# **e u r e x** *circular 113/99*

To: All Eurex members and vendors

Date: Frankfurt, 11th November 1999

**Modification to the Delivery Window of Euro-BOBL-Futures from 3.5 - 5 Years to 4.5 - 5.5 Years**

Dear Sir or Madam,

On 29th September 1999, on the recommendation of the Eurex Working Group - Interest Rate Products, the Executive Boards of Eurex Deutschland and Eurex Zürich made the decision to change the delivery window of Euro-BOBL Futures from the current 3.5 - 5 years to 4.5 - 5.5 years.

In future, from the introduction of the September 2000 contract, fulfilment of the Eurex Clearing AG delivery obligation on a Euro-BOBL Future can be achieved through debt instruments of the German Federal Republic and the Treuhandanstalt with a remaining time to maturity of 4.5 - 5.5 years. Attached you will find the appropriate revisions to section 2.1.13 of the Eurex Trading Conditions and section 2.1.13 of the Eurex Clearing Conditions. The changes, which are subject to the approval of the Eurex Exchange Council and the Eurex Administrative Council, will come into force on December 9th 1999.

The change to the Euro-BOBL Future automatically brings with it a corresponding change to the maturity interval for the Basis Trade facility (see section 7 of the attached General Conditions for Participation), which will take effect at the same time on 9th December 1999 with the introduction of the September 2000 contract, as well as a change to the option on the Euro-BOBL Future which will take effect for the first time on 23rd February 2000 with the introduction of the September 2000 expiration.

The reason for the decision lies with the problem that, with the current relationship between market yield levels and notional coupon levels, there is a tendency for those debt instruments within the “Cheapest to Deliver” (CTD) basket to be those with the shortest time to maturity. Because the CTD term corresponds to the Futures term the Euro-BOBL Future only had an effective maturity of 3.5 years. By moving the delivery window the maturity of the Future will always be close to the 5-year mark. Consequently, the Euro-BOBL Future can fulfil its role of hedging instrument and benchmark for the medium-term segment more efficiently.

If you have any questions, please contact Nadja Urban on Tel. +49 (0)69-2101-5105.

Yours sincerely,

Jörg Franke

Hartmut Klein

Attachments

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## 2.1.13 Sub-Subpart

Specifications for Future Contracts on a Notional Medium-Term Debt Security of the Federal Republic of Germany or the Treuhandanstalt (Euro BOBL Futures)

### 2.1.13.1 Subject Matter of Contract

(1) A Euro Bobl Future is a futures contract on a notional debt security of the Federal Republic of Germany with a term of ~~three~~four and one-half to five and one-half years and a coupon of 6%. The par value of any such contract is 100,000 EUR.

(2) After the close of trading in the contract, the seller of a Euro Bobl Future shall be required to deliver debt securities with the nominal value of the contract. Delivery may be made with debt securities – specifically Federal Government Bonds (Bundesanleihen), Federal Debt Obligations (Bundesobligationen), Federal Treasury Obligations (Bundesschatzanweisungen) or, to the extent that the Federal Republic of Germany assumes unlimited and direct liability thereunder, debt securities of the Treuhandanstalt - which have a remaining term of no more than 5.5 years and no less than ~~3~~4.5 years. The debt securities must have a minimum issuance volume of DM 4 billion or in the case of new issues from January 1, 1999 onwards 2 billion EUR. The purchaser shall be required to pay the tender price. The tender price shall be equivalent to the nominal value of the contract, multiplied by the price of the contract at the close of trading in the contract, multiplied by the conversion factor for the debt securities tendered, plus interest accrued since the last interest payment date or, as applicable, minus the interest accrued to the next interest payment date to which the purchaser is not yet entitled.

### 2.1.13.2 Term, Close of Trading

(1) Terms expiring on the delivery day of the next, the second succeeding and the third succeeding delivery months are available at the Eurex Exchanges; the longest term of a contract is thus nine months. Delivery months are the quarter-end months March, June, September and December.

(2) The last trading day of a contract shall be two Exchange days prior to the delivery day (subsection 2.1.13.4) of the relevant quarter-end months. Trading shall end at 12:30 p.m. CET on the last trading day.

### 2.1.13.3 Price Gradations

The prices of the contracts shall be quoted as a percentage of their par value, with two decimal places. The minimum change in price ("Tick") shall be 0.01 percent (10 EUR).

### 2.1.13.4 Performance, Delivery

(1) The delivery day shall be the tenth calendar day of the respective quarter-end month; provided, however, that if such day is not an Exchange day, delivery shall occur on the next succeeding Exchange day.

(2) The debt securities that may be used to perform Euro Bobl Futures as well as the conversion factors to be applied thereto shall be determined by the Eurex Exchanges and shall be made available to the Exchange Participants on a screen display. The conversion factor adapts the price of the debt securities available for delivery to that of the contract at the end of trading. The debt securities identified for performance must, at the time of delivery, have a remaining uncallable term of ~~3~~4.5 to 5.5 years.

