



# **Selection procedure ELPS Brussels II**

**Please read this document carefully before applying for the selection process.**

# **Contents**

## **1 Introduction**

## **2 Selection of Liquidity Providers**

### **2.1. Selection process**

#### 2.1.1 Selection of PMM

#### 2.1.2 Selection of CMM

### **2.2 Performance assessment and priority rules**

### **2.3 Appointment of Liquidity Providers**

## **3 Number of PMM and CMM per class**

## **4 Auction Timetable**

## **5 Further information**

The **Euronext Derivatives Markets ("Liffe")** comprise the markets for derivatives operated by Euronext Amsterdam, Euronext Brussels, Euronext Lisbon, Euronext Paris and LIFFE Administration and Management, referred to respectively as the Amsterdam, Brussels, Lisbon, Paris and London markets. Euronext is part of the NYSE Euronext.

## **1 Introduction**

This document sets out the selection process for primary market makers (PMM) and competitive market makers (CMM) for the Brussels derivatives market. The rights and obligations of PMM and CMM are described in the document “Liffe’s Liquidity Provider scheme for the Brussels derivatives market – ELPS Brussels” (referred to below as the ELPS Brussels II - October 2008 -document), which is available on our website ([www.euronext.com/elps](http://www.euronext.com/elps)).

All option classes listed on the Brussels derivatives market have been grouped in class combinations named ECCs.

Candidates for the role of PMM first participate in the selection process for roles in all the classes in an ECC. During the selection process for each ECC, participants are invited to indicate, through an anonymous open auction, the obligation level they are willing to take on for maintaining two-sided markets in the capacity of PMM. Each level relates to predetermined conditions regarding spreads, order sizes and guaranteed percentage of turnover. After having finalised the PMM selection process, CMM are selected at the obligation level determined during the PMM selection.

During the selection process, a candidate may indicate that it does not wish to be assigned roles in one or more of the less liquid classes in the ECC. If enough parties wish to be assigned those particular roles, the candidate selected for the ECC does not need to take on those roles. In the case of the less liquid classes, Liffe determines the minimum number of PMM and CMM that are to be selected in each class. If the number of parties wishing to be assigned roles in the less liquid classes is insufficient, Liffe may draw lots to decide which of the candidates selected for the ECC has to take on a role for the less liquid classes. It can happen that all of the candidates selected for an ECC have to take on roles in the less liquid classes.

The appointment of a PMM or CMM is subject to the approval of the relevant clearing member and the conclusion of a PMM or CMM agreement (as appropriate). The final decision to appoint a liquidity provider rests with Liffe.

## 2 Selection of Liquidity Providers

All members that wish to take part in the selection process should submit an application form (Application for ELPS Brussels II – October 2008), which is available on our website ([www.euronext.com/elps](http://www.euronext.com/elps)).

**The e-mail addresses and telephone numbers stated on the application form will be used throughout the entire selection process.**

### 2.1 Selection process

PMM and CMM for each ECC will be selected during the selection process. The objective is to select the published number of PMM for each ECC. However, Liffe reserves the right to select fewer PMM than published or not to select any PMM at all if it considers such action appropriate. Each member firm can only take one role (either a PMM role or a CMM role) in each class. Only one entity per group of member firms<sup>1</sup> may participate in the PMM auction. Applicants may indicate on their application form that they wish to become a CMM in the event that they are not selected as a PMM.

The selection process will take place over a number of days, starting with the selection of PMM for each ECC. The selection of CMM will commence once all PMM have been provisionally selected.

Each selection day will commence at 9:30 (CET) and conclude at 16:00 (CET). The day may include auctions for two ECCs in a morning session and an afternoon session.

#### **IMPORTANT**

**The representatives of each participating member firm should be contactable via e-mail and by telephone using the contact details provided in the application form throughout the entire selection process. Additionally, representatives should be able to exchange fax messages with Liffe throughout the entire selection process.**

The PMM selection process for each ECC will be conducted as follows.

1. Opening
2. Auction process – Session 1
3. Auction process – Session 2
4. Auction process – Session 3
5. Provisional selection of PMM for the ECC
6. Assignment of less liquid classes
7. End of the PMM selection procedure

The CMM selection process for each ECC will be conducted as follows.

