



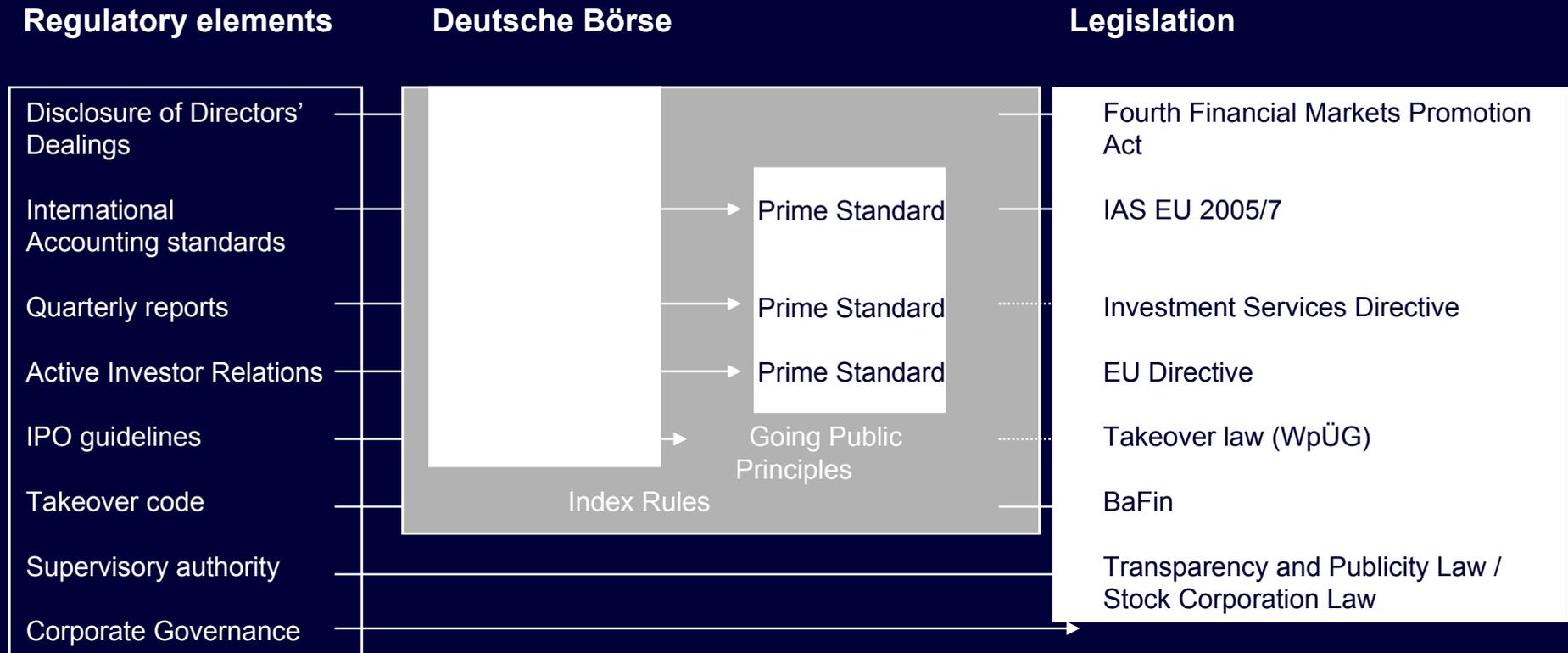
Latest Developments at the FWB: Reshaping of the Cash Markets

