

LONDON NOTICE No. 3355

ISSUE DATE: 11 November 2010
EFFECTIVE DATE: 15 November 2010

SHORT TERM INTEREST RATE (“STIR”) OPTIONS

UPDATES TO DESIGNATED MARKET MAKER ARRANGEMENTS

Executive Summary

This Notice informs Members of updates to the obligations and benefits in respect of the STIR Options Designated Market Maker Scheme.

1. Introduction

- 1.1 London Info-Flash No. LO09/45, issued on 17 December 2009, informed Members of the extension of the STIR Options Designated Market Maker (“DMM”) Scheme in the Three Month Euro (EURIBOR) Options, including One-Year and Two-Year Mid-Curve Options Contracts and the Three Month Sterling (Short Sterling) Options including One-Year and Two-Year Mid-Curve Options Contracts (the “STIR Options DMM Scheme”) and invited Members to apply.
- 1.2 London Info-Flash No. LO10/30, issued on 10 November 2010, informed Members of an updated list of DMMs, effective until close of business on 28 January 2011.
- 1.3 This Notice informs Members of updates to the following aspects of the STIR Options DMM Scheme:
 - (a) **DMM Assistance:** in addition to the existing DMM obligations, upon reasonable request, DMMs may also be required to assist with daily straddle runs; and
 - (b) **DMM Benefits:**
 - (i) the Exchange transaction fee on Sterling Options, including One-Year and Two-Year Mid-Curves, will be revised downwards, from 12 pence per side per lot, to 10 pence per side per lot, in respect of market making business.
 - (ii) DMMs will be eligible to receive a rebate of 15 pence on Exercise and Assignment Fees in respect of all STIR Options positions resulting from market making activity that are held to expiry and either exercised by, or assigned to, a DMM.

Web site: www.nyx.com/liffe

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- 1.4 The updates to the STIR Options DMM Scheme will be effective on and from Monday 15 November 2010. Those who are already registered in the STIR Options DMM Scheme will be deemed to continue as participants of the Scheme unless the Exchange is otherwise notified. Full details of the STIR Options DMM Scheme and details of how to apply are contained in the remainder of this Notice.

2. DMM Obligations

- 2.1 For 90% of the trading session (that is, contract opening through to close), each DMM is required, upon demand, to quote two way competitive prices and order sizes, either:
- (a) over the telephone; or
 - (b) through LIFFE CONNECT®.
- 2.2 In addition, upon reasonable request by the Exchange, DMMs will be required to assist with the settlement process. The assistance may include, amongst other things, the provision of theoretical option prices, information relating to orders that are being worked in the market (but not reflected in on-screen prices), the submitting of orders through LIFFE CONNECT® to reflect such orders and the daily submission of straddle runs.

3. Benefits of the DMM Scheme

- 3.1 In return for fulfilling the obligations, approved DMMs who have registered their TRS account references with the Exchange will receive the following:
- (a) a 12 pence Exchange transaction fee rebate per side per lot on market assigned business transacted in a market making capacity, in the relevant STIR Options Contracts; and
 - (b) a 15 pence Exercise and Assignment fee rebate for all positions in STIR Options resulting from market making activity that are held to expiry and either exercised by, or assigned to, an approved DMM.
- 3.2 In the event that any business which may give rise to a benefit under the terms of the DMM Scheme may also qualify as business undertaken by the DMM giving rise to a benefit under any other Exchange market making, liquidity provision, or other similar scheme or arrangement (regardless of whether such scheme or arrangement is an “incentive scheme” within the FSA’s guidance), the Exchange reserves the right in its absolute discretion to take one or more of the following actions:
- (a) not to credit any further rebates otherwise due under the Scheme;
 - (b) to re-charge some or all of the discounted transaction fees effected under the Scheme; and
 - (c) to terminate the DMM Agreement by notice to the parties with immediate effect.
- 3.3 The names of DMMs and the nature of their commitments are promoted by the Exchange and detailed on the NYSE Euronext website at the following address www.nyx.com/stirs-marketmakers.

