

Credit Derivatives

Always... Making Fresh iTraxx

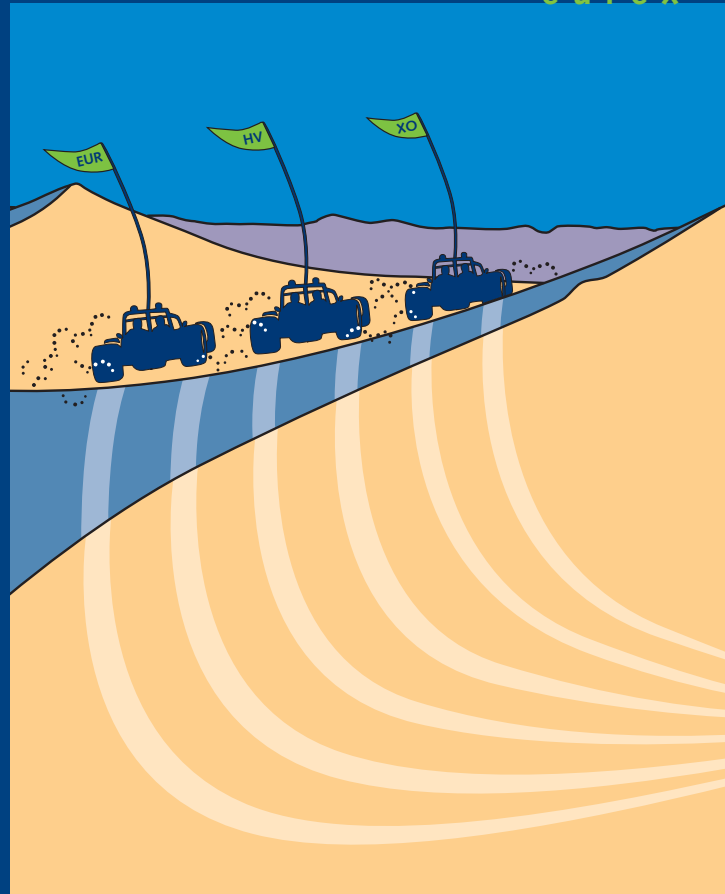


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Explosive Growth of the Credit Derivatives Market

The global credit derivatives market has been growing exponentially over the last ten years, increasing from approximately USD 1 trillion in 1996 to more than USD 20 trillion in 2006, and is estimated to have reached USD 33 trillion by 2008¹. One reason for this substantial growth is the rising demand of end-customers for alternative asset classes and return enhancement.

Another reason for the explosive growth lies in the increasing standardization in the credit derivatives market, which has reduced risks and attracted more market participants. Exchange-traded credit derivatives will improve operational efficiency and risk management for existing credit market participants even further. At the same time, exchange-traded contracts will facilitate market entry of participants that may currently be restricted from trading these products over the counter (OTC) or that are familiar with exchange-traded futures contracts. Consequently, a strong market demand for listed credit derivatives emerged. And this demand has grown even stronger since we announced the first European credit futures contracts at Eurex.

The Eurex iTraxx® Credit Futures Contracts

The market share of credit default swap (CDS) indexes grew from nine percent in 2004 to 30 percent of the whole credit derivatives market in 2006¹. Our new Eurex iTraxx® Credit Futures are based on the unfunded (CDS) form of the iTraxx® Europe, iTraxx® Europe HiVol and iTraxx® Europe

Crossover 5-year Index Series. The iTraxx® Europe 5-year Index Series is the benchmark for the European credit market. The iTraxx® Europe HiVol Index is an equally weighted portfolio of the 30 entities with the highest spread from the iTraxx® Europe Index. The iTraxx® Europe Crossover Index is an equally weighted portfolio of 50 European sub-investment grade entities.

