

Terms and Conditions for Participation and Trading on Eurex Bonds

Date of release: June 1, 2004

Table of Contents

1. PART: GENERAL CONDITIONS 3

§ 1 SCOPE OF APPLICATION 3
§ 2 CHANGES AND ADDITIONS 3
§ 3 MARKET MODEL 3

2. PART: CONDITIONS FOR PARTICIPATION IN TRADING ON EUREX BONDS 5

§ 4 GENERAL PARTICIPATION REQUIREMENTS 5
§ 5 RESIGNATION, SUSPENSION AND TERMINATION OF PARTICIPATION AUTHORIZATION 6
§ 6 RIGHTS AND OBLIGATIONS OF MARKET PARTICIPANTS 6
§ 7 MARKET MAKERS 7

3. PART: PRODUCTS AND SEGMENTATION 8

§ 8 GERMAN GOVERNMENT BONDS 8
§ 9 BONDS OF SUPRANATIONAL INSTITUTIONS AND BONDS OF STATE AGENCIES (AGENCIES) 9
§10 BONDS OF MORTGAGE BANKS OR OF CREDIT INSTITUTIONS UNDER PUBLIC LAW (PFANDBRIEFE – MORTGAGE BONDS) AND BONDS OF THE STATES WITHIN THE FEDERAL REPUBLIC OF GERMANY (STATE BONDS) 9
§ 11 BASIS INSTRUMENTS 9

4. PART: TRADING REGULATIONS 11

§ 12 TRADING DAYS AND TRADING PERIODS 11
§ 13 CONDUCT OF TRADING IN BONDS AND BASIS INSTRUMENTS 11
§ 14 ORDER TYPES 12
§ 15 ORDERBOOK 13
§ 16 PRE-ARRANGED-TRADE-FACILITY 13
§ 17 PRICE INDICATION AND PRICE GRADATIONS 14
§ 18 BINDING NATURE OF TRANSACTIONS AND TREATMENT OF ERRONEOUS ENTRIES 14
§ 19 CONSUMMATION OF TRANSACTIONS AND CLEARING 15
§ 20 EXCLUSION FROM TRADING DUE TO DEFAULT 16
§ 21 SUSPENSION OF TRADING 16
§ 22 MARKET SURVEILLANCE 17
§ 23 MEASURES IN THE EVENT OF A BREACH OF OBLIGATIONS BY MARKET PARTICIPANTS 18

5. PART: FINAL PROVISIONS 19

§ 24 BOARD OF MANAGEMENT DECISIONS 19
§ 25 GOVERNING LAW AND PLACE OF JURISDICTION 19

ANNEX 20

1. TRADING PARAMETERS 20
2. ERRONEOUS ENTRIES (IN EURO) 20
3. BASIS TRADING 21
3.1 The Cash Bond Leg 21
3.2 The Futures Leg 22
4. TREASURY DISCOUNT PAPERS (BUBILLS) 24

1. Part: General Conditions

§ 1 Scope of Application

(1) The following conditions lay down the rules for Eurex Bonds participation and trading for all Participants of the Eurex Bonds trading platform (hereinafter "Market Participants") to ensure the orderly conduct of business in the Eurex Bonds off-exchange market segment for fixed-interest bonds and zero-coupon bonds (hereinafter "Bonds") and basis instruments (hereinafter jointly "Products"). The conditions in the German version, in effect from time to time, are binding on all Market Participants.

(2) The Eurex Bonds trading platform enables admitted Market Participants – in addition to off-exchange trading in Bonds – to engage in off-exchange trading with regard to the price difference between the spot price of German government bonds and the respective futures price (basis) by using an electronic trading system (the system).

§ 2 Changes and Additions

(1) The following conditions have been issued by the Board of Management of Eurex Bonds GmbH (hereinafter, the "Board of Management"). The Board of Management has the right to change and add to these conditions from time to time to the extent that this may appear necessary in the light of market conditions.

(2) Market Participants shall be notified of any changes at least 10 trading days before they are to take effect unless special market conditions require the Board of Management to take action at short notice.

(3) The Board of Management shall give notification of changes and additions to these conditions by electronic means through circular via e-mail and on the Internet (www.eurex-bonds.com).