Rainer Riess
Head of Xetra Customers

December 12 2002



Deutsche Börse stimulating further development of German capital markets



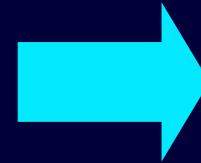
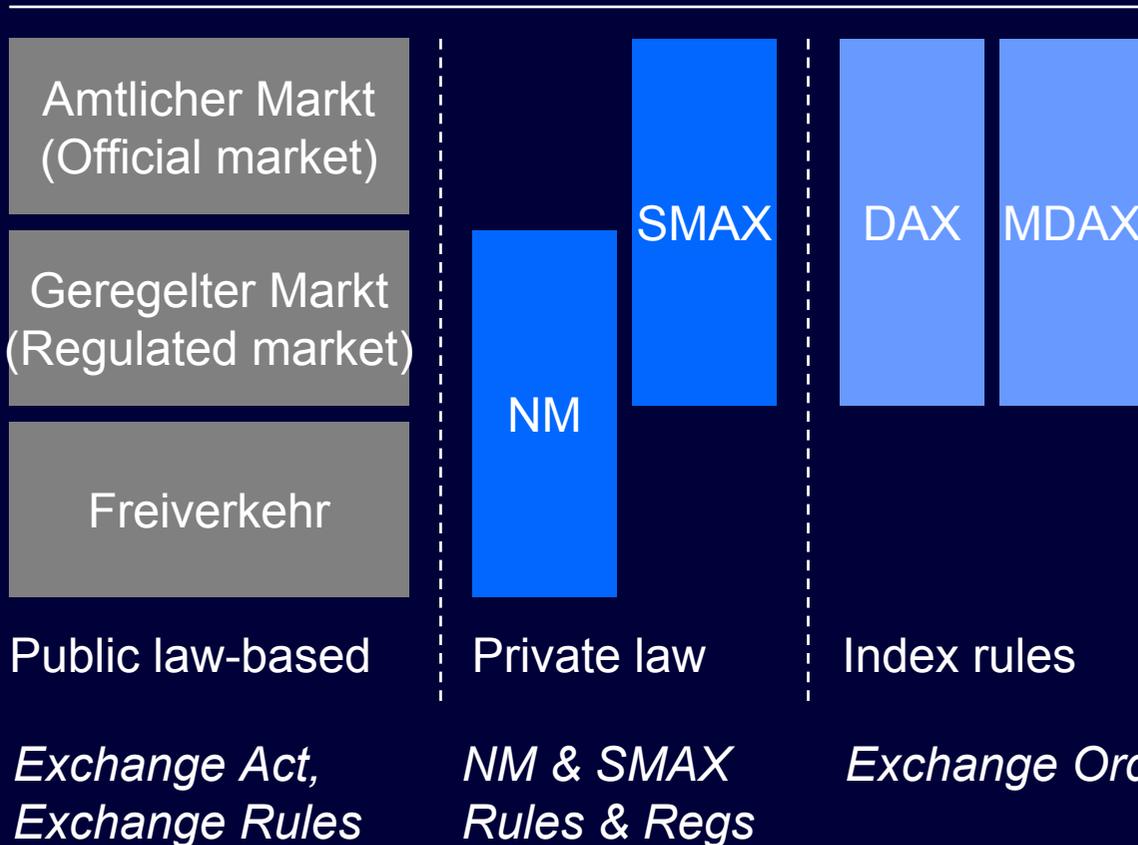
⇒ Deutsche Börse promotes transparency and investor protection

⇒ New cash market segmentation plays an integral part in achieving this goal

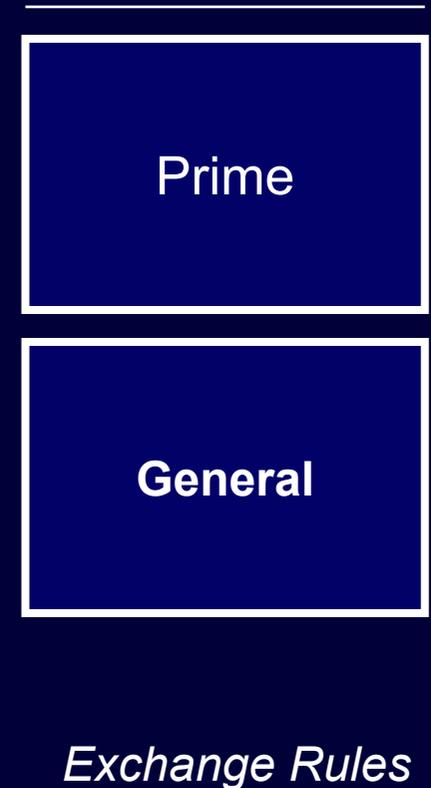
Convergence of Regulatory Frameworks



Former market structure



New market structure



Most stringent disclosure standards in Europe



Prime Standard

Additional requirements

- Quarterly financial reports
- International accounting standards (IAS/US-GAAP)
- Corporate calendar
- Active Investor Relations (Analyst Conference)
- Ad hoc disclosure, company information in English and German

