X-pand into the **Future**

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Recipients: All Clearing Members of Eurex Clearing AG and Vendors
Authorized by: Thomas Lenz

⚠ **High priority**

Exchange for Physicals (EFP)- and Exchange for Swaps (EFS)- Trade-Facilities: Enhancements

Related Eurex Circulars: 083/07

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Content may be most important for:	Attachment:
Ü Front Office/Trading Ü Middle + Backoffice	Updated Sections of the Conditions for Utilization of the OTC Trade Entry Facilities (General Conditions for Participation)

Summary:

In its session on March 5, 2008, the Executive Board of Eurex Clearing AG decided to enhance price validations for OTC trade entries in Fixed Income Futures. It also decided on an extension of the Exchange for Physicals (EFP) Facility for Eurex and Non-Eurex Interest Rate Futures as well as of the Exchange for Swaps (EFS) Trade Facility to include Interest Rate Swaptions. The enhancements will apply for both the Euro Fixed Income Futures and the CONF Futures.

These innovations will permit maximum flexibility in shaping Bond, Swap and Futures trades (i.e. duration-weighted interest rate curve trades, interest rate spread trades) in combination with Eurex Fixed Income Futures without incurring any execution risk.

We kindly ask you to consider the modifications to the Conditions for Utilization of the OTC Trade Entry Facilities (General Conditions for Participation) which will become effective on **March 31, 2008**. The updated sections of the General Conditions for Participation in their valid version are attached to this circular. The complete document will be published in due time on our website under the path:

www.eurexchange.com > Market Model > Wholesale Trading

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Exchange for Physicals (EFP)- and Exchange for Swaps (EFS)- Trade-Facilities: Enhancements

In its session on March 5, 2008, the Executive Board of Eurex Clearing AG decided on the following modifications which will become effective on March 31, 2008:

1. Enhancement of Price Validation for OTC Trade Entries in Eurex Fixed Income Futures

The present interval of the highest and lowest daily prices of the respective Fixed Income Futures contract will be calculated in the future with the following premium or reduction (absolute) when determining the interval:

Euro-Schatz-Futures: +/- 0.02

Euro-Bobl-Futures: +/- 0.05

Euro-Bund-Futures: +/- 0.08

Euro-Buxl®-Futures: +/- 0.30

Conf-Futures: +/- 0.25

2. Extension of the Exchange for Physicals (EFP) Trade Facility to include Eurex and Non-Eurex Interest Rate Futures

In addition to all debt securities, the extended EFP Trade Facility will also admit in the future Eurex or Non-Eurex Interest Rate Futures Contracts (Money Market or Fixed Income futures) as underlying instruments.

Thus, as of March 31, 2008, Eurex Clearing AG will admit the following combinations of underlying instruments and Fixed Income Futures contracts for the EFP Trade Facility:

Admitted Underlying Instruments **Reporting Transaction** **(**future will **not** generate a position in Eurex Clearing)	**Position-generating Transaction** (future will generate a position in Eurex Clearing)
Debt securities[1)]	Eurex Fixed Income futures
Eurex or Non-Eurex money market futures	Eurex Fixed Income futures
Eurex or Non-Eurex Fixed Income futures[2)]	Eurex Fixed Income futures

[1)] All debt securities which feature price correlation to the exchanged futures contract so that the futures contract represents an appropriate hedge instrument for cash market transactions, may be used as a component for an EFP trade. The cash market transaction underlying to the EFP trade must be denominated in the currency of an OECD member state.

[2)] Non-Eurex Fixed Income futures within this meaning are all Fixed Income futures traded outside the Eurex Exchanges, the design of which does not correspond to the essential characteristics of Fixed Income futures traded at the Eurex Exchanges.

