e u r e x *circular 77/99*

To: All Eurex members and vendors

Date: Frankfurt, 12th August 1999

Extension of the Basis Trading Facility at Eurex

Dear Sir or Madam,

On 15th April 1999 the executive board of Eurex made the decision to extend the Basis Trading facility with the introduction of Eurex Release 3.0 for all German Interest Rate Futures.

Until now, only cash transactions in German government debt securities deliverable in the corresponding futures contracts could be components of a Basis Trade. In future, German government bonds may also be part of a Basis Trade when their remaining term no longer allows them to be delivered in the corresponding futures contract, e.g. those with a remaining term of 7 years. This will allow all authorised Basis Trading facility members greater flexibility in the conduct of their trading activities.

With effect from 20th September 1999 the Eurex Basis Trading facility will be extended, and cash transactions in German government bonds with the following remaining terms will also be allowed as components of a Eurex Basis Trade:

>	10.5	<	20 Y.	against FGBL and FGBX
>	5.0	<	8.5 Y.	against FGBL and FGBM
>	2.25	<	3.5 Y.	against FGBM and FGBS
≥	1.0	≤	2.25 Y	only against FGBS

Thus, in future, a Basis Trade can include cash transactions on all German government bonds which are contained in a basket of bonds deliverable against the German Interest Rate Futures listed on Eurex, or which were previously contained in such a basket, and which have a remaining term of between 1 year and 30.5 years. Bonds and Interest Rate Future must be denominated in the same currency.

Accordingly, the Conditions for Utilisation of the Basis Trading facility (General Participation Conditions) and the corresponding Implementation Regulations have been updated. The modified conditions valid from 20th September 1999 are attached to this circular for your information. The currently admitted Futures products for the Basis Trading facility are in section 6, and the defined debt securities are contained in section 7 of the General Participation Conditions.

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In connection with the Give-up facility for Basis Trade Futures transactions, we would like to draw your attention to section 1.2 of the Implementation Regulations on the General Participation Conditions (see Attachment 2) which requires that these positions are identified as Basis Trades in the text field of the Give-up input screens (N020/N030). Thus the Basis Trade Futures transaction is visible as such for the other member, and the obligation to provide proof of the cash transaction with the Take-up of the futures transaction is passed across (See section 3.4 of the General Participation Conditions).

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

Yours sincerely,

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Hartmut Klein

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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 Facility 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 on the delivery day of the future and a term of maximum 30.5 years can be components of a Basis Trade according to section 2.1. The subject of cash transactions for the corresponding Futures contract can be debt securities satisfying the following conditions:

Remaining term in years		**Maximum term in years**	**Futures Contract**
≥	20.0	**<** 30.5	FGBX
>	10.5	**<** 20.0	FGBL and FGBX
≥	8.5	≤ 10.5	FGBL
>	5.0	**<** 8.5	FGBL and FGBM
≥	3.5	≤ 5.0	FGBM
>	2.25	**<** 3.5	FGBM and FGBS
≥	1.0	≤ 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.

Implementation Regulations
On the Conditions for Utilisation of the Basis Trading Facility

For the utilisation of the Basis Trading Facility provided by Eurex Clearing AG, the following Implementation regulations apply in addition to the Conditions for Utilisation of the Basis Trading Facility (General Participation Conditions):

1. General Considerations

1.1 The entry of a Basis Trade Future request into the clearing system of Eurex Clearing AG is carried out by the buyer of the Basis Trade Future (seller of the basis). The seller (buyer of the basis) of the Basis Trade Future must confirm the buyer's entry.

1.2 Basis Trade Futures transactions which are transferred to another member using the Give-up function must be identified as Basis Trade Futures in the text field of the Give-up entry screens (N020/N030), so that they are visible as such to the other member.

1.3 The utilisation of the Basis Trading Facility is available to members during the Eurex exchanges' trading hours defined for the associated futures contract. Members who clear Basis Trade Futures through the Basis Trading Facility of Eurex Clearing AG may settle the offsetting cash transaction through Deutsche Börse Clearing AG, CEDEL, or EUROCLEAR.

2. Evidence of Cash Transactions

In accordance with section 3.2 of the General Conditions for Participation, a member can fulfil his obligation to provide proof according to section 3.1, by providing an authorised written declaration to

- Deutsche Börse Clearing AG, Frankfurt and/or
- Isma, Zürich and/or
- SEGA, Zürich

allowing Eurex Clearing AG to request information on any cash transactions which are associated with a Basis Trade as defined in section 2.1 of the General Conditions for Participation.

3. Other Obligations of the Member

3.1 Depending on the chosen hedging method the number of contracts of the Basis Trade Future must be in a defined proportion to the nominal value of the cash asset. Corresponding to the chosen hedging method, the relation between the Future and the cash asset is defined through the Nominal, Duration*, or Price Factor method. Members must make their chosen hedging method known to Eurex Clearing AG before input of their Basis Trade Future into the clearing system.

3.2 Participants must be available by telephone or Fax during the business hours of the Basis Trading facility.

* The Duration Method is not currently available.