§ 3 Market Model

(1) The Trading hours are divided into three consecutive phases:

- the Pre-Trading Phase
- the Main Trading Phase
- and the Post-Trading Phase

During the Trading Phases, orders and quotes can be entered, changed or cancelled in the system. The Trading hours for the commencement and end of the individual phases shall be determined by the Board of Management for all products. The Board of Management may extend or reduce the trading hours and postpone or advance the commencement of the individual phases on any particular

trading day to the extent necessary to maintain orderly trading conditions or for reasons relating to the system.

(2) During the Pre-Trading and Post-Trading Phases, the order book shall remain closed.

(3) The Pre-Trading Phases is followed by the Main Trading Phase during which products can be traded continuously.

(4) At the end of the Main Trading Phase, the system shall continue to be available to the market participants in the Post-Trading Phase for data entry.

(5) Besides continuous trading the Pre-arranged-Trade-Facility provides all market participants with the possibility to enter trades into the system outside the order book which are agreed upon by two market participants and to have them cleared by Eurex Clearing.

2. Part: Conditions for Participation in Trading on Eurex Bonds

§ 4 General Participation Requirements

(1) The Board of Management decides on the participation of an enterprise in 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 GmbH. 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.

(3) Participation in trading in Bonds at Eurex Bonds is only possible if the enterprise submitting the application meets the following requirements. An enterprise 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 electronic trading system;

d) possess liable equity capital of at least EUR 100 million, whereby it is sufficient if the amount of equity capital is reached by aggregating the capital for all companies of the group to which the enterprise belongs; or be a member of the "Federal Republic Bond Issues Auction Group" (*Bietergruppe Bundesemissionen*) or a member of a comparable national primary dealer group; or be able to furnish proof of active trading in German government bonds in an amount corresponding to at least EUR 50 billion within the previous 12 months; and

e) be a credit institution or investment firm according to the definition of Article 1 of Council Directive 93/22/EEC on investment services in the securities field.

(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;

b) be admitted at Eurex Deutschland to trading at the "Basis Trading Facility" and thus to basis trading; and

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

(6) Applicants are required to furnish proof that the requirements for participation in Eurex Bonds trading have been met. 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 the participation requirements may cease to be met.

§ 5 Resignation, Suspension and Termination of Participation Authorization

(1) Market Participants may terminate their authorization to participate in Eurex Bonds trading at any time upon providing written notification thereof to the Board of Management. The notice of termination shall take effect three months after receipt by Eurex Bonds. Thereupon, all rights and obligations of the Market Participant to enter orders or quotes into the system will terminate. The obligation of the Market Participant to complete transactions that have already been concluded will remain unaffected thereby.

(2) The Board of Management may, at its discretion, terminate the participation authorization of a Market Participant at any time without supplying prior notification and without notice or unilaterally suspend the participation authorization if it learns that a Market Participant has ceased to meet one of the conditions set forth under § 4. The Board of Management may suspend the authorization of a Market Participant without delay if Eurex Deutschland orders that the admission of the Market Participant be suspended. The rights of restriction, suspension and termination of the Board of Management pursuant to § 23 of these conditions remain unaffected.

(3) In the event of the termination or suspension of the authorization to participate, the Market Participant concerned is obligated to cancel all its orders as well as quotes. The Board of Management will use technical means to block the entry of new orders or quotes into the system by the Market Participant concerned. The obligation on the part of the Market Participant to fulfill transactions that have already been concluded will remain unaffected thereby.

§ 6 Rights and Obligations of Market Participants

Market Participants are authorized, within the limits of their participation authorization, to enter limit buy and/or sell orders into the system in their own name concerning all Eurex Bonds tradable products.

§ 7 Market Makers

(1) Upon written application by a Market Participant, the Board of Management shall decide on whether or not a Market Participant is to be appointed to act as a Market Maker in one or more Product Segment selected by the Market Participant. The Product Segments selected must be specified in the application form. The Board of Management shall determine, if nothing else is determinate, which Products market making will be carried out for and which products are assigned to the individual Market Maker. In addition the Board of Management shall decide that Market Maker can choose the securities they would like to quote in some products (hereinafter referred as "flexible Market Making"), which are to be defined by the Board of Management, to fulfill the requirements for market making which are defined by the Board of Management under paragraph 2.

