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June 27, 2007

<u>*By Facsimile and Federal Express*</u>
Mr. Thomas Lenz
Member of the Management Board
Eurex Deutschland
Neue Borsenstrasse 1
60487 Frankfurt am Main

Re: ***Eurex Strike Adjustment***

Dear Mr. Lenz:

I am writing you on behalf of Timber Hill Europe, a member of the Exchange and a registered market maker in options. We are concerned that the method by which the Exchange adjusts the terms of outstanding stock options when the underlying stock pays a large, special dividend leaves room for a great deal of economic uncertainty. As a result of this uncertainty, market makers may be less willing to provide liquidity in these circumstances, which in turn weakens the listed option product at the Exchange.

I would like to illustrate the impact of the Exchanges methodology with an example, similar to what happened with Altana in early May of this year.

Assume that a 50 EUR stock pays a special dividend of 35 EUR

The Exchange's methodology calls for the calculation of an R factor (50 – 35) / 50 = 0.3

The striking price of all outstanding call options will be adjusted by the R factor so that a 60 strike will become a 60 * 0.3 = 18 strike, a 50 strike will become a 15 strike, etc.

Finally, the contract multiplier will be divided by the R factor so that the 100 multiplier will become 100 / 0.3 = 333

Thus the holder of a 50 strike option will have 3.33 15 strike options the day after the dividend

The problem with this method of adjustment is that the terms of the new options do not only depend on the magnitude of the dividend but also on the level of the closing stock price the day before the dividend date.

Let us examine what happens if the day before the stock goes ex dividend the price runs up to 54, or similarly to the case of ALTANA *, on one large closing trade it falls 4 to 46 EUR

R factor with a closing price of 54: $R = (54 - 35) / 54 = 0.35185$

The holder of the 50 strike option with a 100 multiplier will now have a 17.59 strike option with a multiplier of 284

R factor with a closing price or 46: $R = (46 - 35) / 46 = 0.2391$

The holder of the 50strike option with a 100 multiplier will now have a 11.95 strike option with a multiplier of 418

As the example illustrates, this methodology carries with it a great deal of uncertainty and provides a huge incentive to position holders to try to influence the closing price used in the calculation.

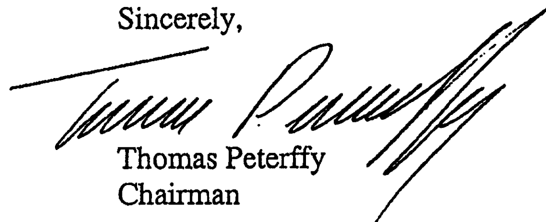
We would like to suggest that the Exchange adopt the procedure used by many option exchanges to adjust the terms of outstanding option contracts in case of special dividends.

Namely the dividend is simply subtracted from the striking price and the option multiplier remains unchanged. Under that procedure, the holder of a 50 strike option would end up with a 15 strike option, no matter what happens to the stock price. The option multiplier would remain unchanged.

Indeed there is no justification for increasing the option multiplier. To the extent the value of an option reflects the volatility of the underlying in absolute terms, when a cash dividend is paid no volatility is taken out of the stock since the cash amount is not subject to change.

We believe that implementing the suggested modification to the rules would eliminate a strong incentive to manipulate the market and strengthen the economic viability of the option contract listed on the exchange.

Sincerely,



Thomas Peterffy
Chairman

*In fact, in this ingenious scheme, the sale of 31 million shares on the close, presumably prearranged, brought the closing price to a level where the holders of short call positions, mostly market makers, were given such an unexpectedly low striking price and exaggerated option multiplier that they became obligated to deliver shares in excess of the float. As a result of this squeeze, that stock ran up over 80% in the few days following the dividend. It is estimated that the holders of short option positions, even if they were fully hedged to start with, ended up with a combined loss of 500 million to 700 million EUR.

cc: Dr. Reto Francioni, Deutsche Börse AG
Mr. Andreas Preuß, Eurex Deutschland
Mr. Karsten Hiestermann, Frankfurt Stock Exchange