



Satish Nandapurkar
Speech at FIA Chicago Luncheon
July 29th, 2004

Thanks Bernie and thanks to the FIA for inviting me to speak to you all today; I'm honored to be here. It's great to see so many familiar faces – customers and former colleagues.

Today, I will be speaking about two things – of course, one is Eurex US and the other is competition in the futures industry. We are experiencing an unprecedented time and unprecedented time of growth in the futures industry. Certainly, electronic trading is a major catalyst for this growth as is the secular trend towards on-exchange central counterparty cleared business.

We are also seeing real competition in the industry for the first time and it comes across two dimensions. The most public and popular to talk about is competition for market share of benchmark products. Our competition with the CBOT in treasury products, Liffe's competition with the CME in Eurodollars, CBOT's challenge to us in the German fixed income products. The second dimension is competition for the attention of the active individual trader. Exchanges are battling each other world wide to capture this new electronic "local" - the new liquidity provider. Exchanges are already altering their technology, pricing models, trading rules, and membership rules to attract as many of these locals to their products as possible.

That's where Eurex US comes in. Eurex has always done well in the United States, with 20 to 25% of their trading flow coming from the States. However, Eurex knew that it needed a proper U.S. regulated platform to continue its growth here. The vision was that substantial growth was to be achieved not just by competing for US dollar products, but also by leveling the playing field to compete for active traders here in the U.S. - a level playing field which includes a CFTC regulated exchange, with U.S. based clearing, and the advantage of 60/40 tax treatment.

Of course, Eurex US leverages a lot of what has made Eurex so successful: the strength of the European distribution network and the Eurex market model. Eurex US incorporates the Eurex market model of all electronic trading, equal access for all participants, market practices that are synergistic with cash and OTC markets, and low fees for everyone. Eurex US is committed to providing sustainable low fees for all participants, in all products, across all geographies. We have committed to fees of 30 cents per contract or less for all trades executed in the book for the next 5 years. We also employ a tiered fee structure that allows fee breaks for aggregated volumes at the FCM level. This allows FCMs to aggregate all customer business to realize the lowest possible fees and to achieve higher profitability.

How can we make such a long term commitment to low fees? First, we believe a low fee for all policy sparks tremendous growth in volume. Growth in volume maximizes liquidity in the long run, maximizes our profit in the long run, maximizes your profit in the long run.

Second, our cost structure allows us to keep fees low. Eurex US is structured as a very lean and efficient organization. At EurexUS we have just 35 people on staff - focused primarily on sales, marketing, customer service and market supervision. We outsource our technology to Eurex (using an enhanced version of the proven and reliable a/c/e platform), our clearing to The Clearing Corporation, and our regulatory and market surveillance to the NFA.

As you know, we launched February 8th of this year and the launch was operationally flawless. We had a couple of great days of volume but then experienced a steep drop off in volume. What happened? In a nutshell, we had operational readiness but we didn't really have proper technology readiness nor did we have regulatory readiness.

Both the technology development and regulatory approvals took quite a bit longer than anticipated. Our goal was to bring together a diverse set of participants on the platform – market makers, proprietary traders, bank treasury desks, end users, and our European network. Unfortunately, lack of readiness took most of these customer segments off the table. End users are never the first to come to the table. Our European network had to wait for approvals especially in the U.K. where almost 50% of Eurex's flow comes from and we didn't gain approval until late May. Bank trading desks and prop trading firms didn't have technology that allowed their traders to painlessly trade two similar markets at the same time and to automatically route orders to the best one.

So, we didn't panic. We worked with regulators to gain approvals, worked with technology providers, worked with banks, and worked with proprietary trading firms to roll out enhanced technology.

Regulatory approvals came in and technology was developed – technology such as TT Navigator. TT Navigator allows the proprietary trader to display competing markets side by side and automatically route orders to the best market. Banks developed and rolled out similar smart order routers. Once all the pieces started to fall into place, we still needed to reinvigorate our customers and regain momentum that was lost after the slow start. We also knew we needed to synchronize our participants and get them to the table at the same time. Thus we introduced the X Factor program.

The X Factor program is a set of sales and marketing initiatives with tangible incentives. Components of the program include a fee waiver through the end of the year, a new European hours market maker program, stipends for market makers to offset technology development costs, an iPod promotion focused on individual trader readiness, and a revenue sharing program with a minimum of \$10 million distributed in the first year. We focused on the date of July 12th to launch these incentives and bring participants in unison.

We are just two and a half weeks into the initiative and it's still very early days, but we are pleased with the results so far. Liquidity has been great with exceptional market maker compliance. Of our 18 market makers, we have 15 or 16 complying on any given day. Volume has increased and is coming from a diverse set of participants. Six or seven major bank treasury desks and 25 or so proprietary trading firms in London and in Continental Europe are all active. Currently, we are averaging over 40,000 contracts per day and have 55 members in the markets. And arguably most important, open interest has been growing. Open interest has more than tripled in the last few weeks to over 50,000 contracts, up from about 17,000 at the end of June. Furthermore, new membership applications, mostly out of Europe, are coming in more consistently.

All of this said we are still in the early days of the initiative. So where do we go from here?

We are working on an initiative to build up our Treasury options business, which we plan to introduce in the next month or two. Another area of focus is our pricing model. We plan to reaffirm Eurex US as the low cost provider for all customer segments by introducing a new pricing schedule for rollout January 1st. We also continue to work on the approval and subsequent implementation of the Global Clearing Link. The Global Clearing Link will provide choice of local clearing to customers globally. After Phase 2 of the GCL, we plan to list Euro products on our platform. And last, but not least, we are working on getting additional US

dollar products on the platform. The first product will likely be Russell equity/ index products. As many of you know, we announced in March that we have a licensing agreement with Russell. We also continue to explore other new product possibilities.

The goal of Eurex US has always been to develop into a full service exchange with a full suite of products and services. We are committed to making the investments needed to serve our customers. We believe the investments have already started to pay off for the industry. With our competitive entry, fees have been cut, at least in the products we compete in; rules are changing and operations are becoming more efficient. Competition has also accelerated the trend towards electronic trading. Take the Eurodollar contract for example. Who would have thought seven months ago that Eurodollars would be trading as electronically as they are? Liffe deserves much of the credit for that by providing a credible threat that made the CME react.

We will continue to make investments, but we need help: help from the industry, help from your firms, and help from you. Specifically, we need you to educate customers and end users that they have choice, rollout technology that allows customers and in-house traders to see and access competing markets with smart-order routing whenever possible, provide margin offsets to the greatest extent allowable between offsetting risk positions at different exchanges, and finally, to continue to oppose anti-competitive moves by incumbent exchanges. I commend the FIA on their pro-competition stance with recent industry developments.

The industry, FCMs, and end customers have all been asking for competition in the futures industry and loudly complaining about the lack of competition. The benefits of competition are clear. Your chance is now. Credible competitive markets exist. But you have to support them. If you do, you send a message. If you don't, you send a message. If competition fails, the loser will not be the incumbent exchanges, it will be you and your end customers. At least though for the first time, your destiny is in your own hands.

Thank you.