(2) Market Makers shall be obligated to enter into the system in their own name and on their own account simultaneously limit buy and sell orders (quotes) according to the requirements of the Board of Management with regard to the Products which they are responsible for. It is not possible for Market Makers to enter one-sided quotes into the system. In addition, they are also authorized, to enter limit orders into the system

The obligation to enter quotes is constituted as follows:

The Market Maker, for a set number of hours during trading hours as determined by the Board of Management (quotation hours), is required to supply a minimum quote volume for each quote within a maximum bid-offer spread (quote spread) for Bonds and basis instruments. The division into groups of the individual securities in dependency on the remaining maturity of such securities and the respective requirements for market making shall be determined by the Board of Management.

To verify whether a Market Maker is discharging its obligations, the following parameters are measured:

- minimum quote volume
- maximum quote spread
- quotation hours

(3) Minimum volume, maximum quote spread and quotation hours will be determined by the Board of Management. Quotes are only valid for the duration of on the same trading day. Only one quote per instrument may be entered in the order book for each trader subgroup.

(4) A Market Maker may, by giving written notice to the Board of Management, resign its Market Maker admission at any time. As of the first trading day of the month following the date of receipt of such notice, such Market Maker shall no longer be subject to the obligations set forth under paragraph 2 of this section 7. If the Market Maker decides to switch to a different Product Segment, the respective written notice must specify the name of the Product Segment to be resigned as well as the name of the newly selected Product Segment. Such change to a different Product Segment shall take effect at such point of time as defined in sentence 2 of this paragraph 4.

(5) The Board of Management may at any time revoke the Market Maker admission immediately, if the Market Maker fails to perform its obligations under paragraph 2 after prior notice.

3. Part: Products and Segmentation

§ 8 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 takes place for such fixed-interest government bonds which satisfy the following criteria:

- fixed interest securities
- Minimum outstanding volume of EUR 4 billion

The Board of Management shall divide into different groups such fixed-interest German government bonds with a residual maturity between one and thirtyfive (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 maturity of the particular security and deliverability into the Eurex capital market products Euro Bund, Euro Bobl, and Euro Schatz futures. Such German government bonds which are deliverable at the next maturity date of the respective Eurex capital market future 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, the allocation of the securities to their appropriate classes and the assignment to the individual Market Maker through the Board of Management takes place at the end of every calendar month.

(3) Zero-coupon German government bonds shall be treated as an individual group and shall be tradable in yield terms. 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 months
- Minimum outstanding volume of EUR 5 billion

Market making shall be performed for a total of four zero-coupon German government bonds which satisfy the requirements of paragraph 3 and which have the longest remaining maturity. The calculation of the residual maturity of the securities, the allocation of the securities to their appropriate classes and the assignment to the individual Market Maker through the Board of Management takes place at the end of every calendar month.

(4) Market making shall not be carried out for securities that do not satisfy the criteria in accordance with paragraph 2 or the criteria in accordance with paragraph 3.

§ 9 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 (e.g. European Investment Bank) and Bonds of state agencies (e.g. Reconstruction Loan Corporation), all such Bonds being denominated in EUR, 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 two billion
- suitable for holding in collective safe custody
- minimum rating of AA- by Standard&Poor's or of Aa3 by Moody's

(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. All securities which are admitted for trading specified in paragraph 1 are admitted through the Board of Management for the flexible market making specified in § 7 paragraph 1 sentence 2.

§10 Bonds of Mortgage Banks or of Credit Institutions under Public Law (Pfandbriefe – Mortgage Bonds) and Bonds of the States within the Federal Republic of Germany (State Bonds)

(1) Upon determination of the Board of Management and as specified under this provision, selected Bonds of mortgage banks or of credit institutions under public law (Mortgage Bonds), Bonds of the States within the Federal Republic of Germany (State Bonds), all such Bonds being denominated in EUR, are admitted to trading on Eurex Bonds if they satisfy the following criteria:

- fixed-interest securities
- minimum outstanding volume of EUR one billion
- suitable for holding in collective safe custody
- minimum rating of AA- by Standard&Poor's or of Aa3 by Moody's

(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. All securities which are admitted for trading specified in paragraph 1 are admitted through the Board of Management for the flexible market making specified in § 7 paragraph 1 sentence 2.

