e u r e x *b o n d s* Rundschreiben 54/08

Datum: Frankfurt, 8. Juli 2008
Empfänger: Alle Handelsteilnehmer der Eurex Bonds
Autorisiert von: Oliver Jordan

⚠ **Aktion erforderlich**

Neue Instrumente: Information Nr. 47

Kontakt: Hotline Eurex Bonds, Tel. +49-69-211-1 12 22.

Zielgruppe:	**Anhänge:**
Ü Front Office/Handel **Ü** IT/System Administration	1. Liste neuer Instrumente zum 14. Juli 2008 2. Break-even-Produktbeschreibung (nur in englischer Sprache)

Mit Rundschreiben 47/08 haben wir Sie bereits über die anstehende Produktionseinführung der deutschen Break-Even-Instrumente zum Beginn des dritten Quartals 2008 informiert. Gerne teilen wir Ihnen nun den offiziellen Handelsstart mit. Dieser wird Montag, der **14. Juli 2008** sein.

Bitte beachten Sie die beigefügte Information zu den neu aufgesetzten Instrumenten auf der Eurex Bonds-Plattform.

Mit Einführung von Xetra Release 9.0 entfällt ab sofort die Zuordnung von Market-Making-Lizenzen zu den Händlergruppen. Neue Instrumente werden automatisch der jeweiligen Instrumentengruppe zugeordnet und zum Quotieren freigegeben.

Neue Instrumente stehen in der Regel einen Tag vor dem ersten Handelstag ab etwa 14:00 Uhr MEZ für Verwaltungszwecke zur Verfügung.

Die aktualisierte Instrumentliste finden Sie auf der Eurex Bonds-Webseite unter dem Link:

www.eurex-bonds.com > Trading > Instruments

Eurex Bonds teilt mit, dass aus Gründen des Reporting die Spreads in allen Segmenten, verglichen mit der aktuellen Begrenzung (siehe Market-Making-Broschüre), verdoppelt werden können.

Sollten Sie noch Fragen haben, wenden Sie sich bitte an Eurex Bonds unter Tel. +49-69-211-1 12 22.

Eurex Bonds GmbH
Neue Börsenstraße 1
60487 Frankfurt/Main

Postanschrift:
60485 Frankfurt/M

Kontakt:
T +49-69-211-1 12 22
F +49-69-211-1 70 03
info@eurex-bonds.com

Geschäftsführer:
Christian Klapproth,
Marcel Naas,
Peter Reitz

Gesellschaft mit beschränkter Haftung
mit Sitz in Frankfurt/Main
HRB Nr. 49370
Amtsgericht Frankfurt/Main
USt-Id 04523253333

Attachment 1 to Eurex Bonds circular 54/08

First Trade Date	Instrument Group	ISIN	Short Name / Wkn	Name	Min Quote Quantity in mio €	Max Price Spread	Tick size	Underlying inflation linked bond	Underlying nominal bond
14-Jul-08	ILBE	DE000A0V8L61	A0V8L6	Break Even BUND I/L APR/16	5.00	0.1	0.001	DE0001030500	DE0001135291
14-Jul-08	ILBE	DE000A0V8L79	A0V8L7	Break Even BUND I/L APR/13	5.00	0.1	0.001	DE0001030518	DE0001135218

Break-Even

Launch Date July 14, 2008

A Product Description

Instrument Details

- Break Even is the gap in yields between nominal and inflation linked bonds of similar maturity and credit quality
- The Break Even instrument represents two bonds, a nominal bond (a regular government bond) and a real bond (inflation linked bond), wherein you buy/sell or sell/buy both bonds in one trade
- The Break Even instrument will be traded in the Eurex Bonds system, but only the underlying legs will be settled
- The hedge ratio is calculated automatically and is used to determine the two settlement amounts of the underlying legs
- A Break Even instrument can easily distinguished by the instrument group = "ILBE" and the 'Xetra instrument type' = "BAS"
- Trade confirmations
  - Separate trade confirmations for each single leg:
    - price, size, market value
    - Break Even order-size/-price
  - One trade confirmation for the Break Even instrument without CCP handling

Break Even Instrument Definition

- Calculation of Break Even is calculated by the following formula:
  Break Even = yield (nominal bond) – yield (real bond)

- Buy a Break Even instrument = buy a real bond and sell a nominal bond
  Sell a Break Even instrument = sell a real bond and buy a nominal bond

- Bid < Ask, therefore
  bid-quotes are in descending order and
  ask-quotes are in ascending order within the order book

Break Even Instruments in Eurex Bonds Simulation

The following Break Even instruments are currently listed in Eurex Bonds Simulation:

Instrument ISIN	Name	Underlying inflation linked bond	Name	Underlying nominal bond	Name
DE000A0V8L79	Break Even BUND APR 13	DE0001030518	Bundlink 15.04.2013 2,25	DE0001135218	Bundesanleihe 04.01.2013 4,5%
DE000A0V8L61	Break Even BUND APR 16	DE0001030500	Bundlink 15.04.2016 1,5%	DE0001135291	Bundesanleihe 04.01.2016 3,5%

In Eurex Bonds Simulation, the Break Even instruments are listed in the instrument group= “BEIL” and instrument type= “BOND”

Instrument Setup in Eurex Bonds Production

The Break Even Instruments have the following production set up parameters

Instrument ISIN	Name	Underlying inflation linked bond	Name	Underlying nominal bond	Name
DE000A0V8L79	Break Even BUND APR 13	DE0001030518	Bundlink 15.04.2013 2,25	DE0001135218	Bundesanleihe 04.01.2013 4,5%
DE000A0V8L61	Break Even BUND APR 16	DE0001030500	Bundlink 15.04.2016 1,5%	DE0001135291	Bundesanleihe 04.01.2016 3,5%

