eurex bonds circular 17/12

Date: April 4, 2012
Recipients: All Trading Participants of Eurex Bonds
Authorised by: Johannes Weßling

Change of Terms and Conditions for Participation and Trading on Eurex Bonds

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Content may be most important for:	**Attachment:**
➲ Front Office / Trading ➲ IT/System Administration	Terms and Conditions for Participation and Trading on Eurex Bonds (full version and change version)

Please find attached the updated version of the Terms and Conditions for Participation and Trading on Eurex Bonds valid from **April 23, 2012**.

The changes mainly refer to the following subjects:

- Market-Making status
- New instrument types such as “break even“ instruments
- Introduction of “single-sided quotes“
- Start of trading in non-euro denominated instruments
- Changed trading model for zero bonds

If you have any questions, please contact the Eurex Bonds Customer Support at tel. +49-69-211-1 12 22 or e-mail info@eurex-bonds.com.

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Terms and Conditions for Participation and Trading on Eurex Bonds

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AMENDMENTS ARE MARKED AS FOLLOWS:

INSERTIONS ARE UNDERLINED

DELETIONS ARE CROSSED OUT

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Date of release: 23. April 2012~~August 16, 2010~~

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1 Part: General Conditions

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2 Part: Conditions for Participation in Trading on Eurex Bonds

§ 4 General Participation Requirements

(1) The Board of Management decides on an enterprise's participation in trading or on an enterprise's participation in trading restricted to certain products at Eurex Bonds.

(2) Applications for the conclusion of an agreement for the granting of permission to participate must be submitted in writing to Eurex Bonds. Each application must include information as to whether the enterprise is to be granted an explicit admission to trading in Bonds or an admission to trading in basis instruments as well.

In addition, the applying company has to indicate if it intends to authorize affiliated companies within the meaning of the Exchange Act to trade on his behalf at Eurex Bonds. This needs a formal authorization by Eurex Bonds which, besides the prerequisites pursuant to paragraph 3, requires that the applying company:

(a) provides for an Excerpt from the Commercial Register and

(b) hands in a written affirmation vis-à-vis Eurex Bonds that no legal provisions, in particular with respect to supervisory regulations, are opposed to the trading by the respective affiliated company on its behalf and

(c) commits each affiliated company acting on its behalf to comply with these Terms and Conditions in the respective valid version.

In addition, Eurex Bonds may at any time require further information from the market participant about the affiliated company, provided it is necessary in order to fulfill obligations with respect to supervisory regulations or other legal specifications of Eurex Bonds.

(3) Participation in trading at Eurex Bonds is only possible if the enterprise submitting the application meets the following requirements. The enterprise submitting the application must

a) hold a Eurex Bonds Clearing License of Eurex Clearing AG as a "General Clearing Member" (GCM) or "Direct Clearing Member" (DCM), or it must have concluded an NCM-CM agreement with an institution which holds a respective Clearing License of Eurex Clearing AG;

b) possess the necessary technical and organizational clearing facilities so that the enterprise is in a position to duly settle Bonds transactions;

c) have access to the technical infrastructure of the Eurex Bonds system and have concluded the Connection Agreement for Participation in the Electronic Trading System of Eurex Bonds for the term of participation in Eurex Bonds;

d) possess equity capital of at least EUR 50,000,00, unless the enterprise submitting the application is a credit institution, a financial service provider or a securities company complying with the definition of article 1 paragraph 1 and 2 and article 4 paragraph 1 of Council Directive 2004/39/EG on markets for financial instruments ("MiFID") or with a company acting pursuant to § 53 paragraph 1 clause 1 or § 53 b paragraph 1 clause 1 KWG ("German Banking Act") which is authorized to conduct financial commission business within the meaning of § 1 paragraph 1 clause 2 number 4 KWG or to provide a financial service within the meaning of § 1 paragraph 1 a clause 2 number 1 to 4 KWG; the deposited money and the reserves after deduction of the owner's or personal liable shareholders' withdrawal and the credits granted to them as well as a liabilities' overhang with the free assets of the owner are regarded as equity capital.