The Eurex iTraxx® Credit Futures will closely mimic the risk structure of credit default swaps traded in the OTC market. The contracts are based on the 5-year series, with a fixed coupon and semi-annual maturity dates in March and September. The contract size is EUR 100,000; the tick size for the iTraxx® Europe 5-year Index Futures is set at 0.005 percent, for the iTraxx® Europe HiVol and iTraxx® Europe Crossover 5-year Index Futures at 0.01 percent, translating into 5 and 10 euros per tick respectively. The products will be cash settled, with reference to the iTraxx® index values of International Index Company Limited (IIC).

The Benefits of Standardization

Trading Eurex iTraxx® Credit Futures allows you to reduce operational costs and risks significantly. You will benefit from an unmatched efficiency, regarding the whole process chain – from liquid order book trading to clearing and settlement. With Eurex iTraxx® Credit Futures as standardized, exchange-traded contracts we can guarantee a high degree of market transparency, which encourages competitive pricing.

¹Source: BBA Credit Derivatives Report 2006

Double Risk Reduction

Until now, traders of credit derivatives had to face two kinds of risk: the credit risk as well as the settlement risk. Aside from reducing operational and legal risks, the Eurex iTraxx® Credit Futures contracts considerably reduce counterparty risk, with Eurex Clearing acting as central counterparty and thereby guaranteeing fulfillment of all trades.

Easy Access to the Credit Derivatives Market

At Eurex, you benefit from open, and low-cost electronic access, with many order routing facilities in place. The Eurex iTraxx® Credit Futures contracts are designed in line with our product standards, and therefore easy to implement in your current front and back office systems. In addition, our large bank and broker base with nearly 400 direct Eurex members will enable a strong distribution network.

Contract Specifications

Contract	Product ID	Underlying	Currency
iTraxx® Europe 5-year Index Futures	F5E0	The current iTraxx® Europe 5-year Index Series	EUR
iTraxx® Europe HiVol 5-year Index Futures	F5H0	The current iTraxx® Europe HiVol 5-year Index Series	EUR
iTraxx® Europe Crossover 5-year Index Futures	F5C0	The current iTraxx® Europe Crossover 5-year Index Series	EUR

Contract Value

EUR 100,000

Settlement

Cash settlement, payable on the first exchange day following the Final Settlement Day.

Price Quotation

In percentage, with three decimal places for the iTraxx® Europe 5-year Index Futures and with two decimal places for the iTraxx® Europe HiVol and iTraxx® Europe Crossover 5-year Index Futures as the sum of:

- the basis, determined as the $\sum n_i$, whereby n_i represents the weight of the i^{th} reference entity in the underlying index series, which has not experienced an actual credit event (basis = 100, as long as no credit event has occurred);
- the present value change calculated on the basis;
- the accrued premium since the effective date of the underlying index series based on the coupon fixed for the underlying index series;
- and, if applicable, the proportional recovery rate of the i^{th} reference entity in the underlying index series which experienced an actual credit event.

Minimum Price Change

iTraxx® Europe 5-year Index Futures

The Minimum Price Change is 0.005 percent, equivalent to a value of EUR 5.

iTraxx® Europe HiVol 5-year Index Futures and iTraxx® Europe Crossover 5-year Index Futures

The Minimum Price Change is 0.01 percent, equivalent to a value of EUR 10.

Contract Months

The nearest semi-annual month of the March and September cycle will be available for trading; trading in the back month contract starts on the 20th

calendar day if this is an exchange trading day;
otherwise on the next exchange trading day.

Last Trading Day

The 5th exchange day following the 20th of the respective contract month.

Final Settlement Price

The Final Settlement Price is established at 17:00 CET on the Last Trading Day in percent as the sum of:

- the basis determined as the $\sum n_i$, whereby n_i represents the weight of the i^{th} reference entity in the underlying index series, which has not experienced an actual credit event (basis = 100, as long as no credit event has occurred);
 - the present value change of the underlying index series resulting from the change of the credit spread in relation to the coupon. The present value calculation on the final settlement day is based on the official iTraxx[®] Index levels as published by IIC at 17:00 CET and the deal spread (coupon) of the underlying index. The mid spread reflecting the mid point between the bid and ask spreads of the official iTraxx[®] Index levels are considered for the present value calculation;
 - the accrued premium calculated from the effective date of the underlying index series based on the coupon fixed for the underlying index series;
 - and, if applicable, the proportional recovery rate of the reference entity in the underlying index series, which experienced an actual credit event;
- The calculated Final Settlement Price will be determined with four decimal places and commercially rounded to the next possible interval (0.0005; 0.001 or a multiple thereof).

