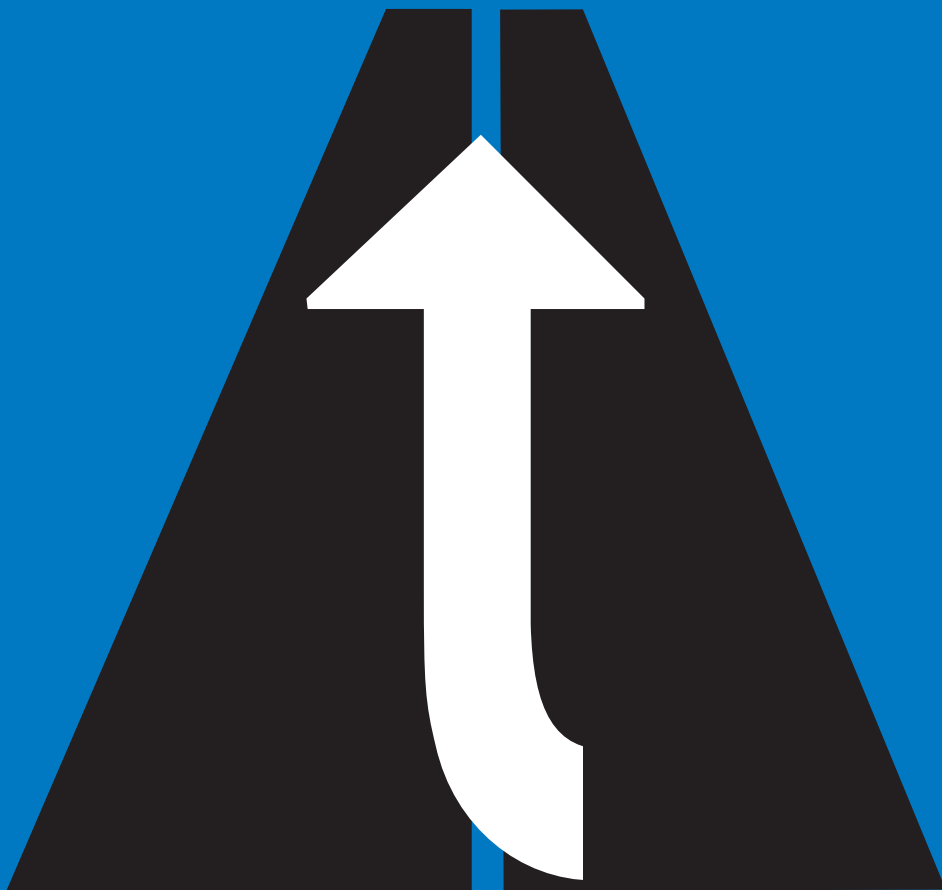


Interest Rate Products: Basis Trading Facility



● Why execute a basis trade?

Without analysing trading strategies, there are two common reasons:

- speculating on the movement of the basis - the difference between the futures price and the cash instrument price; and
- switching exposure between cash market instruments and futures

● What is the LIFFE market's Basis Trading Facility ("BTF")?

The BTF is designed to facilitate the execution of a futures trade which is conditional on a cash market trade between the same two counterparties.

The BTF allows members to pre-negotiate basis trades and report the futures leg through LIFFE CONNECT® where an executing member presents the Exchange with both the buy and sell side of the futures trade.

If the rules governing the BTF are satisfied by a member, the BTF essentially eliminates execution (legging), thereby securing the overall level of the basis trade.

● What is the Exchange basis trade transaction fee?

Exactly the same as the standard transaction fee for the product concerned.

● In which interest rate based futures contracts can basis trades be executed and which cash leg instruments can be used?

Futures Contracts:	Government Bond	Short Term Interest Rates (STIRs)	Swapnote®
Cash Leg Instruments:			
Government Bonds	✓ ¹	✓	✓
Non-Government Bonds	✓	✓	✓
Vanilla Interest Rate Swaps	✓	✓	✓
Forward Rate Agreement (“FRA”)	✗	✓	✗
“Repo” Transactions	✗	✓	✗
OTC Options (incl. strategies) on any of the available cash leg instruments above	✓	✓	✓
Non-Euronext.liffe German Government Bond Futures	✗	✗	✓ ²
Non-Euronext.liffe Eurodollar Futures	✗	✓	✗

NB Basis Trades/Against Actuals can also be executed in equity and commodity products traded on the Euronext.liffe market – see www.euronext.com/derivatives for further information.

