

# The Spanish Government Debt Derivatives Market.

- MEFF is the Spanish Financial Futures and Options Exchange. Since its inception in 1990, MEFF has experienced spectacular growth and is now ranked amongst the leading derivatives exchanges. This growth is due in part to the increasing number of international investors trading MEFF contracts.
- MEFF is a fully electronic Exchange. One of the keys behind MEFF's success is the comparative advantage gained from integrating both electronic trading and clearing functions in the same technological platform. This ensures more flexibility in trading and clearing contracts, whilst providing a more solid guarantee and increased transparency across the market. Electronic trading means rapid access to the market, transparency in prices and cost efficiency.
- On June 26, MATIF and MEFF Renta Fija signed an alliance to connect their electronic trading platforms providing reciprocal access to contracts for their Exchange members. This alliance, called Euro-Globex, is open to other exchanges.
- This document is intended to present international clients with the information they need to invest in MEFF's interest rate futures and options products.





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# MEFF RENTA FIJA

MEFF Renta Fija, located in Barcelona, is the Financial Futures and Options Exchange and Clearing House for peseta denominated fixed income products.

MEFF RF is a subsidiary company of MEFF Holding, also based in Barcelona, which oversees the organisation and development of the Spanish Derivatives Market. MEFF's 40 shareholders include the major Spanish Banks, Savings Banks and the four Spanish Stock Exchanges.

MEFF RF has been granted Designated Investment Exchange status by the Securities and Investments Board (SIB) and is classified as a Recognised Overseas Investment Exchange by the British Treasury. During 1995 the CFTC authorised the sale of MEFF RF's products in the USA and granted CFTC Part 30 Relief for Exchange Members.

The futures and options contracts traded, cleared and settled at MEFF RF include short term interbank interest rate contracts as well as long term bond contracts.

MEFF RF began trading on March 16th, 1990 and has since become one of the world's largest Futures and Options markets.

MEFF Renta Variable (MEFF RV) is the sister exchange based in Madrid and lists equity derivative contracts. Both Exchanges have the same regulations and are both owned by MEFF Holding Corporation. The Holding Company and both Exchanges share the same Board of Directors.

## EURO-GLOBEX

The French and Spanish derivative exchanges (MATIF, MONEP and MEFF) signed in June 1998 a Memorandum of Understanding (MOU) to create a partnership called Euro-Globex.

Under the terms of this MOU, members of each participating Exchange will gain access to contracts of the other Exchanges through an interconnection of their respective electronic platforms.

Implementation of cross-access trading will take place in January 1999 for members of MEFF Renta Fija and MATIF. The partnership will then be extended to members of MEFF Renta Variable and MONEP.

Cross access between MEFF and MATIF will be implemented as follows:  
access of MEFF members to MATIF contracts: MEFF members, and their customers, will access MATIF products through MEFF Euro Services (EUROMEFF), a Spanish brokerage set up by MEFF. EUROMEFF, which has the status of investment services firm and holds a European passport, is a trading and clearing member of MATIF. This access will be operational by the end of this year.

Access of MATIF members to MEFF contracts: cross-exchange trading will be organized to enable MATIF members to trade MEFF Renta Fija products directly. Members willing to trade Spanish products will enter into a commercial relation with a MEFF clearing member to have their transactions cleared.

Euro-Globex, which will be open to other exchanges, is the European component of the Globex Partnership already formed by the Chicago Mercantile Exchange (CME) and MATIF and based on the principle of cross exchange access, which allows members of one exchange to trade the products of another and thereby expands the distribution network for both exchanges.

# 1. ACCESS TO THE MARKET: MEMBERSHIP STRUCTURE

## 1.1 MEMBERSHIP AT MEFF

Membership and the ownership of the Exchange is separate. Members of the Exchange need not be stockholders. Unlike the stock, Exchange membership is non-tradable nor transferable.

According to Market Regulations, all members of MEFF must be classed as at least one of the following:

Non-Clearing Member  
Clearing Member  
Custodian Clearing Member

Non-Clearing Member. A Non-Clearing Member can trade directly on the market for its own account and on behalf of clients. An agreement should be established with one or more Clearing Members through which trades will be cleared and settled.

Normally, the trading Members are exclusively brokers trading on behalf of third parties for commission. They do not have any settlement function.

Clearing Member. In addition to the functions of a Non-Clearing Member, a Clearing Member must settle daily profits and losses and post margins for open positions for all transactions executed for house account, client accounts and for other member accounts for which such an agreement exists.

A Clearing Member must also have a contract with one or more Custodian Clearing Members with which margins will be posted and adjusted.

Custodian Clearing Member. In addition to the functions Clearing Member, a Custodian Clearing Member holds all margins posted by Clearing Members.

According to Exchange Rules and Regulations there is a fourth complementary category which may be held in addition to any of the above three: this is the Market Maker category.

Market Makers exist for a number of contracts designated by the Exchange. Members that meet the requirements set out in the Exchange circulars may become market makers.

Membership requirements.

Membership status can be achieved by any Bank, Savings Bank, Securities Broker-Dealer ("Sociedad de Valores"), Securities Broker ("Agencia de Valores") or any other class of institution authorised under the Spanish Securities Markets Act ("Ley del Mercado de Valores").

Additionally a Custodian Clearing Member must be a Government Debt Book-Entry Management Institution with full powers to hold accounts for third parties ("Gestoras de deuda pública con capacidad plena") in order to be custodian of margins (ORDER of 31 October, 1991 - State official register or "BOE" of 8th November, 1991).

A Clearing Member, whether or not a Custodian Member, must ensure that in order to make or receive payments to or from MEFF, it has a treasury account with the Bank of Spain. Those Members who do not have such an account must have an agreement to enable cash settlement with MEFF via a financial institution that possesses a treasury account. This financial institution will not relieve the Clearing Member of any clearing responsibilities. Furthermore the Clearing Member must enclose with their membership application a review of their risk control procedures. In addition MEFF is able to request further information as considered necessary in order to evaluate the capacity, and resources of the applicant firm to conduct business at MEFF.

An institution wishing to become an Exchange member has to hold a contract with MEFF, in which it accepts the Rules & Regulations of the Exchange. Finally it has also to be specifically authorised by the CNMV (Spanish financial regulatory body for financial intermediaries and exchanges).

Note that membership of MEFF Renta Variable (the equity derivatives Exchange) does not imply membership of MEFF Renta Fija even though both memberships are granted by the same Board of Directors.

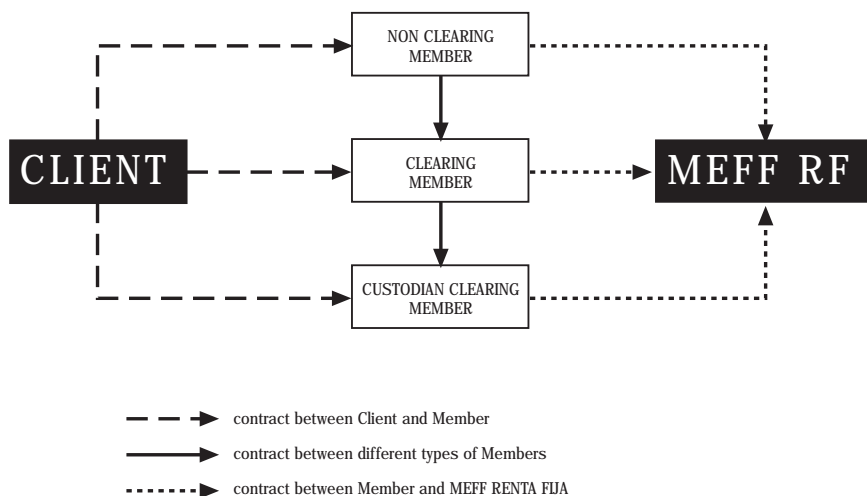
The above institutions are either under the supervision of the CNMV ("Comisión Nacional del Mercado de Valores") or the Central Bank of Spain depending on whether they are Broker-Dealers or Banks respectively.

