

Interest Rate Products

Expand Your Trading Horizon

eurex
bonds



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New Perspectives with Eurex Bonds

Remote access to reliable trading, clearing and settlement systems – regardless of the participant's location – is the key to efficient and cost-effective participation in the international financial markets. Eurex, the world's largest derivatives market, has proven its ability to master this challenge in the area of futures and options trading for years. Eurex Bonds GmbH offers the same strong benefits for fixed income securities and treasury discount papers, perfectly complementing the range of Eurex' products and services.

Participants in Eurex Bonds benefit from a leading electronic trading platform for off-exchange, wholesale trading in fixed income securities and treasury discount papers. A unique feature of the Eurex Bonds trading platform is the direct link between the cash and futures markets: This enables electronic basis trading via a central order book. Necessary liquidity in the bond and basis trading markets is provided by Market Makers.

Eurex Clearing AG acts as a central counterparty between buyers and sellers on Eurex Bonds, thus safeguarding trading anonymity. In addition to centralized cross-border risk management, market participants benefit from a reduction in margin requirements thanks to the joint assessment of cash and derivative positions (cross margining). Participants also profit from using a single collateral pool covering all products traded on the Eurex platforms.

The major advantage of Eurex Bonds for all market participants is straight-through processing, integrating trading, clearing and settlement for cash securities and derivatives on a single platform.

Organizational Structure

Eurex Bonds GmbH was founded in October 2000, as a joint initiative of Eurex Frankfurt AG and leading financial institutions. The organization is a private-law joint venture with the purpose of establishing and operating an electronic platform for bond and basis trading in debt securities.

Shareholders

In addition to Eurex Frankfurt AG, the financial institutions listed below are shareholders of Eurex Bonds GmbH:

ABN Amro Bank N.V.

Banco Bilbao Vizcaya Argentaria S.A.

Barclays Bank Plc

Bayerische Hypo- und Vereinsbank AG

BNP Paribas

Commerzbank AG

Credit Suisse First Boston Zürich AG

Deutsche Bank AG

Dresdner Kleinwort Wasserstein Online Ventures Ltd. London

Morgan Stanley Dean Witter Fixed Income Ventures Inc.

WestLB AG

Eurex Bonds remains open to additional partners and cooperative ventures.

Products

The Eurex Bonds trading platform is accessible on a pan-European network, offering the following euro-denominated products:

- All fixed income debt securities of the Federal Republic of Germany (Bund, Bobl, and Schatz issues)
- Non-interest-bearing treasury discount papers (Bubills) of the Federal Republic of Germany
- Fixed income debt securities of KfW, the European Investment Bank (EIB), NRW.Bank and of L-Bank Förderbank
- Jumbo Pfandbriefe of German issuers, and fixed income German federal state bonds
- Covered bonds of Spanish, French, British and Irish issuers
- Selected European corporate bonds
- Basis instruments related to all debt securities of the Federal Republic of Germany, which are eligible for delivery into Eurex Fixed Income Futures (Euro-Schatz, Euro-Bobl, and Euro-Bund Futures), plus basis instruments on selected, non-deliverable debt securities of the Federal Republic of Germany

A basis trade is a combination of a securities leg and a futures leg, which is traded at a single price. Buying the basis involves the purchase of a certain amount of securities and the simultaneous sale of a corresponding number of futures contracts. The reverse combination is referred to as "selling the basis".

The following basis trades are available on Eurex Bonds:

- German government bonds with a remaining term to maturity of between 1.75 years and 2.25 years against the current Euro-Schatz Futures (FGBS)
- German government bonds with a remaining term to maturity of between 4.5 years and 5.5 years against the current Euro-Bobl Futures (FGBM)
- German government bonds with a remaining term to maturity of between 8.5 years and 10.5 years against the current Euro-Bund Futures (FGBL)
- Selected German government bonds which are not deliverable into the current Eurex Fixed Income Futures against selected Eurex futures contracts

The Eurex Bonds Management determines and approves the tradable combinations.