No facts should justify the assumption that the enterprise submitting the application which is, pursuant to clause 1, obligated to provide evidence of equity capital would, taking into account the proved equity capital, does not have the necessary financial capability to properly participate in the trading on Eurex Bonds.

(4) By way of exception from the foregoing requirements for participation in Eurex Bonds trading, the Federal Republic of Germany, the Bundesbank, the Kreditanstalt für Wiederaufbau and other enterprises and institutions to be separately specified by the Board of Management, shall receive the status of a Market Participant for the participation in trading in Bonds provided that they meet the requirements of § 4 paragraph 3 a), b) and c) above.

(5) In order to be admitted to trading in basis instruments at Eurex Bonds, an enterprise must – in addition to the requirements detailed in § 4 paragraphs 3 and 4 – :

a) be admitted to trading at Eurex Deutschland and

b) possess the necessary technical and organizational clearing facilities so that the enterprise is in a position to duly settle basis transactions.

(6) In the application pursuant to Paragraph 2, a company seated abroad must specify to Eurex Bonds an authorized recipient (name and address) for the term of the business relationship at home, such recipient being legally and factually able to accept deliveries of Eurex Bonds effective for the company. A change of the authorized recipient shall immediately be communicated to Eurex Bonds; Clause 1 and 2 shall apply accordingly.

(7) The Market Participant is obligated to allow Eurex Bonds or its agents at any time the examination of the compliance with the duties from these Terms and Conditions. ~~They shall, in particular, grant~~ Eurex Bonds or its agents shall, in particular, ~~access to the premises of the Market Participants~~, be allowed ~~them~~ to view any necessary documents, to ~~investigate~~ question staff members of the Market Participant and to take all other measures necessary for an adequate examination. In case of reasonable suspicion that the market participant violated its obligations from these Terms and Conditions, Eurex Bonds may, at the expense of the Market Participant, commission a neutral institution - in particular an auditor - with the revision.

(8) Applicants shall provide evidence that they meet the requirements to participate in Eurex Bonds trading. Market Participants are obligated to notify the Board of Management without delay of any changes regarding legal or actual matters of fact as a result of which they might no longer meet participation requirements.

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§ 7 Market Makers

(1) ~~Upon electronic or written registration, a~~All market participants are authorized to act as Market Makers at Eurex Bonds. ~~The registration shall contain information about the products selected for the market making.~~

(2) Eurex Bonds shall measure the quotation activities of the Market Makers ~~in the selected products~~ and, upon request by such Market Makers, inform them electronically about their own performance. Parameters for the measurement are – depending on the product segment and scope of term – the minimum volume, maximum bid-/ask spread and minimum duration.

~~Market Makers are not allowed to enter one-sided quotes into the system.~~ If a market maker enters a quote pursuant to § 10 Paragraph 2 for an instrument for which he has already entered a quote, the quote entered most recently shall substitute its original quote. In addition, Market Makers are authorized to enter limit orders into the system

(3) Market Makers entering quotes in the system shall agree that Eurex Bonds records their market making activities electronically and submits them to the respective issuer for information upon its request. The data shall be submitted in statistical form. ~~In case a Market Maker does not quote in a product segment, no reports shall be submitted to issuers.~~ These reports shall only be submitted upon conclusion of a non-disclosure agreement between Eurex Bonds and the respective issuer; they shall not be submitted to other issuers or market participants.

The market participants who act as Market Makers, can be specified as Market Maker for a product segment in publications of Eurex Bonds (e.g. “Eurex Bonds Newsletter”).

~~A Market Maker may, by giving electronic or written notice to Eurex Bonds, terminate its participation in Market Making at any time.~~

3 Part: Trading Regulations

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§ 9 Conduct of Trading in Bonds, Break-Even Instruments and Basis Instruments

(1) During continuous trading, the orders or quotes entered into the system which can be executed against one another shall be matched and transactions concluded (Matching). The system shall rank the orders initially according to price. With regard to trading in price terms, ~~T~~the highest bid limit and/or the lowest offer limit, ~~(trading in price terms) resp.~~ and with regard to yield term trading, the lowest bid limit and/or the highest offer limit ~~(yield term trading)~~ shall be ranked first. If the price is the same, the chronological order of entry is determinative. All existing orders and quotes shall be displayed in aggregate form at the respective limit (open order book).