§ 11 Basis Instruments

(1) In addition to the Bonds referred to under §§ 8 to 10, the basis instruments specified in paragraph 2 are admitted to Eurex Bonds trading. The basis instruments listed below comprise a combination of securities and futures contracts that have their own price. The purchase of basis instruments means the purchase of a certain quantity of securities and the simultaneous sale of the corresponding quantity of futures contracts. Conversely, the sale of basis instruments means the sale of a certain

quantity of securities and the simultaneous purchase of the corresponding quantity of futures contracts.

(2) The following basis instruments are admitted to trading on Eurex Bonds;

a) The combination of German government bonds with a residual maturity[1] ≥ 1.75 years and ≤ 2.25 years and the current Euro Schatz Futures Contract (FGBS)

b) The combination of German government bonds with a residual maturity ≥ 4.5 years and ≤ 5.5 years and the current Euro Bobl Futures Contract (FGBM)

c) The combination of German government bonds with a residual maturity ≥ 8.5 years and ≤ 10.5 years and the current Euro Bund Futures Contract (FGBL).

d) The combination of German government bonds, which are not deliverable components of the baskets of the respective Euro Bund Futures, Euro Bobl Futures and Euro Schatz Futures, with a tradable Future at Eurex Deutschland. The Board of Management shall decide on the number of bonds and the respective futures that form the said combinations.

(3) Basis instruments at Eurex Bonds are divided into deliverable (paragraph 2: a, b and c) and non-deliverable (paragraph 2: d) basis instruments. The assignment of the deliverable basis instruments specified in paragraph 2 to the individual Market Maker through the Board of Management takes place at the end of every calendar month. All non-deliverable basis instruments specified in paragraph 2 are admitted through the Board of Management for the flexible market making specified in § 7 paragraph 1 sentence 2.

(4) One trading day before the last trading day of the expiration month of the current interest rate futures contract on Eurex Deutschland, trading in the basis product for the subsequent expiration month of the corresponding interest rate contract becomes available on Eurex Bonds.

(5) The last trading day for a basis instrument on Eurex Bonds is the trading day before the last trading day for the corresponding futures contract on Eurex Deutschland.

(6) Possible changes to the combinations admitted for basis trading will be defined and determined by the Board of Management.

[1] residual maturity: on the expiration date of the futures contract

4. Part: Trading Regulations

§ 12 Trading Days and Trading Periods

(1) Unless otherwise determined by the Board of Management, the Eurex Bonds trading days correspond to the common trading days of Eurex Deutschland and Frankfurter Wertpapierbörse.

(2) Trading periods for Bonds and basis instruments are determined by the Board of Management. Trading in basis instruments is limited to the trading periods for German government bonds on Eurex Bonds and German capital markets futures on Eurex Deutschland. Trading in the basis instrument commences with the establishment of the first price for the respective futures contract (Euro Bund, Euro Bobl, or Euro Schatz Future) on Eurex Deutschland and ends before the close of trading for German capital market futures on Eurex Deutschland.

§ 13 Conduct of Trading in Bonds 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. The highest bid limit and/or the lowest offer limit (trading in price terms) resp. 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.

(3) Orders may be executed completely, partially or not at all. Depending on the execution parameters according to § 14 paragraph (3), orders or parts of orders which have not been executed will be placed in the order book or will be deleted.

(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.

(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 future legs of the respective basis trade.

(6) 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. Orders relate to the tradable lot and the price of the basis.

(7) 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 3 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.

§ 14 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. The simultaneous entry of a limited buy and sell order is a quote.

(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 trading 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:

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

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

c) 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.

§ 15 Orderbook

(1) All entered orders shall be marked by the system with a time stamp and a transaction identification number. Orders which do not meet the prescribed minimum standards shall be rejected. The market participants shall be informed of the recording of orders by the system.

