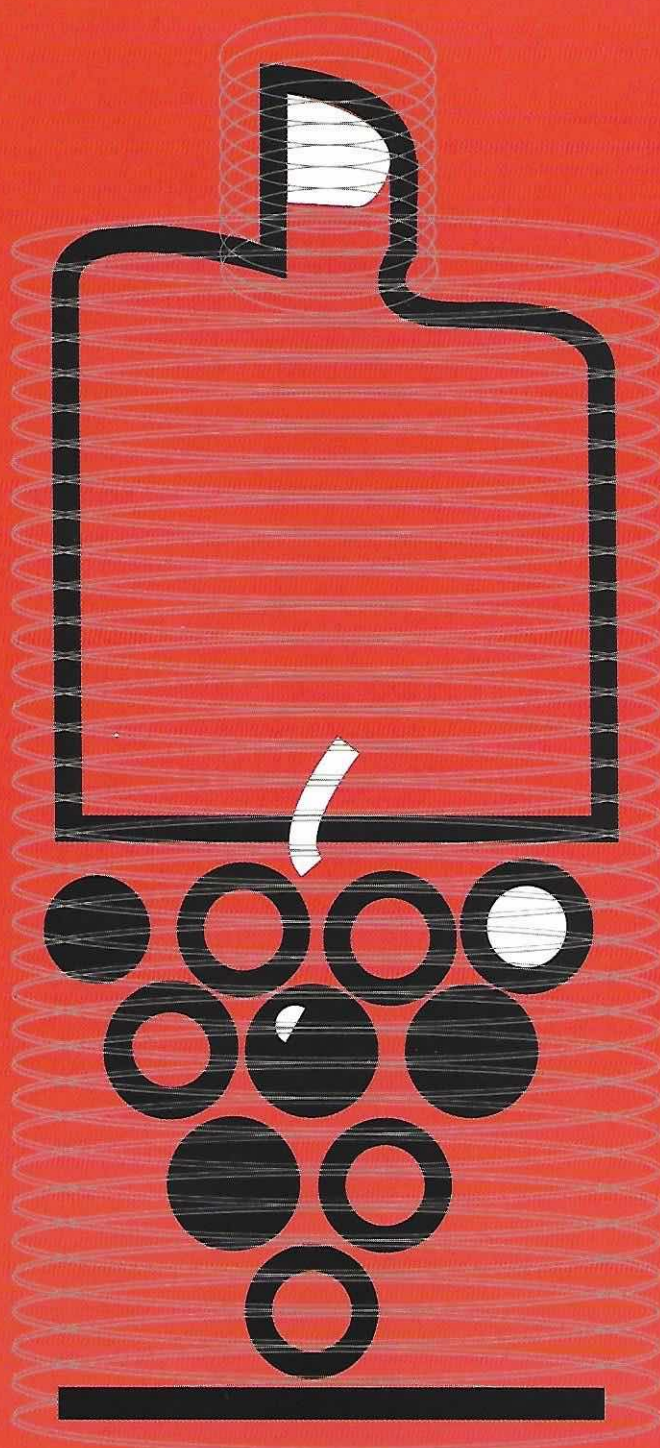


# Winefex<sup>®</sup> Bordeaux futures contract





## Winefex® Bordeaux futures contract

•• 1	Introduction	2
•• 2	Contract specifications	4
•• 3	Delivery months	5
•• 4	Physical delivery procedure	6
•• 5	Margin parameters	9
•• 6	Euronext	10
•• 7	Euronext's strengths	10

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## I Euronext has invented Winefex® Bordeaux the world's first futures contract for fine wines

In 2001, Euronext will open trading in Winefex® Bordeaux, a futures contract in Bordeaux premium red wines. This is a worldwide first, giving wine-industry players an effective tool for managing price risk, promoting liquidity in transactions between wine professionals, and making the most of the international renown of Bordeaux fine wines.

