A guide to Universal Stock Futures

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1 Introduction

Universal Stock Futures have the potential to revolutionise global equity trading. For the first time international investors are able to gain exposure to the price movements of global equities on a single exchange, under a single regulatory regime, and without the costs of transacting the underlying equities themselves.

Universal Stock Futures provide opportunities to retail and institutional investors alike. They appeal to different participants for different reasons, but to all they are a simple tool offering flexibility and efficiency.

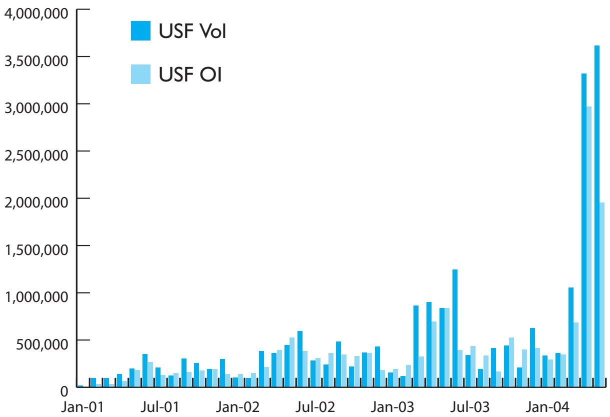
Universal Stock Futures are, quite simply, standardised futures contracts on the shares of individual companies.

Euronext.liffe's web site www.liffe.com/usf contains up to date information on Universal Stock Futures. Any queries regarding Universal Stock Futures can be directed to Euronext.liffe Equities by e-mailing equities@liffe.com

2 Universal Stock Futures - an overview

Although the world's equity markets have been faced with a number of challenges in recent years, they have grown in terms of trading activity. The increased use of cash equity markets has in turn led to an increase in the use of equity derivative products over recent years as shown below in the graph of Euronext.liffe's equity products volumes. Stock index derivatives have been the most widely used products, providing traders and investors with a means of trading broad market segments in a single transaction. The increasing use of equity investments has also resulted in an increase in the use of derivatives on specific stocks. Universal Stock Futures contracts are the latest step in the development of this market.

USF total traded volumes (lots)



Universal Stock Futures offer investors many opportunities to enhance the performance of their equity portfolios, in many circumstances offering a cheap, easy, efficient alternative to trading the underlying stock:

- they provide a quick and simple mechanism for increasing or decreasing exposure to a specific stock
- they enable investors to benefit from a predicted downward movement in the value of a stock
- they enable capital efficient, leveraged trading as the full value of the shares is not required as an up-front payment
- they are a low cost method of investing - Universal Stock Futures are mainly cash settled so they have none of the costs associated with transacting equities
- they allow investors to switch exposure quickly from one stock to another without the cost and inconvenience of disturbing the underlying stock holding
- they enable investors to become involved in basis trading and arbitrage trading in individual stocks in a cost effective manner
- they are free from the stamp duty levied on UK stocks.

Universal Stock Futures are a global product. They are available on an international list of stocks in seven major currencies - this means that trading in many of the world's top equities can take place on a single exchange under a single set of rules.

Universal Stock Futures may be traded via Euronext.liffe members, by customers globally, subject to any regulatory restrictions which may exist.

Further information on Universal Stock Futures can be found on www.liffe.com/usf
For free Universal Stock Futures real-time prices go to www.universal-stockfutures.com
A list of quote vendors can be found under the section 'Trading Information' on www.liffe.com

3 Benefits of trading Universal Stock Futures

The introduction of Universal Stock Futures increases the range of trading opportunities available to equity investors.

Increasing gearing

The price of a Universal Stock Future will change as the price of the underlying stock changes. As both can be traded at any time during the trading day, any gain in the value of the investment can be realised by closing the position. The percentage returns made on holding both stock and future depend on the size of the initial outlay. When buying a stock, the full value must be paid to the seller[1]. When buying a future, no money changes hands between the buyer and the seller - instead, a margin deposit is required to provide security to the market. Initial margin levels are set by the LCH.Clearnet. Typically, they will be between 7% - 15% of the value of the stock, but will vary to reflect the volatility of the underlying stock.