(2) For each product an order book shall be kept in which all orders shall be ranked according to their price and date of entry and administration. Amendments to an order shall result in a new chronological ranking in the order book if such amendments concern the price or other terms of the order, particularly an increase in the lot size, which can have a detrimental effect on the ability of other orders to be executed. In this order book, all orders shall be ranked according to their lot size, price and date of entry and administered.

(3) Individual orders in the order book can be amended or cancelled by the participant who entered them in accordance with the described rules. All orders as a whole of a given market participant may be cancelled by the Board of management at the market participant’s request.

(4) In addition, existing orders shall be cancelled if the minimum trading size is changed. The Board of Management may determine other cases in which existing orders may be cancelled in the system.

§ 16 Pre-arranged-Trade-Facility

(1) The Pre-arranged-Trade-Facility is provided for Bonds und Basis Instruments.

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

(3) For bonds, a settlement date for Pre-arranged Trades can be selected within the range of T+2 and T+89, for Basis Instruments the settlement date T+2 or T+3 can be chosen.

(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.

§ 17 Price Indication and Price Gradations

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

(2) Fixed-interest bonds with a remaining maturity up to 7 years are quoted as a percentage of the nominal value carried out to three decimal places, otherwise, to two decimal places.

The minimum change in price shall be

- 0,001 for basis instruments,
- 0.001 for Bonds with a remaining maturity up to 2 years,
- 0.005 for Bonds with a remaining maturity greater than 2 years up to 7 years,
- 0.01 for Bonds with a remaining maturity greater than 7 years.

(3) Zero-coupon bonds are discount papers and will be quoted in yield terms to three decimal places. The minimum change in price shall be 0.001 for all zero-coupon bonds.

§ 18 Binding Nature of Transactions and Treatment of Erroneous Entries

(1) All transactions carried out on Eurex Bonds by utilization of the Market Participant's user identification are binding for the Market Participant concerned.

(2) The Board of Management is authorized to cancel a transaction and to remove it from the electronic trading system if a Market Participant directly affected by the transaction notifies Eurex Bonds without delay that it has entered its order/quote into the Eurex Bonds system inadvertently or incorrectly. The cancellation of a transaction is excluded if the resulting price does not deviate significantly from a fair market price (reference price) unless all the parties to the transaction approve the cancellation of the transaction in question. The Market Participant that gave rise to the erroneous entry is obligated to pay Eurex Bonds a handling fee that reflects the actual costs of processing the erroneous entry.

(3) Notification without delay in accordance with paragraph 2 is deemed to have been supplied if, within 15 minutes of the determination of the execution price, the Market Participant who has made an erroneous entry informs Eurex Bonds by telephone that he has accidentally entered an incorrect order or quote into the system.

(4) The reference price is determined as follows:

a) The reference price shall generally be computed as the average of the prices of those transactions that were concluded immediately before and after the erroneous entry. If only one of these prices is available, then that price shall be used as the reference price.

b) If it is not possible to determine a reference price that could be deemed a fair market price in accordance with the above conditions, Eurex Bonds shall select three competent Market Participants, who are not involved in the transaction, from the group of Market Participants admitted to trading on Eurex Bonds. Each of them shall compute a market price for the Bond/basis instrument concerned. The average of the three prices shall then serve as the reference price.

(5) A deviation from the reference price for Bonds and basis instruments will be deemed significant if the deviation is higher than the limit indicated in the table set forth in under section 2 of the Annex.

(6) Eurex Bonds will waive the determination of a reference price if all the parties involved in a transaction approve the cancellation of the transaction in question.

(7) Eurex Bonds will waive the determination of a reference price in case of a trade resulting from the Pre-arranged-Trade-Facility. If all the parties involved in a Pre-arranged-Trade transaction approve the cancellation of the Pre-arranged Trade in question within the trading hours of the respective business day, the Board of Management is authorized to cancel the Pre-arranged Trade.

(8) In the event that a transaction is cancelled, Eurex Bonds will inform all parties involved in the transaction via telephone that the transaction has been cancelled.

(9) In addition, the Board of Management may cancel a transaction within the trading hours of the respective business day if this is necessary to ensure orderly trading on Eurex Bonds.

