activities through Eurex Bonds, and has become one of our key customers. Of course, each trade concluded by the Agency is done with a counterparty. This "multiplier" function assumed by the German Finance Agency is another competitive advantage for Eurex Bonds.

Which developments do you expect in the fixed income markets over the coming years?

Based on current market analyses, we believe that the proportion of electronic trading in the fixed income markets will continue to rise. At present around 70 percent of trades are concluded with electronic support, corresponding to a 35 percent share in traded volumes. In other words: There is still a preference to execute high-volume trades outside electronic trading systems. Our Pre-arranged Trade Functionality – plus the option to enter so-called "iceberg" orders – complement, or offer alternatives to bilateral trading. I also expect to see additional products to increasingly be traded electronically, alongside the established range of government bonds. This is happening right now with *Jumbo Pfandbrief* issues, and we also see additional significant potential in corporate bonds.

Back in 2000, you started with German government bonds and basis instruments. What did you focus on during these five years?

We have consistently expanded the product range during Eurex Bonds' five-year history. In addition to German government issues and basis instruments, the range of traded products now also includes Bubills, bond issues by the German Federal states, Jumbo Pfandbriefe, European covered bonds, agency bonds such as those issued by KfW or EIB, European corporate bonds, and – since June – sovereign issues by Austria and the Netherlands.

We also concentrated on attracting new participants. Having started with twelve trading participants back in October 2000, we now have 33 institutions trading on our platform, half of which are also acting as Market Makers. Several new participants are currently in the process of getting connected.

It is also worth noting that we started developing our own fixed income indexes at the end of 2002. In contrast to other index products, our eb.rexx indexes are based on traded – and tradable – prices, making them comparable to the high quality of equity indexes. Meanwhile, an entire index family has been launched, and exchange traded funds based on eb.rexx indexes are very successfully traded on Xetra®. This supports the marketing of Eurex Bonds, but also offers potential for arbitrage.

What are your plans for the years to come?

On a general note, we intend to further enhance the coverage of Eurex Bonds – not only in terms of products traded, but also by reference to the scope of participants. And, not surprisingly, our overall goal is to further boost traded volumes and liquidity.

EUREX SERVICES

Release 8.0: Premiere for Exchange for Physicals for Index Futures

Following the launch of Release 8.0, on November 14, 2005, Eurex will extend its Exchange for Physicals functionality to cover index products (EFPI). This new functionality will be available for all index futures at Eurex.

EFPI will allow members to execute transactions comprising of an approved cash equities basket and an appropriate number of offsetting equity index futures contracts. Such an EFPI transaction can be entered into the Eurex® System whenever the nominal value of both, the cash equity basket as well as the corresponding futures are substantially similar. Cash transactions underlying an EFPI trade may have been entered into on-exchange, or in the OTC market.

The applications of EFPI trades are as varied as the related benefits:

- eliminate counterparty credit exposure (compared to bilateral OTC trades)
- enhanced ability to hedge and conduct basis and arbitrage trading
- simplify asset allocation
- eliminate execution risk of portfolio trading

Easy-to-Use Handling Under Release 8.0

EFPI trades can only be entered during the trading hours of the relevant futures contract. The buyer of the futures contract must be the seller of the cash basket – and vice versa.

The exchange participant executing an EFPI trade must specify the futures contract underlying the trade; the contract month; the agreed futures price; the number of futures contracts; a unique identifier/reference number for the cash equities basket, as well as the nominal values of the cash basket and the futures position. The EFPI executing member must retain documentary evidence of the cash market transaction.

The cash leg of an EFPI trade must comply with certain product-specific parameters. The nominal value of the cash basket must be at least EUR 1 million or CHF 1.5 million; the values of the cash basket and the futures contracts may differ by a maximum of 20 percent. The cash basket must consist of Dow Jones STOXX®TMI or Dow Jones Global Titans 50SM index component issues only; it must comprise a minimum of ten individual component issues, or cover at least half of the equity index underlying the futures contract used. The nominal value of the portion of the cash basket consisting of component issues of the futures' underlying equity index must amount to at least 20 percent of the cash basket's aggregate nominal value.