The initial outlay is therefore lower for a futures position. Movements in the price of stock and future will be approximately the same size over a given period - gains or losses can be made on a value of shares many times greater than the amount invested.

Example

Stock A is currently priced at €10.00, the December future is priced at €10.20. To buy the stock the full €10 must be paid to the seller. To buy the future €1.10 must be deposited with the clearing house or, in the case of a non-member, their broker. A few days later, the stock price has risen to €11.00, and the future has risen to €11.20. The returns on stock and futures are:

	Stock	Future
Opening price	€10.00	€10.20
Closing price	€11.00	€11.20
Net gain	€ 1.00	€ 1.00
Initial investment	€10.00 (paid for shares)	€ 1.10 (margin deposit[2])
Return on investment	10.0%	90.9%

There is a greater return on the investment in futures, as only a fraction of the value of the shares is required up-front.

[1] The full price is typically paid within a few days of the transaction

[2] Assuming an initial margin of 10%

Taking advantage of a predicted fall in a stock price

An investor can benefit from a predicted downward movement in the price of a stock by selling a futures contract. There is no need to own the underlying shares to be able to do this. As the price of the future falls in line with the stock, the seller of the future makes a positive return - they are able to buy back the future for less than they sold it for. Obtaining a similar return using shares is more difficult to achieve.

Example

Stock B is priced at €60.00. The March future is quoted at €60.50. Selling the future enables an investor to benefit from her prediction of a downward movement in the stock price. Two weeks later the stock has fallen to €50.00, the future has fallen to €50.40. The investor buys the future back to close the position. This transaction resulted in a positive return of €10.10 per share.

	Future
Opening Price	€60.50
Closing Price	€50.40
Gain on short position	€10.10

By selling the future, the investor makes a positive gain from a downward move in the share price.

Hedging stock positions

Where a short term fall in a stock price is anticipated, the holder of the stock can sell a future to avoid making a loss and without having to sell the share. Any loss caused by a fall in the price of the stock is offset by gains made on the short futures position.

Example

Stock C is priced at €5. An investor with 10,000 shares thinks the share price will fall. He sells futures contracts at a price of €5.80. The contract size is 100 shares so the investor sells 100 futures. A month later the share price is €4.80. The future is priced at €4.86. The investor closes out the futures position. The shares have fallen €0.20 each, the futures have fallen €0.22 - having sold, the investor gains from the fall in the futures price.

		Per Share	Position Value
Stock	Opening Price	€5	€50,000
	Closing Price	€4.80	€48,000
	Loss on stock position	€0.20 per share	(€2,000) total
Future	Opening Price	€5.08	€50,800
	Closing Price	€4.86	€48,600
	Gain on futures position	€0.22 per share	€2,200 total

The gain on the futures position has offset the short term loss on the shares.

Taking a position in the relative performance of two stocks

Universal Stock Futures allow investors to benefit from the relative performance of one stock vs. another. This is achieved by buying futures on one stock, and selling futures on another. The overall gain or loss depends on the performance of one stock in relation to the other. This type of trade is often referred to as a 'pairs trade'.

Similarly, it is possible to take a position in the relative performance of a stock vs. a market index by buying Universal Stock Futures and selling index futures (or vice versa).

Example

An investor thinks stock D will outperform stock E in the next few months. The market prices for the stocks and the futures are:

	Stock D	Stock E
Stock price	€60.00	€40.00
Futures price	€60.75	€40.50

The investor buys 20 futures on stock D, and sells 30 futures on stock E. The different number of futures traded ensures that each position represents the same value of stock - futures on both stocks are for 100 shares - each position (ie 20 stock D futures and 30 stock E futures) is on €120,000 worth of stock.

After a few weeks the market prices are as follows:

	Stock D	Stock E
Stock price	€54.00	€34.00
Futures price	€54.60	€34.40

Both stocks have fallen, but stock E has fallen a greater proportion of its original value. The investor makes a loss on buying the future on stock D of €6.15 per share or €12,300 for the 20 futures. The gain on selling the stock E futures was €6.10 per share, which is €18,300 for the 30 futures sold. The net proceeds are €6,000.