Depending on the applied hedging method, the number of futures contracts generating a position in Eurex Clearing must be in a defined proportion to the nominal value of the bond or to the number of contracts of the reporting futures contracts, respectively. Depending on the applied hedging method, the ratio of future and bonds is determined according either by the nominal-, the duration- or the price determinant method. The ratio between futures will be determined by the duration- (or basis point value) method.

Since the trade entry window of the EFP Trade Facility was primarily developed for debt securities, please be aware that the trade entry fields for reporting futures transactions are not displayed with their correct names. For the field mapping for reporting futures transactions please see number 8.1.1 of the General Conditions for Participation.

3. Extension of the Exchange for Swaps (EFS) Trade Facility to include Interest Rate Swaptions

In addition to all Interest Rate Swaps, as of March 31, 2008 the extended EFS Trade Facility will also admit Interest Rate Swaptions as possible instruments in the scope of an EFS trade.

The amount of contracts of traded futures contracts for the Swap or Swaptions trade is determined by the duration method.

Since the trade entry window of the EFS Trade Facility was primarily developed for Interest Rate Swaps, please be aware that trade entry fields for Interest Rate Swaptions do not comply with field names of the trade entry window. For the field mapping for Interest Rate Swaptions please see number 8.3.1 of the General Conditions for Participation.

Should you not yet be admitted to the existing OTC functions, but now wish to use the enhanced EFP and/or EFS Trade Entry Facility, please apply by using the registration forms published on the Eurex website under the path

www.eurexchange > Documents > Forms > Trading Derivatives > Single Forms > OTC Trade Entry

Frankfurt, March 14, 2008

[….]

2 Subject Matter

2.1 Exchange for Physicals Trades

2.1.1 Within the Exchange for Physicals ("EFP") scope of transactions concluded off-exchange concerning the simultaneous purchase of an ~~debt security~~underlying as defined in section 10 and the sale of futures contracts, or vice versa, the Trade Facility provides Participants, for their own account or on behalf of a customer, with the possibility to enter, pursuant to the provisions set out below, the futures contracts into the Eurex® clearing system of Eurex Clearing AG (hereinafter, "Eurex Clearing System") by means of a request to be sent to the respective Participant's interface, and to have them cleared. In future, Eurex Clearing AG may include additional contracts in the EFP Trade Facility, or may exclude previously included contracts.

2.1.2 An EFP Trade within the meaning of these General Conditions for Participation shall have occurred if a Participant, for its own account or on behalf of a customer, has agreed, off-exchange, with another Participant or with another customer, on the purchase/sale of futures contracts and, simultaneously, on the sale/purchase of ~~debt securities~~underlyings as defined in section 10, provided that the specifications of such futures contracts are identical to the contract specifications set forth in the Contract Specifications for Futures Contracts and Options Contracts at Eurex Deutschland and Eurex Zürich (hereinafter the "Eurex Contract Specifications"), and provided that Eurex Clearing AG has admitted these futures contracts to the EFP Trade Facility pursuant to section 9.1 of these Conditions. Furthermore, the contract price of EFP Trades must fulfil the requirements set out in section 5 of these General Conditions for Participation.

[….]

2.3 Exchange for Swaps ("EFS")

2.3.1 The EFS Trade Facility provides Participants with the possibility to enter, pursuant to the provisions set out below, futures contracts into the Eurex® clearing system concluded off-exchange for their own account or on behalf of a customer, which concern the simultaneous transaction of an ~~receiver/payer~~ interest rate swap or –swaption as defined in section 12 and the sale/purchase of futures contracts, by means of a request to be sent to the respective Participant's interface, and to have them cleared. In future, Eurex Clearing AG may include further contracts into the EFS Facility or exclude any contracts included so far.