~~(2) The Price shall be determined on the basis of the respective highest bid limit or lowest offer limit (trading in price terms) resp. lowest bid limit or highest offer limit (yield term trading) in the order book and the orders shall be executed at this price.~~

(2~~3~~) Orders may be executed completely, partially or not at all. Depending on the execution parameters according to § 10 paragraph (4~~3~~), orders or parts of orders which have not been executed will be placed in the order book or will be deleted.

(3~~4~~) The Board of Management shall determine minimum trading sizes for continuous trading (round lots) and the Pre-arranged Trade facility (odd lots) for each security: Only orders above the minimum trading size or integral multiples thereof are eligible for continuous trading and can be executed therein. Other orders (odds lots) shall be executed via the Pre-arranged Trade facility.

(4~~5~~) After orders and quotes have been matched in the system, both Market Participants shall receive an execution confirmation and a trade confirmation. In the case of a basis transaction, each party receives a confirmation of execution, containing details of the execution price, the quantity traded and the time. In addition, a trade confirmation will be sent to both parties without delay. Furthermore, each party shall receive a trade confirmation for each of the cash and the futures legs having been concluded with the respective basis trade.

(5~~6~~) With regard to transactions of inflation-linked bonds, ~~within the meaning of number 1.1 paragraph 2, 3rd Alternative of the Appendix, trading price (without consideration of the inflation coefficient), traded amount as well as trading number and time are specified in an initial execution- and transaction confirmation. T~~the exercise price including interest is calculated by means of using the so-called inflation coefficient. After having calculated the exercise price and interest, an~~other~~ execution and trading confirmation regarding the cash leg concluded shall be sent to the respective trading parties.

(6~~7~~) A Market Participant on Eurex Bonds may buy or sell the basis relating to a government security (basis trade). Buying the basis means in one single transaction, buying the government security and selling the corresponding number of futures contracts. Selling the basis means in a single transaction, selling the government security and buying the corresponding number of futures

contracts. The basis is traded in a separate order book. Quotes and orders relate to the tradable lot and the price of the basis.

(7) A Market Participant may buy or sell Break-Even Instruments on Eurex Bonds. Buying a Break-Even Instrument means buying the inflation-indexed government security and selling the corresponding number of the allocated fixed-interest government securities in one single transaction. Selling a Break-Even Instrument means selling the inflation-indexed government security and buying the corresponding number of the allocated fixed-interest government securities in one single transaction. The Break-Even Instruments are traded in a separate order book. Quotes and orders relate to the tradable lot and the price of the Break-Even Instruments.

(8) Data pertaining to the implicitly traded security and the futures contract of the basis transaction will be computed daily through "trade enrichment". The number of futures contracts per "minimum trading size" will be computed by the system for each basis transaction as described in more detail in section 4 of the Annex. Eurex Bonds will publish the number of futures contracts computed by the system per "minimum trading size" for each valid combination of cash bonds / futures contracts on the Eurex Bonds web-site, or send it to all Market Participants via e-mail.

§ 10 Order Types

(1) Orders and quotes may be entered by market participants into the system.

(2) Limit orders are buy and sell orders which are to be entered with a price limit and executed at the specified price or better. A quote is either t~~T~~he simultaneous entry of a limited buy and sell order ~~is a quote~~or the one-sided entry of a limited buy or sell order. Upon entry of a quote for the same instrument and under the same sub-group ID for which the same Market Participant has already entered a quote in the past, the quote entered most recently shall substitute the quote previously entered.

(3) When being entered into the system, the orders must contain the following data:

- buy/sell offer (bid/ask)
- type of security
- principal amount
- price limit

Orders must be entered as proprietary orders or customer orders. The quotes must also be specifically designated as such.

(4) Orders for continuous trading can be entered subject to one of the following execution conditions:

- immediate execution of the order in full or cancellation ("fill-or-kill")

- immediate execution of the order to the extent possible and cancellation of the unexecuted part ("immediate-or-cancel")

- as a limited order which is entered into the system with a specific overall quantity, but entered into the order book only successively with a specific fraction of the volume at the determined price limit ("Iceberg")

In the case of orders subject to the execution "Iceberg", the Board of Management shall determine the minimum overall quantity of such order and the minimum peak quantity which, on the basis of such order, is to be entered in the order book for the individual product.