General Standard

Minimum legal requirements

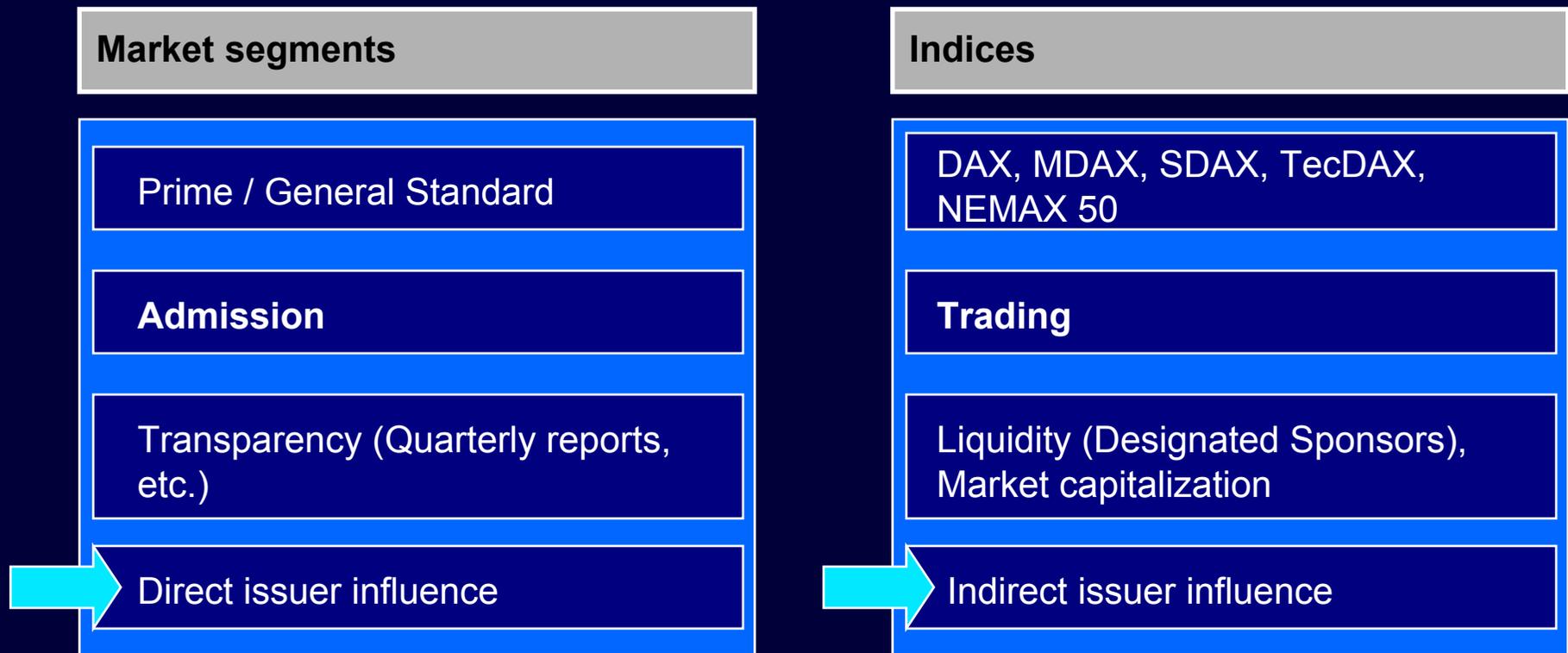
- Annual report/half yearly report
- Ad hoc disclosure in German



