Eurex Bonds

Introduction of Non-Deliverable Basis instruments

February 2003

Summary

- Advisory Board of Eurex Bonds agreed on the extension of Basis instruments with the inclusion of „non-deliverable“ German Government bonds in relation to one specific Eurex future contract.

- Additional instruments will be integrated in the existing Basis trade segment with different spread parameters, but same round lot sizes and unchanged Market Makers obligations.

- The total number of Basis instruments to be quoted by each Market Maker will remain unchanged as for the time being.

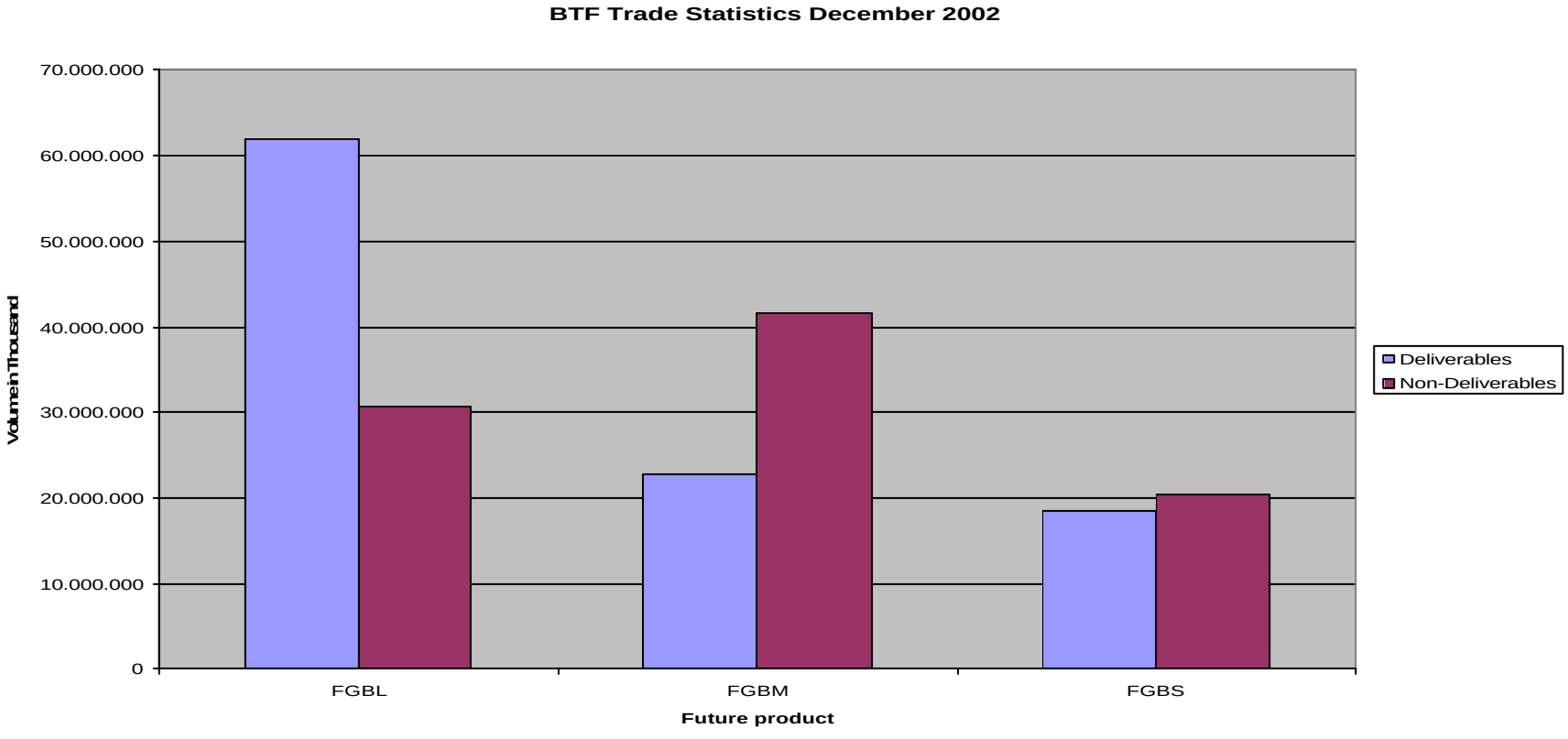
- Eurex Bonds will select every three months the most interesting “non-deliverable” underlying / future contract combination on the basis of turnover analysis of Eurex BTF and member feedback to concentrate liquidity and volume.

Non-deliverables on German Government Bonds

- Non-Deliverables for Eurex Bonds are all German Government Bonds (so called Liquid Bonds) that are not deliverable into the basket of the current front month contract of the Eurex Bund-, Bobl or Schatz-Future.
- For the set-up of the new Basis instruments Eurex Bonds will define the combination of the underlying Bond and the Future contract.
- Launch in March starting with 10 non-deliverable Basis instruments based on June 2003 future contracts.
- The number of non-deliverable basis instruments may vary from month to month.