(5) Orders can be entered subject to one of the following validity specifications:

- Good-for-day (valid for the respective trading day)

- Good-till-date (valid until the end of the specified period, but no longer than 90 calendar days, T+89)

- Good-till-cancelled (valid until revoked, but no longer than 90 calendar days after entry, T+89)

Limit orders which are entered without validity specifications are only valid until the end of the Main Trading Phase on a given trading day. To the extent that they are not executed, they shall be cancelled at the end of the Main Trading Phase in the system; quotes and orders subject to the execution condition "Iceberg" are only valid for the respective trading day.

[…]

§ 12 Pre-arranged-Trade-Facility

(1) The Pre-arranged-Trade-Facility is provided for Bonds, ~~und~~ Basis Instruments and Break-Even Instruments.

(2) Pre-arranged Trades will always be processed with the settlement code „Delivery versus payment".

(3) ~~For bonds, a~~ The settlement date for Pre-arranged Trades with regard to Bonds and Break-Even Instruments can be selected within the range of T+1 and T+89~~,~~ and with regard to ~~for~~ Basis Instruments within the range of T+2 and T+4~~.~~

(4) Pre-arranged Trades are to be confirmed by one of the counterparties by means of a request to be sent to the Eurex Bonds system. After the confirmation of the Pre-arranged trade Eurex Bonds shall transfer the respective trades for clearing to Eurex Clearing AG.

(5) The Board of Management may exclude Market Participants from the utilization of the Pre-arranged-Trading-Facility if this is necessary to ensure orderly trading on Eurex Bonds. In this case, such Market Participants shall have no claims towards the refund of costs, charges or any other damages.

§ 13 Price Indication and Price Gradations

(1) Basis instruments will be quoted in percent, carried out to three decimal places.

(2) Fixed-interest bonds are quoted as a percentage of the nominal value carried out to three decimal places.

(3) Zero-coupon bonds are discount papers and will be quoted as a percentage of the nominal value or in yield terms to three decimal places. The Management Board of Eurex Bonds shall determine the method of price fixing.~~The minimum change in price shall be 0.001 for all zero-coupon bonds.~~

(4) The minimum change in price for all securities shall be 0.001 percentage of the nominal value.

[…]

Annex to the Terms and Conditions for Participation and Trading on Eurex Bonds

The following line-up describes the products tradable at Eurex Bonds and its segmentation and supplements the General Rules for trading in fixed-interest and zero-coupon bonds as well as for basis trading.

1 Products and Segmentation

1.1 German Government Bonds

(1) Upon determination of the Board of Management, fixed-interest and zero-coupon German government bonds as specified under this provision are admitted to trading on Eurex Bonds.

(2) An admission to trading on Eurex Bonds is given for such fixed interest government bonds which satisfy the following criteria:

- fixed interest securities
- Outstanding volume of at least EUR 4 billion or USD 4 billion, or
- Inflation-linked bonds with an outstanding volume of at least EUR 1 billion or USD 1 billion.

The Board of Management shall divide into different groups such fixed-interest German government bonds with a residual maturity between one and thirty-five (35) years for which market making will be carried out by Market Makers. The division into groups of the individual securities is made depending on the residual maturity of the particular securities and deliverability as regards the capital market products Euro Bund, Euro Bobl, and Euro Schatz futures of Eurex Deutschland. Such fixed-interest government bonds which are deliverable to the next due date of the aforementioned futures contract are defined as “Benchmark Bonds” by default. All other German government bonds are defined as “Liquid Bonds”. Exceptions to this rule may be defined by the Board of Management. The calculation of the residual maturity of the securities and the allocation of the securities to their appropriate classes shall be carried out by the Board of Management at the end of every calendar month.