Euronext and wine-industry players have worked closely together to design a futures contract based on the real needs of a rapidly changing market. The Bordeaux market accounts for a large share of the world's FF 200 billion annual wine market. Bordeaux wines amount to 1% of world production, but 10% of the market in value, i.e. FF 20 billion, of which FF 4 to 5 billion in fine wines. On average, three-quarters of total output of premium clarets are aimed at export markets.

Many factors underlie the introduction of a wine futures contract: the emergence of new sales and delivery channels such as the Internet and mail-order, an increasing diversity of participants (producers, wine brokers, distributors, final buyers, financiers, etc.), and the price volatility of fine wines.

The concept, as specifically tailored to the special characteristics of the fine-wine market, is based on quoting *en primeur*\* Bordeaux reds in the same way as the Euro Notionnel futures contract. This involves quoting one category of wines, subdivided in different homogeneous groups (or "baskets"). One of the groups serves as the base for quotation and is accepted for delivery at parity. The wines in the other groups can also be delivered according to a pre-established scale of premiums and discounts.

### ● Groups

At the opening of each maturity, which is determined by a new vintage, Euronext establishes the eligibility conditions of groups 1, 2, and 3, and publishes the list of wines within each group.

For the 2002 maturity (for the 2000 vintage), the groups are broken down as follows:

- Group 1: Bordeaux premium red wines for which the 1st-tranche **primeur release price** of the past two vintages averages **greater than €30**.
- Group 2: Bordeaux premium red wines for which the 1st-tranche **primeur release price** of the past two vintages averages **between €15 and €30**.
- Group 3: Bordeaux premium red wines for which the 1st-tranche **primeur release price** of the past two vintages averages **between €7.50 and €15**.

### ● Settlement of Winefex® Bordeaux futures

The Winefex® Bordeaux contract can be settled at the seller's choice in cash at the settlement price or by physical delivery.

- **Cash settlement** results in a compensation payment to the buyer. This payment is determined and published at the opening of each vintage by Euronext.
- **Physical delivery** is made as follows:

**Group 1 serves as the quotation base and all primeur Bordeaux fine red wines that are part of Group 1 are delivered at parity, i.e. at the base price with no premium or discount.**

\*Vins primeurs are delivered in November two years after harvest, at a price that is usually announced in the second quarter of the year following harvest.



When a contract is opened, Euronext publishes the delivery scale for the other groups.

For the November 2002 maturity (the 2000 vintage), the scale is as follows:

- Group 2: delivered at a discount of 50% of the base price.
- Group 3: delivered at a discount of 75% of the base price.

For example, assume that at delivery the settlement price amounts to €2,300 per contract. In this case, the seller has the choice of delivering any of the following:

- 5 cases of Group 1 in exchange for €2,300
- 5 cases of Group 2 in exchange for €1,150 (i.e. € 2,300 less the 50%. discount)
- 5 cases of Group 3 in exchange for €575 (i.e. € 2,300 less the 75%. discount)

The buyer must take delivery of the offered case on the basis of the settlement price, and his payment is calculated on the same principle depending on the group actually delivered.

Throughout the vintage's quotation period, all long and short positions are adjusted daily by applying positive or negative margin calls.

### ● Product calendar

Opening of the contract's long-dated maturity occurs on the first trading day of the month of July of each vintage to be harvested (N).

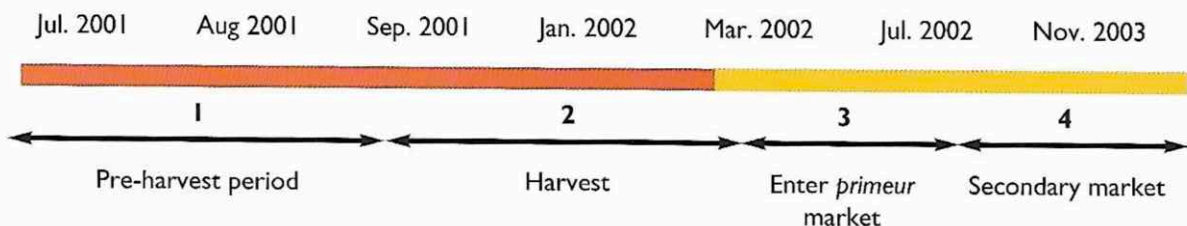
Opening of the two-monthly maturities (**Jan, Mar, May, Jul, Sep**) occurs on the first trading day of the month of:

- September (N-1) for the January maturity
- November (N-1) for the March maturity
- January (N) for the May maturity
- March (N) for the July maturity
- May (N) for the September maturity, which is the last maturity quoted for the vintage.