1. Opening
2. Application process
3. Provisional selection of CMM
4. Assignment of less liquid classes
5. End of the CMM selection procedure

---

<sup>1</sup> A number of companies operating together and connected by intra-group (equity) interests of 50% or more, including the principle holding company.

### 2.1.1. Selection of PMM

#### ***Opening***

To signal the opening of the selection process, the following welcome message will be sent to all participants. This message also serves to test the email connection.

**“Welcome to the ELPS Selection Process”**

After receiving this message, all participants applying for the role of PMM should respond immediately with the following message.

**“[Company Name] OK.”**

If a representative does not receive the welcome message within 10 minutes of the scheduled opening time, he/she must contact Liffe via one of the following numbers or email addresses.

telephone 1: +31 (0)20 550 5110  
telephone 2: +31 (0)20 550 5002  
fax: +31 (0)20 550 5101  
email: [ELPSAuction@liffe.com](mailto:ELPSAuction@liffe.com)  
email 2: [qualityofmarkets@euronext.com](mailto:qualityofmarkets@euronext.com)

In the event of an email communication failure, Liffe may decide to communicate with a representative via fax.

#### ***Auction process***

To signal the beginning of Session 1, an email message containing all the obligation levels for the relevant ECC will be sent to all participants.

Session 1 will conclude after 30 minutes, at which point a status report will be compiled and published via email. The status report will contain an anonymous list of all bids received so far in the auction.

Session 2 will commence once the status report has been published. After a further 30 minutes, an updated status report will be published.

Session 3 will commence once the updated status report has been published. The auction process will conclude after a further 30 minutes, at which point the final status report will be published.

The provisional selection of PMM will be published as soon as possible after the conclusion of the third (final) session.

Participants wishing to bid for a PMM role at one of the published obligation levels should send the following message to Liffe.

**“[Company Name] agrees to comply with obligation level [Chosen Obligation Level Number] for a PMM role.”**

Liffe will confirm receipt of each bid by responding with an email message to the relevant participant. In the event that confirmation is not received within 10 minutes, Liffe should be contacted via one of the numbers or email addresses indicated above.

Unconfirmed bids will not be taken into account in the auction process and will therefore be considered invalid.

If a participant does not wish to bid for one of the published obligation levels, it should indicate this in the first session by sending the following message.

**“[Company Name] does not wish to subscribe for the PMM role.”**

**IMPORTANT**

**All participants must send their initial bid, or indication that they do not wish to bid, before the end of Session 1. Failure to meet this requirement will result in exclusion from the selection procedure for the relevant PMM role.**

Participants may adjust their bid as often as they wish at any time during the auction process by sending the following message.

**“[Company Name] adjusts its offer and agrees to comply with obligation level [Chosen Obligation Level Number] for a PMM role.”**

Adjustments may only be made in order to increase the obligation level.

**No adjustments will be accepted after the close of the third (final) session.**

***Morning and afternoon sessions***

The following timetable sets out the scheduled times for morning and afternoon auctions.

Morning auction (CET)	Afternoon auction (CET)	
9:30	13:30	Opening
10:00	14:00	Session 1
10:30	14:30	Session 2
11:00	15:00	Session 3
11:30	15:30	Final status report (end of bidding sessions)
As soon as possible		Publication of provisionally selected PMM

***Selection of PMM after the last bidding session***

A group of member firms may not hold more than one PMM role within any one ECC.

Once the auction has been completed, PMM will be selected as follows.

1. The highest obligation level bid will be determined when the final bidding session concludes.
  - a) If the number of bids for this obligation level exceeds the maximum number of PMM allowed for the ECC, a performance assessment will be conducted in accordance with section 2.2.
  - b) If the number of bids for this obligation level equals the maximum number of PMM allowed for the ECC, the participants that made these bids will be provisionally selected for the role of PMM.
  - c) If the number of bids for this obligation level is less than the maximum number of PMM allowed for the ECC, the participants that submitted bids at this level will be provisionally selected and bids at the second and third highest obligations levels will be taken into consideration as follows.