● What information does the Exchange need when a basis trade is presented?

The following information is required by the Exchange when the basis trade is presented:

- the futures contract commodity code
- the delivery month
- the number of futures to be traded
- the price of the futures trade
- a unique identifier or reference number to assist with any subsequent auditing of the trade

¹ Deliverable and non-deliverable

² Against Swapnote® Futures only

● What information needs to be retained after a basis trade is executed?

So that the Exchange can audit the trade, to ensure that all the rules regarding basis trades have been complied with, an executing member is required to keep all details of the basis trade for five years. In addition to the information required by the exchange when a basis trade is presented, this will include:

- the time of order receipt
- the identity of the individual organising the trade
- the time at which the trade was organised

Also, the following specific trade details are required for each type of cash instrument:

Bonds	Swaps	FRAs	Repos	OTC Options	Non-Euronext.liffe German Govt Bond Futures	Non- Euronext.liffe Eurodollar Futures
ISIN code	cash market counterparty	cash market counterparty	counterparty identifier(s)	price	exchange	exchange
clean cash price	fixed rate for swap and accrual convention	reference rate	ISIN code	nominal value	underlying futures type	delivery month
hedge ratio method	floating reference	termination/ maturity date	coupon	strike price	delivery month	price
coupon	termination/ maturity date	effective date	maturity	call or put	price	number of lots
maturity	effective date	replacement/ liquidation value	currency	price of underlying	number of lots	
frequency of coupon payments	next fixed/ floating reset date	currency	nominal value	time to expiry	identity of CTD bond	
currency	replacement/ liquidation value	nominal value	clean and dirty price	option delta	CTD conversion factor	
nominal value	frequency of payments		start and end date			
	currency		repo rate			
	nominal value					

● How many futures contracts should be traded?

The futures element and the cash element of a basis trade should provide the same economic value. Considering this, the number of futures traded is derived from the hedge ratio between the futures contract and the cash instrument. The table below outlines the appropriate methods for calculating hedge ratios for basis trades using authorised cash legs.

Cash Leg Instrument	Hedge Ratio Method
Deliverable bond	Price factor, Duration or Yield Sensitivity ³
Non deliverable bond	Duration or Yield Sensitivity
Vanilla swap, FRA Repo, German govt bond future or Eurodollar future	Yield Sensitivity
OTC options (incl. strategies)	Delta-neutral

NB There is no minimum order volume required to use the BTF.

● What price should the futures be traded at?

The price should be within the high/low trading range of the contract on LIFFE CONNECT[®] during the 30 minutes before the basis trade is presented. If there has not been a trade during this time period, the price of the future in the basis trade must be within a theoretical high/low as calculated by the Exchange.

● When can a basis trade be executed?

At any time during the contract's trading session up to five minutes before the close. Exceptions are:

- on the Last Trading Day of a delivery month; and
- where a delivery month has never traded since its listing

³ A yield sensitivity method should be used for cash bonds against Swapnote[®] futures contracts

● How are basis trades executed?

Once the details of the trade have been agreed, the futures leg should be presented to the Exchange as soon as practicable and in any event within 15 minutes of organisation.

Basis trade details must be presented to the Exchange by an Exchange member. The “executing member” presents the Exchange with both the buy and sell sides of the futures trade.

Basis trade details must be submitted to the Exchange via the LIFFE CONNECT® trading system. Most Independent Software Vendors (“ISVs”), which have LIFFE CONNECT® conformed technology, have specific basis trade submission functionality.

● What happens next?

Basis trades are validated by Euronext.liffe Market Services (+44 (0)20 7379 2001) where, primarily, the price is checked to ensure it complies with the rules. Once authorised, the price and the volume are flagged and published by LIFFE CONNECT® and Quote Vendors. In addition, the basis trade details appear on TRS (Trade Registration System) where post trade processing, including trade allocation to the member counterparty, can be conducted.

Please see the Euronext.liffe Trading Procedures for further details.

● Contacts

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- Euronext Amsterdam Derivative Markets, which is a regulated market under Dutch Law;
- Euronext Brussels Derivatives Market, which is a regulated market under Belgian Law;
- Euronext Lisbon Futures and Options Market, which is a regulated market under Portuguese Law;
- LIFFE Administration and Management, which is a Recognised Investment Exchange under English Law;
- MATIF and MONER, which are regulated markets under French Law.

All are regulated markets under the European Union's Investment Services Directive.

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