Switching single stock exposure

An investor with a holding of a specific stock can switch to a market exposure in another stock by selling futures on the stock held, and buying futures on the more desirable stock. This transaction switches exposure without the need for an expensive cash market.

Example

An investor holds 10,000 shares in stock F, but she thinks that stock G will outperform stock F over the next two months. The prices for F and G stocks and futures are:

	Stock F	Stock G
Stock price	€32.00	€25.00
Futures price	€32.50	€25.40

Both F and G futures are based on 100 shares. The investor sells 100 F futures, and buys 128 G futures – buying this number of G futures ensures that the investor is exposed to the same value of underlying for both F and G futures positions. After two months the prices are as follows:

	Stock F	Stock G
Stock price	€33.60	€27.50
Futures price	€33.85	€27.70

Stock F has risen 5%, but stock G has risen 10% during the period. The investor retained her holding of 10,000 stock F shares, which were worth €320,000. Returns on the portfolio are as follows:

Stock F shares	
(33.60-32.00) x 10,000	€16,000
Stock F futures	
(-33.85+32.50) x 100 x 100	- €13,500
Stock G futures	
(27.70-25.00) x 128 x 100	€29,440
Total	€31,940

The net return of €31,940 equates to 9.98% of the value of the original holding of shares in stock F – equivalent to the return on holding stock G.

4 MATCH Facility for Universal Stock Futures

The MATCH Facility

The MATCH Facility provides a wholesale market for Universal Stock Futures. This new market segment builds on the strength of Universal Stock Futures and allows customers to combine the advantages of on-exchange and off-exchange trading by pre-negotiating bilateral trades.

Contracts available

The MATCH Facility is available for around 320 Universal Stock Futures based on equities in the FTSE 350 Index. Non UK contracts might be introduced in due course.

Please visit **www.liffe.com/wholesale** for a full list of Universal Stock Futures available in the MATCH Facility.

Advantages of the MATCH Facility

Euronext.liffe's MATCH Facility for Universal Stock Futures provides you with:

- cash settled futures on individual stocks with quarterly maturities
- the elimination of stamp duty for UK stocks the minimisation of execution risk as partial order fills are avoided
- price certainty as the trade is executed at a pre-negotiated price between the counterparties
- the integrity of daily settlement prices generated by the Exchange
- counterparty and credit risk reduction through daily marked-to-market and variation margins calculated and managed by LCH.Clearnet
- the security of an exchange-traded product with LCH.Clearnet acting as central counterparty to the market

Easy to trade

The price for a Universal Stock Futures trade in the MATCH Facility is agreed between the counterparties to the trade. During pre-negotiation of the trade, the Exchange member must advise the counterparty that the price quoted is the price for a MATCH trade instead of a price prevailing in the LIFFE CONNECT® central market for standard Universal Stock Futures.

Please visit **www.liffe.com/wholesale** for a list of Exchange members quoting markets for Universal Stock Futures in the MATCH Facility.

Once the terms of a MATCH trade have been agreed, the transaction takes place on LIFFE CONNECT®. The trade is entered using the Block Trade Facility. Simply submit your pre-negotiated wholesale trades and the Exchange will do the rest.

Differences between the Universal Stock Futures central Market and MATCH

The Universal Stock Futures market is based on a central order book where prices are continuously provided in real-time by a number of designated market makers. The MATCH Facility is a wholesale trading facility that does not have market makers or a central order book. The MATCH Facility is aimed at professional users and their clients and therefore does not require a central liquidity pool. The USF central market and MATCH run in parallel but do not share the same listings. A contract can only be listed in one market segment, but not in both simultaneously.

Who is eligible to use the MATCH Facility?

Any Exchange member with a Financial Futures subscription can use the MATCH Facility. With respect to non-member clients, only "Wholesale clients", i.e. those with sufficient knowledge, expertise and understanding of the implications of the MATCH Facility, can participate in MATCH trades. Exchange members must be satisfied that non-member clients meet these criteria.

