

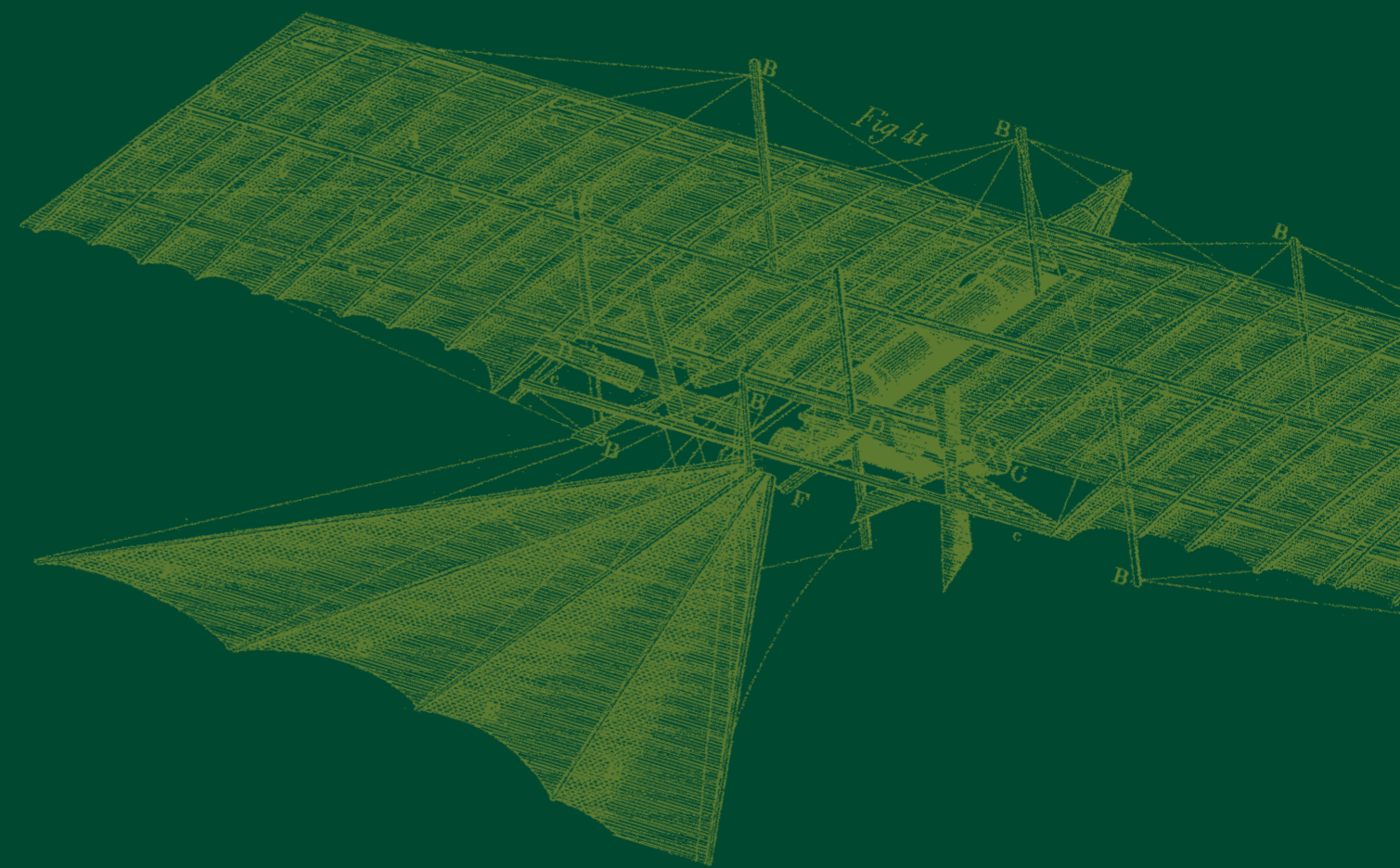
# FORTS

Futures on the 3Y and 10Y  
Moscow City bonds  
on the RTS Derivatives Market

“**Russian Trading System**” **Stock Exchange** is the oldest stock exchange of the modern Russia. Created by professional market participants in 1995, RTS is one of the leading Russian stock exchanges that lists the largest number of securities. More than 1100 securities are traded on the RTS Group markets. More than 300 investment companies and banks with both foreign and domestic client base work on RTS. In 2005 RTS Group turnover amounted to 62.7 billion US dollars, the 65.6 % increase on the year. Stocks accounted for 62 % of the total trading volume, the derivatives – for the rest.

**FORTS (Futures and Options on RTS) Derivatives Market** is the leading Russian derivatives market and the world’s leader in the single stock futures segment. FORTS accounts for more than 90 % of the total trading volume in exchange-traded derivatives. Open interest in futures and options exceeds 2.4 million contracts, daily average trading volume equals 300 thousand contracts.

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**Futures on the 3Y and 10Y Moscow City bonds** are standard long-term contracts.

The underlying asset – the basket of bonds issued by the Government of Moscow – is the benchmark Russian fixed-income market instrument. Futures on the bond basket allow investors to hedge not only risks associated with Moscow City bonds but also risks related to bonds issued by other entities.

