

Authority: Rule 308

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REGULATORY BULLETIN

Legitimate Economic Purpose Required for Trading at Eurex US; Intrafirm Trading

Abstract: This Bulletin warns Members that trading solely for the benefit of enjoying incentive program benefits may violate Eurex US Rule 308(p) and the frequent occurrence of 'intrafirm' trading, as defined below, may violate Eurex US Rule 308(o).

The Exchange would like to remind Members of the responsibility to ensure that bids and offers are entered on the Trading System for legitimate economic purposes. Eurex US Rule 308(p) provides that Members shall not "Engage in conduct or practices inconsistent with just and equitable principles of trade or conduct or practices detrimental to the best interests of the Exchange." Legitimate economic activity includes hedging, speculation, and price discovery. Further, while trading for legitimate economic purposes can result in or be supplemented by payments made by Eurex US for participation in a trading incentive program, the Exchange emphasizes that trading for the benefit of enjoying the benefits of incentive program participation is not, by itself, a sufficient reason for trading on Eurex US and may be a violation of Eurex US Rule 308(p).

Additionally, the Exchange has recently observed several instances involving the occurrence of 'intrafirm' transactions which, for purposes of this Bulletin, are defined as trades with one of the two following attributes:

- An Authorized Trader of a Member executing both the buy and sell side of the transaction;
- An Authorized Trader of a Member executing a transaction with another Authorized Trader of the same Member.

Depending on the underlying facts, such transactions may or may not violate Eurex US Rule 308(o), which provides that "No member shall enter into a transaction on the Trading System which is not competitively executed on the Trading System except in compliance with the conditions and procedures under which such transactions may be permitted under the Rules." The requirement to competitively execute transactions prohibits transactions that are arranged prior to their execution, with the exception of certain transactions as provided by Eurex US Rules, such as block trades, basis trades and cross-trades.

It may arise that an Authorized Trader may trade opposite his or her own order or the order of another Authorized Trader of the same Member. If this happens more than occasionally, you will be expected to furnish an explanation of the transactions to Exchange Compliance staff immediately upon their request. (Note: The National Futures Association (NFA) provides market surveillance services to the Exchange. NFA staff has the authority to request such information on behalf of the Exchange.) Generally, unintentional cross trades of this type will not be considered violations of Rule 308(o). However, if such trades occur frequently without explanation, or if they cause price or volume aberrations, other rule violations may be involved. Traders who engage in frequent changing of bids and offers are encouraged to use front-end functionality which automatically cancels orders at a price when the trader enters

new orders on the opposite side of the market at that price that could potentially be matched with the their own order.

If you have any questions, please feel free to contact one of the following individuals:

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