



## LAUNCH OF THE BONO 10 FUTURES CONTRACT (Spanish 10-year Government Bond)

**On Tuesday, 29 May, MEFF will launch a new futures contract on a Spanish 10-year Notional Bond based on long-term Spanish Government bonds.**

The introduction of this contract meets the need for hedging instruments specifically for Spanish government debt and the contract will be explicitly supported by six institutions who have committed to act as liquidity providers. **Banco Popular, Bankia, Bankinter and CECA** will commence on the first day of trading; **Banco Santander and BBVA** will commence at a later date. These institutions will quote the first expiration, with a maximum spread of 80 points, provided that market conditions will allow this, at their own discretion.

The Notional Bond futures will provide fixed income fund managers and traders with the opportunity to use various investment and/or trading strategies:

- Increase or decrease the exposure to Spanish government debt in a bond portfolio for a certain time by buying or selling futures and without needing to buy or sell bonds in the cash market.
- Spread trade between two different government bond futures contracts, by buying one contract and selling the other one, based on a particular view of the spread.
- Cash-Futures arbitrage transactions.
- Adjustments to the duration and sensitivity of a bond portfolio.



The specifications of this contract are as follows:

- **Underlying Asset:** Notional bond theoretically issued at par on the expiration day of the Futures Contract, with a maturity of ten years, **annual 6% coupon** and a notional value of one hundred thousand euros.
- **Contract Notional Value: 100,000 euros.**
- **Expirations:** Admitted to trading and register, at least, the three closest expirations of the March-June-September-December cycle. Actual listed expiration months will be communicated in a Circular. **On 29 May, the September and December expirations will be listed; and the March 2013 will be listed on 8 June.**
- **Expiration Date:** 10th day of the maturity month. If this is a holiday, the next Business Day.
- **Settlement Day:** Deliveries of the Underlying Asset and the corresponding payments are due on the expiration date.
- **Last trading and registration day:** Two business days prior to the corresponding expiration date.
- The last business day prior to the Expiration Date, will be the first trading day of the new expiration admitted for trading and registry.
- **Deliverable Bonds:** Government Bonds with a remaining life of no less than eight years and six months (at the September 2012 expiration date, issues with 5.50% and 5.85% coupons will be deliverable).
- **Conversion factors:**

CONTRACT	<u>FB10U2</u>	<u>FB10Z2</u>	<u>FB10H3</u>
DATE OF EXPIRY	(10.09.12)	(10.12.12)	(11.03.13)
ISSUE 5,50/10			
CÓDE ES00000123B9 O	0.966680	Not del.	Not del.
EXPIRY 30.04.21			
ISSUE 5,85/11			
CÓDE ES00000123K0 O	0.989058	0.989466	0.989729
EXPIRY 31.01.22			

- **Quotation method:** Percentage of Contract notional.
- **Minimum Price Fluctuation:** One hundredth of one per cent of the contract value (one basis point), equivalent to ten euros.
- **Maximum Price Fluctuation:** None. If necessary it will be established by Circular.
- **Profit and Loss Daily settlement:** Daily, in cash, by differences with Daily Settlement Price of the previous session.
- **Settlement of Fees:** First Business Day after the Trade date.

- **Margins:** Established by Circular. (Initially they are planned to be **475 basis points per contract**).
- **Daily Settlement Price:** It will be an approximation to the "market price". Criteria will be determined by Circular. On the Expiration Date, it will be the Expiration Settlement Price.
- **Settlement Price at Expiration:** The settlement price for the BONO10 futures at the Expiration Date will be calculated by dividing the cheapest-to-deliver bond market price (ex-coupon) at the end of the session by the conversion factor of the bond.  
  
The market price of the cheapest-to-deliver bond will be the closing price for that bond determined by SENAF.  
  
In exceptional circumstances, and with prior notification to the CNMV, MEFF may use alternative methods to determine the Settlement Price.
- **Trading hours:** From 8:00 till 17:30. From 7:55 till 8:00 there will be a preopening period where orders may be placed for the auction. Auction will take place at any time – random selected – within the first 30 seconds after 8:00.

#### REUTERS Codes:

#### **Futures:**

0#FB10mv: (this is a chain)  
 FB10mvM2  
 FB10mvU2  
 FB10mvZ2

#### **Spread Futures:**

0#FB10mv-: (this is a chain)  
 0#FB10mvM2-U2  
 0#FB10mvM2-Z2  
 0#FB10mvU2-Z2

#### BLOOMBERG Code: FBBA Comdty.

The [MEFFTH Reuters page](#) shows the theoretical bid/ask prices for the BONO 10 Futures, the YTM (yield-to-maturity) of the Spanish Government bond CTD (cheapest-to-deliver) and the YTM bid/ask spread between the Spanish and German Government bonds CTD.

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