eurexbonds circular 30/07

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Recipients: All Eurex Bonds members
Authorized by: Bernd Fritzke

U **High Priority**

Introduction of Block Pre-arranged Trading

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Content may be most important for:	**Attachments:**
Ü Front Office / Trading Ü Middle + Back Office Ü Auditing / Security Coordination	

Effective **1 June 2007** Eurex Bonds will introduce **"Block Pre-arranged Trading",** which is a **low-fee pricing segment for pre-arranged trades** fulfilling the following **two conditions**:

Condition 1: The nominal trade size is at least 50 million Euro.

Condition 2: Neither counterparty of the trade is the issuer of the instrument (for basis trades: issuer of the underlying bond) or acts on behalf of the issuer (for basis trades: issuer of the underlying bond).

The purpose of this initiative is to offer members an **attractive scheme to trade large tickets** over the **pre-arranged trade facility** with the advantages of the associated clearing services (**reduced counterparty risk** and **increased processing efficiency**).

The fee reduction for all eligible trades is 80 percent compared to the standard pre-arranged trading pricing scheme.

Please see also Eurex Bonds Circular 31/07 - Updated Eurex Bonds Pricing Model - Version 7.2.

Details are described on the following pages.

Introduction of "Block Pre-arranged Trading"

Background / Preconditions

Upon member request Eurex Bonds has decided to offer a low fee scheme to exchange large blocks of Bonds or Basis instruments over its pre-arranged trade facility.

Two obligatory criteria have been defined for the reduced fees to be applicable:

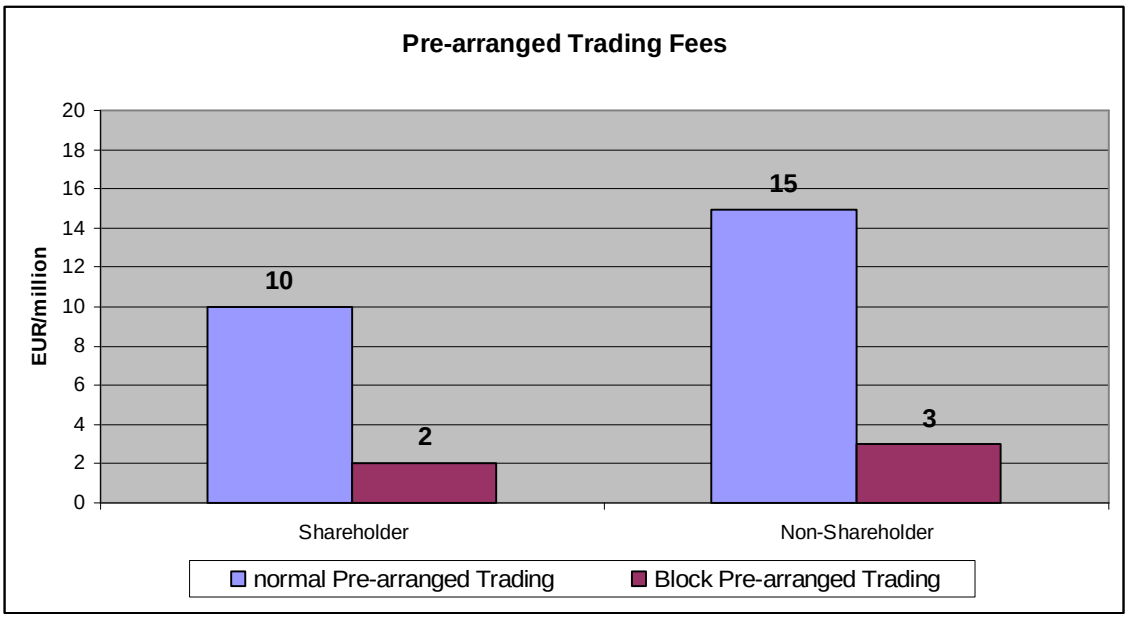
- a minimum trade size of 50 million Euro is required and
- neither counterparty may be issuer of the traded instrument (for Basis instruments: issuer of the underlying bond) or acting on behalf of the issuer.