Trading Procedure

All market participants have equal privileges when trading bonds and basis instruments on Eurex Bonds. They may enter limit orders or quotes into the system. Furthermore, to guarantee sufficient liquidity in all products, a number of market participants have committed to act as Market Makers.

Moreover, the German Finance Agency performs its market management and regulating operations via Eurex Bonds. Deutsche Bundesbank, the German central bank, is also a trading participant at Eurex Bonds.

Trading on Eurex Bonds is based on a market model in which quotes and orders are entered into a central order book. During continuous trading, orders and quotes entered into the system are executed on the basis of the principle of price/time priority, where the sequence of order entry determines execution priority for orders or quotes with the same price limit. Orders or quotes which cannot be executed immediately are posted into the order book. Orders may be placed as good-for-day (valid for the current trading day only); good-till-date (valid until a specified trading date, subject to a maximum validity of 90 days); or good-till-canceled (valid until canceled, or until maturity of the bond or underlying futures contract).

Besides quotes and normal orders, the Eurex Bonds system also supports iceberg orders. With an iceberg order, only a certain part of the order quantity (the peak quantity) which can be defined by the participant entering the iceberg order is openly displayed in the central order book. Once the peak quantity has been executed, the system will automatically submit the next peak quantity to the central order book; this process is continued until the full order quantity has been executed, or the order is canceled. This enables the smooth execution of larger order sizes, without excessive market impact. To safeguard market transparency, the order book is dynamically updated, displaying up to ten best bid and ask prices, with aggregated order quantities for each limit in the book.

Quotes and iceberg orders are good-for-day by default, and are automatically deleted by the system after the close of trading. Market participants also have the possibility of entering limit or market buy or sell orders, plus optional execution restrictions of "fill-or-kill" (immediate and full execution only) or "immediate-or-cancel" (immediate full or partial execution). With both restrictions, unexecuted order parts are canceled.

As an alternative to the central order book, all market participants have the option of using the pre-arranged trade facility. Such trades have been agreed upon bilaterally between two market participants, outside the system, and are then entered into the system outside the order book. Such trades are cleared and settled in the same way as trades concluded via the central order book.

The minimum order size (round lot) in the central order book has been set at EUR 1 million (for bonds), EUR 5 million (for basis instruments), or EUR 0.5 million (for corporate bonds), respectively. The minimum quote size is EUR 5 million for German Jumbo Pfandbriefe, German federal state bonds and European covered bonds; EUR 10 million for agency issues, and for German and European government/sovereign issues (except for 30-year German government bonds, for which it is EUR 5 million); and EUR 15 million for basis instruments. The pre-arranged trade facility can be used for trades in all securities with a minimum size of EUR 1 million (EUR 0.5 million for corporate bonds).

Prices for government bonds are expressed as a percentage of their nominal value. The tick size is quoted with three decimal places for bonds with a remaining lifetime of less than seven years, and two decimal places for all those with longer remaining lifetimes. Prices in basis trading are also expressed with three decimal places. Treasury discount papers are quoted on a yield basis, with three decimal places.

Trading Hours

In line with the trading sequence on Eurex, the Eurex Bonds trading day is subdivided into three phases:

- The pre-trading phase begins at 08:00 CET; this is the starting phase, during which participants can make enquiries, or enter, maintain or delete orders in preparation for trading.
- During the trading phase – which starts at 08:30 CET – orders and quotes are displayed to all market participants in the central order book; trading starts without an opening auction. Executed orders are confirmed online.
- Following the close of trading at 17:30 CET, the post-trading phase takes place, during which the system remains available for all information requests.

Entries into the pre-arranged trade facility are possible from 08:30 to 19:00 CET.

Transaction Fees

The trading fee model is based on a general distinction between Market Takers and Market Makers, with a further differentiation within the two groups between market participants entering a bid or ask price into the system, and those hitting bids or taking offers in the market. A sliding trading fee scale, which is based on trading volumes, applies to all market participants. The calculated transaction fees do not differ for bond and basis trading. For more information please refer to www.eurex-bonds.com.

The fees for the futures leg of basis trades, as well as those for clearing and settlement, are not included in the above price model. More information is available from www.eurexchange.com.