§ 19 Consummation of Transactions and Clearing

(1) Transactions on Eurex Bonds may only be effected between Eurex Clearing AG and a credit institution holding a Clearing License. If a Market Participant is not itself authorized to participate in the clearing procedure (a "Non-Clearing Member"), it may only effect transactions through the General Clearing Member or the affiliated Direct Clearing Member that performs the clearing of its transactions on Eurex Bonds.

(2) If an order or quote entered into the system by a Non-Clearing Member is matched with another order,or quote a transaction is effected between such Non-Clearing Member and the General Clearing Member or the affiliated Direct Clearing Member, and a corresponding transaction is simultaneously effected between such General Clearing Member or the affiliated Direct Clearing Member and Eurex Clearing AG.

(3) A basis transaction consists of a transaction in German government bonds and a future transaction according to §11. Both transactions will be concluded according to the foregoing paragraphs (1) and (2).

(4) Each fixed-interest bonds transaction on Eurex Bonds (§ 8 paragraph 2, § 9, § 10 and § 11) shall be processed on the third working day following the trading day, each zero-coupon bonds transaction on Eurex Bonds (§ 8 paragraph 3) shall be processed on the second working day following the trading day.

(5) Each transaction concluded on Eurex Bonds will be processed, collateralized and cleared in accordance with the Clearing Conditions of Eurex Clearing AG. This also applies to transactions which arise from a basis transaction in accordance with paragraph (3).

§ 20 Exclusion from Trading due to Default

(1) If a Market Participant of Eurex Bonds is excluded according to paragraph 3.12.4.1 or 3.12.4.2 of the Exchange Rules for Eurex Deutschland and Eurex Zürich from trading at Eurex, the authority to trade on Eurex Bonds will automatically be terminated instantly by the Board of Management.

(2) If the enterprise that has been excluded is a "General Clearing Member" of Eurex Clearing AG, all "Non-Clearing Members" associated with this "General Clearing Member" will also be excluded from trading at Eurex Bonds.

(3) During the duration of its exclusion, a suspended Market Participant may, under the supervision of the Boards of Management of the Eurex Exchanges, close or transfer its positions. If a "Non-Clearing Member" is excluded from trading on Eurex Bonds, the "General Clearing Member" or the "Direct Clearing Member" may request of the Eurex Clearing AG that the positions of such "Non-Clearing Member" be closed. If a "General Clearing Member" is excluded from trading on Eurex Bonds pursuant to the provisions of paragraph 1, the "Non-Clearing Members" for which such "General Clearing Member" acts shall only be excluded from trading according to paragraph 2 on Eurex Bonds until they are able to engage in trading at Eurex Bonds through another "General Clearing Member". The right to revoke the admission to trading on Eurex Bonds shall remain unaffected.

§ 21 Suspension of Trading

(1) The Board of Management may suspend all trading or trading in one or more instruments if this is required by market conditions. The Board of Management may cancel the suspension of trading if the reasons which gave rise to the suspension no longer exist. If trading in an instrument has been suspended for more than six months, it will automatically be excluded from trading at the earliest possible date.

(2) The Board of Management's decision concerning the suspension of an instrument will be made after the end of the trading period and all Market Participants will be informed by electronic means thereof before the commencement of the next trading day.

(3) In exceptional and emergency circumstances, the Board of Management is authorized to suspend a traded security from trading with immediate effect if it appears that orderly trading in the security is at risk. All Market Participants will be informed thereof via the system.

§ 22 Market Surveillance

(1) Eurex Bonds will monitor the functionality of the system during the trading periods and compliance with all the provisions of these Terms and Conditions. The Board of Management may apply all measures that are necessary to ensure orderly trading and the smooth functioning of the system.

(2) To ensure orderly system operation, the Board of Management may order that the commencement of trading for the entire system be postponed or that a trading period may be extended beyond its scheduled duration.

(3) In the case of technical problems, the Board of Management may suspend access to the system or trading in the system for individual or all Market Participants. If trading in the system is suspended, the Board of Management may delete all orders and/or quotes entered into the order-book. In all other respects, § 12 of the Implementation Regulations of the Frankfurt Stock Exchange Concerning Technical Equipment for the Electronic Trading System shall apply accordingly.