2.3.2 An "EFS trade" within the meaning of these General Conditions for Participation exists, if a Participant, for its own account or on behalf of a customer, has agreed, off-exchange, with another Participant or with another customer to purchase/sell a futures contract and to conclude simultaneously an ~~fixed rate payer/fixed rate receiver~~ interest rate swap or – swaption as defined in section 12, provided that the specifications of such futures contract are identical to the contract specifications set forth in the Contract Specifications for Futures Contracts and Options Contracts at Eurex Deutschland and Eurex Zürich, and that Eurex Clearing AG has admitted this futures contract to the EFS Facility pursuant to section 9.1 of the present Conditions. Furthermore, the contract price of EFS trades must fulfill the requirements set out in section 5 of the present Conditions.

2.4 Block Trades

2.4.1 The Block Trade Facility provides Participants, for their own account or on behalf of a customer, with the possibility to enter, pursuant to the provisions set out below, transactions concluded off-exchange concerning futures and options contracts which are tradable on Eurex and which are admitted to the Block Trade Facility pursuant to section 9.3, into the Eurex Clearing System by means of a request to be sent to the respective Participant's interface, and to have them cleared. In future, Eurex Clearing AG may include additional contracts in the Block Trade Facility, or may exclude previously included contracts.

2.4.2 A "Block Trade" within the meaning of these Conditions shall have occurred if a Participant, for its own account or on behalf of customers, has agreed, off-exchange, with another Participant or one single or several customers, on the purchase/sale of one or more of the products set out in section 9.3, and if the number of contracts is not less than the minimum number specified in section 9.3. ~~Insofar,~~Futures and options transactions of different customers may be subsumed to one block trade, provided that the transaction of each of these customers does not undergo aforementioned minimum number.

Furthermore, the specifications of the contracts of a block trade have to correspond to the contract specifications for the products pursuant to the Eurex Contract Specifications, and the contract price of the Block Trade must fulfill the requirements set out in section 5 of these General Conditions for Participation.

[….]

4 Evidence of ~~Cash Transactions~~the Underlying in ~~the~~ Case of Utilization of the EFP, EFPI Trade Facility and the EFS Trade Facility

4.1 Participants using the EFP or EFPI Trade Facility or the EFS Trade Facility are obliged to provide evidence to Eurex Clearing AG that, for futures contracts cleared on their behalf, there is an opposite ~~underlying~~~~basis~~ transaction in an underlying determined pursuant to Number 10 to 12.~~, offsetting cash transaction in one of the debt securities or a share basket determined pursuant to number 11 respectively a swap defined in accordance with section 12.~~

4.2 Concerning the EFP Trade Facility for debt securities and EFPI Trade Facility, Participants shall be deemed to have fulfilled their obligation to provide evidence pursuant to 4.1 above, provided that they authorize Eurex Clearing AG to gain knowledge of the underlying cash transaction or the completed delivery, as the case may be, by means of respective authorizations. By means of a written declaration, the following institutions can be authorized to provide information to Eurex Clearing AG, on request, concerning the cash transaction which is the subject of a EFP Trade according to section 2.1 of these General Conditions:

- Clearstream Banking Frankfurt and/or
- Clearstream Banking Luxembourg and/or
- Isma, Zürich and/or
- SIS SegaInterSettle AG Zürich

4.3 Regardless of section 4.2 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 futures transaction related to such cash transaction must be evident in such confirmation of delivery.

4.4 Concerning the EFS Trade Facility, Participants shall be deemed to have fulfilled their obligation to provide evidence pursuant to section 4.1 above, if, upon request of Eurex Clearing AG, they provide a trade confirmation for the underlying swap- or swaption transaction. This confirmation in the form of a transaction ticket (i.e. a snapshot of the front-office or back-office system of the buyer of the EFS futures) shall contain at least:

Exchange of Swaps for Fixed Income and Inflation

Interest rate swaps:

- nominal value,
- date of start and maturity,
- fixed coupon, in case of Zero Coupon Inflation Swaps: interest rate equivalent to average annual inflation rate over the term of the swap
- counterparties of the Swap transaction,
- EFS trade reference number of the Eurex system and
- time stamp

Interest rate Swaptions

- nominal value,
- option due date and total term of swap,
- options premium,
- counterparties of the swap transaction,
- EFS trade reference number of the Eurex system and
- time stamp

Exchange of Swaps for Credit

- nominal value,
- date of start (the effective date) and maturity (the termination date),
- fixed premium rate,
- underlying index or reference entity,
- counterparties of the CDS transaction,
- EFS trade reference number of the Eurex system and
- time stamp

4.5 If a transaction in futures contracts is transferred to another Participant pursuant to section 3.5 of these General Conditions for Participation, the obligation to provide evidence of the cash transaction shall also be transferred to the other Participant.