Attractive Pricing

Order book transaction fees for the iTraxx[®] Europe 5-year Index Futures, iTraxx[®] Europe HiVol 5-year Index Futures or iTraxx[®] Europe Crossover 5-year Index Futures are EUR 0.40 per contract, and include trading and clearing fees.

Occurrence of a Credit Event

The announcement of a CDS protocol by ISDA will be used as the sole trigger for an actual credit event. Upon occurrence of a credit event, for example the iTraxx[®] Europe 5-year Index futures contract will continue to trade in its original form including the reference entity subject to the credit event. In addition, Eurex will list a futures contract based on the new version of the underlying index (for example 124 reference entities).

Continuous Market-Making to Ensure High Liquidity

The new instruments will be included into the Designated Market-Making schemes. This will further promote high liquidity and will allow participants to benefit from tight spreads.

Wide Range of Wholesale Facilities

The Eurex Wholesale trading facilities enable participants to enter off-order book bilateral trades in the Eurex® system. With these facilities you can benefit from the flexibility of customized trading while maintaining the advantages of standardized clearing and settlement. We offer a comprehensive range of wholesale facilities, such as

- **Block Trade** – This functionality provides Eurex participants with the possibility to enter large transactions agreed off-exchange in the Eurex® system and have them cleared and settled in a standardized way, provided that the number of contracts in each transaction meets the minimum order size requirement of
 - 2,500 contracts for the iTraxx® Europe 5-year Index Futures
 - 1,500 contracts for the iTraxx® Europe HiVol 5-year Index Futures
 - 1,000 contracts for the iTraxx® Europe Crossover 5-year Index Futures
 - 100 contracts for the Single-Name-Recovery Futures
- **Exchange for Physicals (EFP)** – This functionality facilitates buying or selling a block of non-government bonds whereby the credit risk exposure is to be generically hedged using iTraxx® Credit Futures. The EFP facility allows for a simultaneous iTraxx® Credit Futures hedge.
- **Exchange for Swaps (EFS)** – This functionality allows you to enter iTraxx® Credit Futures into the Eurex® system as a direct hedge against a Credit Default Swap on an iTraxx® Index or a single reference entity concluded in the OTC market. This not only enables you to exploit

arbitrage opportunities, but also ensures that the iTraxx® Credit Futures contracts' price remains closely in line with the underlying market – very similar to basis trading in other Eurex futures.

Use of Bloomberg Model to Price Eurex iTraxx® Credit Futures

Bloomberg Model

Eurex will use a new Bloomberg model to calculate the final settlement prices of the credit index future. The Bloomberg model will be used for evaluating the present value change of the underlying iTraxx® Index which is a component of the credit future's price – see contract specifications. These prices will be displayed and can be analyzed on the BLOOMBERG PROFESSIONAL® service.

The model has been developed by Bloomberg's team of quantitative analysts and enables highly precise price determination for CDS and similar instruments. It can be selected on CDSW, the single name and index pricing tool, under Models, and is the pricing engine behind the new function FCDS <GO>.

Bloomberg Codes

Contract	Bloomberg Code
iTraxx® Europe 5-year Index Futures	FEAA
iTraxx® Europe Crossover 5-year Index Futures	FXAA
iTraxx® Europe HiVol 5-year Index Futures	FHAA

For all details, please refer to www.eurexchange.com > Trading > Products > Credit Derivatives.

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© May 2007

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Order Number
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ARBN Number
Eurex Frankfurt AG ARBN 100 999 784