Market opening times

Members can execute MATCH trades in Universal Stock Futures at any time during the contract's trading session, i.e. from 08.00 to 17.30 (London time). On the Last Trading Day, the session will end at 16.30.

Closing price determination

The fair value for all the contracts, calculated by the Exchange, will be used as the daily closing price. The fair value will be calculated by using the official closing prices of the underlying shares.

The additional benefits of enhanced margining

Exchange members do not have to collect the total margin due on a portfolio as calculated by the LCH.Clearnet (SPAN) but can offer credit facilities on all LIFFE business to their clients, subject to certain conditions. General Notice No. 2296 provides further details.

Examples of contracts available on MATCH

Company name	TRS code
3i	II
Abbot Group	ABG
BAA	BAA
British Airways	BAY
Cable & Wireless	CW
Dairy Crest Group	DCG
Easyjet	EZJ
Egg	EGG
First Choice Holidays	FCD
Galen Holdings	GA
Halma	HLM
ICAP	IAP
ITV plc	GAA
Jarvis	JRV
Kelda Group	KEL
Laing (John)	LNG
Man Group	MAN
National Express Group	NE
Old Mutual	OML
Paladin Resources	PLR
RAC	RAC
Rank Group	RNK
Sage Group	SAG
Tate & Lyle	TAL
Taylor & Francis Group	TFG
Ultraframe	UTF
Vardy (Reg)	VDY
Weir Group	WEI
Xansa	XAN
Yell Group	YEL

5 Contract specifications

Multiple currencies

LIFFE's Universal Stock Futures are global products with contracts available on an international list of stocks in seven major currencies: UK pound, euro, Danish krone, Norwegian krone, Swedish krona, Swiss francs and US dollars.

Cash settlement

Many of the contract features are standard across currencies. The most important feature of Universal Stock Futures is that most of them are cash settled. This not only means that the cost of trading is lower - by reducing settlement costs - it also increases the accessibility of the contracts for global investors, as the ability to complete settlement transactions in the local settlement system is not required.

Cash settlement means that at the maturity of the contract, LIFFE sets a final closing price for the future based on the market value of the underlying share. Any difference between the traded price of the future and the final closing price (known as the 'Exchange Delivery Settlement Price', or 'EDSP') is transferred between buyers and sellers in cash.

Physically Delivered Universal Stock Futures (P-USF)

P-USF contracts are similar to the existing Universal Stock Futures contracts, however these contracts are physically delivered rather than cash settled.

At maturity, the holder of a long P-USF position will receive a number of shares in the underlying, equivalent to the number of contracts in the position, multiplied by the size of the contract. Conversely, the holder of a short P-USF position will have to deliver a number of shares in the underlying, equivalent to the number of contracts in the position, multiplied by the size of the contract.

EDSP

The calculation of the EDSP is key to the integrity of the contract. The calculation of the EDSP is specific to the underlying stock market for each share. Details of each calculation can be found on the following pages. For UK and Continental European stocks, the EDSP is calculated at an appropriate period of liquidity (eg the close of trading) for the underlying share on the last trading day of the future. The EDSP for Italian stocks (from May 2001 onwards) is calculated using the opening auction price of the stock on the third Friday of the month. Euronext.liffe calculates the EDSP for US stocks using opening prices on the underlying exchanges - this reflects the normal practice for US index derivatives.

Last trading day, trading cycle and contract size

The last trading day for Universal Stock Futures typically reflects the practice of the established equity option and relevant underlying cash markets.

The list of delivery months available at any one time is standardised for all Universal Stock Futures contracts. The minimum price movement (or 'tick size') and the number of shares each contract represents (the 'lot size') have been chosen to represent market standards for the stock in question.

Dividends
An important point to note with Universal Stock Futures is that owning a future does not confer any right to receive any dividends paid by the company. If a dividend is expected before the end of the life of the contract (specifically, if there is an 'ex-dividend' date expected in the stock market) this should be reflected in the price of the future. The pricing of futures is described further on page 14.

