



## LONDON INFO-FLASH NO. LO08/31

ISSUE DATE: 15 December 2008

### THREE MONTH EONIA SWAP INDEX FUTURES CONTRACT AND THREE MONTH EURO (EURIBOR) INTEREST RATE FUTURES CONTRACT

### INTER-CONTRACT SPREAD LIQUIDITY PROVIDER SCHEME

#### Executive Summary

This Info-Flash informs Members of the extension to, and revision of, the Liquidity Provider Scheme in inter-contract spreads between the Three Month EONIA Swap Index Futures Contract and the Three Month Euro (EURIBOR) Interest Rate Futures Contract and invites Members and appropriate clients of Members to apply.

#### 1. Introduction

- 1.1 London Info-Flash No. LO08/11, issued on 23 July 2008, provided details of a Liquidity Provider Scheme to be introduced to facilitate inter-contract spread trading between the Three Month EONIA Swap Index Futures Contract ("Three Month EONIA Swap Index Futures") and the Three Month Euro (EURIBOR) Interest Rate Futures Contracts ("Three Month Euribor Futures") (the "Inter-contract Spread LP Scheme") and invited Members and appropriate clients of Members to apply.
- 1.2 This Info-Flash informs Members of a revision to the terms of the Inter-contract Spread LP Scheme. The extended Inter-contract Spread LP Scheme will be open to applications up to and including **30 January 2009**. Participants registered in the previous Inter-contract Spread LP Scheme will be automatically grandfathered into the revised Scheme as described in paragraph 2.1.
- 1.3 The terms and conditions of the Scheme will remain unchanged with the following exceptions:
  - (a) the Exchange is planning to introduce a new LIFFE CONNECT<sup>®</sup> Recognised Strategy for inter-contract spreads between Three Month EONIA Swap Index Futures and Three Month Euribor Futures. Subject to such a strategy being made available technically and the necessary regulatory approvals being obtained (including amendments to the Trading Procedures), Qualifying Business for the purposes of the Inter-contract Spread LP Scheme will only include proprietary business of the Inter-contract Spread LP executed by the Inter-contract Spread LP using either the Recognised Strategy functionality or the Asset Allocation Facility. Inter-contract spreads which have been legged will not constitute Qualifying Business; and

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- (b) currently the number of Inter-contract Spread LPs is limited as described in paragraph 4.2, but once the Inter-contract Spread is a Recognised Strategy and is made available on LIFFE CONNECT<sup>®</sup>, there will be no such restriction.
- 1.4 The amendments to the Inter-contract Spread LP Scheme outlined in paragraph 1.3 above will only become effective when the Inter-contract Spread is a Recognised Strategy available on LIFFE CONNECT<sup>®</sup>. A Notice will be issued to Members prior to the changes to the Scheme becoming effective.
- 1.5 The Exchange remains committed to continuing to improve and develop its STIR portfolio and to offering its Members the most efficient and effective market place for the trading of STIR contracts. Members who wish to suggest new ideas and initiatives for the future development of the Exchange's STIR portfolio should contact Fixed Income Derivatives at Liffe.

## **2. Benefits of the Inter-contract Spread LP Scheme**

- 2.1 Under the terms of the Inter-contract Spread LP Scheme, approved Inter-contract Spread LPs who have registered their account references with the Exchange will receive a 100% Exchange transaction fee rebate on all proprietary business transacted in inter-contract spreads between Three Month EONIA Swap Index Futures and Three Month Euribor Futures on a 1 for 1 basis capped to a maximum monthly limit of 200,000 lots each of Three Month Euribor Futures and Three Month EONIA Swap Index Futures, i.e. a maximum of 200,000 Three Month Euribor/Three Month EONIA Swap Index Futures spreads.

## **3. Qualifying Business**

- 3.1 The Exchange transaction fee rebate will only be available in respect of "Qualifying Business" transacted by individuals registered by the Exchange as Inter-contract Spread LPs.
- 3.2 "Qualifying Business" is business which satisfies the following criteria:
  - (a) until further notice, business executed as an inter-contract spread between Three Month EONIA Swap Index Futures and Three Month Euribor Futures, where the two legs of the transaction are in the same futures delivery month, are executed within a maximum of 30 minutes of each other and are registered to a single account reference. When the Inter-contract Spread becomes a Recognised Strategy, Qualifying Business will be business executed as an Inter-contract Spread between Three Month EONIA Swap Index Futures and Three Month Euribor Futures as a Recognised Strategy or using the Asset Allocation Facility;
  - (b) proprietary business of the Inter-contract Spread LP and not client business; and
  - (c) business executed on LIFFE CONNECT<sup>®</sup> by the Inter-contract Spread LP and not assigned to any other person.
- 3.3 In general terms, an Inter-contract Spread LP is an individual who, through his trading activity (involving behaviour such as price improvement and the facilitation of order flow), supports and enhances the liquidity of the Contracts. A typical example of such behaviour is the frequent submission of orders into the LIFFE CONNECT<sup>®</sup> central order book to attract and satisfy customer order flow. Specifically, the Exchange defines an Inter-contract Spread LP as:

- (a) an individual whose principal activities include trading futures on a discretionary basis for his own account, or for the proprietary account of an employer in which he has an interest; and
  - (b) whose trading activity contributes to price discovery and satisfies the futures order flow of other market participants.
- 3.4 Any Three Month Euribor Futures leg of the inter-contract spread which falls within the definition of “Qualifying Business” for the purposes of the Inter-contract Spread LP Scheme will be automatically excluded from being deemed to be “Qualifying Business” for the purposes of any other STIR Liquidity Provider (“SLP”) schemes.
- 4. Application Process**
- 4.1 Members who wish to apply for Inter-contract Spread LP status, either themselves or on behalf of their clients, **should contact their Account Manager for details of the application process.**
- 4.2 Applicants are advised that the number of Inter-contract Spread LPs will be limited (until such time as the Inter-contract Spread becomes a Recognised Strategy when there will be no restriction on the number of Inter-contract Spread LPs). Should the number of applications received exceed the number of Inter-contract Spread LP positions available, the Exchange will select LPs based on their past performance in providing liquidity in the inter-contract spread and the Three Month Euribor Futures market.
- 4.3 The appointment of an Inter-contract Spread LP will be subject to a binding contract (“the Agreement”) between the Inter-contract Spread LP and the Exchange. An application 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 Inter-contract Spread LP 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. Inter-contract Spread LP appointments will be subject to standard contractual terms (e.g. in respect of early termination).

**5. Duration of the Inter-contract Spread LP Scheme**

- 5.1 The Inter-contract Spread LP Scheme will run until the close of business on **Tuesday 31 March 2009.**

For further information in relation to this Info-Flash, Members should contact:

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