(3) Deliveries shall be effected between the Clearing Members and Eurex Clearing AG. Each Clearing Member shall be responsible for deliveries to the Non-Clearing Members served by it and its own customers; the performance of deliveries by Non-Clearing Members to their customers is the responsibility of the Non-Clearing Members. Exchange Participants may only effect onward deliveries of debt securities that have been allocated to their Agent Position Accounts or designated for delivery by their customers.

Deletions are struck through, new text is underlined

2.1.13 Sub-Subpart

Settlement of Futures Contracts on a Notional Medium-Term Debt Security of the Federal Republic of Germany or the Treuhandanstalt (Euro BOBL Futures)

2.1.13.1 General Provisions

The provisions of subsection 2.1.12.1 shall apply mutatis mutandis.

2.1.13.2 Daily Settlement

The provisions of subsection 2.1.12.2 shall apply mutatis mutandis.

2.1.13.3 Margin Requirements

The provisions of subsection 2.1.12.3 shall apply mutatis mutandis.

2.1.13.4 Performance

(1) A delivery obligation arising out of a short position in a Euro Bobl Futures contract may only be performed by the delivery of debt securities designated by Eurex Clearing AG.

Delivery may be made with debt securities, - specifically, Federal Government Bonds (Bundesanleihen), Federal Debt Obligations (Bundesobligationen) and Federal Treasury Obligations (Bundesschatzanweisungen) or, to the extent that the Federal Republic of Germany assumes unlimited and direct liability thereunder, debt securities of the Treuhandanstalt which are listed on a stock exchange - which have a remaining term of ~~three~~ four and one-half to five and one-half years. The debt securities shall have a minimum issuance volume of DM 4 billion or in the case of new issues from January 1, 1999 onwards EUR 2 billion.

Clearing Members with open short positions must notify Eurex Clearing AG after the close of trading but before the end of the Post-Trading Period on the date that is two Exchange days before the tenth calendar day of a quarter-end month (the "Notice Day") which debt securities they will deliver. Any prior delivery notices may be amended until the end of such Post-Trading Period. If the delivery notice is not given in a timely manner, Eurex Clearing AG will select the debt securities to be delivered by such Clearing Member.

One day prior to the delivery day the Clearing Members must confirm to the clearing house in writing the actual availability of the ~~of~~ debt securities which they have notified.

(2) Eurex Clearing AG will, after the end of the Post-Trading Period on the Notice Day, allocate to the Clearing Members with open long positions the debt securities notified for delivery, using a selection procedure that ensures the neutrality of the allocation process. The Clearing Members will be informed on the next Exchange day as to which debt securities were allocated to them and at what tender price (subsection 2.1.13.1 paragraph (2) of the Conditions for Trading at the Eurex Exchanges).

(3) Paragraphs (1) and (2) shall apply to the legal relationship between General Clearing Members or Direct Clearing Members and their Non-Clearing Members; paragraph (2) shall apply mutatis mutandis to the legal relationship between Clearing Members or Non-Clearing Members, as the case may be, and their respective customers.

2.1.13.5 Default in Delivery or Payment

The provisions of subsection 2.1.12.5 shall apply mutatis mutandis.

**Eurex Clearing AG**

Conditions for Utilization of the Basis Trading Facility
(General Conditions for Participation)

1. Scope

Eurex Clearing AG provides a “Basis Trading Facility”, pursuant to the conditions as set out below, to such companies admitted to trading on the Eurex Exchanges (“Eurex”) pursuant to the provisions of the Exchange Rules for Eurex Deutschland and Eurex Zurich and participating, directly or indirectly, in the clearing system for transactions on Eurex (“Participants”). Furthermore, the Implementation Regulations as determined by Eurex Clearing AG in addition to these Conditions for Participation shall apply.

2. Clearing of Basis Trade Futures

2.1 A “Basis Trade” in the sense of these Conditions shall have occurred if two Participants or their clients respectively have agreed over-the-counter on the purchase/sale of a futures contract and, simultaneously, on the sale/purchase of debt securities as defined in section 7, provided that the specifications of such futures contract are identical, according to the Eurex Trading Conditions, to the contract specifications for these futures contracts and provided that Eurex Clearing AG has admitted these contracts to the Basis Trading Functionality pursuant to section 6 of these Conditions.

2.2 Participants or their clients who have agreed on a Basis Trade may utilize the Basis Trading Facility of Eurex Clearing AG for the processing, maintenance of collateral and margin funds, and cash and physical settlement (“Clearing”) of the futures contracts contained in such Basis Trade (“Basis Trade Futures”), provided that the prerequisites of these General Conditions for Participation as well as the relevant valid Implementation Regulations have been complied with.

2.3 With the entry of Basis Trade Futures into the clearing system of Eurex Clearing AG using the Basis Trading Facility, the provisions regarding the conclusion of transactions pursuant to the Eurex Clearing Conditions shall apply with regard to the contractual relationships between Eurex Clearing AG and the parties to a Basis Trade or their clearing institutions, respectively. Therefore, in the case of each Basis Trade Future, Eurex Clearing AG will be the contractual counterparty of the relevant Participants or their clearing institutions, respectively.