Official Market and Regulated Market: relating to admission process

Implications for the Index framework

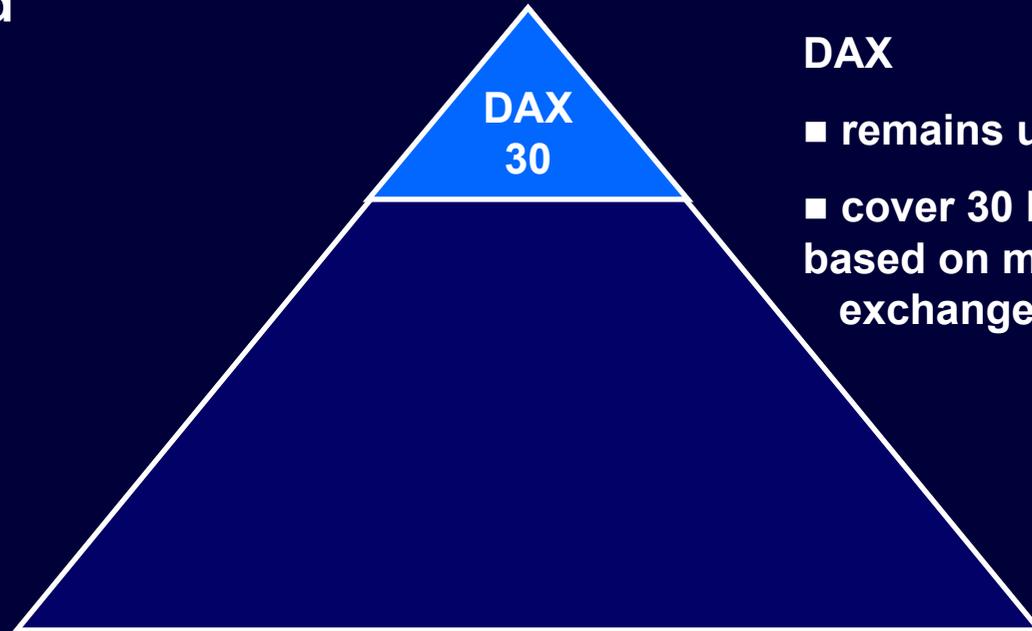
The new cash market segmentation will remove the distinction between market segments and indices



Index framework from 2003



Prime Standard



DAX

- remains unchanged
- cover 30 largest German stocks based on market capitalization / exchange turnover