The Spanish Securities Market Act states that a Securities Broker-Dealer ("Sociedad de Valores") must have a minimum capital base of PTA 750 million and may trade on their own account and on behalf of third parties. A Securities Brokers ("Agencia de Valores") has a minimum capital base of PTA 150 million and may only trade on behalf of third parties.

**1.2 ACCESS TO THE MARKET**

All Exchange members have dealing terminals, connected to the central computers at the head offices of MEFF, through which all orders are introduced.

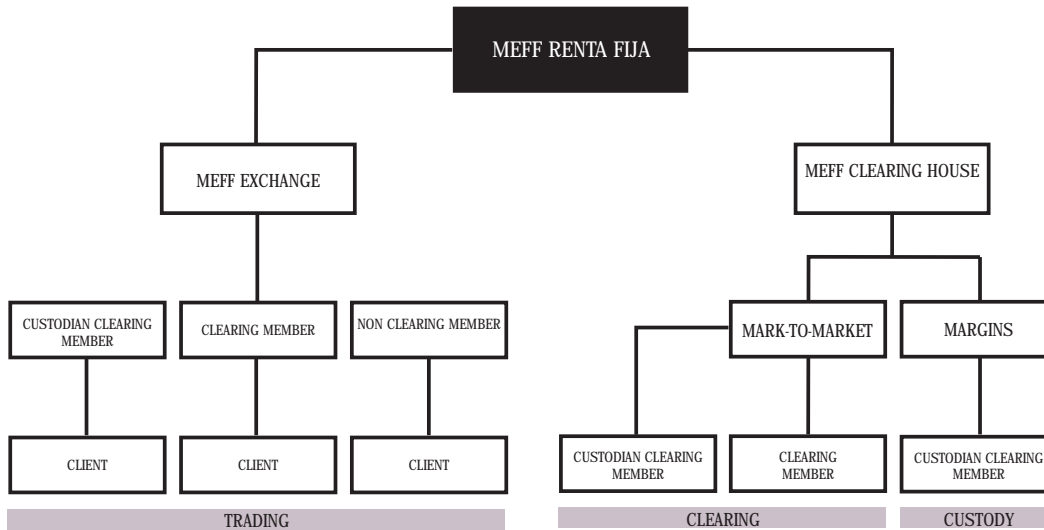
Any client wishing to trade futures and options at MEFF can access the market through any class of member (see membership structure). The client must be an Account Holder, by having signed an agreement with one or various Exchange members in which accounts are opened at MEFF with each member exclusively for the use of trading futures and options. In this way a customer can hold several accounts by signing customer agreements with different members.



MEFF will advise all members of those clients who hold open accounts with multiple members if their overall open position exceeds a determined number of contracts.

Margins and mark-to-market settlements are made through Clearing Members whether or not Custodians. Non-Clearing Members are under obligation to clear accounts through Clearing or Custodian Clearing Members.

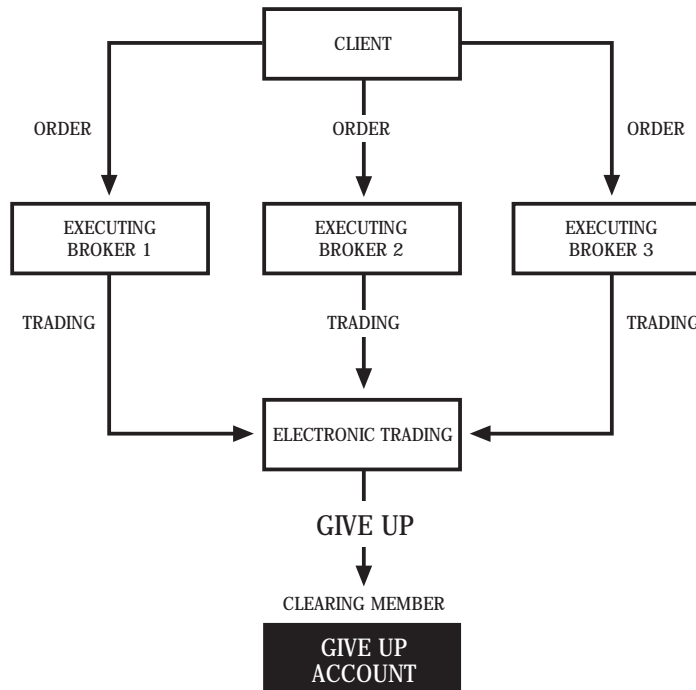
This structure can be represented as follows



Thus the client settles and clears through each Clearing Member with which it holds an account. However if a client trades through various brokers, and therefore holds open accounts with several members, the client can vastly simplify settlement procedures, payment of fees and posting of margins by the use of a Give Up Account.

Give up account facility.

Members may act as executing brokers for their clients. Thus clients may give instructions to "give up" trades to a central account cleared by an Exchange Clearing Member of their choice in order to centralise clearing and settlement of positions. As a result margin requirements are reduced because margins are charged net on the client's overall position.



Opening a give up account.

- 1- The Client requests an Exchange member to open a give up account and act as the central account Clearing Member. The Client also requests executing brokers to open separate accounts in which registered trades must be allocated to the central account.
- 2- The central account Clearing Member gives a list to the Exchange of all executing brokers authorised by the customer to allocate trades to the client's give up account.
- 3- The central account Clearing Member assumes the responsibility for the positions registered in the give up account as soon as they are allocated. The give up process is immediate and takes place in real-time immediately as soon as the trade is executed.

Daily Account Facility.

Although trades must be assigned to an Account Holder before introducing an order, MEFF has what is known as a Daily Account facility in order to accelerate order entry. Members trading both on own account and on behalf of clients can register trades executed during the day in this account. In this way the Daily Account allows quick and efficient order execution.

Note that orders are only registered temporarily in the Daily Account facility. By the end of the trading day the Member must assign all trades to the correct client accounts. Open positions that still remain pending in the Daily Account at the end of the trading session will be assigned to a member's residual account, which will be opened for this purpose.

Finally, Exchange members must submit to MEFF a signed contractual agreement stating their relationship with clients and other members (article 8 of the Exchange Rules and Regulations). Moreover, MEFF has drawn up a standard framework contract for the give up agreement.

### 1.3 EXCHANGE FEES

In order to oversee and manage the market, MEFF charges Exchange members commissions. These are paid through Clearing Members for all trades executed on the market.

Exchange fees for all futures and options contracts are set out in the relevant Exchange circular and take into account the different types of possible trades (Market trades, ex-pit trades, expiration, exercise and spread or roll-over trades).

Exchange fees are sub-divided into trading and clearing fees to allow members to differentiate between the trading and clearing services provided to clients. On top of Exchange fees, customers and members agree their own fees.



