



**Liffe**

**NYSE Euronext**

**INFO-FLASH**

**EURONEXT DERIVATIVES MARKETS**

> London

## **LONDON INFO-FLASH NO. LO08/20**

ISSUE DATE: 29 September 2008

### **SHORT TERM INTEREST RATE ("STIR") FUTURES CONTRACTS**

### **INVITATION TO APPLY FOR DESIGNATED MARKET MAKER STATUS**

#### **Executive Summary**

This Info-Flash invites Members to apply to participate in the Designated Market Maker ("DMM") Schemes in respect of: (a) specified "back" (red and green) delivery months of the Three Month Euro (EURIBOR) and Three Month Sterling (Short Sterling) Interest Rate Futures Contracts; and (b) the Three Month Euro (EURIBOR) Interest Rate Futures Contract during late opening hours.

#### **1. Introduction**

- 1.1 London Info-Flash No. LO08/01, issued on 1 April 2008, invited Members to apply for participation in the renewed DMM Scheme in the "back" delivery months of the Three Month Euro (EURIBOR) Interest Rate Futures Contract ("Euribor Futures") and the Three Month Sterling (Short Sterling) Interest Rate Futures Contract ("Short Sterling Futures") (the "STIR Back Month DMM Scheme") and in the renewed DMM Scheme in Euribor Futures during extended trading hours (i.e. between 18:00 hours and 21:00 hours, London time) (the "Euribor Late Opening DMM Scheme").
- 1.2 London Info-Flash No. LO08/02, issued on 7 May 2008, informed Members of the appointment of DMMs in the STIR Back Month DMM and Euribor Late Opening DMM Schemes.
- 1.3 This Info-Flash advises Members of the renewal for a period of six months of the Euribor Late Opening and STIR Back Month DMM Schemes ("the Schemes"), on the same terms and conditions (as set out in section 2 below) and invites Members and appropriate clients of Members to apply. The renewed Schemes will run for a six month period, beginning on 3 November 2008 and ending at the close of business on 30 April 2009.

#### **2. DMM benefits**

- 2.1 Subject to fulfilling the relevant obligations, DMMs shall be granted the following Exchange transaction fee rebates:

- (a) **DMMs in the STIR Back Month Scheme – Euribor Futures Contract:**

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- (i) a full Exchange transaction fee rebate on market assigned outright business in the Q7 to Q12 months (“back reds and greens”) transacted in a market making capacity; and
  - (ii) a full Exchange transaction fee rebate on market assigned outright business in the Q5 and Q6 months (“front reds”), up to a maximum of 50,000 lots per calendar month, on the basis that the transaction fee for one lot of Q5 or Q6 month business in the Euribor Futures Contract will be rebated for every rebateable lot in the Q7 or Q8 months (“back reds”) that has been transacted in a market making capacity during the same calendar month.
- (b) **DMMs in the STIR Back Month Scheme – Short Sterling Futures Contract:** a full Exchange transaction fee rebate on market assigned outright business in the Q5 to Q12 months (“reds and greens”) transacted in a market making capacity.
- (c) **DMMs in the Euribor Late Opening DMM Scheme:**
- (i) a full Exchange transaction fee rebate on market assigned outright business transacted in the Euribor Futures Contract in a market making capacity between 18:00 hours to 21:00 hours (London time); and
  - (ii) an Exchange transaction fee rebate on market assigned outright business transacted in the Euribor Futures Contract during the period from 16:15 hours to 17:59 hours (London time) up to a maximum of 15,000 lots per calendar month.

2.2 In addition, for each contract in each Scheme in which the DMM participates, the DMM will be granted a cash payment, consisting of:

- (a) a stipend that reflects a proportion of its reasonable identified costs of acting in a DMM capacity, e.g., staff costs and cost of trading software and hardware. Applicants should include a breakdown of such costs in euro as part of their application. If agreed, this will be paid on a monthly basis in respect of each day during the calendar month in which the DMM meets the standard DMM bid/offer spread and quote size commitments for the specified portion of the trading day. For the avoidance of doubt, the Exchange will not subsidise the market position and/or margin payments arising from an applicant’s activity in a DMM capacity. Finally, the Exchange will not make stipend payments in respect of capital or opportunity costs; and
- (b) an additional “performance related pool” payment to be calculated monthly from a fixed cash amount to be divided amongst DMMs on a pro-rata basis depending on the quality of market provided by the DMM. Factors that will be taken into consideration when determining a DMM’s share (if any) of the “performance related pool” payment will be the portion of the trading session in which the DMM has tightened bid/offer spreads beyond the agreed DMM obligations and the DMM’s share of market-maker traded volume.

2.3 Stipends and any additional liquidity pool payment will be paid in **euro**.

2.4 There will be no trade priority advantages provided by the Exchange to DMMs.

### **3. DMM obligations**

3.1 In return for the rebates and stipend described in section 2 above, DMMs will be required to meet obligations agreed with the Exchange. Members should note that DMMs who wish to participate in the “liquidity pool” payment will be required to improve on those agreed obligations and provide tighter bid/offer spreads.

- 3.2 **For information and guidance purposes**, details of current obligations in place in relation to the existing STIR Back Month and Euribor Late Opening DMM Schemes are contained in Attachments 1 and 2 to this Info-Flash respectively.
- 3.3 Should a DMM materially fail to meet its DMM obligations, the Exchange may determine a course of action to terminate its participation in the Scheme and/or to reduce or remove any entitlement of the DMM and, where appropriate, to re-charge in part or in full any rebates and payments made under the terms of the Scheme.
- 3.4 It is intended that the names of DMMs and the nature of their commitments will be promoted by the Exchange and detailed on the Liffe website ([www.nyx.com/liffe](http://www.nyx.com/liffe)).