For any further information, please feel free to contact Holger Stürtz on T +49-69-211-17251, e-mail: Holger.Stuertz@eurexchange.com.

Now Online: Quick Reference Guide – Eurex Market Model

The new Quick Reference Guide – Eurex Market Model is an easy-to-use guideline providing a quick overview to the Eurex market model for exchange participants and interested investors.

The handy English-language reference guide covers the conditions for order and quote entry, plus the matching rules applied to execute transactions. Trading rules and regulations are explained, as well as the rules for entering OTC trades into the system. The brochure also illustrates the Eurex fee structure.

The Quick Reference Guide – Eurex Market Model supplements the range of existing quick reference guides published by Eurex. The QRGs Trading and Clearing – which have already been available for some time – are currently being reviewed to include new functionality introduced with Release 8.0. Updated versions will be available shortly.

You can find the QRG Market Model alongside all other Eurex publications, on the Eurex website: www.eurexchange.com > **Knowledge Center** > **Publications**.

Events and Conferences October/November

	Location	Date
Wifö "Frankfurt meets New York"	Citibank, New York, USA	October 04
Assiom Convention 2005	Villa Fiorita Congress Center, Treviso, Italy	October 21–23
UK and Irish Pensions and Investing Summit	The Burlington Hotel, Dublin, Ireland	October 24–25
Quantcongress Europe	Grosvenor Square, London, Great Britain	October 31– November 01
IAM Asset Manager Conference	Baur au Lac, Zurich, Switzerland	November 03–04
FIA Expo	Hyatt Regency, Chicago, USA	November 08–10
Investment Fair – Helsinki	Pikku Satamakatu 3-5, Helsinki, Finland	November 16–17
12th Annual Clearing and Settlement Dinner	Royal Lancaster Hotel, London, Great Britain	November 17
Forex Trading Expo	Mandalay Bay, Las Vegas, NV, USA	November 19–20
FX Week London	tba, London, Great Britain	November 22
Trade Tech Derivatives 2005	Thistle Hotel, London, Great Britain	November 29–30
Asset Management Forum	Palazzo Affari, Milan, Italy	November 29–30

NEW MEMBERS

New Members September

Name	Clearing Type	Country
COS Trading Ltd	NCM	Great Britain
Capstone Fixed Income (UK) LLP	NCM	Great Britain
INTERMAX Trading GmbH	NCM	Germany
Olmarch Holdings Limited	NCM	Gibraltar
Total Number of Eurex Participants: 401		

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

Trainingscenter Derivatives Market October/November

	Course	October	November
Special Courses	Preparatory Course Eurex Complete Exam	10 London 11 Paris	10 Paris 11 London
	Preparatory Course Eurex Partial Exam	10 London 11 Paris	10 Paris 11 London
System Training Courses	Eurex System Training Trading	13 London 17 Paris	10 London 14 Paris 22 Chicago
	Eurex System Training Clearing	12 London 18 Paris	09 London 15 Paris
	Eurex System Training Security	10 Paris	16 London
	Eurex Technical Training, Advanced Stage		07 London 16 Chicago
	Eurex Technical Member Training – Xetra®/Eurex®	27 London	15 Chicago
	CCP Seminar	28 London	
	Eurex Repo System Training CHF Repo Market	11 Zurich	
	Eurex SecLend System Training		17 Zurich
Examinations / Tests	Eurex Complete Exam	04 Chicago 18 London 24 Paris 28 Amsterdam	08 Chicago 15 London 28 Paris
	Eurex Partial Exam	04 Chicago 18 London 25 Paris 28 Amsterdam	08 Chicago 15 London 29 Paris
	Eurex Clearer Test	04 Chicago 18 London 25 Paris 28 Amsterdam	08 Chicago 15 London 29 Paris

The Exchange's Learning Portal trainingscenter.deutsche-boerse.com gives you one-stop access to all Eurex training sessions and exams, T +49-69-2 11-1 3767, F +49-69-2 11-1 37 63, e-mail: trainingscenter@eurexchange.com.

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