## 2. THE EXCHANGE: CONTRACTS AND TRADING ON MEFF

MEFF Renta Fija trades futures contracts on interest rates and options on those futures with time horizons from 90-days to 30-years.

Short-term risk is covered by the 90-day MIBOR futures contracts. This instrument complies with international standard features and is priced and quoted in the same way as similar futures contracts in other international exchanges.

For long-term interest rate risk MEFF offers 5, 10 and 30-year government bond futures and options contracts, with these contracts also meeting international specifications.

### Liquidity

MEFF Renta Fija has experienced rapid growth since its creation and has positioned itself as one of the leading European Futures Exchanges for fixed income products. The futures contract on the 10-year Bono is highly liquid, enjoying strong trading support, and has become the benchmark on the long-term Spanish interest rate.

The increasing proportion of trading conducted by non-resident clients has boosted liquidity providing evidence of MEFF's appeal as an international Exchange.

**2.1 CONTRACT SPECIFICATIONS**

		FUTURE		OPTION	
	MIBOR '90 Plus	EURIBOR	MIBOR '90 Plus	EURIBOR	
<b>Underlying</b>	Interest rate on a ninety-day interbank deposit. The reference rate of the interbank market is the MIBOR (Madrid Interbank Offered Rate)	3-month Euribor: average interbank offered rate to prime banks in the EMU for 3-month term deposits, published by FBE/ACI	MIBOR '90 futures contract.	3-month Euribor futures contract.	EURIBOR
<b>Contract Size</b>	PTA. 100,000,000 Euro 1,000,000 from 1.1.99	1,000,000 ECU until December 31, 1998 1,000,000 euros beginning January 1, 1999	1 futures contract.	1 futures contract.	
<b>Contract Month</b>	Eight months in the march, June, September and December quarterly cycle (See page 14 for Mibor Plus facilities)	2 monthly and 20 successive quarterly contract cycles out of March (H), June (M), Setembar (U) and December (Z)	The eight nearest months of the quarterly cycle (March, June, September, December)	2 consecutive monthly contracts and 4 successive quarterly contracts out of March(H), June (M), September (U), December (Z) plus 1 mid-curve option contract on the quarterly contract cycle of the futures contract. Monthly clearing and the quarterly settlement of the futures contract immediately following.	
<b>Last Trading Day</b>	The same day as the expiration date (10:00 a.m.)	The same day as the expiration date (11:00 a.m.)	American.	American.	
<b>Expiration Date</b>	Two business days prior to the third Wednesday of the contract month. If it coincides with a holiday, it shall be the following business day.	The 2nd trading day preceding the 3rd Wednesday of the contract month at 11:00 a.m.	Two business days prior to the third Wednesday of the contract month.	The 2nd trading day preceding the 3rd Wednesday of the contract month at 4:30 p.m. for monthly and mid-curve option contracts, 11:00 a.m. for quarterly cycles.	The same date as the expiration date (10:00 am) (same date and time as the underlying futures contract)
<b>Quotation Method</b>	Index Base 100 Where 100.00 = Futures Price = Implied Interest Rate.	Index quoted to the 3rd decimal point, corresponding to: 100 minus the 3 month Euribor rate.	Multiples of PTA. 2,500 25 Euro from 1.1.99	Premium expressed as a percentage of the nominal value, quoted to the 3rd decimal point.	
<b>Tick Value</b>	One basis point, equal to PTA. 2,500 25 Euros from 1.1.99	1/2 basis point (0,005%), equivalent to 12.50 euros (ECU to 31/12/98)	One basis point, equal to PTA. 2,500 25 Euros from 1.1.99	1/2 basis point (0,005%), equivalent to 12.50 euros (ECU to 31/12/98)	
<b>Settlement at Expiration</b>	Cash settlement. Settlement price = 100 - 3 month FRA interest rate at expiry. The 3 month FRA interest rate is calculated and published by the Bank of Spain according to the Money Market's Telephone Handbook of the Bank of Spain ("Manual del Servicio Telefónico del Banco de España"). REUTERS (current page): BANDE	Cash settlement. The closing settlement price is equal to 100 minus the 3-month Euribor spot rate on the settlement date, rounded off to the nearest tick (3 decimals)	Exercise or expiration.	Exercise of the option involves the purchase or the sale of a 3-month Euribor contract outright. At maturity, automatic exercise of in-the-money options.	
<b>Margining</b>	Margin is calculated taking into account the overall futures and options portfolio. (see Page 22)	Margin is calculated taking into account the overall futures and options portfolio.	Margin is calculated taking into account the overall futures and options portfolio.	Margin is calculated taking into account the overall futures and options portfolio.	
<b>Trading Hours</b>	9:00 a.m. - 5:15 p.m. (Spanish time)	Pre-opening: 7:00 a.m. - 8:00 a.m. Main session: 8:00 a.m. - 22:00 p.m. Change of clearing day: 4:30 p.m.	9:00 a.m. - 5:15 p.m. (Spanish time)	Pre-opening: 7:00 a.m. - 8:00 a.m. Main session: 8:30 a.m. - 4:30 p.m. (open outcry) 8:00 - 8:30 a.m. and 4:30 - 10:00 p.m. (NSC) Change of clearing day: 4:30 p.m.	
<b>Launch Date</b>	October 22, 1990.	September 15, 1998.	April 3, 1992.	September 15, 1998.	

<b>FUTURE</b>		<b>OPTION</b>	
5-YEAR BONO		5-YEAR BONO	
<b>Underlying</b>	Notional Government Bond with a 5,5% annual coupon.		
<b>Contract Size</b>	PTA. 10.000.000 Euro 100,000 from 1.1.99	1 futures contract.	
<b>Contract Month</b>	March, June, September and December.		
<b>Exercise Style</b>		American.	
<b>Last Trading Day</b>	Two business days prior to the settlement date.	The same day as the expiration date.	
<b>Expiration Date</b>	Third Wednesday of the contract month. If it coincides with a holiday, the following business day.	First Wednesday of the contract month.	
<b>Quotation Method</b>	In percentage of nominal.	Multiples of PTA. 1.000 10 Euro from 1.1.99	
<b>Tick Value</b>	One basis point, equal to PTA. 1.000 10 Euros from 1.1.99	One basis point, equal to PTA. 1.000 10 Euros from 1.1.99	
<b>Settlement at Expiration</b>	Delivery.	Exercise or expiration.	
<b>Margining</b>	Margin is calculated taking into account the overall futures and options portfolio. (see Page 22)	Margin is calculated taking into account the overall futures and options portfolio.	
<b>Trading Hours</b>	9:00 a.m. - 5:15 p.m. (Spanish time)		
<b>Launch Date</b>	November 7, 1997.	November 7, 1997.	