Sector indices and industry groups



Prime Sector

Industry Group

Automobile

**Auto Manufacturer
Auto Parts & Equipment**

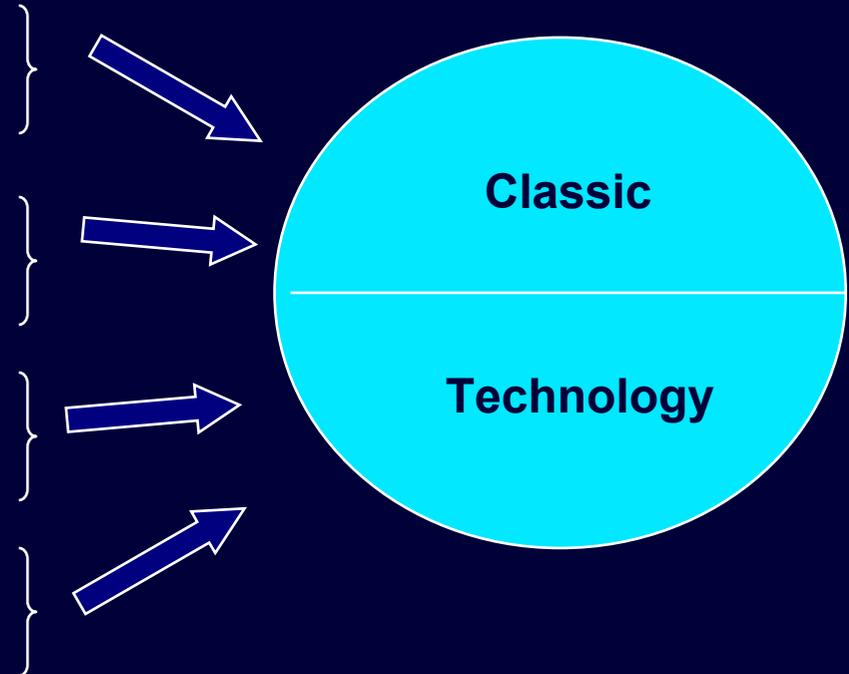
Pharma & Healthcare

**Healthcare
Pharma**

**Biotech
Medtech**

Telecommunications

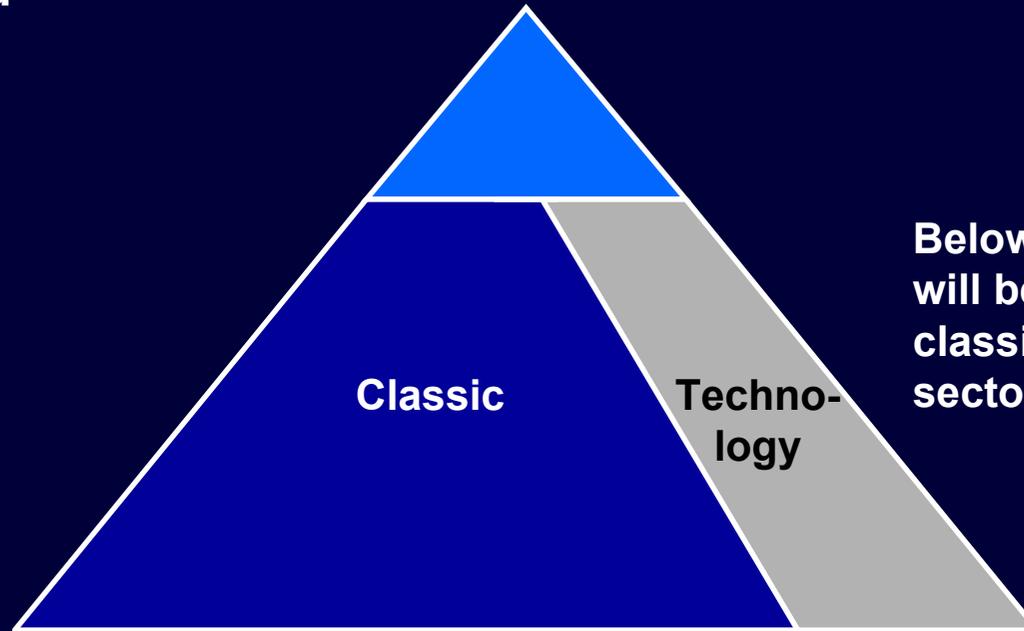
**Fixed-Line
Wireless**



Index framework from 2003



Prime Standard



Below the DAX distinction
will be made between
classic and technology
sectors



Index framework from 2003



Prime Standard

Blue chips

DAX: 30 stocks

Classic sectors:

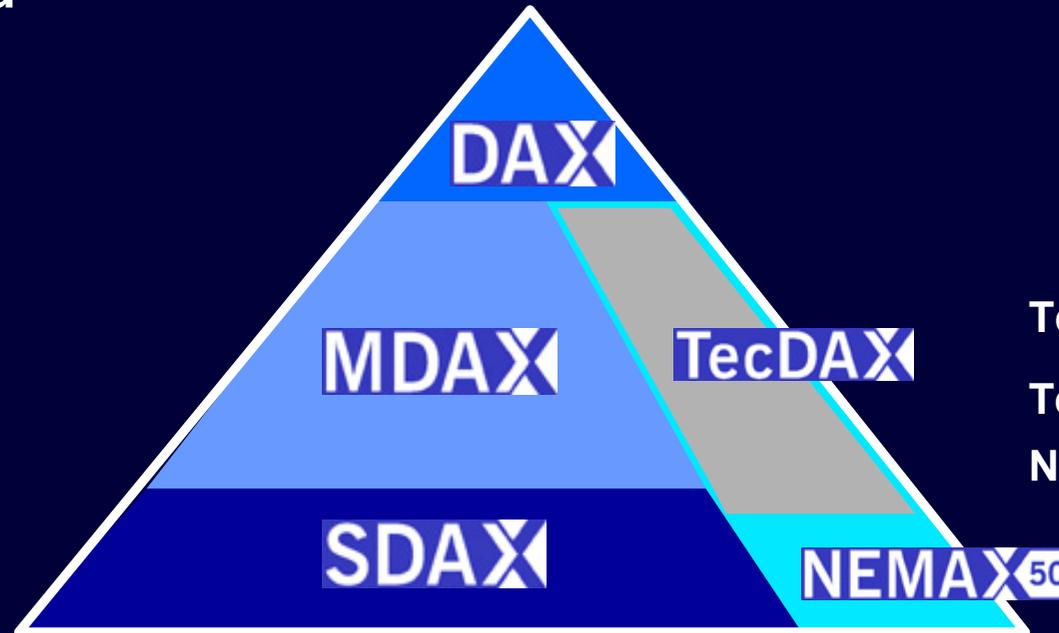
MDAX: 50 stocks

SDAX: 50 stocks

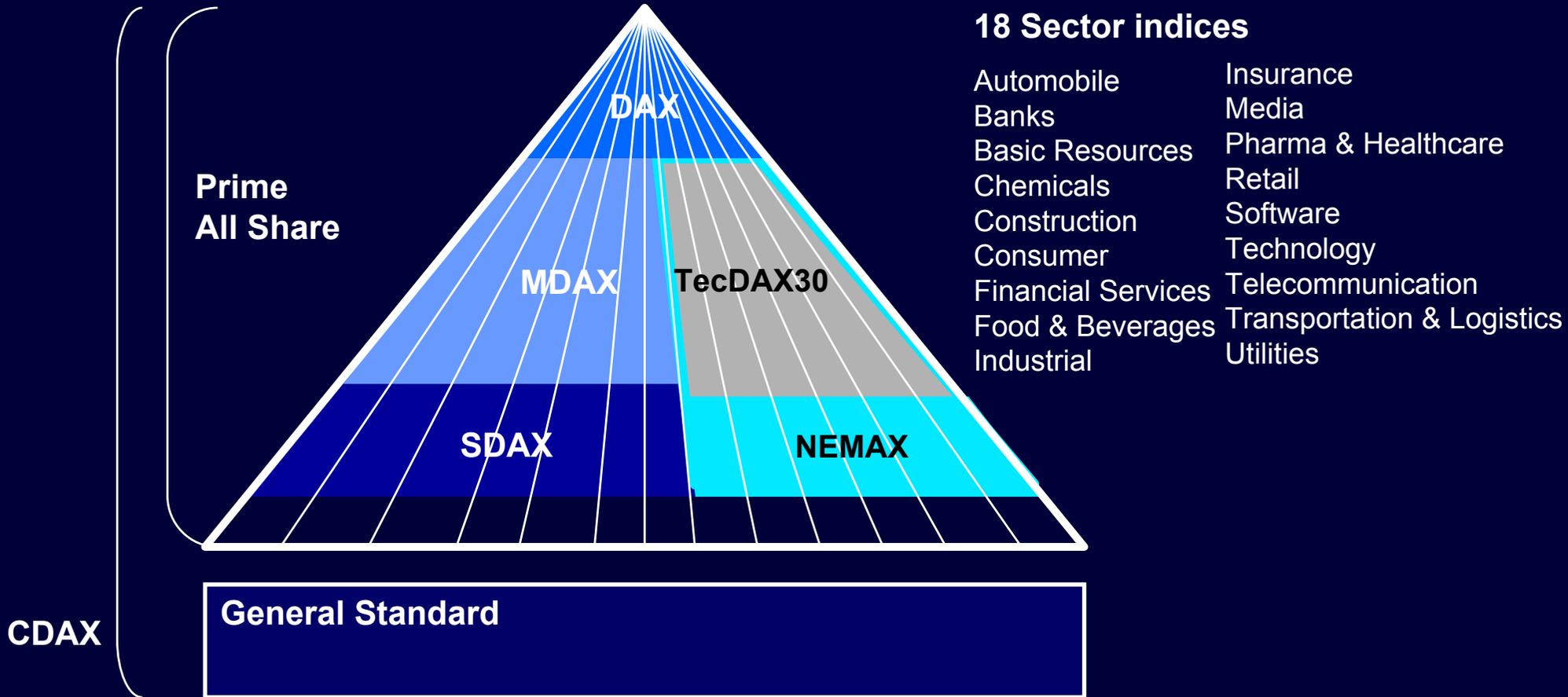
Technology sectors:

TecDAX: 30 stocks

NEMAX50: 50 stocks



Index framework from 2003



Timeframe



2003

Revision of Stock Exchange Rules and Regulations, companies can apply to join Prime Standard Segment

Stock Exchange Rules and Regulations come into effect

Publication of final Prime Standard ranking list, deadline January 31, 2003

Determination of index composition

Calculation deadline (New index trading changeover)

Start of trading based on new indices

End November

1.1.2003

Early February

Mid February

21.3.2003

24.3.2003



Backup





XETRA best
best price. best execution.

Retail customers demand immediate order execution with price advantage



Customer Demands

- Immediate Execution
- Price Advantage
- Best Execution
- Supervised Trading
- Transparency of Execution

Xetra BEST Offering

- Focused on retail order flow (Vol. \leq €52.500)
- Immediate order execution at „best price“
- Exchange trading on the proven Xetra-platform; Clearing & Settlement via established interfaces
- Independent market surveillance
- Bundling of liquidity on Xetra / increasing liquidity through additional Liquidity Managers on Xetra

The basis of Xetra BEST market model



Xetra BEST market model

- **Best execution**

Xetra BEST execution is only possible, if the price is better than the actual price within the order book.