4. Application process

- 4.1 Members who wish to apply for DMM status, either themselves or on behalf of their clients, should contact their Account Manager for an application form. Members or clients who would like additional information about the DMM Schemes should contact the Fixed Income Derivatives team at NYSE Liffe.
- 4.2 The STIR Options DMM Scheme is open to all Members with the appropriate trading rights. A non-member may undertake the market making activities on behalf of a Member. However, in such cases the performance of the DMM obligations remains the responsibility of the Member and, as such, DMM applications must be submitted to the Exchange with the full understanding and agreement of the Member. In all cases, applicants should only apply for DMM status with the agreement of the relevant Clearing Member.

5. Identification of Market Making Business in respect of Exchange Transaction Fees

- 5.1 Market making business will be identified through a single unique entry into the User Specified field (a LIFFE CONNECT[®] field that translates into a single Account Reference in the Trade Registration System (“TRS”)) used exclusively by the DMM and solely for his activity in that capacity. Members must indicate the Account Reference which relates to eligible market making business as part of the application process.
- 5.2 Applicants should be aware that after a LIFFE CONNECT[®] trade enters TRS, the Account Reference field can be amended through TRS post trade processing any time up until 21:30 hours (London time) on the same business day. As such, applicants should ensure that they submit in their application the final Account Reference based on market assigned trades for the Exchange to identify market making business accurately.
- 5.3 It is essential that submitted Account References are accurate as a simple error will result in market making business not being identified. For example, if Account Reference “ABC1” was submitted as “ABC”, no market making business would be identified and no transaction fee rebates would be rewarded.

6. Identification of Market Making Business in respect of Exercise and Assignment Fees

- 6.1 For the purposes of Exercise and Assignment Fee rebates, STIR Options positions that are held to expiry and either exercised by, or assigned to the DMM in the relevant month, will be established based on the following principles:
 - (a) only business executed in a market making capacity and assigned to a registered TRS Account Reference between the first and last trading day of the relevant expiring contract (“Qualifying Business”), will be taken into account;
 - (b) where Qualifying Business contains both long and short volumes in the same Account Code, with the same characteristics i.e. the same contract code, contract type, expiry date and exercise price (“offsetting volumes”), the Exchange will use the difference between the long and short offsetting volumes for the purposes of establishing the DMM’s position at expiry (“DMM expiry position”); and
 - (c) the Exchange will use the DMM expiry position, and the Member’s Exercise Instruction via CPS in the relevant contract in order to determine the volume that is exercised by and/or assigned to the DMM for the relevant expiry month.

7. Amendments to Registered DMM Details

- 7.1 If a registered DMM makes any changes to the trading and/or clearing arrangement which were detailed in the application, particularly those used by the Exchange to identify market making business (e.g. Clearer, Member, Account Code and Account Reference details), it is the responsibility of the DMM to provide the Exchange with formal notification of such amendments in a timely manner, ideally in advance and in all cases no later than close of business on the last business day of the month in which the change occurred. If this is not done, only volumes transacted (and where relevant, volumes executed and/or assigned) during the calendar month in which the notification of changes was received by the Exchange will be eligible for the benefits specified in paragraph 3.1.
- 7.2 If any business executed in a market making capacity is not assigned to the relevant DMM's TRS Account Reference by close of business on the day the transaction occurred, it is the responsibility of the DMM to inform the Exchange in a timely manner, and no later than close of business on the last business day of the same calendar month. Failure to inform the Exchange will result in this business not being recognised by the Exchange, and benefits specified in paragraph 3.1 not being included in the DMM's rebates.
- 7.3 The Exchange stresses that any underpayment of Exchange transaction fee rebates and Exercise and Assignment fee rebates resulting from inaccurate application/registration, Account Reference details and/or delayed assignment of business transacted in a market making capacity will not be corrected retrospectively by the Exchange.**

8. Billing Arrangements

- 8.1 In relation to the STIR Options Contracts, Exchange transaction fees and Exercise and Assignment fees will be billed (as they are currently) to Clearing Members at the beginning of the following calendar month. This initial bill is calculated on the basis of 22 pence per lot per side in respect of Exchange transaction fees, and 25 pence per lot in respect of Exercise and Assignment fees. The Exchange will then calculate the rebates on market assigned business for approved DMMs and make rebates to Clearing Members during the following calendar month. For example, rebates for market making business transacted and/or exercised or assigned in November 2010 will be calculated in December 2010 for payment to Clearing Members at the beginning of January 2011.

For further information in relation to this Notice, Members should contact:

Fixed Income Derivatives

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