2.4 Besides, the Eurex Clearing Conditions shall apply accordingly for the Clearing of Basis Trade Futures using the Basis Trading Functionality.

2.5 Basis Trade Futures entered into the clearing system may be transferred through the system to another member, who has accepted these General Conditions for Participation, by means of the Give-up Facility pursuant to Section 1.4.5, paragraph 7 of the Eurex Trading Conditions, provided that such transfer of the transaction has been indicated to the other member and that such other member has confirmed the acceptance of the Basis Trade Futures; Section 1.2.2, paragraph 3 of the Eurex Clearing Conditions shall apply accordingly.

2.6 If Basis Trade Futures do not correspond to the specifications and provisions as determined in these Conditions or in the Implementation Regulations, or if Participants do not comply with the other Conditions for Participation or the provisions pursuant to the Implementation Regulations, Eurex Clearing AG shall not be obliged to carry out the Clearing of such Basis Trade Futures.

3. Evidence of Cash Transactions

3.1 Participants using the Basis Trading Functionality are obliged to prove to Eurex Clearing AG that, for any Basis Trade Futures cleared on their behalf, there is an underlying, offsetting cash transaction in debt securities defined in accordance with section 7.

3.2 Members shall be deemed to have fulfilled their duty to provide evidence pursuant to 3.1 above, provided that they authorize Eurex Clearing AG to gain knowledge of the underlying cash transaction or the completed delivery respectively by means of relevant authorizations. Details are governed by the Implementation Regulations as determined by Eurex Clearing AG.

3.3 Regardless of Section 3.2 above, such proof must be effected on demand of Eurex Clearing AG by means of presentation of the corresponding confirmation of delivery within one week of the value date of such cash transaction. The transaction reference number and the transaction date of the Basis Trade Futures related to such cash transaction must be evident in such confirmation of delivery.

3.4 In the case of Basis Trade Futures being transferred to another member pursuant to Section 2.5 of these Conditions, the duty to provide evidence of the cash transaction shall also be transferred to such other member.

4. Contract Price of Basis Trade Futures

At the time of entry into the clearing system, the price of Basis Trade Futures must be within the highest and lowest price traded on Eurex for the relevant futures contract on this trading day.

5. General Conditions of Utilization

5.1 The utilization of the Basis Trading Functionality requires that Participants have accepted, in writing, the General Conditions for Participation as well as the Implementation Regulations. In the case of Participants not admitted to Clearing pursuant to the Eurex Clearing Conditions, such Participants must provide a declaration of their clearing institution, in which such clearing institution undertakes to guarantee to Eurex Clearing AG the fulfilment of obligations resulting from Basis Trade Futures pursuant to the Eurex Clearing Conditions and to honour any and all obligations for the settlement and collateralization of such transaction resulting therefrom.

5.2 Eurex Clearing AG may exclude Participants from the utilization of the Basis Trading Functionality if such Participants have not complied with their obligations pursuant to these Conditions for Participation or to the Implementation Regulations, or if the prerequisites for participation are no longer fulfilled. In this case, such Participants shall have no claims towards the refund of costs, charges or any other disadvantages.

6. Admitted Products

Eurex Clearing AG has admitted the following products to the Basis Trading Facility:

- Futures Contracts on a Notional Long-Term Debt Security of the Federal Republic of Germany (“FGBX-Future“)
- Futures Contracts on a Notional Long-Term Debt Security of the Federal Republic of Germany (“FGBL-Future“)
- Futures Contracts on a Notional Medium-Term Debt Security of the Federal Republic of Germany or the Treuhandanstalt (“FGBM-Future“)
- Futures Contracts on a Notional Short-Term Debt Security of the Federal Republic of Germany or the Treuhandanstalt (“FGBS-Future“)
- Futures Contracts on a Notional Long-Term Debt Security of the Swiss Confederation
  (“CONF-Future“)

7. Cash Transactions

Eurex Clearing AG has determined that cash transactions in:

- Debt Securities of the Federal Republic of Germany or the Treuhandanstalt with a remaining term of minimum one year at the maturity date of the future and a term of maximum 30.5 years can be components of a Basis Trade according to section 2.1. Offsetting cash transactions can be carried out for the corresponding Futures contract with debt securities according to the following rule:

| | **Remaining term in years** | | **Maximum term in years** | **Futures Contract** |
|---|---|---|---|---|
| ≥ | 20 | ≤ | 30.5 | FGBX |
| > | 10.5 | < | 20 | FGBL and FGBX |
| ≥ | 8.5 | ≤ | 10.5 | FGBL |
| > | 5.5 | < | 8.5 | FGBL and FGBM |
| ≥ | 4.5 | ≤ | 5.5 | FGBM |
| > | 2.25 | < | 4.5 | FGBM and FGBS |
| ≥ | 1 | ≤ | 2.25 | FGBS |

- Debt securities of the Swiss Confederation with a remaining term of between 8 and 13 years can be components of a Basis Trade according to section 2.1.