Instrument ISIN	Min Quote Quantity	Minimum Tradable Unit	Quote Unit	Max Quote Spread	Instrument Group	Instrument subtype	Trade Time
DE000A0V8L79	€ 5 mio	€ 5 mio	Yield spread	0,1	ILBE	BAS	08:30 – 17:30
DE000A0V8L61	€ 5 mio	€ 5 mio	Yield spread	0,1	ILBE	BAS	08:30 – 17:30

Hedge Ratio Calculation Path

§ **Given Input within a quote/trade (example):**

Break Even	2.279%
Linker Volume traded	100 mio.
Index ratio per settlement day	1,03328
Clean-Price_{nom}	102,38

§ **Calculation (Yield- and Price Calculation with ICMA-Method)**

1. Clean-Price_{nom} **à** YIELD_{nom}	YIELD_{nom}	3,9308%
2. $\text{Clean-Price}_{nom} + \text{AccrInt}_{nom} = \text{Dirty-Price}_{nom}$	Dirty-Price_{nom}	103,744
3. Dirty-Price_{nom} **à** Duration_{nom} **à** ModDuration_{nom}	ModDuration_{nom}	4,128
4. $\text{Dirty-Price}_{nom} /10000 \times \text{ModDuration}_{nom} = \text{PVO1}_{nom}$	PVO1_{nom}	0,04282
5. $\text{YIELD}_{nom} - \text{BE} = \text{YIELD}_{linker}$	YIELD_{linker}	1,6518%
6. YIELD linker **à** $\text{Clean-Price}_{linker}$	$\text{Clean-Price}_{linker}$	102,83
7. $(\text{Clean-Price}_{linker} + \text{AccrInt}) \times \text{Index ratio} = \text{Dirty-Price}_{linker}$	$\text{Dirty-Price}_{linker}$	106,31
8. $\text{Dirty-Price}_{linker}$ **à** Duration_{linker} **à** $\text{ModDuration}_{linker}$	$\text{ModDuration}_{linker}$	4,6862
9. $\text{Dirty-Price}_{linker} /10000 \times \text{ModDuration}_{linker} = \text{PVO1}_{linker}$	PVO1_{linker}	0,04982
10. $\text{Hedge-Ratio} = \text{PVO1}_{linker} / \text{PVO1}_{nom}$	Hedge-Ratio	1,16337
11. $\text{Volume}_{nom} = \text{Volume}_{linker} \times \text{Hedge-Ratio}$	Volume_{nom}	116,337 mio *

* This will be rounded to 1 million = 116 million.

Price Priority

The following price priority is implemented to ensure the calculation of the Break Even underlying legs

Rank	Price	Price Source
1	Quote Nominal Bond	Eurex Bonds
2	Quote Real Bond	Eurex Bonds
3	Today's Price Nominal Bond	Eurex Bonds
4	Today's Price Real Bond	Eurex Bonds
5	Corresponding Future price *	Eurex

* Calculation see next slide

Calculation of Nominal Bond Price via the Eurex Future (see Price Priority 5-7)

- In case of an unavailability of quotes and prices for the nominal and the real bond, the price of the nominal bond is calculated via the corresponding Eurex Future Price:

  $\text{Clean-Price}_{nom} = \text{Price}_{Basis} + \text{Price}_{Future} \times \text{Conversion Factor}$

- If there is no Basis-Price or Basis-Quote available, the Clean-Price of the Nominal Bond is calculated without the Basis-Price

  $\text{Clean-Price}_{nom} = \text{Price}_{Future} \times \text{Conversion Factor}$

- The Conversion Factor is calculated identical to the Eurex with following Method:

$$\frac{1}{(1+not/100)^f}\times\left[\frac{c}{100}\times\frac{\delta_l}{act2}+\frac{c}{not}\times\left((1+not/100)-\frac{1}{(1+not/100)^n}\right)+\frac{1}{(1+not/100)^n}\right]-\frac{c}{100}\times\left(\frac{\delta_l}{act2}-\frac{\delta_s}{act1}\right)$$

Definition:

DD	Delivery date	act1	NCD-NCD1y, where $\delta_s < 0$
NCD	Next coupon date after delivery date		NCD1y-NCD2y, where $\delta_s \geq 0$
NCD1y	1 year before the NCD	δ_l	NCD1y-LCD
NCD2y	2 years before the NCD	act2	NCD-NCD1y, where $\delta_l < 0$
LCD	Last coupon date before the delivery date. Start interest period if last coupon date not available		NCD1y-NCD2y, where $\delta_l \geq 0$
δ_s	NCD1y-DD	f	$1+\delta_s / act1$
n	Integer years from the NCD until the maturity date of the bond	c	Coupon
not	Notional coupon of futures contract		

General Information

- Nominal Value for settlement is rounded to the nearest million
- Each Break Even trade has its own trade-ID in the system. The trade-ID of the two underlying bonds are different. The original Break Even trade-ID is copied as a reference number into the “Text” field of the trade confirmation with leading “BE”, e.g. “BE0001234”.
- The hedge ratio (HR) is calculated in real time (see page 6). If desired, the calculated HR can be published in the “Text” field of the trade confirmation as well.
- For any real:nominal combination the ISIN for Break Even instruments is unique
- The underlying bonds are mentioned in the following fields:
  - nominal bond: ISIN in field “Underlying”
  - real bond: mentioned in the “Name” field of the Break Even instrument
- It is planned to launch French and Italian Break Even instruments in near future.