	FUTURE		OPTION		MONTHLY OPTION
	10-YEAR BONO		10-YEAR BONO		CONTRACT ON THE 10-YEAR GOVERNMENT BOND FUTURE
Underlying	Notional Government Bond with a 6.5% annual coupon.		10-year Government Bond futures contract.		10-year Government Bond futures contract.
Contract Size	PTA. 10,000,000 Euro 100,000 from 1.1.99		1 futures contract.		1 futures contract.
Contract Month	March, June, September and December.		Options on the next two futures contracts of the quarterly cycle (March, June, September and December)		The two nearest months.
Exercise Style			American.		American.
Last Trading Day	Two business days prior to the settlement date.		The same as day the expiration date.		The same as day the expiration date.
Expiration Date	Third Wednesday of the contract month. If it coincides with a holiday, the following business day.		First Wednesday of the contract month (two weeks prior to the underlying futures contract expiration date)		First Wednesday of each month.
Quotation Method	Percentage of nominal.		Multiples of PTA. 1.000 10 Euros from 1.1.99		Multiples of PTA. 1.000 10 Euros from 1.1.99
Tick Value	One basis point, equal to PTA. 1,000 10 Euros from 1.1.99		One basis point, equal to PTA. 1,000 10 Euros from 1.1.99		One basis point, equal to PTA 1,000 10 Euros from 1.1.99
Settlement at Expiration	Delivery.		Exercise or expiration.		Exercise or expiration.
Margining	Margin is calculated taking into account the overall futures and options portfolio. (See Pag. 22)		Margin is calculated taking into account the overall futures and options portfolio.		Margin is calculated taking into account the overall futures and options portfolio.
Trading Hours	9:00 a.m. - 5:15 p.m. (Spanish time)		9:00 a.m. - 5:15 p.m. (Spanish time)		9:00 a.m. - 5:15 p.m. (Spanish time)
Launch Date	April 10, 1992.		April 10, 1992.		January 11, 1994.

<b>FUTURE</b>		<b>OPTION</b>	
<b>30-YEAR BONO</b>		<b>30-YEAR BONO</b>	
<b>Underlying Asset</b>	Notional Government Bond with a 6.5% annual coupon.	30-year Notional Government Bond futures contract.	
<b>Contract Size</b>	Pta. 10,000,000 Euros 100,000 from 1.1.99	1 futures contract.	
<b>Contract Month</b>	March, June, September and December.	The two nearest months of the quarterly cycle and the first two expiries of the quarterly cycle.	
<b>Exercise Style</b>		American.	
<b>Last Trading Day</b>	Two business days prior to the expiration date.	The same day as the expiration date.	
<b>Expiration Date</b>	Third Wednesday of the contract month.	First Wednesday of the contract month.	
<b>Quotation Method</b>	Percentage of nominal.	Multiples of PTA. 1.000 10 Euros from 1.1.99	
<b>Tick Value</b>	One basis point, equal to PTA. 1.000 10 Euros from 1.1.99	One basis point, equal to PTA. 1.000 10 Euros from 1.1.99	
<b>Settlement at Expiration</b>	Delivery.	Exercise or Expiration	
<b>Margining</b>	Margin is calculated taking into account the overall futures and options portfolio. (see page 22)		
<b>Trading Hours</b>	9:00 a.m. - 5:15 p.m.	9:00 a.m. - 5:15 p.m.	
<b>Launch Date</b>	June 23, 1998.	June 23, 1998.	

## 2.2 TRADING FACILITIES

Two trading facilities for MIBOR Plus contracts are available in the electronic trading system namely the Money Yield Curve Facility and Strip Facility. They are not classified as futures contracts as trading them involves the simultaneous trade in existing contracts of MIBOR'90 Plus and MIBOR'360 Plus. As such, these facilities improve efficiency and liquidity on the MIBOR futures contracts.

Money Yield Curve Facility assists trading in the short end of the Spanish yield curve by linking MIBOR'90 Plus and MIBOR'360 Plus with the same expiry date. This facility involves two simultaneous trades on these contracts with a given spread.

Each Money Yield Curve contract traded consists of one contract in MIBOR'360 Plus and four contracts in MIBOR'90 Plus.

Strip Facility is derived from the mathematical relationship of four consecutive MIBOR'90 Plus contracts and one MIBOR'360 Plus contract.

Each Strip Facility traded consists of one MIBOR'360 Plus contract and four MIBOR'90 Plus contracts of consecutive expiries.

## 2.3 ADAPTATION OF MEFF RENTA FIJA TO THE EURO

In harmony with the Spanish underlying markets, on the first business day of 1999 MEFF Renta Fija will convert the contracts which it trades, clears and settles to euro denominated contracts.

The whole conversion process will be guided by the following general principles:

- . Protection of the investor's interests, that is, it is guaranteed that in the conversion of open positions the value of portfolios will be maintained and adjustments and rounding will be compensated.
- . Complete transparency in the conversion process.
- . No obligation to convert positions opened before the conversion process to euro is included in the General Conditions of the contracts.

- . Neutrality with respect to the formation of prices, given that the conversion process will in no way impinge upon any of the variables that determine prices.
- . Parallel activity with the underlying markets, making the conversion from pesetas to euro at the same time and in perfect harmony. Thus, the Spanish Government Debt market will make all public debt issues in euro from 1999 and redenominate all outstanding Government Debt in euro during the first week after Spain's entry in the third phase, in line with the "Big Bang" approach.
- . Transfer of maximum liquidity to the new contracts, avoiding the fragmentation that would occur if peseta and euro contracts were to be maintained in coexistence over the same underlying.
- . Continuity in trading, settlement, clearing and margin calculation processes, which will continue their normal course without being affected by the conversion processes. In this way the inconvenience to Members and Clients trading on MEFF Renta Fija will be minimised.
- . Minimum cost, maximum efficiency, in the overall conversion process.

In line with these principles, the conversion method is designed to guarantee simplicity, convenience and efficiency and to minimise distortions. The General Conditions of the contracts will be modified to ensure that the process is effective, restricting the right to maintain open positions at the time of the changeover. Only holders with positions opened prior to approval of the amended General Conditions will have the option of not converting said positions. Additionally, this change will be reinforced by Market Makers transferring their activity to the new euro contracts, ensuring that the position not converted to euro will be minimised. This meets the principle of maximising liquidity in the transfer whilst respecting the principle of no obligation to convert those positions previously opened.

The principal change will be the effect on the size of the contracts. The nominal value of the new contracts will be 100,000 euro for the 10-year Bono, 30-year Bono, 5-year Bono and 1,000,000 euro for MIBOR'90 Plus.

After extensive simulations, it has been observed that more than 99% of the open interest is converted, ensuring that maximum liquidity will be transferred to the new contracts.

Consequently, the effect on marking to market (equal to the value of the untransferred fraction) and the impact on the margins will not be significant. The results of the conversion will be announced after the close of the trading session on 31/12/98, as soon as they are available.

Conversion of the Contracts: Characteristics of the new contracts.

The new euro contracts will have the same characteristics as the existing peseta contracts, with the exception of the nominal value, which will increase in size to meet international standards:

	NOMINAL VALUE	TICK VALUE'
BONO 5	100,000 euro	10 euro
BONO 10	100,000 euro	10 euro
BONO 30	100,000 euro	10 euro
MIBOR'90 Plus	1,000,000 euro	25 euro
MIBOR'360 Plus	1,000,000 euro	100 euro
GERMAN DIFF	100,000 euro	10 euro

Note: complete information about these processes is provided in the following documents at MEFF's web site ([www.meff.es/euro](http://www.meff.es/euro))

- "Adaptation of MEFF Renta Fija to the Euro"
- "Technical guide to conversion"

Printed copies can be requested from MEFF's Marketing Department.

