

Exhibit 4.24

<HELP> for explanation, <MENU> for similar functions.

P067 Govt TED

**Euro-Future Strip Hedge**

P 1/2

US TREASURY N/B	T 1 <sup>5</sup>	01/31/05	100-03+	100/04	(1.57/56)	BGN	@14:50
Price	100-4	Settlement	2/25/03	1	Implied Yield TED	25.6	
Yield	1.55884%	Face \$	100000000	2	Spread Adjusted TED	25.2	
Implied Yld	1.81506%	Risk	1.90	3	Implied Price TED	25.7	
<small>(Compounded, Freq=2, ACT/ACT)</small>		Worst / Maturity	(01/31/05) (01/31/05)		Sign Conv	Curve-Security	
Stub Period:	22 days	Total Hedge:	774 contracts				

*use this → = B.E. Value is held to delivery (surp. 30)*

*MISMATCHES*

Contract to strip	ED	RATES FROM 2/24/03													
1-Day	1.2813	2-Day	1.2813	1-Wk	1.3100	2-Wk	1.3100	1-Mth	1.3363	2-Mth	1.3400	3-Mth	1.3400	4-Mth	1.3400
Price/Rate Quoted?	<input type="checkbox"/>	Spread Adjusted Hedge?	<input checked="" type="checkbox"/>	Bid/Mid/Ask/Last/Best <input type="checkbox"/>											
Price Cntrcts		Price Cntrcts		Price Cntrcts		Price Cntrcts		Price Cntrcts		Price Cntrcts		Price Cntrcts		Price Cntrcts	

ETUB	98.6750	24
EDH3	98.6775	101
EDM3	98.7100	101
EDU3	98.6350	100
EDZ3	98.4500	100
EDH4	98.1650	99
EDM4	97.8250	99
EDU4	97.4700	98
EDZ4	97.1250	51

→ FINANCING EXPOSURE (use Term Repo's)

→ Perfect Semistruct Hedge

→ date MISMATCHES

- 1 - Par coupon on swap (NOT good measure: don't use)
- 2 - (calyons) Subtracting basis points
- 3 - (calyons) PV of cash flows plugged into yield calculator

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*2y expires 01/31/05*  
*EDZ4 " 02/16/05*  
*But EDZ4 covers rate period to 03/01/04*

**Exhibit 4.25**

**How the spreads are calculated**

Bloomberg shows 3 measures of the TED spread. Specific examples for the 1-5/8ths of 1/31/05 on 2/24/03 are:

**Implied yield TED (25.6 bps)**

To calculate this spread, stub LIBOR and Eurodollar futures rates are used to find the par coupon on a note or swap whose cash flow dates correspond to those of the Treasury note. The Treasury note's yield is subtracted from this par coupon to produce the spread. Calyon Financial does not use this spread because it is not tradeable.

*Found on Bloomberg. (see para B)*

**Spread adjusted TED (25.2 bps)**

This measure of the spread is the number of quarterly money market basis points that must be subtracted from the stub LIBOR and the Eurodollar futures rates to set the present value of the Treasury note's cash flows equal to its full market price (i.e., quoted market price plus accrued interest). By convention, this measure of the spread is expressed in quarterly (i.e., actual/360) money market basis points.

**Implied price TED (25.7 bps)**

In this case, the present value of the Treasury note's cash flows is reckoned using the zero coupon prices calculated using stub LIBOR and Eurodollar futures rates. The resulting present value is then treated as the full price of the note. When the Treasury note's accrued interest is subtracted from this present value, the net is treated as the market price of a hypothetical note whose yield is higher than that of the Treasury note. The difference in the hypothetical note's yield and the Treasury note's actual yield is the implied price TED. By convention, this measure of the spread is expressed in semiannual bond equivalent basis points.

*Spread adjusted Ted is Galen Burghardt's work.*

Exhibit 4.26

**Spread-adjusted TED Example**

(1-5/8ths of 1/31/05 on 2/24/03 for settlement on 2/25/03)

**Eurodollar futures**

contract	expiry	value DATE	total days	Eurodollar rates	TED (bps)	adjusted rates	end of period zeros	days	interpolated zeros	cash	present values
stub		2/25/2003		1.3250	25.2	1.0730	1.000000				
EDH3	3/17/2003	3/19/2003	22	1.3225	25.2	1.0705	0.999345				
EDM3	6/16/2003	6/18/2003	113	1.2900	25.2	1.0380	0.996848				
Coup		7/31/2003						156	0.995414	0.8125	0.8087743
EDU3	9/15/2003	9/17/2003	204	1.3650	25.2	1.1130	0.994040				
EDZ3	12/15/2003	12/17/2003	295	1.5500	25.2	1.2980	0.991251				
Coup		2/2/2004						342	0.989575	0.8125	0.8040298
EDH4	3/15/2004	3/17/2004	386	1.8350	25.2	1.5830	0.988009				
EDM4	6/14/2004	6/16/2004	477	2.1750	25.2	1.9230	0.984071				
Coup		8/2/2004						524	0.981610	0.8125	0.797558
EDU4	9/13/2004	9/15/2004	568	2.5300	25.2	2.2780	0.979311				
EDZ4	12/13/2004	12/15/2004	659	2.8750	25.2	2.6230	0.973704				
100+Coup		1/31/2005						706	0.970386	100.8125	97.827078
EDH5	3/14/2005	3/16/2005	750				0.967291				