Last trading day for the contract's long-dated maturity occurs on the 15 November (N+2), i.e. a 28.5-month trading calendar.

Last trading day for the two-monthly maturities is the 15<sup>th</sup> of the delivery month.

### Theoretical example for the 2001 vintage





## 2

## Contract specifications

### Winefex® Bordeaux futures contract

Underlying	<p>Fine red Bordeaux wines <i>en primeur</i> (futures) chosen from the appellations and rankings of 1855, Graves and Saint Emilion:</p> <p>Saint Estèphe : 2<sup>ème</sup> cru classé, 3<sup>ème</sup> cru classé, 4<sup>ème</sup> cru classé, 5<sup>ème</sup> cru classé  Pauillac : 1<sup>er</sup> cru classé, 2<sup>ème</sup> cru classé, 4<sup>ème</sup> cru classé, 5<sup>ème</sup> cru classé  Saint Julien : 2<sup>ème</sup> cru classé, 3<sup>ème</sup> cru classé, 4<sup>ème</sup> cru classé  Margaux : 1<sup>er</sup> cru classé, 2<sup>ème</sup> cru classé, 3<sup>ème</sup> cru classé, 4<sup>ème</sup> cru classé, 5<sup>ème</sup> cru classé  Haut médoc : 3<sup>ème</sup> cru classé, 4<sup>ème</sup> cru classé, 5<sup>ème</sup> cru classé  Graves : 1<sup>er</sup> cru classé, cru classé  Saint Emilion : 1<sup>er</sup> grand cru classé A, 1<sup>er</sup> grand cru classé B, grand cru classé.</p>
Trading unit	5 cases of 12 bottles (75 cl)
Price quotation	euros per bottle
Minimum price fluctuation (tick)	€0.10 per bottle (i.e. €6.00 per contract)
Contract cycles	1 spot delivery: November +5 two-monthly deliveries: Jan, Mar, May, Jul, Sep
Last trading day	The 15th of the delivery month. If this is not a trading day, then the previous trading day.
First day of trading	<p>First day of trading for the November delivery occurs on the first trading day of July of the year N-2.</p> <p>The first day of trading in the two-monthly maturities (Jan, Mar, May, Jul, Sep) occurs on the first trading day of Sep (N-1) for Jan, Nov (N-1) for Mar, Jan (N) for May, Mar (N) for Jul, and May (N) for Sep and November.</p> <p>If this is not a trading day, then the next trading day.</p>
Settlement	<p>At the seller's choice, and based on the closing settlement price, by cash settlement or physical delivery of the fine red Bordeaux wines chosen by the seller from a list of fine red Bordeaux wines meeting the following conditions:</p> <ul style="list-style-type: none"> <li>- with an available <i>en primeur</i> price history (first tranche) of at least 2 years.</li> </ul> <p>Delivery to an authorised nonbonded warehouse of the growth selected by the seller from a reference list of Grands Crus Classés or an alternative list subject to the application of the compensation schedule.</p> <p>The delivery point is <i>département</i> 33 – La Gironde.</p>
Trading hours (NSC system)	<p>Pre-opening: 10:30 a.m. to 10:45 a.m. and 2:45 p.m. to 3:00 p.m.</p> <p>Trading session: 10:45 a.m. to 1:00 p.m. and 3:00 p.m. to 6:30 p.m.</p>