- i. If, by including the second highest level, the number of bids exceeds the maximum number of PMM allowed for the ECC, a performance assessment will be conducted in accordance with section 2.2.
  - ii. If, by including the second highest level, the number of bids equals the maximum number of PMM allowed for the ECC, the participants that made these bids will be provisionally selected for the role of PMM.
  - iii. If, by including the second highest level, there are fewer bids than the remaining available PMM roles for the ECC, the procedure set out in points i and ii above will be repeated for the third highest level.
  - iv. If there are fewer bids than the number of PMM roles assigned to the ECC in the highest, second highest and third highest levels, bids at further levels will not be taken into consideration. In the event of this, the vacant roles will remain vacant until further notice.
- d) The lowest obligation level of the provisionally selected PMM will determine the final obligations of all PMM for the ECC (and CMM, in accordance with section 2.1.2).
- 2. The selected candidates are asked if they wish to be assigned a role in the less liquid option classes alongside the role they have been assigned in the most liquid option class within the ECC.
  - i) If all the selected parties wish to be assigned such a role, they will all be assigned the role in the less liquid classes.
  - ii) If the number of provisionally selected candidates that wish to be assigned a role in a class is lower than the minimum number of PMM (see section 3), Liffe will try to select one or more additional PMM. Liffe will approach other parties that have indicated an interest in the less liquid option classes (either by participating in the auction or by submitting an application form) and ask them whether they wish to be assigned one of the roles that has become available, based on the conditions set during the auction. When making its selection, Liffe will apply the following order of priority:
    - 1. Parties that participated in the relevant PMM auction and submitted bids for the same obligation level as the provisionally selected PMM but were not selected for the role
    - 2. Other parties that participated in the PMM auction and parties that did not participate in the PMM auction but indicated an interest by submitting an application form

If two or more parties qualify for selection under this rule, a performance assessment will be conducted (see section 2.2)

If the number of parties wishing to be assigned a role is the same as the minimum number of PMM set by Liffe, all the parties will be selected provisionally.

If, despite approaching all the interested parties listed above, it is still impossible to select the minimum number of PMM for an option class, Liffe will assign parties from among the group of PMM provisionally selected for the ECC until that minimum number is reached. This will be done by drawing lots.

If a PMM has relinquished its role in a less liquid option class and the number of PMM selected for that class is sufficient, the PMM still has priority in the CMM selection procedure (see section 2.2).

### ***End of the PMM selection procedure***

The selection procedure for PMM roles will conclude once the PMM for all classes within an ECC have been provisionally selected and their company names have been published. Provisionally selected candidates will be formally appointed once the appropriate clearing member statement has been submitted and a formal PMM agreement has been signed. Liffe will send clearing member statement forms to the

relevant clearing members, indicating the ECC/classes for which their clients have been provisionally selected.

### 2.1.2 Selection of CMM

**The CMM selection procedure will commence once the PMM selection procedure has been completed. CMM will initially be selected for the entire ECC.**

#### *Opening*

To signal the opening of the CMM selection process in an ECC, the following welcome message will be sent at 9:30 (CET) to all participants involved in the selection process. This message also serves to test the email connection.

**“Welcome to the ELPS Selection Process”**

After receiving this message, all participants applying for the role of CMM for the relevant ECCs should respond immediately with the following message.

**“*[Company Name]* OK”**

Representatives taking part in the selection process on behalf of a number of different member firms should send a separate response for each member firm.

If a representative does not receive the welcome message within 10 minutes of the scheduled opening time, he/she must contact Liffe via one of the following numbers or email addresses.

telephone 1: +31 (0)20 550 5110  
telephone 2: +31 (0)20 550 502  
fax: +31 (0)20 550 5101  
email: [ELPSAuction@liffe.com](mailto:ELPSAuction@liffe.com)  
email 2: [qualityofmarkets@euronext.com](mailto:qualityofmarkets@euronext.com)

In the event of an email communication failure, Liffe may decide to communicate with a representative via fax.

#### *Application process*

To signal the beginning of the process, an email containing the obligation levels for all ECCs to which the provisionally selected PMM have subscribed will be sent to the participants that have indicated that they wish to apply for a CMM role in the relevant ECC. Participants can indicate this by placing a cross next to the most liquid class in the relevant ECC on the application form.