Corporate actions
Another feature of the equity markets is the range of corporate actions undertaken by companies. This includes events such as stock splits, rights issues, demergers and takeovers. Where a corporate action occurs in an underlying stock, the Universal Stock Futures contract will be adjusted to reflect the changes to the underlying shares. The general rule is that contract terms will be adjusted so that, as far as possible, no-one gains or loses specifically as a result of the corporate action.

Details of Euronext.liffe's corporate actions policy are available on www.liffe.com

UK Companies - Contract specification

Currency	£
Unit of Trading	One future normally represents 1,000 shares
Delivery Months	Nearest two of March, June, September and December
Quotation	Pence per share
Minimum Price Movement (Tick Size)	0.5 pence or 0.25 pence
Tick Value	£5.00 or £2.50
Last Trading Day	Third Wednesday of the delivery month
Settlement Day	First business day following Last Trading Day
Trading Hours	08:00 – 17:00, Last Trading Day 08:00 – 17:30

Trading Platform:

- USF on UK stocks are only available on the MATCH facility.
- LIFFE CONNECT® Trading Host for Futures and Options.
- Wholesale Trading Facilities: Block Trading.

Exchange Delivery Settlement Price (EDSP): Official closing price on London Stock Exchange.
Contract Standard: Cash settlement based on Exchange Delivery Settlement Price.

Unless otherwise indicated, all times are London times.

This product may not be offered and sold to US persons.

Continental European Companies - Contract specification

Currencies	€, SEK, CHF, DKK, NOK
Unit of Trading	One future normally represents 100 shares, except for Italian futures where one future normally represents 1,000 shares
Delivery Months	Nearest two of March, June, September and December, plus nearest two serial months such that the nearest three calendar months are always available for trading
Quotation	€ per share; **Denmark:** DKK per share; **Norway:** NOK per share; **Sweden:** SEK per share; **Switzerland:** CHF per share
Minimum Price Movement (Tick Size)	€0.01; **Denmark:** DKK 0.5; **Norway:** NOK 0.5; **Sweden:** SEK 0.01; **Switzerland:** CHF 0.1
Tick Value	€1.00; **Denmark** DKK 50; **Italy** €10; **Norway** NOK 50; **Sweden** SEK 1.00; **Switzerland** CHF 10
Last Trading Day	**Denmark, Finland, Germany, Ireland, Netherlands, Spain, Sweden, Switzerland:** Third Friday of the delivery month **France:** Penultimate business day of the delivery month **Italy:** Business day immediately preceding the third Friday of the delivery month **Norway:** Third Thursday of the delivery month
Settlement Day	**France, Germany, Ireland, Netherlands, Spain, Sweden, Switzerland:** First business day following the Last Trading Day **Italy:** Two business days following the Last Trading Day **Denmark, Finland, Norway***: Fourth business day following the Last Trading Day
Trading Hours	**Denmark, Finland:** 08:00 – 17:30, Last Trading Day 08:00 – 16:00 **France, Ireland, Italy, Netherlands, Spain, Sweden, Switzerland:** 08:00 – 17:30, Last Trading Day 08:00 – 17:30 **Germany:** 08:00 – 17:30, Last Trading Day 08:00 – 19:00 **Norway:** 08:00 – 17:30, Last Trading Day 08:00 – 15:00

Trading Platform:
- LIFFE CONNECT® Trading Host for Futures and Options.
- Algorithm: Central order book applies a price-time trading algorithm with priority given to the first order at the best price.
- Wholesale Trading Facilities: Asset Allocation, Block Trading, Basis Trading.

Exchange Delivery Settlement Price (EDSP):
Denmark: VWAP[2] of trades during the last 10 minutes of trading on Copenhagen Stock Exchange.
Finland: VWAP[2] of trades during the last 10 minutes of trading on Helsinki Exchanges.
France: Official closing price on Euronext Paris.
Germany: Official closing price on Deutsche Börse.
Ireland: Closing auction price.
Italy: Opening auction price on Borsa Italiana on 3rd Friday of the Delivery month.
Netherlands: Official closing price on Euronext Amsterdam.
Norway: VWAP[2] of trades during the last 10 minutes of trading on Oslo Stock Exchange.
Spain: Official closing price on Bolsa de Madrid.
Sweden: Official closing price on Stockholmsbörsen.
Switzerland: Official closing price on Virt-x.
Contract Standard: Cash or physical settlement based on Exchange Delivery Settlement Price

Unless otherwise indicated, all times are London times.