## 3. MEFF RENTA FIJA: THE CLEARING HOUSE

MEFF's purpose is to organise the trading, clearing and settlement of its contracts. As such MEFF acts in a twofold capacity, both as Exchange and Clearing House.

The basic functions of MEFF as Clearing House are:

- 1 - The calculation and custody of margins
- 2 - The settlement of profits and losses (realised profits and losses, non-realised profits and losses, option premiums and fees)
- 3 - Delivery arrangements

### 3.1 MARGINS REQUIREMENTS

There are 3 types of margin at MEFF:

- .General Guarantee or Basic Performance Bond
- .Initial Margin (also called Daily Margin)
- .Extraordinary Margin

GENERAL GUARANTEE or BASIC PERFORMANCE BOND: On becoming a Member of the Exchange, Clearing Members are required to post a permanent guarantee by allocating book-entry Spanish Government Debt in MEFF's favour via the book-entry system of the Bank of Spain. The General Guarantee is a minimum of PTA. 40 million for all clearing members as is set out in the corresponding circular of MEFF.

The objective of the General Guarantee is to cover "overnight risk". This is the risk associated with the open positions held by both Clearing Members and their clients from the time such positions are opened to the time they are covered by the initial margins or closed out. Thus the implicit daily trading limit is the maximum "overnight" risk which a Clearing Member may assume for itself or on behalf of clients or other Non Clearing Members.

The daily trading limit is calculated as follows:

Daily Trading Limit = 2% Shareholder's Equity + General Guarantee.

Members who wish to increase their daily trading limit can do so by increasing the level of funds pledged as General Guarantee or obtaining a limit loan from another Clearing Member.

INITIAL MARGIN or DAILY MARGIN: The initial margin is a daily cash deposit required for all open positions to cover the risk generated by adverse price and volatility movements. Deposits are held as guarantee by Custodian Clearing Members on behalf of the Clearing House and are returned on closing the position.

Initial margin rates for futures are set by MEFF according to analysis of historical price movements and known forthcoming price sensitive events.

The margining system is analogous to those used by the major clearing houses around the world (e.g. SPAN). MEFFCOM2 is MEFF's "Risk Based Margining System" that provides real-time cross margining system between futures and options. It has been designed to guarantee the financial integrity of the Clearing House, while also enabling members to closely monitor position risk and thus meet financing requirements as efficiently as possible.

The system works by analysing a portfolio calculating the worst-case scenario under a series of different market conditions that involve price movements and variations in volatility. The Daily Margin requirement is then set as the amount that it would cost the Clearing House to close an account holder's ("titular de cuenta") position under the worst case scenario. As the holder's net risk position is considered, the overall portfolio risk is less than the sum of the individual risks associated with each contract included in the portfolio. Thus funds posted to the Clearing House are optimised.

Custodian Clearing Members have custody of margins. For this purpose MEFF has an account with Custodian Clearing Member institutions in which Clearing Members post margins in cash. With these funds the Custodians purchase one-day repos using the Book-entry system of the Bank of Spain and on completion of this daily process must notify MEFF. These assets will serve as the collateral for the Exchange.

**EXTRAORDINARY MARGIN:** In addition to the daily margin requirement, extraordinary margins may be called under exceptional market circumstances or as a result of positions held that MEFF believes to be high risk.

When a contract is close to exceeding its maximum daily fluctuation limits during a trading session, there may be an intraday margin call calculated according to the following formula:

$$\text{EXTRAORDINARY MARGIN} = \text{Current Margins} - \text{Margins from previous session} + \text{Net Realised Losses in Futures} + \text{Net Unrealised Losses in Futures} + \text{Option premiums due} + \text{Fees}$$

This margin call is somewhat like an extra clearing process undertaken in advance without disruption to trading.

The rules and regulations of MEFF place no restrictions whatsoever on the type of collateral that members can accept from their clients. MEFF is not the beneficiary of returns which may be yielded by the margin deposits.

### 3.2 MARK-TO-MARKET

On a daily basis MEFF calculates both the profits and losses from futures and options trades undertaken during the trading session (option premiums are paid or received when opening or closing a position).

The results of daily clearing are available on the trading terminals within a few minutes after the end of the trading session.

Daily settlement is carried out by those Clearing Members, whether or not Custodians, via their treasury accounts held at the Bank of Spain taking the following day as the value date. Those Clearing Members that do not hold a treasury account at the Bank of Spain must designate an agent bank to handle their cash movements. Note that this case does not imply any transfer of liability from the Clearing Member.

Should a Clearing Member not have sufficient funds in his treasury account, MEFF will then proceed to collect the amount unpaid by liquidating the margins posted according to the procedures set out in the Rules and Regulations of the Exchange. In this way MEFF guarantees all payments.

### 3.3 CLEARING HOUSE GUARANTEE AND RISK MANAGEMENT

In its role as Clearing House MEFF has implemented and in many cases improved all the standard trading and clearing safety mechanisms. For example MEFF has a robust margining system, flexible daily price fluctuation limits, real time surveillance of open interest, etc.

However the most important feature of MEFF's risk management facility is that it enables risk to be monitored in real time. At any moment during the trading session the Clearing House knows the margin requirements, and the profits and losses of each member or client. The real-time risk monitoring facility is also used by individual members to follow the risk positions of their own accounts and their clients' accounts.

A key characteristic of the guarantee provided by MEFF as Clearing House is that this guarantee not only covers the Exchange Clearing Members but also extends to their clients (those clients holding accounts with the member). The Clearing House requires Clearing Members to post margins for each Account Holder separately. This means that members cannot net margins posted by different Account Holders nor offset proprietary and customer positions. Therefore margins are said to be collected on a gross basis.

By having the Clearing House as counterparty to eliminate counterparty risk, this structure provides customers with an extra degree of safety. Note that although Custodian Clearing Members make one block margin payment by purchasing one-day repos using the Book Entry system of the Bank of Spain, MEFF as the Clearing House knows the exact margin payments of each client that make up the block payment. This means that clients funds can effectively be considered as segregated. Despite this "segregation" clearing members are ultimately responsible for client positions if a client fails to fulfill their obligations.

Exchange rules establish limits on member and client positions. Clearing Members may not post margins totalling an amount greater than 35% of shareholder equity, known as the "Open Position Limit". This amount may be increased by additional guarantees.

In order to prevent the concentration of risk in the market, no member or client may hold a position such that their margin requirement exceeds 25% of all margins posted at the Clearing House from all Members and clients of the Exchange. However this limit may be exceeded with authorisation from MEFF.

**3.4 DETERMINATION OF MARGINS**

1. Margins for "spreads" -between different expiries of each contract group-and non off-set (outright) futures positions (in PTA).