All participants wishing to apply for a CMM role in an ECC must send the following message.

**“*[Company Name]* applies for a CMM role in the ECC consisting of the class B XO and agrees to comply with the relevant obligation level. Furthermore, *[Company Name]* wishes to have an additional CMM role in the classes *[Classes of your preference]*”**

Participants that do not wish to apply need not send a message.

**Applications received after the published deadline (to be determined) will not be taken into account.**

Liffe will confirm receipt of each application by responding with an email message to the relevant participant. In the event that confirmation is not received within 10 minutes, Liffe should be contacted via one of the numbers or email addresses indicated above.

Unconfirmed applications will not be taken into account in the auction process and will therefore be considered invalid.

### ***Selection of CMM***

A group of member firms can only be assigned one CMM role within an ECC, except in either of the following circumstances:

- (i) If at least one of the members within the group of member firms currently holds the role of PMM and is not selected as a PMM in the upcoming selection procedure. In such situations, the group of member firms may be assigned a second or a third CMM role.
- (ii) If CMM roles are still vacant following the CMM selection procedure. In such situations, the group of member firms may be assigned a second CMM role.

Only CMM the class BXO have the right to become CMM in equity options.

If the number of CMM applications received for a particular class exceeds the maximum number of roles for that class as published by Liffe, a performance assessment will be conducted in accordance with section 2.2.

The provisional selection of CMM will be announced by email to all the participants.

### ***End of the CMM selection procedure***

The selection procedure for CMM roles will conclude once the CMM have been provisionally selected and their company names have been published. Provisionally selected candidates will be appointed as CMM once the appropriate clearing member statement has been submitted and a formal CMM agreement has been signed. Liffe will send clearing member statement forms to the relevant clearing members, indicating the ECC/classes for which their clients have been provisionally selected.

The following timetable sets out the scheduled times for the CMM selection procedure.

<b>Day</b>	<b>Session</b>	<b>Time</b>	<b>Description</b>
1	Opening	9:30	Opening message.
1	Applications	10:00 - 11:00	Members should apply for CMM roles after receiving obligations for relevant ECC(s).
1	Assessment	11:00 - 12:00	Liffe will assess all CMM applications and confirm the ECCs in which members have been selected.
1	Less liquid classes	12:00 - 13:00	Members should indicate for which less liquid classes they wish to relinquish the CMM role.
1	Assessment	13:00 - 14:00	Liffe will assess the number of CMM for each less liquid class.
1	End of day	15:00	Confirmations will be sent to all participants stating for which ECCs/classes a member has been selected and for which ECC one has not been selected.

An Info Flash will be sent as soon as possible to all market participants with a list of all selected Liquidity Providers.

## **2.2 Performance assessment and priority rules**

When Liffe has to select between candidates that have submitted equivalent bids or have applied for a role where the number of liquidity providers is restricted, it carries out a performance assessment, applying the following order of priority.

1. Existing PMM active in the relevant ECC whose role commenced at least three months before the announcement of the auction, provided they did not fail to comply with their obligations in more than three months during the term of their agreement
2. Existing PMM active in the relevant ECC whose role commenced less than three months before the announcement of the auction, provided they complied with their obligations in each month during the term of their agreement
3. Existing CMM active in the relevant ECC whose role commenced at least three months before the announcement of the auction, provided they did not fail to comply with their obligations in more than three months during the term of their agreement
4. Existing CMM active in the relevant ECC whose role commenced less than three months before the announcement of the auction, provided they complied with their obligations in each month during the term of their agreement
5. Other traders (assigned no priority as their prior performance cannot be assessed)

Compliance with obligations in a particular month is evaluated as follows.

1. The average of the individual performance measurement percentages relating to the continuous presence obligation in all classes within the ECC is multiplied by 5.
2. The average of the individual performance measurement percentages for the opening, closing and expiration presence obligation in all classes within the ECC are added together.
3. The percentages calculated in 1 and 2, above, are divided by 8.
4. The calculated percentage must be at least 90% (85% in the case of certain, specified classes).

