

NASDAQ OMX OFFERS CLEARING OF DANISH MORTGAGE BOND FUTURES

NASDAQ OMX has decided to introduce CCP clearing of a future on Danish mortgage bonds. The contract base is a basket of callable mortgage bonds issued by Nykredit Realkredit, Realkredit Danmark, Nordea Kredit Totalkredit, with final settlement occurring on the settlement date for the underlying bonds.

For many years, the Danish mortgage bond market has provided investors with efficient and liquid investments in the mortgage markets supported by market maker quotes. The new mortgage bond future will add to the investment opportunities by offering a very efficient way to hedge or adjust portfolios. Trading in the future is supported by market making governed by the Danish Securities Dealers Association.

Quick Facts

Contract Type	Futures contract with daily cash settlement and delivery at Fix on Expiry.
Contract Base	A basket of callable Danish mortgage bonds with a nominal interest rate at 5%.
Contract Base Size	Nominal value of DKK 1,000,000 per contract.
Trading	Trading is primarily performed OTC. Market makers are publishing OTC trades via NASDAQ OMX.
Clearing	Trades are reported to NASDAQ OMX Stockholm AB for clearing.
Tick Size	0.001.
Price	Clean price expressed in percentage points.
Day Count Conversion	Actual/360.
Expiration Months	March (H), June (M), September (U) and December (Z).
Final Settlement Day	Same as coupon date for underlying mortgage bonds, i.e. the first bank day in January, April, July and October.
Expiration	Three bank days prior to the final settlement day.
Fixing	Median value of indicative bid and offer quotes by market makers.
Offsetting	Offsetting can take place during the entire term.
Series Term	Three months.

Market model and central counterparty clearing

Mortgage bond futures are primarily traded in the OTC market outside the stock exchange. NASDAQ OMX has entered into agreement with a number of market makers regarding the maintenance of a market with two-way prices aimed at ensuring ample liquidity in the contract. Market makers are expected to establish indicative two-way prices in accordance with standard market practices in the Danish fixed income market. The specific details governing the market makers' requirements are decided by the Danish Securities Dealers' Association (DSDA).

Trading is preformed through a bilateral negotiation between buyer and seller. The trade is then reported to NASDAQ OMX Stockholm for clearing. Novation, meaning when the exchange substitutes existing contracts with new ones, in relation to the buyer and seller takes place when the trade details are matched and collateral has been established. There is no counterparty relationship between the buyer and seller following this; instead the clearing house will be counterparty to both parties.

Contract base and settlement principles

The underlying contract base is a basket of three or more different unit bond series (enhedsobligationer), each comprising of a minimum of 2 mortgage bonds. The nominal interest rate of all underlying mortgage bonds in the basket must be the same (currently 5%). Only bonds with a circulating nominal volume of 15 billion DKK or more are eligible to be included in the basket. To be eligible for inclusion, a unit bond series must contain at least 2 mortgage bonds ("farver"). If only one bond in a unit bond series fulfills this criterion, a second bond in this series can be added to the basket if it that bond has a circulating volume of 10 billion DKK or more. The relative distribution of the unit bond series can be found on www.nasdaqomxnordic.com.

At expiry, delivery of underlying bonds at fix is required. The relative distribution of the unit bond series are given at the time of admission to trading, however, within each unit bond series, the seller can choose freely which bond to deliver (cheapest to deliver). The delivery settlement date is the same as the coupon date for the underlying mortgage bonds in order to avoid any issues regarding accrued interest. On the bank day following expiry day, the final cash settlement of profit/loss takes place based on the expiration fixing.

When the contract is cleared, no actual payment takes place between the buyer and seller; instead, each party receives/pays from/to the clearing house.

Settlement and offsetting

All purchased and sold contracts are entirely offsettable against each other. This means that only one net position is held against the clearing house and, if the contracts sold equal those purchased, the portfolio may be said to be closed in practice.

Daily cash settlements take place on bank days at noon and are based on the profit/loss on the net position at the end of the trading day on the bank day before the settlement day.

Name standard

Contracts are listed by the designation for the nominal interest rate on the underlying bonds (currently 5), the short name MBF, a letter designation for the delivery month and the figure for the year in which the delivery month falls.

Expiration month	Letter
March	H
June	M
October	U
December	Z