### 3 Delivery months

Delivery month	First trading day	Spot month	Last trading day
<b>Nov. 2002</b>	Contract launch date	04/11/2002	15/11/2002
Jan. 2003	02/09/2002	02/01/2003	15/01/2003
Mar. 2003	01/11/2002	03/03/2003	14/03/2003
May 2003	02/01/2003	02/05/2003	15/05/2003
Jul. 2003	03/03/2003	02/07/2003	15/07/2003
Sept. 2003	02/05/2003	02/09/2003	15/09/2003
<b>Nov. 2003</b>	Contract launch date	03/11/2003	14/11/2003
Jan. 2004	01/09/2003	02/01/2004	15/01/2004
Mar. 2004	03/11/2003	02/03/2004	15/03/2004
May 2004	02/01/2004	03/05/2004	14/05/2004
Jul. 2004	01/03/2004	02/07/2004	15/07/2004
Sept. 2004	03/05/2004	02/09/2004	15/09/2004



## 4

## Physical delivery procedures Winefex® Bordeaux futures contract

The full procedure for delivery of the Winefex® Bordeaux futures contract is described in an Instruction available from Euronext.	
Beginning on the 5 <sup>th</sup> trading day preceding the close of trading in a maturity	- Period for remittal of warehouse warrants to the clearing house.
T (last trading day)	- Close of trading in the deliverable maturity. - Clearing house determines and disseminates the closing settlement price.
T+1 trading day Before 10:30 a.m. Before 12 noon	- Buying and selling clearing members pay margin to the clearing house (nearby margins refunded). - Clearing house communicates the amounts payable by buying clearing members for physical deliveries and by selling clearing members for cash settlement.
T+2 trading days Before 12 noon  Before 5:30 p.m.  After 5:30 p.m.	- Selling clearing members send notice of notification to the clearing house. - Selling clearing members designate the warehouse warrants to which each notice applies. - Clearing house assigns place of delivery to buying clearing members and proceeds to match buying and selling clearing members. - Clearing house disseminates the matching information to buying and selling clearing members. - Buying clearing members can interchange contracts.
T+3 trading days Before 10:00 a.m.  Before 5:30 p.m.	- Selling clearing members pay the clearing house the amount of the cash settlements payable. - Clearing house pays buying clearing members the amount of cash settlements receivable. - Clearing house informs buying and selling clearing members of the definitive matches.
T+5 trading days Before 12 noon Before 3 p.m.	- Selling clearing members send delivery notifications to buying clearing members. - Buying clearing members send delivery notifications to the clearing house.
T+6 trading days Before 10:30 a.m.	- Clearing house sends detailed delivery schedule to warehouses.



<p>T+7 trading days          Before 3:00 p.m.          Before 5:30 p.m.</p>	<ul style="list-style-type: none"> <li>- Clearing house instructs to warehouses to transfer merchandise.</li> <li>- Warehouse effects the merchandise transfers among accounts.</li> <li>- Warehouse sends transfer voucher to buying and selling clearing members as well as to the clearing house.</li> </ul>
<p>Last trading day of the delivery month*          Before 12 noon          Before 5:30 p.m.</p>	<ul style="list-style-type: none"> <li>- Last day for selling clearing member to send notice of contract performance to buying clearing member.</li> <li>- Last day for buying clearing member to send notice of contract performance to clearing house.</li> </ul>
<p>1<sup>st</sup> trading day of the month the delivery month**</p>	<ul style="list-style-type: none"> <li>- Last day for refund of delivery margin to buying and selling clearing members.</li> </ul>
<p>15<sup>th</sup> of the month following the delivery month**</p>	<ul style="list-style-type: none"> <li>- Last day for buying clearing member to free up the storage capacity of the seller named in the contract.</li> </ul>

\* If not a trading day, then the preceding trading day.

\*\* If not a trading day, then the following trading day.



This market differs from an OTC market because it has a clearing house. Clearnet, a Euronext subsidiary, as the clearing house and central counterparty in all trades, provides a guarantee of final execution that extends to the level of order givers linked by contract with a trading member.