(3) Zero-coupon German government bonds shall be treated as an individual group and shall be tradable as a percentage of the nominal value or in yield terms to three decimal places. The Management Board of Eurex Bonds shall determine the method of price fixing. Only such zero-coupon German government bonds which satisfy the following criteria shall be admitted to trading on Eurex Bonds:

- Treasury Discount Papers (Bubills)
- Maturity of ~~six~~ three to twelve months
- Outstanding volume of at least EUR 4 billion

The calculation of the residual maturity of the securities and the allocation of the securities to their appropriate classes shall be carried out by the Board of Management at the end of every calendar month.

1.2 Bonds of Supranational Institutions and Bonds of State Agencies (Agencies)

(1) Upon determination of the Board of Management and as specified under this provision, Bonds of supranational institutions of the European Union (e.g. European Investment Bank) and Bonds of state agencies of Member States of the European Union (e.g. Reconstruction Loan Corporation or NRW.Bank), all such Bonds being denominated in EUR or ~~USD~~in other currencies, are admitted to trading on Eurex Bonds. In order to be admitted to trading on Eurex Bonds, such Bonds must satisfy the following criteria:

- fixed-interest securities
- minimum outstanding volume of EUR 500 million ~~or USD one billion~~. In the case of a trading currency other than EUR, the required outstanding volume shall be determined for the respective trading currency and announced by the Management Board of Eurex Bonds.
- minimum rating of AA- by Standard&Poor's or of Aa3 by Moody's or according rating by Fitch

(2) The calculation of the residual maturity of the securities and the allocation of the securities to their appropriate maturity classes through the Board of Management takes place at the end of every calendar month. .

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1.4 Covered Bonds of Mortgage Banks and Credit Institutions under Public Law (Pfandbriefe – Mortgage Bonds)

(1) Upon determination of the Board of Management and as specified under this provision, selected Bonds of mortgage banks or of credit institutions (Mortgage Bonds), all such Bonds being denominated in EUR or ~~USD~~in other currencies, are admitted to trading at Eurex Bonds. In order to be admitted to trading at Eurex Bonds, such Bonds must satisfy the following criteria:

- fixed-interest securities
- minimum outstanding volume of EUR ~~one~~ 500 m~~b~~illion ~~or USD one billion~~. In the case of a trading currency other than EUR, the required outstanding volume shall be determined for the respective trading currency and announced by the Management Board of Eurex Bonds.
- minimum rating of AA- by Standard&Poor's or of Aa3 by Moody's or of an according rating by Fitch

(2) The calculation of the residual maturity of the securities and the allocation of the securities to their appropriate maturity classes through the Board of Management takes place at the end of every calendar month.

[…]

1.6 European Covered bonds

(1) Upon determination of the Board of Management and as specified under this provision, European Covered Bonds, all such Bonds being denominated in EUR or ~~USD~~in other currencies, are admitted to trading on Eurex Bonds. In order to be admitted to trading on Eurex Bonds, such Bonds must satisfy the following criteria:

- fixed-interest securities
- Outstanding volume of at least EUR ~~one~~ 500 m~~b~~illion ~~or USD one billion~~. In the case of a trading currency other than EUR, the required outstanding volume shall be determined for the respective trading currency and announced by the Management Board of Eurex Bonds.
- minimum rating of either AA- by Standard&Poor's or Aa3 by Moody's an according rating by Fitch

(2) The calculation of the residual maturity of the securities and the allocation of the securities to their appropriate maturity classes shall be carried out by the Board of Management at the end of every calendar month.

1.7 Corporate bonds

(1) Upon determination of the Board of Management and as specified under this provision, Corporate bonds, all such Bonds being denominated in EUR or in other currencies~~USD~~ and issued within the EU, are admitted to trading on Eurex Bonds. In order to be admitted to trading on Eurex Bonds, such Bonds must satisfy the following criteria:

- fixed-interest securities
- Outstanding volume of at least EUR ~~one~~ 500 m~~b~~illion ~~or USD one billion~~. In the case of a trading currency other than EUR, the required outstanding volume shall be determined for the respective trading currency and announced by the Management Board of Eurex Bonds.
- "Investment Grade Rating" by Standard&Poor's, Moody's and Fitch

(2) The calculation of the residual maturity of the securities specified in paragraph 1 and the allocation of the securities specified in paragraph 1 to their appropriate maturity classes shall be carried out by the Board of Management at the end of every calendar month.