- **No partial execution – fewer settlement costs**

- **Order book consistency**

Ensure consistent price-/time priority within the order book; no execution of orders within the order book with equal/ better limits than Xetra BEST trades.

- **Ex ante entry of Best Executor Quotes**

BEST quotes must be submitted before the orders are entered.

- **Automatic routing into order book**

Orders not executable against pre-entered BEST quotes, are routed into the Xetra order book immediately.

- **Transparency**

Immediate dissemination of all Xetra BEST transactions with price and volume.

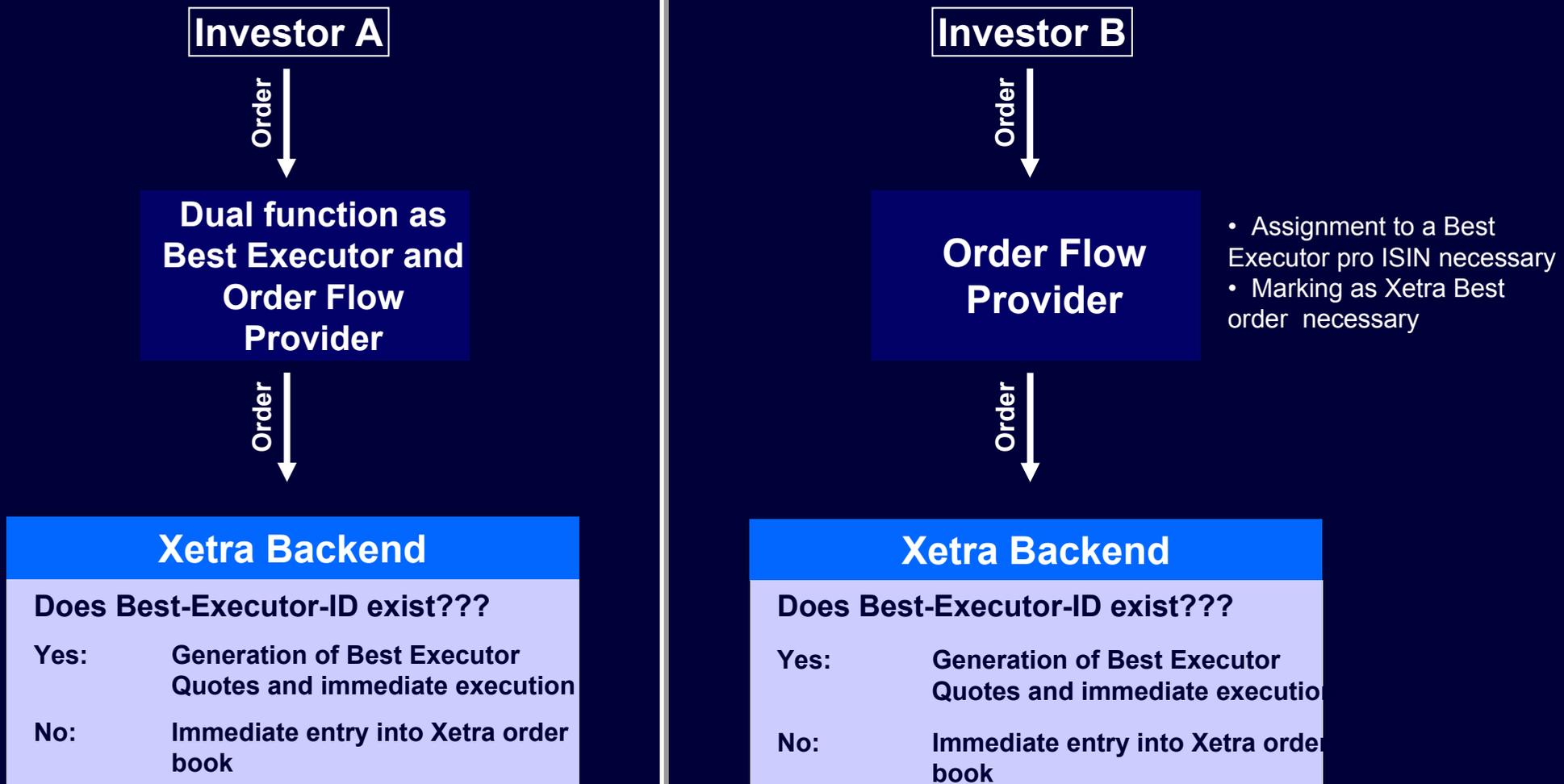
- **Liquidity management in the Xetra order book**

Obligatory quotes from Best Executors in Xetra order book.