This product may not be offered and sold to US persons.
* Physically Delivered Universal Stock Futures (P-USF)
[2] VWAP = LIFFE calculated Volume Weighted Average Price of underlying stock.

US Companies - Contract specification

Currency	US $
Unit of Trading	One future normally represents 100 shares
Delivery Months	Nearest two of March, June, September and December, plus nearest two serial months such that the nearest three calendar months are always available for trading
Quotation	US dollars per share
Minimum Price Movement (Tick Size)	US $0.01
Tick Value	US $1.00
Last Trading Day	Third Friday of the delivery month
Settlement Day	First business day following Last Trading Day
Trading Hours	08:00 – 18:00, Last Trading Day 08:00 – 14:40

Trading Platform:
- LIFFE CONNECT® Trading Host for Futures and Options.
- Algorithm: Central order book applies a price-time trading algorithm with priority given to the first order at the best price.
- Wholesale Trading Facilities: Asset Allocation, Block Trading, Basis Trading.

Exchange Delivery Settlement Price (EDSP): VWAP[3] of trades on New York Stock Exchange, or NASDAQ Stock Market, as the case may be, during the first 10 minutes of trading.
Contract Standard: Cash settlement based on Exchange Delivery Settlement Price.

Unless otherwise indicated, all times are London times.

This product may not be offered and sold to US persons.

[3] VWAP = LIFFE calculated Volume Weighted Average Price of underlying stock.

6 Pricing of Universal Stock Futures

When seen for the first time, futures prices can seem odd. Each future has four available delivery months, each with a different price that differs from the price of the underlying share.

Example

	Bid	Offer
Stock	50.00	50.05
January future	50.19	50.25
February future	49.99	50.05
March future	50.19	50.26
June future	50.80	50.87

Buying a Universal Stock Future is similar to agreeing to buy shares at a future date, but agreeing the price at the time of trade. The key difference is that most Universal Stock Futures are cash settled, so no shares change hands. Conversely, selling a Universal Stock Future is similar to agreeing to sell shares at a future date (although the seller does not need to own shares to enter into this agreement).

Both the buyer and the seller face a risk that the share price changes between the date the future is traded and the end of the future's life. To cover this risk, the seller of the future could buy shares and hold them until the future's last trading day.

The futures price should be equal to the cost of buying the shares and holding them until the expiry of the futures contract - any more and a trader buying stock and selling futures would make a guaranteed positive return - any less and a trader selling stock and buying futures would make a guaranteed positive return. If a futures price were to move away from the correct theoretical price, the process of buying/selling stock and selling/buying futures - usually referred to as arbitrage - would bring the price back in line.

The total cost of buying stock and holding it until the expiry of the future is made up of three main elements - the price of the underlying stock; any interest income foregone by holding shares rather than cash; and any dividends paid to the holder of the stock before the expiry of the future. The futures price should be:

Fair Futures Price = Today's Share Price + Interest Costs - Dividends Received

As Universal Stock Futures are available in an open market, their prices are subject to the normal forces of supply and demand. Similarly, different investors will have different expectations of interest rates and dividends - this will lead to each having a different view of the fair price for the future.

7 Market structure

Access to Universal Stock Futures

Universal Stock Futures are traded on LIFFE CONNECT® , Euronext.liffe's state-of-the-art electronic trading system. The market on LIFFE CONNECT® for Universal Stock Futures is transparent - live bids and offers can be seen and traded in real time. Quotes and trades are reported globally by many quote vendors.

Access to LIFFE CONNECT® is available in a variety of ways. Direct access is available only to members of Euronext.liffe and allows the direct entry of orders into the system. Non-members must enter their orders into LIFFE CONNECT® via a Euronext.liffe member. Universal Stock Futures may be traded, via Euronext.liffe members, by customers within and outside the UK, subject to any regulatory restrictions which may exist.