Total = 100.237  
 Treasury's full price = 100.237  
 Difference = 0.000

MATCHES  
 PG  
 24

**Exhibit 4.29**

**Things to Notice About the Trade**

**Cash stub rate**

All TED spread calculations require an assumed stub rate. In this example, the value of spot LIBOR used as the stub rate is 1.325%.

**Treasury data**

The trade is done on the 24th but settled the next business day on the 25th.

The note is financed at a term repo rate of 1.230% to a forward settlement horizon of 3/18/03, which is one business day after the Mar '03 Eurodollar contract expires.

**Spot hedge**

The spot hedge includes an allowance for the number of contracts one would need (if they were available) to hedge the stub rate exposure if the position is financed overnight.

**Forward hedge**

The forward hedge shows the Eurodollar futures hedge if the note is financed term. In this case, the note has been financed to a settlement date that is one business day after the Mar '03 contract expires. The Eurodollar value date for this expiration is one day later, so the stub hedge includes 1.1 contracts to cover this 1-day difference in settlement dates.

The Eurodollar hedge includes the number of Eurodollar futures that would be needed, if they were available, to hedge the stub rate exposure.

In both the spot and forward hedges, the main body of the Eurodollar hedge shows declining numbers of futures for more distant expirations. This pattern reflects the fact that coupon-bearing bonds are more sensitive to changes in nearby forward rates than to changes in more distant forward rates.

Also, there is a precipitous drop in the number of futures required to hedge the last rate in the series. This happens because the rate underlying the contract spans a period that extends past the maturity of note. In this example, the note matures on January 31st, while the Dec '04 futures contract covers a period that runs to March 14th (for a value date of March 16th).

**Exhibit 4.30**

**Things to Notice About the Trade (Cont.)**

**Term and forward TED spreads**

You are long the spot TED spread at 25.2 basis points (using the ED shift method) or 25.7 basis points (using the implied ED price TED method).

At a term repo rate of 1.23% to March 18 (which assumes that you close out the trade on March 17, when the March '03 contract expires), you are long the forward TED spread at 25.7 basis points. [This is the breakeven value of the spread if you close out the position on March 17th (and deliver the note on March 18th).

Term repo provides a hedge against stub risk, although you are exposed to changes in the spread between stub LIBOR and term repo. The single contract of net exposure shown under the FWD HEDGE column is the result of not doing term repo to March 19th, which is the value date for the rate to which the March '03 Eurodollar contract settles.

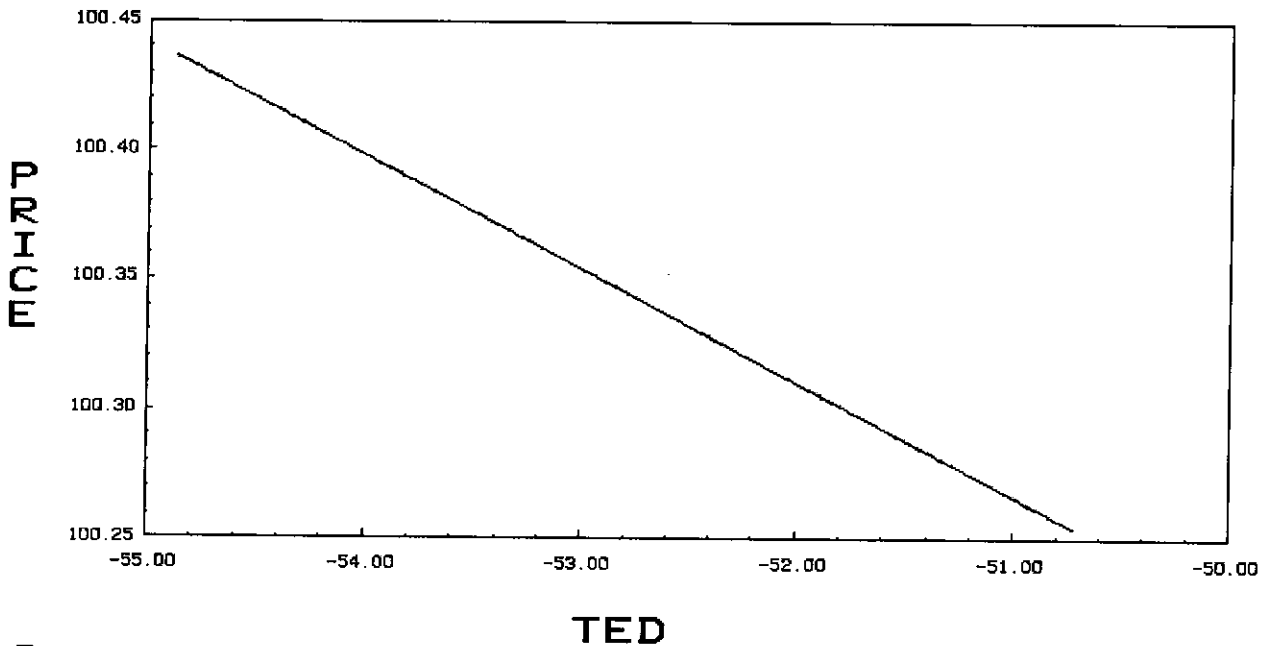
<HELP> for explanation.