Given these conditions all trading segments on Eurex Bonds are eligible, currently

- German Government Bonds,
- German Treasury Discount Papers (Bubills),
- Agencies, European Inflation-linked Bonds,
- German Jumbo Pfandbriefe, German State bonds and Slimbos,
- European Covered bonds (e.g. Cédulas Hipotecarias, Obligation Foncières, UK Covered bonds and Irish ACS bonds),
- European Corporate bonds of private Issuers (Financials),
- European Government bonds.
- Basis Products (with deliverable and non-deliverable underlying bonds)

80% Fee Reduction compared to standard Pre-Arranged Scheme

For "Block Pre-Arranged Trades" **a fee reduction of 80%** is applied compared to the regular pre-arranged fees:



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Advantages of the Pre-arranged Trade Facility

Central Counterparty

Eurex Clearing AG automatically enters as the Central Counterparty between the two parties involved in the trade. This offers the following advantages for clearing and settlement:

Counterparty risk reduction

- (Post trade) Anonymity
- One single counterparty instead of multiple counterparties
- Margin concept vs. different credit lines

Processing efficiency

- Reduction of error rate
- One single functionality for cash bonds, repos and derivatives
- Cross margining: Margin-Offset for future positions (margin reduction)
- One collateral pool
- Settlement netting leading to a reduction of (cross-border) settlement instructions
- No equity capital requirements: Transactions are privileged with a 0% weighting in regard to Solvency Ordinance since Jan 1, 2007

Bilateral Trading without CCP services has to consider cost of credit lines, operational risk of error rates and/or potential settlement fails whereas CCP offers substantial reduction of settlement costs due to settlement netting on the clearing layer.

Confidentiality

Trades entered into this facility are only visible to the parties directly involved in the trade and the resulting prices and single trade volumes are not included in the real-time data service and are therefore not observable by other market participants.

Available to all participants and for all products of Eurex Bonds

The Pre-arranged Trade Facility is available to all trading participants of Eurex Bonds.

All Instruments listed on Eurex Bonds (Benchmarks, Liquids, Agencies, Basis Instruments, Bubills, Jumbos) can be traded on the Pre-arranged Trade Facility.

Easy to use

Using the Pre-arranged Trade Facility is straight-forward:

One of the participants involved in the trade enters the necessary parameters (i.e. instrument, price, volume, settlement date, etc.) of the buy or sell offer as well as the the ID of trading partner into the pre-arranged trading window.
After the counterparty has received and confirmed the trade, the trade becomes valid and is automatically forwarded for processing.

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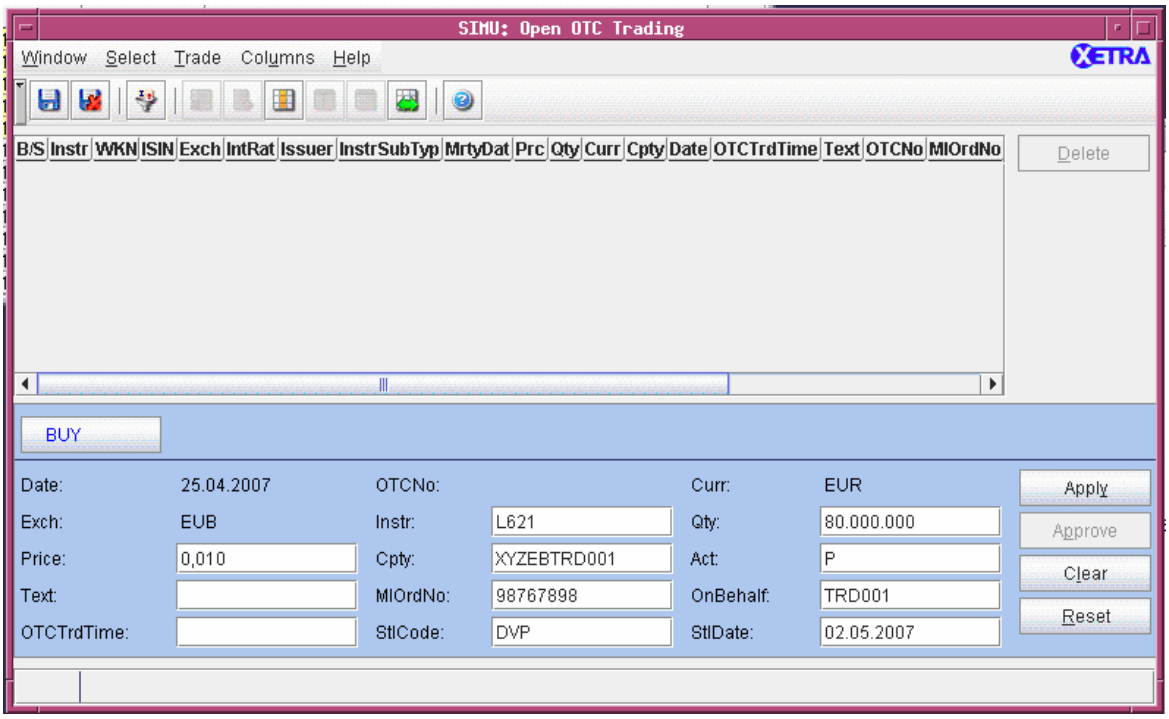
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Screenshot of OTC trade Entry Window of Xetra J-Trader

(The same functionality may look different on your third-party or in-house application.)



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