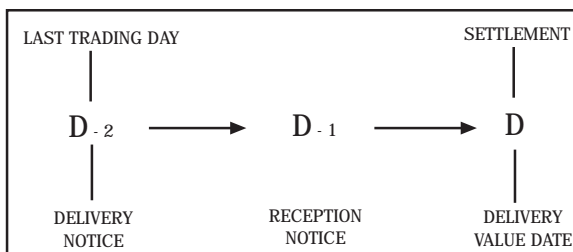
	OUTRIGHT	5-YEAR BOND	10-YEAR BOND	30-YEAR BOND	MIBOR'90Plus
5-YEAR BOND	100,000	30,000	*	*	*
10-YEAR BOND	165,000	*	40,000	*	*
30-YEAR BOND	400,000	*	*	120,000	*
MIBOR'90 Plus	75,000	*	*	*	35,000

2. Margins for "straddles" -between different contract groups- (in PTA).

	5-YEAR BOND	10-YEAR BOND	30-YEAR BOND	MIBOR'90Plus
5-YEAR BOND	*	105,000	135,000	*
10-YEAR BOND	105,000	*	120,000	*
30-YEAR BOND	135,000	120,000	*	*
MIBOR'90 Plus	*	*	*	*

**3.5 DELIVERY PROCEDURE BOND FUTURES CONTRACTS**

The delivery procedure is set out in the relevant circular and follows this general structure:



**On D-2**

- The delivery price is fixed by the Exchange as stated in the General Conditions of the contract.
- Each account holder will either have a net long or short position.
- Before 18:15h Members must notify the Clearing House of those bonds that will be delivered from the list of deliverable bonds published by the Exchange. If MEFF does not receive any notification, it is empowered to determine a default bond for delivery, which is generally the most delivered security from the basket.
- On receiving the Delivery Notice, the Clearing House allocates the delivered securities to the long side, following the FIFO (First In First Out) criteria. Thus the oldest short positions are matched with the oldest long positions.

**On D-1**

- MEFF notifies the outcome of delivery procedure to Clearing Member no later than 10:00 a.m. on the first business day following the delivery notice date.
- The Reception Notice advises the Clearing Member of details of the bonds to be received by each client (holder's account). Moreover the Clearing House confirms the deliveries to the short side.

**On D**

- The settlement day is the third Wednesday of the contract month. If it coincides with a holiday the expiration date will be the following business day.
- The invoice amount that the long side pays for the bond delivered is calculated as follows:

INVOICE AMOUNT = settlement price x PTA. 10 million x conversion factor + accrued interest.

- Deliveries and payments are made by the Clearing Members to their clients or to their non-Clearing Members before 12:00 p.m. (at noon) following the regulations of the book-entry office of the Bank of Spain. Should a Clearing Member not have direct access to the Government book-entry market it must designate an agent bank with such access to carry out these operations.

#### List of deliverable bonds (deliverable basket)

For the 5-year Government Bond future, the list of deliverable securities includes all Government securities originally issued for 5 years up until the last Spanish Treasury auction corresponding to the month in which the futures contract becomes the front month contract. All these bonds must have a remaining life of not less than 3.5 years on the deliverable date.

In addition, Spanish Treasury Bonds ("Bonos" & "Obligaciones") with an original maturity of more than 5 years are included, provided that:

- the remaining maturity of the bond is between 3.5 and 5 years at expiration of the futures contract.
- the size of the issue still outstanding is at least PTA. 300,000 million.
- the bond's monthly trading volume is not below PTA. 100,000 million during the four months preceding its inclusion in the list of deliverable issues.

For the 10-year Government Bond future, the list of deliverable securities includes all Government securities originally issued for ten years up until the last Spanish Treasury auction corresponding to the month in which the futures contract becomes the front month contract. All those bonds that were issued previously must have a remaining life of not less than seven years and six months on the delivery date.

In addition, Spanish Treasury Bonds ("Obligaciones") with an original maturity of more than 10 years are included, provided that:

- the remaining maturity of the bond is between 7.5 and 10.5 years at expiration of the futures contract.
- the size of the issue still outstanding is at least PTA. 300,000 million.
- the bond's monthly trading volume is not below PTA. 100,000 million during the four months preceding its inclusion in the list of deliverable issues.

For 10-year future the list of deliverable securities for the front month contract may be changed when there are no open positions for that contract month or when exceptional circumstances prevail.

For the 30-year Government Bond future, the list of deliverable securities includes all Government securities originally issued for thirty years up until the last Spanish Treasury auction corresponding to the month in which the futures contract becomes the front month contract. All those bonds that were issued previously must have a remaining life equal or greater fifteen years on the delivery date.

In addition, Spanish Treasury Bonds ("Bonos" & "Obligaciones") with an original maturity of more than 30 years are included, provided that:

- the remaining maturity of the bond is between 15 and 30 years at expiration of the futures contract.
- the size of the issue still outstanding is at least PTAs. 300,000 million.
- the bond's monthly trading volume is not below PTAs. 100,000 million during the four months preceding its inclusion in the list of deliverable issues.

Finally, the conversion factor for each bond shall be calculated as follows:

$$f = \frac{\sum_{s=1}^n \frac{CF_s}{(1+r)^{\frac{t_s}{365}}} - \text{ACCRUED INTEREST}}{\text{FACE VALUE OF DELIVERABLE SECURITY}}$$

f = conversion factor

CFs = cash flows; s = 1, 2, ..., n; (Fn= coupon plus redemption)

n = number of coupons due

r = interest rate (i.e. 0.065 for the 10-year Bond and 30-year Bond, 0.055 for the 5- year Bond)

ts = number of days between the delivery date and the due date of the coupons(s = 1... n)

Face value Spanish Government Bonds = PTA. 10,000

$$\text{Accrued Interest} = \frac{\text{actual number of days accrued}}{\text{actual number of days (i.e. 365 or 366)}} \times \text{coupon (PTA.)}$$

Actual/365 convention to change to Actual/Actual.

From 17 September 1998, the convention for the computational base of days used to calculate the Government Debt yields will be Actual/Actual.

This new convention will be adopted simultaneously in the underlying market and in MEFF Renta Fija.

Due to the repercussions that this change in criteria has on the calculation of the conversion factors for all expiries after September 1998, MEFF Renta Fija has prepared a circular with the new conversion factors for the 5-year, 10-year and 30-year futures contracts. This new modification is effective from 29 June 1998.

### 3.6 OPTIONS EXERCISE

All options traded at MEFF are options on the MEFF's futures contracts. Exercise style is American, meaning that the options may be exercised at any time up to expiry.

At the end of the trading session on the last trading day, option exercise will be automatic for in-the-money options. Notification of early exercise can be sent via a dealer's trading terminal. The closing price of the underlying future is used for settlement.

At expiry option exercise will be automatic even if the option is in-the money by just one tick. In some cases this may be inconvenient if, for example, exercise involves commission costs and other expenses that would make exercise uneconomical. Therefore there is a 5 minute window after the end of the trading session during which traders may notify the Clearing House if they intend not to exercise in-the-money options or do intend to exercise out-of-the money or at-the-money options.

The exercise of a call option (whether at the buyer's own discretion or as a result of automatic exercise) will generate a long position in the underlying future for the call holder (buyer), and a short position for the seller. The exercise of a put option will generate a short position in the underlying future for the holder (buyer) of the put and a long position for the seller. The number of options contracts exercised determines the number of futures contracts in the position generated as a result of exercise. Option expiration for Bond contracts occurs 2 weeks before expiry of the underlying futures contract which allows sufficient time for closing out futures positions before futures expiration.

The allocation of a counterparty for the early exercise of an option is determined automatically by computer and involves the random selection of a seller of the contract.

### **3.7 CLOSING PRICES FOR REGULAR TRADING SESSIONS**

At the end of the trading session, MEFF Renta Fija will give a closing price in accordance with the following procedure:

The closing price for the nearby futures contracts will be the average of the price of the last 12 trades weighted by their corresponding volumes.

