X-pand into the Future

e u r e x *circular 075/00*

Date: Frankfurt, 12 September, 2000
Recipients: All Eurex members and vendors
Authorised by: Otto E. Nägeli

Extension of the Range of Maturity for Bonds Used with Euro BUND Futures in Basis Trading and Implementation of the Duration Method for Calculation of the Hedge Ratio

Related Eurex Circulars: 113/99

Contact: Nadja Urban (Product Development): Tel. +49 (0)69-2101-5105; E-Mail: Nadja_Urban@exchange.de

Content may be most important for:	**Attachments:**
➲ Front Office / Trading ➲ Middle + Back Office ➲ Auditing / Security Administration	Conditions for Utilization of the Basis Trading Facility (General Conditions for Participation)

On 22 May, 2000 the management board of Eurex Clearing AG made the decision to extend the limits on the remaining time to maturity for debt securities traded in a Basis Trade in combination with the Euro BUND Future, and approved the corresponding change to section 7 of the attached Conditions for Utilization of the Basis Trading Facility (General Conditions for Participation).

As a result of the change, debt securities of the German Federal Republic or the Treuhandanstalt with a remaining time to maturity between 20 and 30.5 years may be used in a Basis Trade not only in combination with the Euro BUXL Future (FGBX), but also in combination with the Euro BUND Future (FGBL). The other limits on remaining time to maturity are not affected.

Please note that this extension only applies to Basis Trading and not to the range of maturities of bonds deliverable against exchange-traded Euro BUND Futures.

The change reflects the actual market situation where, in practice, securities with remaining 20 to 30.5 year terms were frequently traded as the Basis against the Euro BUND Future instead of the Euro BUXL Future.

The Eurex Working Committee on Fixed Income Products supported the extension in their meeting of 04 May, 2000.

The new limits will take effect from 30 October, 2000 when the Duration Method becomes available in the Eurex system as a formula for calculation of Hedge Ratios. This development allows Eurex to make a precise validation of the number of futures contracts entered by the member and is a particular necessity for combinations of cash and futures trades in securities with different remaining times to maturity.

The changes can already be tested in the Eurex Simulation environment.

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**
>	10.5	£	30.5	FGBL and FGBX
³	8.5	£	10.5	FGBL
>	5.5	**<**	8.5	FGBL and FGBM
³	4.5	£	5.5	FGBM
>	2.25	**<**	4.5	FGBM and FGBS
³	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.