N090 Govt **TED**

RANGE: **50.77** to **54.77**

P 2/2

### Implied Yield TED vs PRICE



**1** 1-vs Price 2-vs P & L

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TED calculates the spread between a selected corporate or government security that has 10 or fewer years to maturity and an appropriate Euro-Futures strip. TED can also generate a spread using a deliverable futures contract. TED uses the cheapest to deliver bond for all calculations and displays the rate of return for a bond and a Eurodollar contract on comparable terms. You can use TED to find bonds for which you can take advantage of the differences in yields between the bond and LIBOR contracts of a similar maturity.

- 1) Instructions
- 2) Shortcuts
- 3) Description of Display
- 4) Hedge Calculation
- 5) BLOOMBERG MARKETS<sup>SM</sup> Articles
- 6) References

TO ACCESS: {ticker symbol} <yellow key> TED <Go>  
CT5 <GOVT> TED <Go>  
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Search <b>TED</b> <HELP> for: <span style="background-color: black; color: black;">XXXXXXXXXXXXXXXXXXXX</span>	Page 2 / 13
<b>INSTRUCTIONS</b> Once you select a bond, enter TED <Go>.	
<b>SHORTCUTS</b> Once you select a bond, the following shortcuts are available:	
<b>Futures Contract</b> Enter TED {futures contract ticker symbol} <Go>. For a list of active futures contracts, enter CTM <Go>.	
<b>Contract Prices/Rates for the Euro-Futures Strip</b> Enter TED P or R <Go>.	
<b>NOTE:</b> You can combine the shortcuts if you enter the futures contact followed by P or R.	



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DESCRIPTION OF DISPLAY

The market information of the selected bond appears below the Euro-Future Strip Hedge heading. For more information, see Q <HELP>. The following fields also appear:

Price: The current price of the security. To change your pricing source, enter PCS <Go>.

Yield: The yield of the security. In the highlighted field to the left of Yield, choose either:

- (C) Conventional Yield, which does not adjust the payment dates for holidays and weekends.
- (T) True Yield, which affects the implied yield because it adjusts coupon payment dates for weekends and holidays.
- (P) Proceeds/M-Mkt Yield, which only appears for bonds with two years or less remaining until maturity. It does not calculate implied yield or implied yield TED.

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**Implied Yld:** The futures rate's implied yield, which is a forecasted yield derived from present yields and is based on the belief that the yield curve on one particular day is a strong indication of future status. The compounding frequency and day type appear below this field.

**Stub Period:** The number of days from settlement to the expiration of the first futures contract, plus a two day delay.

**Settlement:** The date securities must be delivered and paid for to complete the transaction.

**Face:** The face value of the security.

**Risk:** A measurement used by Bloomberg to indicate price sensitivity given shifts in interest rates. Risk is 100 times the price value of a basis point change in yield.

**Worst/Maturity:** The workout date, which is the most likely redemption date for the security given the current price and redemption schedule. For a list of choices, move your cursor to the highlighted field.

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**Implied Yield TED:** The difference between the yield-to-maturity of the bond and the hypothetical coupon of a par Euro-market bond with an identical maturity. The hypothetical cash flows of the Euro-market bond are discounted at the rates implied by the Euro-Futures.

**Spread Adjusted TED:** The number of basis points by which each Euro-Futures rate must be reduced to produce a present value for the bond that is equal to the bond's full market price.

**Implied Price TED:** The difference in basis points between the yield-to-maturity of the bond and the yield-to-maturity of a hypothetical Euro-market bond with identical coupons and maturity. The actual bond's cash flows are discounted at the implied Euro-Futures rates. This present value, which is lower than the full market price of the actual issue, is used as the full price of the hypothetical Euro-market bond to calculate its yield.