The closing price for the other contract months will be the average of the prices of the last 6 trades weighted by their corresponding volumes.

The closing price for the other contract months will be the average of the prices of the last 6 trades weighted by their corresponding volumes.

If the number of trades during the session for a specific contract month is not greater than twice the amount stated above, the closing price will be the average between the best ASK and BID prices remaining at the end of the session. If one or both of these are not quoted MEFF Renta Fija will use the previous closing price.

Under exceptional conditions, MEFF's Market Surveillance Department will be able to set a closing price.

## 4. LEGAL AND SUPERVISORY FRAMEWORK

### 4.1 LEGAL AND SUPERVISORY FRAMEWORK

The MEFF exchange falls within the legal framework of the Spanish Securities Market Act ("Ley del Mercado de Valores") Royal Decree 1814/91 of December 20th, 1991, defines and directly regulates the futures and options exchanges in Spain.

The exchange is regulated and overseen by the Spanish Securities and Exchange Commission or CNMV ("Comisión Nacional del Mercado de Valores"). The banks who are members of MEFF are also supervised by the Bank of Spain.

The European Union Investment Services Directive is also applicable under the new Spanish Securities Market Act (LMV). The intention is to achieve what the Second Directive on Banking Co-ordination achieved for credit institutions: namely, to ensure a genuine single market for companies offering investment services. Once they have been authorised in their home country they can then go on to offer financial services in the other member states of the European Union. They would have access to these markets without having to undertake any further regulatory approval procedures.

MEFF is self-regulating via its Rules and Regulations which are complemented by the corresponding Circulars of the Exchange.

Exchange supervisory authorities.

MEFF has a Market Surveillance Committee which is charged with supervising the Exchange and ensuring it operates correctly. The trading supervisor, whose job is to ensure smooth trading, reports any incidents in the market to this committee.

The supervisory structure is as follows:

	Ministry Of Economy And Finance
	Spanish Securities And Exchange Commission (CNMV)
	Surveillance Committee
	Trading Supervisor

Comisión Nacional del Mercado de Valores (CNMV)  
Pº de la Castellana, 19.  
28046 MADRID  
Tel. +34.91.5851500

Banco de España  
Alcalá, 50.  
28014 MADRID  
Tel. +34.91.3385000

## 5. APPENDICES

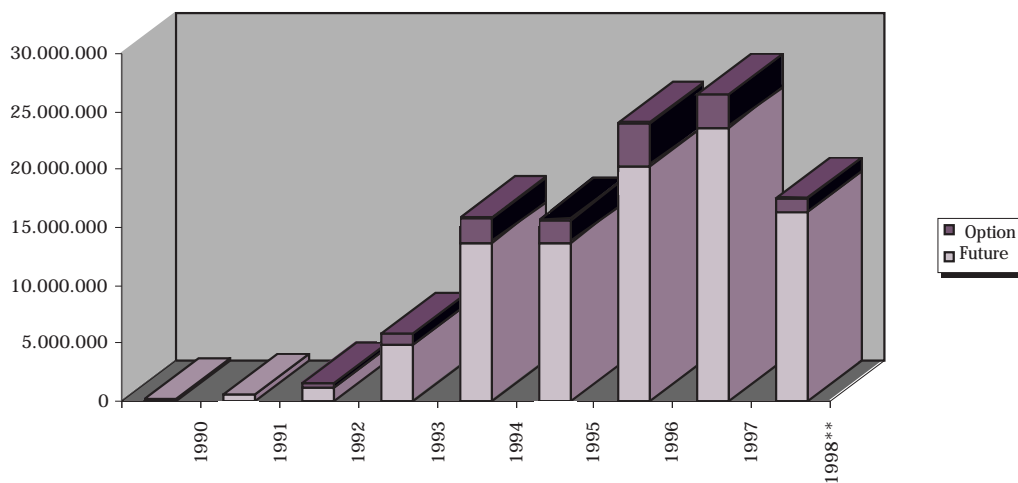
### 5.1 EXCHANGE PERFORMANCE

YEAR	TRADED VOLUME*		DAILY AVERAGE*		NUMBER OF TRADES		OPEN INTEREST	
	Future	Option	Future	Option	Future	Option	Future	Option
1990	173,170			884		12,274		5,752
1991	528,276			2,122		32,431		18,481
1992	1,081,003	382,607	4,324	2,186	40,502	6,545	30,613	3,443
1993	4,789,676	1,101,927	19,159	4,408	176,567	7,521	218,141	52,104
1994	13,621,564	2,078,500	55,148	8,415	477,129	12,561	194,314	46,087
1995	13,687,453	1,991,875	55,640	8,097	664,267	15,540	69,270	79,921
1996	20,222,238	3,708,769	80,567	14,776	1,123,890	26,840	117,651	90,764
1997	23,621,688	2,963,731	94,866	11,903	1,202,086	19,555	177,222	81,163
1998**	16,353,170	1,179,567	78,245	5,644	739,624	7,167	130,978	34,600

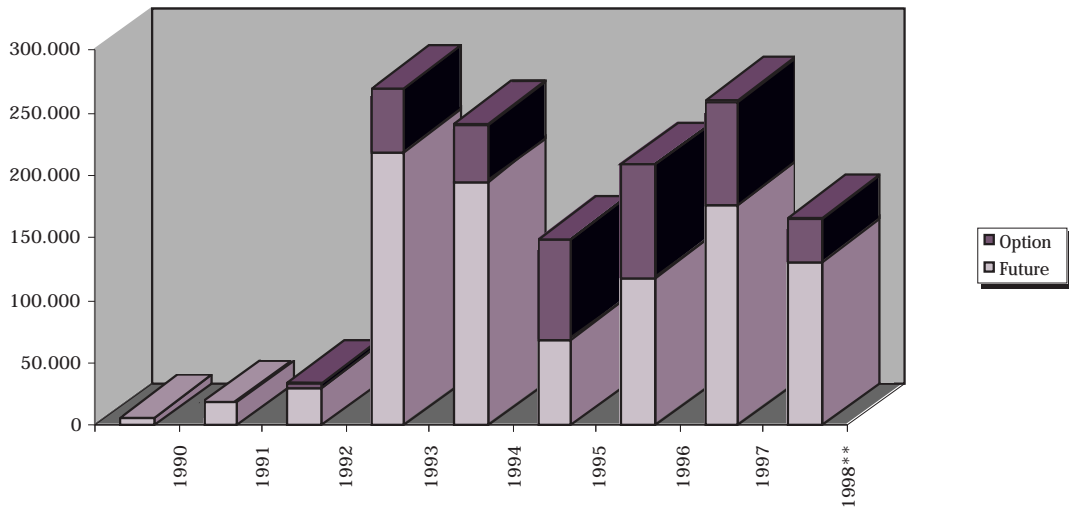
\*Figures adjusted. MIBOR contracts traded before June 1995 have been computed adjusting them to the size of the current MIBOR Plus contract (10 MIBOR contract = 1 MIBOR Plus contract.)