- **Platform neutrality**

Deutsche Börse AG as supplier – not bank competitor

Xetra BEST executes Retail-Orders against the Best Executor immediately within the current Xetra-Spread



Xetra BEST offers execution with direct consideration of the Xetra order book

Best Executor Settings

Bid

Reserve Size (day)	Size	Boundary	Relative Limit
20.000	600	59,00	+0,02

Ask

Reserve Size (day)	Size	Boundary	Relative Limit
20.000	600	52,00	-0,01

Xetra Order Book

Bid		Ask
Volume	Limit	Volume
	54,46	320
	54,41	50
	54,39	170
60	54,35	
180	54,32	
140	54,31	
540	54,30	

Possible Execution Scenarios

1. Size Best Quote \geq Order Size \leq Size at best bid/best ask

Buy-Order; Market Order; Size: 50

Execution of the order against Best Executor

Best Price = €54,38 (€0,01 Price improvement)

2. Size Best Quote \geq Order Size $>$ Size at best bid/best ask

Buy-Order; Market Order; Size:

A. Calculation of the "volume weighted price"

$$P_{\text{volumen}} = (170 \cdot 54,39 + 50 \cdot 54,41 + 280 \cdot 54,46) / 500 = €54,4312$$

B. Determination of the execution price

$$P_{\text{Best Price}} = €54,42 \text{ (€0,01 Price improvement)}$$

C. Ex ante execution on Xetra (automatic execution)

Best Executor buys 170 for €54,39 and 50 for €54,41

D. Execution of customer order against Best Executor

Best Price = €54,42 (€0,01 Price improvement)

3. Order Size $>$ Size Best Quote, oder Order Size $>$ Maximum Order Size

Buy-Order; Market Order; Size:

Execution of the order within the Xetra order book

Connection types for Best Executors



Type A

- **Previous commitment as Designated Sponsor**
2500 Credit Points* in the five preceding months before start of Best Executor
- **No monthly minimum transaction fee**
- **No minimum contract duration**
- **Parallel obligation of Liquidity Management** (Excluded: DAX)

Type B

- **No previous commitment as Designated Sponsor**
- **Minimum of monthly transaction fee: €50.000**
- **Minimum contract duration of 24 months**
- **Parallel obligation of Liquidity**

Requirements comparable to „AA“- Designated Sponsors

- max. Spread 2,5%-5% depending on segment
- min. quoting volume €10'-€30' depending on segment
- Presence in the order book (average of quoting time) min. 9,5 hours
- Refunding of transaction costs, if quoted spread is on average 75% narrower than max. spread
- Additional requirements (e.g. participation in auctions)

* Credit Point calculation according to origin – Domestic: 5, Important European or American index element: 3, Rest:1

Xetra BEST facts



Xetra BEST facts to date

- **Start date:** 03. September 2002
- **Number of Best Executors:** 3 (Archelon Germany, Commerzbank, N.M. Fleischhacker)
- **Number of Order Flow Providers:** 2
- **Average of volume per day:** €6,76 million
- **Average of transactions per day:** 1.380
- **Offered instruments:** DAX, MDAX, Nemax50, EuroSTOXX50, others
- **Transaction fees:**

Current Xetra BEST price model*

	var. transaction price	Floor	Max. order size**
GS	1,2 Bp	1,30 €	52.5 T€
WR	1,2 Bp	2,70 €	52.5 T€

New Xetra BEST price model*

	var. Transaction price	Floor	Max. order size**
GS / WR	1,1 Bp	0,55€	52.5 T€

* Actual price model includes trade and settlement fees; new price model includes transaction fees only (to be introduced 1 Qtr. 2003)

** Equals an implicit Cap of €6,30 (current Xetra price model) resp. €5,775 (new Xetra price model)

Documents available on request



Description of market model

Sample of contract Order Flow Provider - Best Executor

Cooperation agreement

Values API description





XETRA best
best price. best execution.