(3) SLIMBOS (Short Liquid Money Market Bonds) are issues ("Inhaberschuldverschreibungen") of private Banks and state Banks covering the short maturity range up to two years. They may covered by mortages but they do not have to be. In order to be admitted to trading on Eurex Bonds, such Bonds must satisfy the following criteria::

- fixed-interest securities
- minimum outstanding volume of EUR one half billion
- minimum rating of AA- by Standard&Poor's or of Aa3 by Moody's.
- Maturity of two years as a maximum.

(4) The calculation of the residual maturity of the securities specified in paragraph 3 and the allocation of the securities specified in paragraph 3 to their appropriate maturity classes through the Board of Management takes place at the end of every calendar month.

1.8 European Government Bonds

(1) Upon determination of the Board of Management and as specified under these provisions, selected fixed-interest and interest-free Bonds (Debt Securities) of Member States of the European Union, all such Bonds being denominated in EUR or ~~USD~~ in other currencies, are admitted to trading at Eurex Bonds. In order to be admitted to trading at Eurex Bonds, such Government Bonds must satisfy the following criteria:

- Securities with fixed coupons (except with interest-free bonds)
- Outstanding volume of at least EUR 1 billion ~~or USD one billion~~. In the case of a trading currency other than EUR, the required outstanding volume shall be determined for the respective trading currency and announced by the Management Board of Eurex Bonds.
- "Investment Grade Rating" of Standard & Poor's, Moody's or Fitch
- Admission for delivery versus payment between Clearstream Banking Luxembourg and Euroclear Banking Brussels

(2) The calculation of the residual maturity of the securities named in paragraph 1 and the allocation of the securities named in paragraph 1 to their appropriate maturity classes through the Board of Management takes place at the end of every calendar month.

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2 Trading Parameters

	Minimum Trading Size (continuous trading) EUR or ~~USD~~ other trading currency	Minimum Trading Size (Pre-arranged Trade) EUR or ~~USD~~ other trading currency
German Government Bonds	1 mn	1 mn
Agencies	1 mn	1 mn
Mortgage Bonds/State Bonds	1 mn	1 mn
Covered Bonds	1 mn	1 mn
Basis Instruments	5 mn	1 mn
Treasury Discount	1 mn	1 mn

Papers		
Corporate bonds	0,5 mn	0,5 mn
SLIMBOS	0.5 mn	1 mn
European Government Bonds	1 mn	1mn
Break-Even Instruments	5 mn	5 mn

3 Erroneous Entries (in Euro or ~~USD~~in another trading currency)

Maturity in years	Govern-ment Bonds and Treasury Discount Papers denominated in trading in price terms	Agencies	Covered & State Bonds, SLIMBOS	Basis Instruments	Treasury Discount Papers denominated in yield term trading	Break- Even Instruments	Corporate & Financials
< 1	0.08	0.10	0.14	n.a.	8 bp	25 bp	5 bp
≥ 1 - < 3.5	0.10	0.10	0.14	0.10	10 bp	25 bp	5 bp
≥ 3.5 - < 6.5	0.15	0.14	0.20	0.10	-	25 bp	10 bp
≥ 6.5 - < 13.5	0.25	0.20	0.30	0.10	-	25 bp	15bp
≥ 13.5 - < 25	0.40	0.50	0.50	n.a.	-	25 bp	25 bp
≥ 25	0.60	0.80	0.80	n.a.		25 bp	25 bp

4 Basis Trading

The components and calculation of a basis transaction (Cash Bond Leg and Futures Leg) are explained in the following.

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4.3 Treasury Discount Papers denominated in Yield Term Trading ~~(Bubills)~~

For the calculation of the price for Treasury Discount Papers ~~(Bubills)~~, the "true money market" yield calculation method specified below is used:

$$p = \frac{R}{\left(1 + \frac{yL}{36000}\right)}$$ and, inverted, we have $$y = \frac{36000}{L}\left(\frac{R}{p} - 1\right)$$

where p = price

R = redemption value in % (100 for full redemption)

y = yield in %

L = calendar days given by: (maturity date – settlement date)