#### **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**. Completed application forms should be submitted to Account Managers **by the close of business on Monday 13 October 2008**. Members or clients who would like additional information about the DMM Schemes should contact the Interest Rate Derivatives team at Liffe.
- 4.2 The revised DMM Schemes are 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 General Clearing Member.
- 4.3 Applications should contain the following information:
- (a) the standard bid/offer spread and quote size obligations that the applicant is prepared to meet for a 90% portion of the trading session;
  - (b) the tighter bid/offer spread that the applicant expects to be able to provide for a specified portion of the trading session, within the standard 90% arrangements (DMMs will not be required to meet such tighter spread);
  - (c) details of the applicant's reasonable identified costs of acting in the capacity of market maker; and
  - (d) the details of one Individual Trading Mnemonic ("ITM") through which market making business will be submitted and of the TRS Account References to which market-making business will be assigned. **Please note that all market making business must be assigned exclusively to nominated TRS Account(s).**
- 4.4 In addition, Members should provide any supporting information with their application which they feel would be relevant, including but not limited to the following:
- (a) the number and experience of staff, both in terms of the Responsible Person and other staff, available to support the market making commitments;
  - (b) the level of sophistication of their Automated Price Injection Models ("APIMs"), as any models must be registered with and approved by the Exchange; and
  - (c) the level of financial support, including in particular the level of risk capital, available to support the market making commitments.

- 4.5 **Applicants should note that their past performance in relation to fulfilment of DMM obligations, bandwidth efficiency and the contribution that the DMM's price injection activity has made to market quality, will be taken into account when allocating DMM status under the new Schemes.**
- 4.6 DMMs will be appointed through a competitive tender process. A Review Panel comprising members of LIFFE's executive will examine applications for DMM status in both Schemes. No Panel member will have a material interest in any applicant, for example by way of personal or financial connection.
- 4.7 The Review Panel's decision shall be final.
- 4.8 The appointment of a DMM will be subject to a binding contract ("the Agreement") between the DMM and the Exchange. A completed application form does not constitute such an Agreement. Members who have made successful applications will receive a formal Agreement for their signature from the Exchange. A successful applicant's DMM status, and therefore the period for which he may receive financial benefits, may not be deemed to have commenced until such Agreement is completed, signed and received by the Exchange. All DMM appointments will be subject to standard contractual terms (e.g. in respect of early termination).

For further information in relation to this Info-Flash, Members should contact their Account Manager or the following:

Fixed Income Derivatives

+44 (0)20 7379 2222

stirs@liffe.com

**DMM Obligations in the Current STIR Back Month DMM Scheme****Euribor Futures Contract****Tradelink Worldwide Limited**

<b>Quarterly Delivery Months</b>	<b>Session Presence</b>	<b>Maximum Bid/Offer Spread (bps)</b>	<b>Minimum Order Size (lots)</b>
Back Reds (Q7 & Q8)	75%	1.5	200
	40%	1	
Front Greens (Q9 & Q10)	75%	1.5	75
	40%	1	
Back Greens (Q11 & Q12)	75%	2	50
	40%	1.5	

**RSJ Invest a.s.**

<b>Quarterly Delivery Months</b>	<b>Session Presence</b>	<b>Maximum Bid/Offer Spread (bps)</b>	<b>Minimum Order Size (lots)</b>
Back Reds (Q7 & Q8)	90%	1	150
	10%	0.5	
Front Greens (Q9 & Q10)	90%	1	100
	2%	0.5	
Back Greens (Q11 & Q12)	90%	1.5	50
	60%	1	

**Short Sterling Futures Contract****Tradelink Worldwide Limited**

<b>Quarterly Delivery Months</b>	<b>Session Presence</b>	<b>Maximum Bid/Offer Spread (bps)</b>	<b>Minimum Order Size (lots)</b>
Front Reds (Q5 & Q6)	75%	2.5	200
	40%	2	
Back Reds (Q7 & Q8)	75%	3	100
	40%	2	
Front Greens (Q9 & Q10)	75%	3	75
	40%	2	
Back Greens (Q11 & Q12)	75%	3	50

**Met Traders Limited, trading through The Kyte Group Limited**

<b>Quarterly Delivery Months</b>	<b>Session Presence</b>	<b>Maximum Bid/Offer Spread (bps)</b>	<b>Minimum Order Size (lots)</b>
Front Reds (Q5 & Q6)	90%	2	100
	40%	1	50
Back Red (Q7)	90%	2	75
	40%	1	50
Back Red (Q8)	90%	3	75
	40%	2	50
Front Green (Q9)	90%	3	75
	70%	2	50
Front Green (Q10)	90%	3	75
	40%	2	50
Back Greens (Q11 & Q12)	90%	3	75
	40%	2	50

**DMM Obligations in the Current Euribor Late Opening DMM Scheme****RSJ Invest a.s.**

<b>Quarterly Delivery Months</b>	<b>Session Presence</b>	<b>Maximum Bid/Offer Spread (bps)</b>	<b>Minimum Order Size (lots)</b>
Whites (Q1 to Q4)	90%	1	150
	10%	0.5	
Front Reds (Q5 & Q6)	90%	1	100
	2%	0.5	
Back Reds (Q7 & Q8)	90%	1.5	50
	60%	1	