Customer orders can be routed to LIFFE CONNECT® through the Euronext.liffe member either by telephone or electronically. The growth in popularity of the internet has led to many Euronext.liffe members offering online trading to investors.

Trade priority

Orders at the best price always trade first. Where there is more than one order at the best price, they are traded in the order in which they were received by LIFFE CONNECT® .

Strategy trading

Buy and sell orders for specific delivery months can be submitted to LIFFE CONNECT® - both limit and market orders are acceptable[4]. As well as trading individual delivery months, LIFFE CONNECT® supports futures strategy trading including calendar spreads, butterfly and condor strategies, which can all be traded as single transactions.

Wholesale trading facilities

In recognition of the institutional user's frequent need to transact large orders at a single price, or to transact futures in conjunction with other instruments (eg the stocks themselves), Universal Stock Futures may be traded through Euronext.liffe's wholesale trading facilities[5]. Basis trades, between a future and the underlying stock, or an option on that stock, can be traded using the Basis Trading Facility. Relative value trades (or pairs trades) between two different Universal Stock Futures can be traded using the Asset Allocation Facility. Very large size trades can be traded using the Block Trade Facility. A special facility exists to enable delta neutral trades between Universal Stock Futures and individual equity options contracts. These wholesale trading facilities allow these specific types of trades to be completed without execution risk. Trades are arranged outside the normal LIFFE CONNECT® trading mechanism, and are submitted for review by Euronext.liffe officials before being accepted. MATCH trades are explained in section 4 of this brochure.

[4] Details of strategy trading on LIFFE CONNECT® can be found at www.liffe.com

[5] Details of LIFFE's wholesale trading facilities can be found at www.liffe.com

8 Margining and LCH.Clearnet

LCH.Clearnet is the central counterparty for all trades made on the LIFFE market, including those in Universal Stock Futures. All trades on LIFFE must be cleared, and therefore all members must have an assured route to LCH.Clearnet. Because only clearing members may be counterparties of LCH.Clearnet, LIFFE non-clearing members (ie those that are not also members of LCH.Clearnet) must enter into a clearing agreement with a clearing member (ie a member of both LIFFE and LCH.Clearnet).

Where a customer has dealt through a non-clearing member of LIFFE, there will be a chain of linked, or "back-to-back", contracts: (i) between the customer and the non-clearing member; (ii) between the non-clearing member and the clearing member; and (iii) between the clearing member and LCH.Clearnet. The customer therefore has no contractual relationship with LCH.Clearnet - his counterparty is his broker.

LCH.Clearnet has a fundamental role in managing risks within the marketplace. As part of this role, LCH.Clearnet requires clearing members to make a deposit with it following the opening of a new position. This deposit - known as initial margin - can be cash or various forms of collateral (eg equities or government bonds). The amount of initial margin required from clearing members by LCH.Clearnet differs from product to product - detailed requirements for all products are available from Euronext.liffe.

In addition, gains and losses on open positions are calculated at the end of every day - and payments reflecting those calculations - known as variation margin - are made between LCH.Clearnet and clearing members. LCH.Clearnet receives variation margin from clearing members whose positions have fallen in value and pays it to those whose positions have risen in value.

These arrangements between LCH.Clearnet and clearing members will be reflected in the commercial provisions between brokers and their clients.

Further information about LCH.Clearnet may be found at www.lchclearnet.com

9 Regulatory disclosure

LIFFE Administration and Management ("LIFFE") is a Recognised Investment Exchange ("RIE") under English law. In addition to its status as an RIE, LIFFE is a regulated market of the European Economic Area (in relation to products covered by the European Union's Investment Services Directive) and, as such, appears on the list of such markets published in the Official Journal of the European Communities.

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You should always bear in mind that:

- the value of investments and any income from them may go down as well as up. You may not get back all of your original investment
- past performance is not necessarily a guide to future performance
- rates of exchange may cause the value of underlying investments to go up or down
- tax arrangements may change
- all stock market based investment is exposed to a degree of risk.

Contacts

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web:	www.liffe.com/usf
	www.liffeinvestor.com
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