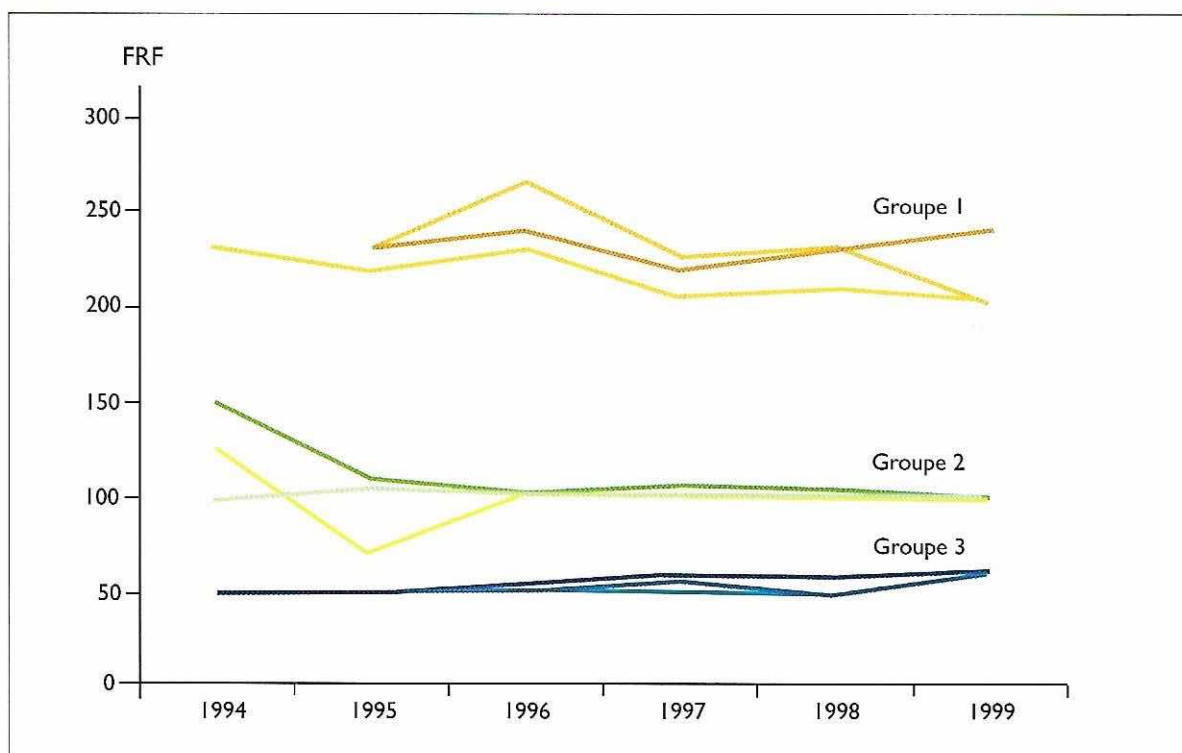
Delivery is subject to a procedure clearly defined by Clearnet which, as third-party guarantor, ensures each counterparty that transactions comply with a given quality and quantity, as well as with procedures for merchandise payment. At maturity, any contract still in position gives rise either to cash settlement or to physical delivery by the seller and receipt by the buyer of merchandise (minimum one batch of 5 cases of 12 bottles of 75 cl each). Transfer of title is effected by the transfer from account to account in an authorised warehouse.

A single place of delivery has been decided, namely the *département* of La Gironde in France. Delivery is effected according to the terms defined in the delivery instruction and in conformity with the French code of commerce.

A warehouse warrant issued by an authorised warehouse, attests that the seller holds merchandise deliverable on the Euronext derivatives market.

During the delivery month, the buyer and seller can, at any time, agree to depart from the delivery procedure defined by Clearnet and utilise an alternative procedure.

### Primeur release price for the different groups





## 5 Margin parameters

### ● Initial margin

Initial margin is the amount that each participant pays to Clearnet in order to take a position on the market. Initial margin protects the clearing house against possible loss caused by the default of a participant and requiring the liquidation of the position. "Spot month" is also payable beginning from the 10<sup>th</sup> trading day preceding the close of trading in a maturity.

Positions remaining open at maturity become obligations in the physical market. In this case "delivery margin" is required. Cross-maturity transactions (spreads) involve less risk and therefore carry a reduced margin requirement.