If, after following the above procedure, there is still a tie between two or more existing liquidity providers applying for a specific role, the average performance across the ECC (based on steps 1 to 3) will be assessed.

If this assessment still results in a tie, the total volume traded across the ECC since the start of the current ELPS Brussels scheme will be measured. For the purposes of this performance assessment, only volume traded through the central market is taken into account. The candidate with the highest trade volume will be selected. If taking these figures into account does not result in a decision, the same assessment will be done but this time taking the same figures for all classes.

The final decision regarding the selection of PMM and CMM rests with Liffe. There is no upper limit on the number of PMM or CMM roles a member firm may hold, although they may not hold more than one liquidity provider role in any one class.

### **2.3 Appointment of Liquidity Providers**

On the final day of the selection process, Liffe will send a message to all the participants detailing the number of PMM and CMM roles provisionally selected in each ECC.

Roles will be formalized subject to the following:

- The submission of a clearing member statement granting approval for the role to which the participant has subscribed<sup>2</sup>, and
- The signing of a formal PMM or CMM agreement, as appropriate, setting out the benefits and obligations of the PMM or CMM.

Details of all liquidity providers and their obligation levels will be formally announced once all the above conditions have been met.

---

<sup>2</sup> Liffe will provide each liquidity provider that has been provisionally selected with a clearing member statement for it to send to its clearing member for signing. The form will be sent to member firms after all the liquidity providers have been selected.

## **IMPORTANT NOTE**

Liffe wishes to emphasize that all bids and applications made by member firms during the selection procedure are final. It is therefore the responsibility of each member firm to obtain approval from its clearing member before subscribing to a certain obligation level.

Liffe may declare the selection of a PMM or CMM invalid if the relevant clearing member statement is not submitted or the relevant Liquidity Provider agreement is not signed within the period stated in the covering letter that accompanies the Liquidity Provider agreement.

Liffe reserves the right to exclude a member firm from the selection procedure if it transpires that it submitted a bid or application without obtaining approval from its clearing member. In such cases, Liffe reserves the right to exclude such members from participating in the selection procedure for the next three ECCs.

**In cases that are not expressly covered by this document, Liffe will endeavour to act within the spirit of the procedure and always in the interest of ELPS.**

### 3 Number of PMM and CMM per class

The following number of PMM and CMM role will be available at the ECC auction selection procedure.

ECC/Class	Maximum		Minimum
	PMM	CMM	PMM
<b><u>BLG</u></b>	3	5	n/a
MOB	3	5	2
SOL	3	5	2
BAR	3	5	2
<b><u>FRB</u></b>	3	5	n/a
AGE	3	5	2
DEL	3	5	2

Please note that the minimum number of PMM and CMM roles only applies to the less liquid classes in an ECC. (In the table above, the most liquid classes are indicated in bold and underlined).

#### 4 Auction Timetable

<u>ECC</u>	<u>Date</u>	<u>Time (CET)</u>
BAR-BLG-MOB-SOL	21-10-2008	09:30
AGE-DEL-FRB	21-10-2008	13:30

The CMM selection for the above mentioned classes will be held on 22 October 2008 and will start at 09:30 (CET).

Any changes to this schedule will be announced in advance via email.

## 5 Further information

If you have any questions, please call our sales and account management on +31 (0)20 5506315 or send an email to [derivativesamsterdam@euronext.com](mailto:derivativesamsterdam@euronext.com).

## Disclaimer

The **Euronext Derivatives Markets ("Liffe")** comprise the markets for derivatives operated by Euronext Amsterdam, Euronext Brussels, Euronext Lisbon, Euronext Paris and LIFFE Administration and Management, referred to respectively as the Amsterdam, Brussels, Lisbon, Paris and London markets. Euronext is part of the NYSE Euronext group. Whilst all reasonable care has been taken to ensure that this document is accurate and not misleading, neither Euronext N.V. nor any of its group companies shall be liable (except to the extent required by law) for the use of the information howsoever arising. Euronext N.V. expressly disclaims all warranties, expressed or implied, as to the accuracy of any of the content provided, or as to the fitness of the information for any purpose.