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NOTE: - The white TED field is the base by which the other two gray TED fields are calculated. For example, if you changed the Implied Price TED, it would recalculate the implied yield and, therefore, affect the other TED spreads. It would then be highlighted white.

- The effect of not adjusting for Treasury cash flows made on weekends or holidays causes the Treasury note's quoted yield-to-maturity to rise, which causes the measured TED spread to narrow.

Sign Conv: The convention for calculating the price spread between the active three-month U.S Treasury bill futures contract and the three-month eurodollar futures contract. For a list of choices, move your cursor to the highlighted field.

Total Hedge: The total number of contracts needed to hedge the security.

Contract to strip: The futures contract used as the heading security in the analysis. For a list of active futures contracts, enter CTM <Go>. For short maturity bonds, you can use the one-month Eurodollar (ED) and the 1-month deutschemark futures (DH).

RATES FROM: The date from which the rates are set.

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The cash rates used to determine the value of the stub rate appear in the middle of the page. The cash rates are for one-day, two-day, one-week, two-week, one-month, two-month, three-month, and four-month.

**Price/Rate Quoted?:** The method by which the contracts are quoted. For a list of choices, move your cursor to the highlighted field.

**Spread**

**Adjusted Hedge?:** Enter (Y) to display the number of contracts needed to hedge against the selected security given an adjustment for the spread.

**Bid/Mid/Ask/Last/**

**Best:** The type of strip and cash rates. For a list of choices, move your cursor to the highlighted field. NOTE: If you select (E), TED searches through the bid, ask, and last for the best source. If the selected price type is not available, the last available rate is used.

**Price/Rate:** The contract price or rate appears, depending on what you select in the Price/Rate Quoted? field.

**Cntrcts:** The total number of contracts needed to hedge the security.

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Page 2 displays a graph of implied yield TEDs versus either price or profit and loss. The graph displays price or P&L on the vertical y-axis and implied yield TED spreads on the horizontal x-axis.

RANGE: The range of TEDs from which prices or P&Ls are calculated.

1-vs Price, 2-vs P & L: The units plotted on the vertical y-axis.

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**HEDGE CALCULATIONS**

The hedge is calculated by finding the sensitivity of each payment to changes in each of the relevant forward rates. Each payment is considered individually, with the hedge values aggregated and rounded to the nearest whole number of contracts. The present value for any bond payment can be expressed by the following equation:

$$PV = \text{Payment} * (d_1 * d_2 * d_3 * \dots * d_n)^{-1}$$

where

$$d_i = 1 + (E d_i - \text{TED}) * \text{days}_i / 360 \text{ for spread adjusted hedging}$$

or

$$d_i = 1 + E d_i * \text{days}_i / 360 \text{ for the zero spread hedge}$$

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The following is an explanation of the values that appear in the formulas for "di":

ED<sub>i</sub> = i<sup>th</sup> eurodollar futures rate. ED<sub>1</sub> is the cash deposit rate (for example, Libor) for the stub period.

TED = Treasury-eurodollar spread.

days<sub>i</sub> = number of days between the expiration date for the i<sup>th</sup> & i<sup>th</sup>+1 futures (days<sub>1</sub> = stub period).

If you substitute a specific number "n" for "i", you can replace "days<sub>i</sub>" with "days<sub>n</sub>" in the equation, where:

days<sub>n</sub> = number of days from the expiration of the ED<sub>n</sub> contract to the bond's maturity.

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If  $D_n = (d_1 * d_2 * d_3 \dots * d_n)$ , then the partial derivative of PV with respect to  $ED_i$  is given by the following equation:

$$dPV/dED_i = -\text{Payment} * (D_n^{-2}) * (\text{days}_i/360) * (d_1 * \dots * d_{(i-1)} * d_{(i+1)} * \dots * d_n)$$

This equation can further be simplified by noting the following:

$$(d_1 * \dots * d_{(i-1)} * d_{(i+1)} * \dots * d_n) = D_n / d_i \text{ \& } \text{Payment} / D_n = PV$$

Using these substitutions, the following equation is derived:

$$dPV/dED_i = (PV/d_i) * \text{days}_i / 360$$

The risk of the hedging instrument is the risk of the future being stripped. Therefore, the hedge ratio for each payment vis-a-vis each futures contract is:

$$\text{hedge ratio} = (dPV/dED_i) / \text{the risk of the future being stripped}$$

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REFERENCES

For more information on TED and its applications, see Burghardt, Hoskins, and Kirshner, "Measuring and Trading Term TED Spreads," Carr Futures Inc., July 1995.

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