For Market-Making purposes, the various bonds and basis instruments are assigned to eight segments:

- (a) Benchmark Bonds: All German government bonds which are deliverable into the current Eurex Euro-Bund, Euro-Bobl and Euro-Schatz Futures;
- (b) Liquid Bonds: All German government bonds which are not eligible for delivery into Eurex futures contracts;
- (c) Bubills: German treasury discount papers;
- (d) Basis Instruments: Selected basis instruments related to Eurex Euro-Bund, Euro-Bobl and Euro-Schatz Futures;
- (e) Agencies: Debt securities of KfW, the European Investment Bank, NRW.Bank and L-Bank Förderbank;
- (f) Jumbo Pfandbriefe/state bonds: German Jumbo Pfandbrief issues and bonds issued by German federal states;
- (g) European Covered Bonds: Covered bonds of Spanish, French, British and Irish issuers;
- (h) Corporate Bonds: European corporate bonds.

Clearing and Settlement

Eurex Clearing AG has cleared both derivatives and all cash securities transactions executed on the Eurex Bonds trading system since October 2000. Eurex Clearing AG acts as central counterparty between buyers and sellers, thus guaranteeing trading anonymity. In addition to centralized cross-border risk management, market participants benefit from a reduction in margin requirements thanks to the joint assessment of cash and derivative positions (cross margining). Participants also profit from using a single collateral pool.

Each market participant has the opportunity to choose Clearstream Banking AG, Frankfurt, Clearstream Banking SA, Luxembourg or Euroclear Bank S.A. for the settlement of its cash market trades. As soon as a buy or sell order is executed in the system, related settlement instructions are generated and forwarded automatically. Settlement takes place in accordance with the international convention of t+3 days (for all fixed income securities), or t+2 days for treasury discount papers. For trades entered using the pre-arranged trade facility, market participants are free to agree on any settlement period between t+2 and t+89 days (for fixed income or treasury discount papers); for pre-arranged trades involving basis instruments, the possible delivery dates are t+2 or t+3.

All executed basis trades are automatically broken down by the system into two components (referred to as legs). The resulting cash market position (the cash leg) is forwarded directly to the appropriate settlement organization. The number of futures contracts (the futures leg) is calculated simultaneously and booked into the corresponding participant's futures account with Eurex Clearing AG. These positions will then be netted against existing positions from other futures trades. Margining and settlement are carried out in accordance with the Clearing Conditions of Eurex Clearing AG.

Technology

Trading on Eurex Bonds takes place via the tried-and-tested Eurex® and Xetra® trading systems to which, as of 2004, 800 participants in 18 different countries have direct access. Eurex Bonds participants benefit from this global network as well as from its interfaces to Eurex Clearing AG and Europe's largest settlement organizations.

The servers on the participants' side – so-called **Member Integration System Servers** (generally referred to as **MISSES**) – are linked via dedicated communications servers (access points) deployed throughout Europe with the host computers located in Frankfurt. Supported systems environments are Sun Solaris or Microsoft Windows (Intel). To increase protection against system failure, redundancy has been designed into all levels of the network.

Four different access alternatives to the trading platform, including links through the internet, are offered to participants. This addresses their individual requirements with respect to system availability and connection performance.

Participation in Eurex Bonds

Participation in Eurex Bonds is available to banks (credit institutions) and financial services providers as defined in Article 1 of the European Investment Services Directive (93/22/EEC). Participation in trading bonds and basis instruments requires participation in Eurex trading and the Eurex clearing process, in addition to a technical connection to the Xetra® trading platform. Access to the Eurex clearing process is possible by becoming a Clearing Member, or by entering into a clearing agreement with a Clearing Member. If a participant is not yet connected to the Xetra platform, Eurex Bonds provides technical consulting services and support on-site, free of charge.

No trader examination is required for admission to trading on Eurex Bonds.

Eurex Bonds does not charge an admission fee. A single annual fee is charged for trading across all Eurex Bonds market segments. Eurex Bonds participants who already have a technical connection to the Xetra® trading platform may use this connection for trading on Eurex Bonds, with no extra charge.

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