\*\*Up to October 98

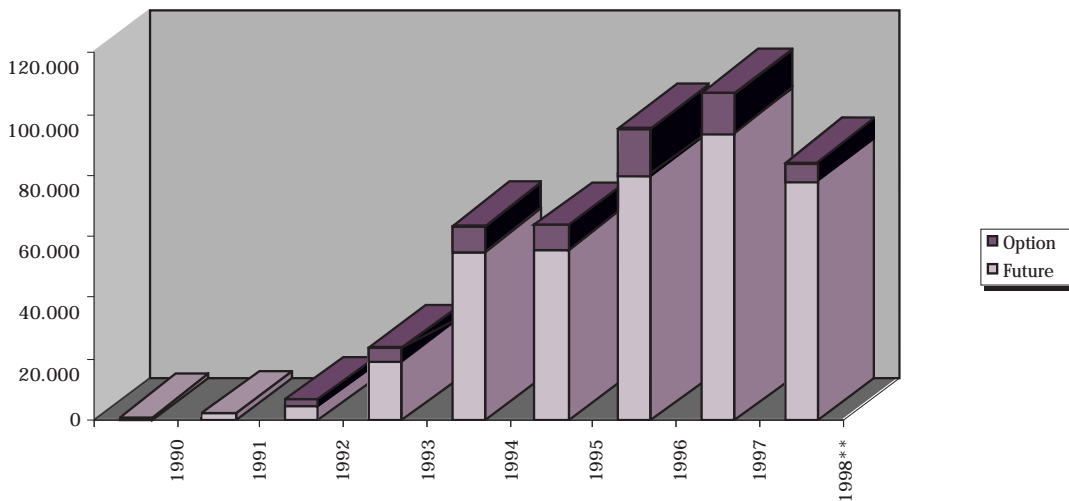
TRADED VOLUME



**OPEN INTEREST**



**AVERAGE DAILY TRADED**



## 5.2 INTERNET: [www.meff.es](http://www.meff.es)

On 18 October 1995, MEFF Renta Fija introduced its information service on the INTERNET. It rapidly became a practical means of communicating more information to Exchange members and clients. In November 1997, MEFF introduced MEFF Village: a web site dedicated to the world of futures and all relevant market information.

The idea of the futures city arose in response to MEFF's intention of maintaining an easily accessible and top quality service for its clients. The information available through this service is grouped under different headings:

- 1.- ABOUT MEFF provides a complete overview of MEFF (types of contracts, company history and description, useful contacts,...)
- 2.- STATISTICS provides all information on the last trading session (settlement, high, low, volume, open interest, ...), and historical data. It is also possible to consult the contract prices with a delay of 10 minutes, and consult any trading session on MEFF.
- 3.- MARKET gives all the information necessary to trade on the market: contract descriptions, margin requirements, trading calendar,...
- 4.- TRAINING includes all relevant information regarding the educational courses organised by MEFF, and other publications allowing you to become familiar with financial derivatives.
- 5.- TECHNOLOGY gives a description of the electronic trading system developed by MEFF: features, advantages of the system, Trading Support Terminal and MIBOS (Back-Office).
- 6.- NEWS includes latest press releases and a file containing other news since the Exchange began.
- 7.- PUBLICATIONS lists all documents available from the Exchange. These documents may be read or downloaded and printed.
- 8.- MEMBERS lists the MEFF Members, with links to their web sites.

MEFF's web site is under constant development, enabling quick and easy access to the daily information provided by the Exchange.

**5.3 CODE VENDORS OF MEFF CONTRACTS**

	MIBOR'90 Plus	5-YEARS BONO	10-YEARS BONO	10 Year Bond Monthly option	30-YEARS BONO
REUTERS Index MRF/FUTEX 1	Contract Details	MRF/MFC 1	MRF/MFF 1	.	MRF/MFT 1
	Futures (Market Depth)	MFPmy	MFCmy	.	MFTmy
	Rollover	MFPmy-my	MFFmy-my	.	MFTmy-my
BLOOMBERG Screen Index CEM MFB <GO>	Options: MRF/OPTEX 1	O#MFPmy+	O#MFCmy+	.	O#MFTmy+
	Futures	'NQmy <CMDTY>	'NVmy <CMDTY>	.	'NDmy <CMDTY>
	Options	NQmy C or P<CMDTY>	NVmy C or P<CMDTY>	.	NDmy C or P<CMDTY>
BRIDGE FINANCIAL	Money Center	1953 KM+	1952 BM+	Tmm	HM+Pag. 1952
	BRIDGE STATION	es@KM.1	es@BM.1	es@TM.1	es@Hym
	Options	KMym C/P strike	BMym C/P strike	TMym C/P strike	HMym C/P strike
TELERATE Page Index 6365	Futures Market	6360	6362	6362	2694
	Fut. Depth	6361	6363	6363	
	Rollover	6367-68	6362	6362	
	Rollover Depth	6364	6364	6364	
FININFO ESPAÑA	Quotes	my.RF/LYKmy/MYBOR'90	Bmy.RF/LYBmy/BONOSYRmy	Omy.RF/LYOmy/BONOmy	Hmy.RF/LYHmy
	Futures	Knaa	Bmaa	Omaa	Hmy
	Options	Km+Pejercicio+100+sentido	Bm+Pejercicio+100+sentido	Om+Pejercicio+100+sentido	Hmy C/P
TRADEMADE	Futures	MIBOR'90	Bono5	Bono10	Bono30
	Options	N/A	N/A	N/A	N/A
INFOLSA	Futures	MFKFmy	MFBFmy	MFOFmy	MFUT B30
	Options				MO P/C B30
UNIRED	Options				
	Futures	RFRKmy	RFRMma	RFRomy	RFRHmy
	Options	+ C ó P	RFRBma c or p	+ C ó P	RFRHmy C/P strike price
	Futures	RKmy	RBna	ROmy	RHmy
DATAOLSA	Options	+ C ó P	Rna STRICK	+ C ó P	RHmy C/P strike price
	Futures	KmyF	BmyF	OmyyF	HmaaF
DATASTREAM	Options			Omyyp/c	Hmaa C/P sssss
	Futures	MMPmmyy	MFNmmy	MDAmmy	
FUTURESOURCE	Futures	EBM	ELM	ELB	EGB
	Options	HF	DV	DO	DU
TELEKURS	Futures	Kym.127	Bym.127	oym.127	Hym
	Options				Hym C/P
SPRINTEL	Futures	MIB.my	NO	BONomy	
	Options	MK	MR	MO	ME
C.Q.G.	Futures	MK	MR	MO	ME
	Options	MK	MR	MO	ME
A.D.P.	ACG	JMPmy	SFY	JOmy	
	FSP	Kmy.EF	SFY	omy.EF	JO.EF

#### 5.4 AVAILABLE PUBLICATIONS

- Annual Report
- Exchange Rules and Regulations
- General Conditions of the contracts
- MEFF Renta Fija : An Overview
- Contract Specifications
- Monthly newsletter
- Tick Data CD - ROM
- MEFF Direct Access (Remate Terminals)

#### 5.5 OTHER

MEFF Renta Fija has full membership of:

European Committee of Options and Futures Exchanges (ECOFEX)

Managed Futures Association (MFA)

International Financial & Commodity Institute (IFCI)

Forex Club Español

SWIFT

Catalyst Institute

Should you need any further information, please contact our Marketing services at MEFF.

This document has been published for information purposes only and under no circumstances represents investment advice. No liability is accepted by MEFF Renta Fija for the use of information contained herein. MEFF Renta Fija reserves the right to alter any of its rules or regulations without prior notification which may affect the validity of the information contained in this document.

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