Quota of non-deliverables on total turnover of Eurex Basis Trade Facility

Turnover of Eurex BTF shows high potential for new Eurex Bonds Basis instruments based on non-deliverables



Selection Method for new Instruments

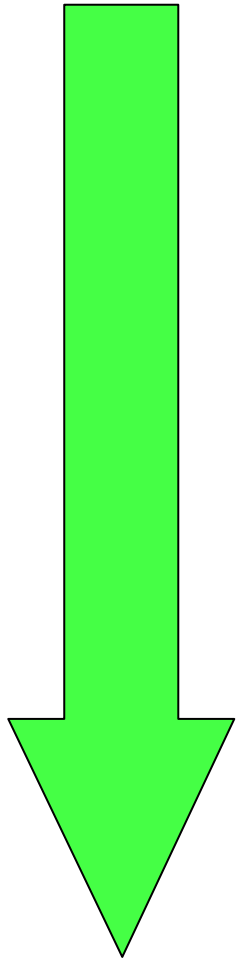
Analyze the turnover of non-deliverables as underlying on Eurex Basis Trade Facility (BTF) on a monthly basis

Weigh the combination of non-deliverables against different contracts by it's turnover on Eurex BTF

Identify deliverables that become soon non-deliverables with the introduction of a new future contract

Incorporate feedback from Eurex Bonds members

List new Basis Instruments on Eurex Bonds



Price Calculation (1/2): Cash Price

Main Principle

Eurex Bonds uses the same basis price calculation method for 'non-deliverable' bonds as it is conventional in the market.

Method

cash price = (conversion factor* x future price) + Basis

Example

Basis Instrument
Basis price: 34.816

Future
FGBS 03/03
future price: 105.89

Underlying
BUNDSCHATZ 12.03.2004 4,25 %
ISIN: DE0001136976

Conversion factor: 0.633

cash price = (0.633 x 105.89) + 34.816

= 101.84437

*) conversion factor = hedge ratio as of 100,000 € basis value (Duration hedge method)

Price Calculation (2/2):Basis Price

Method

basis price = cash price - (conversion factor* x future price)

Example

Basis Instrument

Future
FGBS 03/03
future price: 105.89

Underlying
BUNDSCHATZ 12.03.2004 4,25 %
ISIN: DE0001136976

Conversion factor: 0.633
cash price: 101.84437

Basis price = 101.84437 - (0.633 x 105.89)

= 34.816

*) conversion factor = hedge ratio as of 100,000 € basis value (Duration hedge method)

Hedge Ratio / Calculation of Future Size

- The Hedge Ratio for a specific Basis instrument is a multiple of the conversion factor.
- Since the minimum tradable unit is defined as 5 Million Euro for Basis trading at Eurex Bonds the hedge ratio will be calculated as follows:

Method

Hedge ratio = conversion factor x 50

Example

Hedge ratio: 0.633 x 50 = 31.65

- The number of future contracts is calculated on a hedge ratio with two decimal places and then rounded.

Example

Number of Future Contracts:
a 5 million nominal basis: 31.65 = 32
a 10 million nominal basis: 63.3 = 63
a 150 million nominal basis: 949.5 = 950

Market Making for Non-Deliverables

Residual Maturity	Basis Instuments	
	Min Quote Quantity (mn €)	Max Spread in cent
A (1 - 3.5 years)	10	3
B (3.5 - 6.5 years)	10	3
C (6.5 - 13.5 years)	10	3
Quotation hours per day	**5 hours**	
Minimum order size/ Round Lot size	**5 million €**	
Additional information	Basis instruments will be quoted in percent, carried out to three decimals. The minimum change in price shall be 0.001 for basis instruments.	
Market Makers must fulfil 80 % of the obligations within a 5 hour period per trading day		

Listing Parameter

- The first trading day of a Basis instrument is two days before the last trading day of the current interest rate future contract on Eurex.
- The last trading day for a Basis instrument is the trading day before the last trading day of the corresponding future contract on Eurex.
- Instrument group: The Basis instruments for “non-deliverables” are listed in the same instrument group as the “deliverables”: **BASE**
- Instrument type: The Basis instruments for “non deliverables” have the same instrument type as the deliverables: **BAS**
- **Naming Convention:** the short name of the non-deliverable Basis instruments is derived from deliverable Basis instruments

  - L, M or Z for Bund, Bobl or Schatz-Futures

  - 2, 3, 6 or 9 for December, March, June or September

  - 51, 52, 53,…… serial number > 50 (identifier for “non-deliverables”)

  Example: M251 - Bobl-Future, Maturity December, Non-deliverable

Market Maker Obligation

- Non-Deliverables will be part of the Eurex Bonds market making segment “Basis”.

- The number of instruments to be quoted by each Market Maker within the segment “Basis” remains unchanged for the time being (6 Instruments).

Services and Information on Trading Parameters

- Newly listed instruments will be announced in advance via Eurex Bonds circular.

- Information on hedge ratios and conversion factors will be provided on the Eurex Bonds web page www.eurex-bonds.com, please follow the link “Members Only / Market Data / Hedge Ratios”

- Every time the trading parameters will change, all members will additionally be informed via e-mail in advance.
  Please keep Eurex Bonds informed about all necessary recipients at your side (e-mail: eurex-bonds@deutsche-boerse.com).

- Should you have comments or any further questions, please do not hesitate to call the Eurex Bonds Info line at +49 (0) 69 – 2101 – 1222.