**Futures on the 3Y and 10Y Moscow City bonds provide fixed-income traders with the following additional advantages:**

- Portfolio risk management.
- Short-selling abilities.
- Bond margin trading abilities.
- The ability to create synthetic “short-term” bonds.
- Portfolio duration management abilities.
- Reduction in transaction costs.
- Using the spreads between the short-term and long-term interest rates without using the underlying assets.
- Using the spreads between the hard currency-denominated and ruble-denominated interest rates without using the underlying assets.
- Arbitrage possibilities.

### Product Specifications

Underlying asset	Moscow City bonds (all issues) that meet the following standards: <ul style="list-style-type: none"> <li>• Time to maturity equals 28–40 months from the futures execution date for the 3-year bond basket and 76–120 months for the 10-year bond basket</li> <li>• Volume of the issue equals or exceeds 4 billion rubles</li> </ul>
Lot size	10 bonds
Contract price	Quoted in rubles per 10 bonds (accumulated coupon payments are not taken into account)
Minimal price fluctuation (tick)	1 ruble
Settlement	By delivery
Delivery months	March, June, September, December
Last trading day	The last trading day preceding the 17th of an appropriate delivery month
Delivery day	First working day following the last trading day
Initial margin (performance bond)	5 % of the contract value for the futures on the 3Y basket 7.5 % of the contract value for the futures on the 10Y basket
Trading period	10:30–18:45 Moscow time
Code of the contract	For the futures on the 3Y basket: MB3-<mm>.<yy>; where <mm> – delivery month, <yy> – delivery year For the futures on the 10Y basket: MB10-<mm>.<yy>; where <mm> – delivery month, <yy> – delivery year
Short code of the contract (RTS ticker)	For the futures on the 3Y basket: M3<m><y>; where <m> – delivery month, <y> – delivery year. For the futures on the 10Y basket: M10<m><y>; where <m> – delivery month, <y> – delivery year.  The following codes are used for the delivery months: March – H, June – M, September – U, December – Z Delivery year is coded with one digit (for instance, 2006 – 6)
Code of the contract in Reuters (Reuters ticker)	For the futures on the 3Y basket: M3<m><y>:RTS For the futures on the 10Y basket: M10<m><y>:RTS (<m> and <y> – see above)
<i>Exchange fees (including VAT, charged to each counterparty)</i>	
Transaction registration fee	0.5 ruble per contract
Scalping transactions*	0.25 ruble per contract
OTC transaction registration fee	0.5 ruble per contract
Settlement fee	1 ruble per contract
*Transactions resulting in position opening and closing during one trading session.	

### Futures on the 3Y and 10Y Moscow City bonds: possible strategies

Strategy Type	Description
Portfolio interest rate increase hedging	Holders of bonds issued by the Government of Moscow and other issuers can hedge risks related to the increase in interest rates.
Cash inflow interest rate decrease hedging	Companies planning to invest into the bond market can hedge their risks arising from potential decrease in interest rates.
Interest rate hedging preceding bond offerings	Companies planning a bond offering can evaluate the results of placement based on the real interest rates. The issuer will have to hedge an interest rate increase. The market would then reflect the expectations of all participants and thus be the most unbiased.
Short-selling	Futures on bond basket provide investors with an opportunity to sell securities they do not actually possess taking advantage of the possible increase in interest rates.
Margin-trading (interest rate speculation)	Futures on the bond portfolio are an attractive instrument for speculative operations with interest rates since they provide trading participants with a 1 : 20 margin requirement (the minimal size of a performance bond for each open position equals 5 % of the contract value).
Buying/selling of the short-term synthetic bonds (repo operations)	By buying bonds and selling futures market participants can create a position similar to buying ‘synthetic’ short-term bonds, with time to maturity equal the time to expiration of the futures. This operation is similar to the ‘reverse repo’ transaction where a participant loans money using securities as collateral. Investors holding a portfolio of the Moscow City bonds can obtain a short-term loan by selling the underlying asset and buying the futures. The time for the loan equals the time to expiration of the appropriate futures. This operation is analogous to a regular repo transaction where a participant takes out credit using securities as collateral.
Calendar spread	Holding a number of futures contracts on bond baskets allow participants to take advantage of change in price spreads between the contracts.
Portfolio duration management	Portfolio holders can manage the duration of their portfolios. To decrease duration a participant should use a ‘sell’ contract, to increase it – a ‘buy’ contract.
Using the spreads between the long-term and the short-term interest rates	Futures on the 3Y and the 10Y Moscow City bonds allow market participants to take advantage of the changes in the yield curve of Moscow City bonds.
Using the spreads between the hard-currency denominated and ruble-denominated interest rates	Futures on dollar-denominated “Russia-30” bonds allow market participants to take advantage of the difference between ruble-denominated and currency-denominated bond issues. There is no need to invest in the underlying assets.
Arbitrage	Futures on the 3Y and the 10Y Moscow City bonds provide excellent arbitrage opportunities.