(4) In the event of the application of measures significantly influencing the operation of the system, the Market Participants affected will be notified as far as possible without delay through the system or, in the case of system failure, by another appropriate electronic means. In case of a suspension of trading in accordance with paragraph 3, this shall also apply to such point in time at which trading is to recommence.

(5) If individual Market Participants are unable to participate in trading on Eurex Bonds due to technical disruptions, the system will remain available to other Market Participants.

(6) The Board of Management may completely discontinue Eurex Bonds trading at any time.

§ 23 Measures in the Event of a Breach of Obligations by Market Participants

(1) The Board of Management is entitled, depending on the gravity of the breach of obligations and after issuing a written warning, to restrict, suspend or cancel the authority to participate on Eurex Bonds of Market Participants who fail to comply with their obligations under these terms and conditions or, intentionally or negligently, place orderly trading in the securities traded on Eurex Bonds at risk. In cases of grave breaches, in particular those placing orderly trading on Eurex Bonds at risk, the Board of Management is entitled to take any of the actions mentioned above without prior warning.

(2) Notwithstanding the provisions of paragraph 1, the Board of Management may suspend the authorization to participate on Eurex Bonds if there is a substantial suspicion that a Market Participant is suffering a significant deterioration in its financial situation, as a result of which the fulfillment of transactions on Eurex Bonds, or the obligations of the Market Participant under these terms and conditions, seem in doubt.

(3) The Board of Management will inform the Market Participant concerned, in writing, of a possible breach pursuant to paragraph 1, and of the nature of such breach, while simultaneously requesting the Market Participant to respond thereto.

(4) The Market Participant is obliged, within 10 trading days, to respond to the allegations made.

(5) The Board of Management shall adopt a decision pursuant to paragraph 1 on the basis of a majority vote. A representative of the Market Participant concerned shall not have the right to cast a vote.

In addition, the Board of Management reserves the right to introduce transaction limits and fees for the breaching of transaction limits if this appears necessary for the purpose of ensuring orderly market conditions.

5. Part: Final Provisions

§ 24 Board of Management Decisions

The Board of Management may at any time transfer the decisions vested in it under these Terms and conditions to designated third persons within Eurex Bonds GmbH.

§ 25 Governing Law and Place of Jurisdiction

(1) These terms and conditions shall be solely governed by German law.

(2) The legal venue for all disputes arising in connection with these terms and conditions shall be Frankfurt am Main.

Annex

The following items supplement the General Rules with regard to trading in fixed-interest bonds and zero-coupon bonds, as well as with regard to basis trading.

1. Trading Parameters

	Minimum Trading Size (continuous trading)	Minimum Trading Size (Pre-arranged Trade)
German Government Bonds	€ 1 mn	€ 1 mn
Agencies	€ 1 mn	€ 1 mn
Mortgage Bonds/State Bonds	€ 1 mn	€ 1 mn
Basis Instruments	€ 5 mn	€ 1 mn
Treasury Discount Paper	€ 10 mn	€ 1 mn

2. Erroneous Entries (in Euro)

Residual maturity in years	**German Government Bonds**	**Agencies**	**Jumbo Mortgage Bonds/State Bonds**	**Basis Instruments**	**Treasury Discount Papers (Bubills)**
< 1	0,10	0,10	0,15	not defined	7 basis points
= 1 - = 3,5	0,10	0,10	0,15	0,050	-
= 3,5 - = 6,5	0,15	0,15	0,20	0,100	-
= 6,5 - = 13,5	0,20	0,20	0,30	0,150	-
= 13,5 - = 35	0,40	0,40	0,40	not defined	-

3. Basis Trading

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

3.1 The Cash Bond Leg

The nominal volume of the security is equivalent to the nominal volume of the basis:

(1) $s_b = s$

where

s_b - nominal volume of the security

s - nominal volume of the basis

The "clean price" for the security is calculated as follows:

(2) $p_b^{clean} = p + p_f * c_{b:f}$

where

p_b^{clean} - clean price, carried out to five decimal places

p - basis price of the transaction

p_f - last futures price traded, set immediately prior to the execution of the basis transaction (to be found on the Eurex @X-ceed *Online Time and Sales Sheet* window),