5 Contract Price of OTC Trades

[….]

5.2 For Futures Contracts, the intervals within the meaning of subsection 5.1 are generally determined as follows:

[….]

5.2.4 For Futures contracts on short-, mid~~dle~~- and long-term debt securities of the Federal Republic of Germany respectively the Swiss Confederation, the interval results from the daily high and daily low values of the respective Futures contract. When calculating the interval, the following premiums~~surcharges~~ and reductions shall be added respectively deducted~~and deductions (absolute) shall be made~~:

Euro-Schatz Futures: +/- 0.02
Euro-Bobl Futures: +/- 0.05
Euro-Bund Futures : +/- 0.08
Euro-Buxl Futures: +/- 0.30
Conf-Futures: +/- 0.25

[….]

8 Mandatory Data Entries

8.1 EFP Trade Facility (OTC EFP-Fin Trade Entry window)

8.1.1 When entering a Basis Trade into the Eurex Clearing System, using the EFP-Fin Trade Entry Facility, the buyer of the ~~position-creating~~ Eurex Futures transaction ~~which~~ creat~~es~~ing a position in Eurex Clearing must enter the following data:

Futures versus Cash

- ISIN, nominal value, cash transactions, coupon, coupon frequency as well as settlement and due date of the debt security traded; should the security already exist in the Eurex System, merely ISIN, nominal value, cash transactions as well as settlement date need to be entered while the other fields are automatically completed by the Eurex System.
- the future contract traded (Instrument, delivery month and year)
- the contract price;
- the number of contracts;
- the Eurex exchange system user identification code of the trader of the buyer;
- the open/close indicator;
- the position account
- the hedging method
- the settlement institution
- the seller’s Participant ID code for the Eurex exchange system

Futures versus Futures

Data of the Future to be reported, i.e. Future does not create position in Eurex Clearing:

- ISIN = Name of the Future to be reported
- Nominal value = number of Futures contracts
- Cash price = price of the Future (in case of several expiry months~~due dates~~: average price)
- Coupon = 0%
- Coupon frequency = 1
- Expiry ~~Due~~ date = expiry~~due~~ date of Future, in case of Short Term Interest Rate Futures, expiry~~due~~ date of the Futures contract with longest term

Data of ~~position-creating Fut~~Future ~~which~~creating~~, i.e. Future~~ a position in Eurex Clearing:

- the traded Futures contract (instrument, expiry month and -year)
- the contract price
- the number of contracts

- the user ID of the buyer's trader for the system of the Eurex Exchanges
- the open-/close code
- the positions account
- the security method
- the settlement institution and
- the user ID of the seller for the system of the Eurex Exchanges

Depending on the chosen hedging method, the number of ~~position-creating~~ Futures contracts ~~which~~ createings a position in Eurex Clearing ~~of the Basis Trade Future~~ must be in a defined proportion to the nominal value of the debt security respectively to the number ~~of contracts~~ of ~~the~~ Futures contracts to be reported. The relation between the futures and the debt securit~~y~~ies is defined according to the chosen Nominal, Duration, or Price Factor hedging method. The relation between futures shall be determined through the duration (respectively basis point value) method.

