

Buy-In Guide in accordance with rule 8.1.14 of the Member Firm Rules

Determination of the Buy-in Price

The Buy-in Guide issued by the ISE in conjunction with Eurex Clearing AG states that the maximum price for a buy-in trade is “the settlement price determined by Eurex Clearing AG for the corresponding class of securities plus an additional charge of 100% of such settlement price”. The settlement price for a particular security is the order book closing price for that security prior to the buy-in date. For the buy-in auction this would be the order book closing price 3 days after the Intended Settlement Date (S+3). For example, assume a member firm failed to deliver a certain quantity of shares in security X which was sold on the order book at €4.00 and the buy-in auction is due to take place at S+4. If the order book closing price for security X was €4.20 on the day before the buy-in auction (S+3), then the maximum price which the securities could be sold for in the buy-in auction would be €8.40; being the previous closing price of €4.20 plus an add on of 100%. The original traded price of €4.00 would **not** be used in determining the maximum buy-in price.

Cash Settlement

In the event that the buy-in auction is unsuccessful and a particular equity trade has not been fully settled by S+8 (T+11) the cash settlement will be performed on this date..

For example, assume a member firm has failed to deliver 200 shares of security X on S+8 (T+11), and cash settlement is due. Assume also that there are 5 buy instructions in the same security which were matched on the order book but which have not yet settled. The table below shows the number of days since the intended settlement date for each of the trades.

Trade	Quantity	No. days since Intended Settlement Date	Price
1	100	8	€2.00
2	200	8	€2.25
3	150	7	€2.10
4	100	6	€2.30
5	300	5	€2.28

As stated in the Eurex Clearing AG Buy-in Procedures document, the ‘oldest’ buy instruction, which is at least a day late and the buyer with the ‘oldest’ buy instruction is determined to be the counterparty for the purposes of cash settlement. In this instance the oldest trade is trade number 1. However, 100 shares is an insufficient amount to cash settle against the 200 undelivered shares. Therefore 100

shares of trade number 2, the second oldest trade, (also 8 days late) must also be cash settled. Trades 3, 4 and 5 will not be used for cash settlement as the older trades have priority.

The cash settlement price is defined by Eurex as the order book closing price in the relevant security before the cash settlement date, plus an add-on of 100%, less the failed trade price(s) in the relevant security which has not yet settled in the CREST system (but no earlier than 8 business days previously). The cash amount required for the cash settlement is debited to the Clearing Member of the failed delivery and transferred to the buyer, and is calculated as the defined cash settlement price or prices multiplied by quantity of the undelivered securities.

In the example above we will assume that the original traded price of security X was €1.85, the order book closing price of security X on S+7 was €2.00, and the highest executed order price on the order book which has not yet settled was €2.25. The cash settlement price for the first 100 shares would then be €2.00 (twice the order book closing price less the failed trade price) and €1.75 for the second 100 shares. The cash settlement amount is therefore $€2.00 \times 100 + €1.75 \times 100 = €375$.