$c_{b:f}$ - price factor of the bond

deliverable Bonds: to be found on the Eurex Information Screen K055

non-deliverable Bonds: price factor will be deviated out of the "hedge ratio" and will be fixed by Eurex Bonds

The settlement price ("dirty price") of the security also includes accrued interest:

(3) $p_b^{dirty} = p_b^{clean} + i_b^{acc}$

where

p_b^{dirty} - dirty price, carried out to five decimal places

i_b^{acc} - accrued interest (ACT/ACT) up until the settlement date (t+3)

3.2 The Futures Leg

The price of the futures will be defined as the last futures price traded immediately prior to the basis transaction. This is the same price used for calculating the cash leg price (formula (2)).

The number of futures contracts generated per "minimum trading size" of the basis transaction (the hedge ratio) is daily calculated after end of business with two decimal places, whereas the amount of the Future contracts will be rounded mathematical. Changes of the hedge ratio or the conversion factors will be communicated to the market participants.

The hedge ratio is calculated by the system as follows:

(4) $$h_{b:f} = rounded\left(\frac{d_b^{\text{mod}} * p_b^{dirty} * c_{CTD:f} * s_{RL}}{d_{CTD}^{\text{mod}} * p_{CTD}^{dirty} * n_f}\right)$$

where

$h_{b:f}$ - hedge ratio – number of futures per "minimum trading size"

d_b^{mod} - modified duration of the securities,

d_{CTD}^{mod} - modified duration of the CTD,

p_b^{dirty} - dirty price of the security

p_{CTD}^{dirty} - dirty price of the CTD

$c_{CTD:f}$ - price factor of the CTD,

n_f - contract value of the futures (= €0.1 mill.),

s_{RL} - "minimum trading sizes" of the basis transaction (= € 1 mill.)

The dirty price of the security/the CTD required for calculating the hedge ratio is determined by Eurex Bonds using the last price of the basis of the relevant security traded on the preceding trading day, the settlement price of the corresponding futures and the relation represented in formulas (2) and (3). If the last traded price of the basis does not correspond to the current market conditions, Eurex Bonds may instead use the last quote in the basis quote book for determining the basis or determine that the last traded or quoted price of the security be the final price instead.

The number of futures contracts are thus calculated as follows:

(5) $$s_f = \frac{s_b}{s_{RL}} * h_{b:f}$$

where

s_f - number of futures per basis transaction,

s_b - nominal volume of the security,

s_{RL} - "minimum trading size" of the basis transaction (= € 1 mill.),

$h_{b:f}$ - hedge ratio – number of futures per "round lot size" (as calculated using formula (4))

For calculating the hedge ratio the "modified duration" is used as an estimate of the price sensitivity of the security and the future leg. The "modified duration" of the actual future contract corresponds to the "modified duration" of the CTD. Assuming a uniform repo rate for all German government bonds, the "cheapest-to-deliver" (CTD) of the relevant interest rate futures contract is the bond within the delivery basket, which has the highest implicit repo rate or the lowest net basis. The CTD in Eurex Bonds system correlates to the CTD of the corresponding Eurex interest rate futures contract. This information appears daily on the Eurex K055 screen and the Eurex Bonds web-site.

The "modified duration" is calculated as follows:

(6) $$d_b^{\text{mod}} = \frac{\frac{n*N}{(1+r_b)^n} + \sum_{t=1}^{n} \frac{t*C}{(1+r_b)^t}}{\frac{N}{(1+r_b)^n} + \sum_{t=1}^{n} \frac{C}{(1+r_b)^t}} * \frac{1}{1+r_b}$$

where

n - number of full coupon payments until the security's maturity date,

N - repurchase value of the security in %,

C - annual coupon of the security in %,

r_b - current yield of the security (as calculated using formula (7)).

The exact cash flow of the security is calculated from the security's key data. The cash flow serves to calculate the yield of the security, which is defined as follows:

(7) $$r_b = f\left(N, C, n, p_b^{dirty}\right)$$

where N, C, n, p_b^{dirty} are defined as above.

The yield is calculated using an iteration algorithm (Newton approach).

The calculation of the modified duration of the CTD is performed using the same procedure as illustrated above for the security.

4. Treasury Discount Papers (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)