8.1.2 After the buyer of ~~position-creating~~ Futures contracts ~~which~~creating ~~creates~~ a position has entered data into the Eurex Clearing System using the EFP-Fin Trade Entry Facility, pursuant to section 8.1.1, the seller of futures contracts must enter the following data in order to confirm such EFP Trade:

- the OTC transaction reference number;
- the Eurex exchange system user identification code of the trader of the seller
- the open/close indicator; and
- the position account.

[….]

8.3 EFS Trade Facility (OTC EFS Trade Entry window)

8.3.1 When entering an EFS futures contract into the Eurex Clearing System by means of the EFS Trade Facility, the buyer of the EFS futures contracts must enter the following data:

EFS for Fixed Income:

For Interest and Inflation Swaps:

- ~~The~~ nominal value
- ~~,~~interest rate
- ~~, interest rate payment frequency as well as settlement,~~ start and end date of the swap transaction; or

For interest rate swaptions:

- nominal value
- interest rate = options premium
- start date = expiry date of the option

- end date = total term of the underlying swap transaction.

EFS for Credit:

For credit default swaps, the nominal value, premium rate, premium payment frequency, settlement date, start (effective) and end (termination) date of the credit default swap transaction as well as the underlying index or reference entity;

~~For interest swaps, the nominal value, options premium, due date of the option and total maturity of the underlying swap transaction. and~~

For the respective Futures Contract:

- the futures contract traded (instrument, delivery month and year)
- the contract price;
- the number of contracts;
- the Eurex system user identification code of the buyer's trader
- the open/close indicator
- the position account
- the user identification code of the seller for the system of the Eurex exchanges.

The number of traded futures contracts must be in a defined proportion to the nominal value of the interest rate swap and - swaption, inflation swap or credit default swap transaction. The relation between the futures contract and the swap ~~transaction~~ respectively swaption is defined according to the Duration method.

8.3.2 After the buyer has entered data into the Eurex Clearing System by means of the EFS Trade Facility pursuant to section 8.3.1, the seller of the EFS futures contracts ~~(Fixed Rate Receiver in the swap transaction)~~ must confirm the EFS Trade by entering the following data:

- the OTC transaction reference number
- the Eurex system user identification code of the seller's trader
- the open/close indicator
- the position account.

[….]

10 ~~Cash Transactions~~Underlyings for the EFP Trade Facility

Eurex Clearing AG has admitted the following combinations of underlyings and Futures contracts:

Admitted Underlyings (Reporting Transaction)	~~Position-Creating~~ Transaction creating a position
Debt securities[1)]	Eurex Fixed Income Futures Eurex Credit Futures
Eurex or Non-Eurex Money~~Cash~~ Market Futures	Eurex Fixed Income Futures
Eurex or Non-Eurex Fixed Income Futures[2)]	Eurex Fixed Income Futures

~~1~~ ~~determined that cash transactions in~~ all debt securities, which show a price correlation- or in case of credit spread correlation to the exchanged futures contract so that the futures contract describes an appropriate hedge instrument for cash transactions, may be part of an EFP trade pursuant to subsection 2.1.2 of these General Conditions for Participation.

2) Non-Eurex Fixed Income Futures ~~in terms of these rules~~within this meaning are all ~~f~~Fixed-~~i~~Income ~~f~~Futures traded outside the Eurex exchanges whose design does not correspond ~~in~~to the essential specifications ~~to~~of the ~~f~~Fixed ~~i~~Income ~~f~~Futures traded on the Eurex exchanges.

The EFP underlying cash transaction has to be nominated in a currency of the OECD Member States.

[….]

12 Cash Transactions for the EFS Trade Facility

12.1 EFS for Fixed Income

Eurex Clearing AG has determined that cash transactions in EFS Trades must have the following characteristics:

- § ~~Spot or forward-starting plain vanilla OTC Interest Rate Swaps~~Interest rate swap or swaption
- § Agreement under the terms of an ISDA Master Agreement or any equivalent master agreement
- ~~§Regular annual fixed rate payment against regular floating rate payments per year~~

[….]