### ● SPAN method of margin calculation

The SPAN method has become a worldwide standard. Developed by the Chicago Mercantile Exchange and adopted by 30 exchanges and clearing houses around the world, its calculations encompass futures and options on futures. It uniformly values all products having the same underlying asset to take an overall view of a futures and options portfolio through use of delta equivalents. The SPAN method measures a portfolio's overall exposure to risk.

The calculated margin is equivalent to the portfolio's most unfavourable liquidation value in the case of market movements within a trading day. This approach to margin calculation takes into account two main elements:

- the risk of fluctuation in the portfolio's value according to market conditions,
- the portfolio's current value.

Easy to use, SPAN allows fine-resolution risk management of complex portfolios composed of futures, options, and combinations of futures and options. Clearnet sets the values of the margin parameters used in the margin calculation. These parameters establish the portfolio value and make it possible to determine the amount needed to cover the portfolio's maximum loss in one day.

### ● Daily price fluctuation limit

When one or more maturities of the Winefex® Bordeaux future reaches the daily price fluctuation limit (limit-up or limit-down) relative to the last daily settlement price, the clearing house can suspend trading and issue a call for additional margin. The session is re-opened once such margin has been deposited.

### ● Daily settlement price and margin calls

At the end of each trading session, Clearnet determines the daily settlement prices for the day based on prices traded on the market for each maturity. Each open position is then marked to market on the basis of the daily settlement price, giving rise to credit or debit margin corresponding to the day's gain or loss for each position holder.

For Clearnet, this is a zero-sum operation consisting of flows between gainers and losers having open positions.



## 6 Euronext

On 22 September 2000, Euronext was officially born from a merger between the Amsterdam Exchange (AEX), Brussels Exchange (BXS), and the Paris Bourse (ParisBourse<sup>SBF</sup> SA).

At end-2000, Euronext listings amounted to 1,600 companies, with market capitalisation of €2,420 billion. Euronext is Europe's largest exchange in terms of volume traded through a central orderbook, with a monthly average of €142 billion.

Euronext will soon offer market users:

- a unique order-driven trading platform based on the French NSC system.
- all orders executed on Euronext are cleared on a net basis through the Clearnet clearing house as central counterparty, using advanced Clearing 21<sup>®</sup> technology.
- a unified platform for settlement/delivery and securities custody through Euroclear.

Euronext meets market users' requirement for greater end-to-end efficiency in securities trading, clearing, and settlement/delivery. With Euronext, clients and shareholders benefit from:

- cost savings amounting to €50 million per year, mainly in information technology,
- increased liquidity and transparency as well as a more efficient price-discovery mechanism through the creation of a central orderbook,
- lower clearing costs, because Clearnet, as central counterparty can perform net clearing, thus reducing the capital requirements associated with covering positions on a gross basis,
- rationalised processes of clearing and settlement/delivery.

## Euronext's strengths

7

### Professionalism

A recognised market.

Derivatives contracts in interest rates and commodities are traded on MATIF, a Euronext's derivatives market. Formed in 1986, MATIF is one of the world's top derivatives markets. It is internationally recognised for its products and its systems, as well as for the experience and expertise of its members:

- Broker-Dealers provide exclusive access to the trading of contracts.
- General Clearing Members, Individual Clearing Members, and Commodity Clearing Members provide daily position management and clearing for each order giver.

### Transparency and security

A modern, highly efficient trading vehicle.

Since June 1998, Euronext Paris derivatives commodity contracts have been processed by the NSC electronic trading system, which has emerged as a new high-performance, competitive, and universal standard. NSC's open, scalable architecture delivers optimum flexibility.

### One of the world's most secure markets

To ensure market security, Euronext has a solid and stable capital base and ownership structure. This security is also buttressed by the solid capitalisation of its trading members. The market's financial security is further strengthened by the capital base of its clearing house, Clearnet, with €130 million in owner's equity. The clearing architecture is based on the most stringent international standards. Traders' positions are valued daily, and strict margin parameters are applied (initial margin, variation margin), thus ensuring market security and finely-tuned risk management.