

Performance Related Fees

Go Live on the Amsterdam market: 2 June 2009

Liquidity Provider Presentation, March 2009



Contents

- Introduction
- Performance Related Fees
- Performance Measurement
- Premium Based Tick Size
- Surcharge cap
- Fines
- Implementation of Performance Related Fees
- Summary

Introduction

- In the Amsterdam market two types of Liquidity Providers (LP) are active:
 - Primary Market Makers (PMM)
 - Competitive Market Makers (CMM)
- In return for maintaining markets the LP is allowed to use a MMO key (mass quote functionality).
- Today an LP pays a fine if they do not perform according to the obligations.
- This penalty model will be replaced by a Performance Related Fee (PRF) model.
- The better an LP performs the lower the trading fees will be.
- This PRF model will be introduced on 2 June 2009 for all classes traded on the Amsterdam market.

Performance Related Fees

- Basic fee model:

Trading fee does not include clearing fee.

Performance	Trading Fees
$\geq 85\%$	0.07
$\geq 80 - 85\%$	0.12
$< 80\%$	0.17

- To be explained:
 - Performance measurement.
 - The impact of Premium Based Tick Size.
 - The Surcharge Cap.
 - Under-performance for a number of consecutive months.

Performance Measurement

- Performance will be measured per calendar month.
- Performance will be measured per class, not per class combination (ECC).
- Performance will be measured based on the opening, continuous, closing and expiration periods.
- One average performance figure will be calculated per trading day.
- The average of all trading days within a measurement period (calendar month) will be used to determine the trading fees.
- Special circumstances, which could have an impact on the performance, can be taken into account.
- Such circumstances need to be reported to Quality of Derivative Markets.
- A performance committee will decide the final performance figure.

Performance Measurement

- The following weights will be used for performance measurement.

Period	With expiring series	Without expiring series
Opening	5%	5%
Continuous	75%	80%
Closing	15%	15%
Expiration	5%	
Total	100%	100%

Obligations relating to expiration only apply on expiry day and the day prior to expiry.

For example an LP performs on a non expiry day as follows:

- Opening = 50%
- Continuous = 95%
- Closing = 80%

The LP's average for that day will be:

$$50 \times 0.05 + 95 \times 0.80 + 80 \times 0.15 = \mathbf{90.5\%}$$

This result will be used for the calculation of the average of a calendar month.

Premium Based Tick Size (PBTS)

- For classes where PBTS is applicable an additional level for transactions carried out below the premium threshold is introduced.
- Transactions below or at the premium threshold of €0.20 will be charged a trading fee of €0.04 per contract when performing at 90% or higher.

	Trading Fees	
Performance	Premium ≤ 0.20	Premium > 0.20
≥ 90%	0.04	0.07
≥ 85 - 90%	0.07	0.07
≥ 80 - 85%	0.12	0.12
≤ 80%	0.17	0.17

Surcharge Cap

- The PRF model is an incentive for LPs to perform according to their obligations.
- In order to limit the down-side risk of an LP the trading fees exceeding €0.07 (> € 0.07) will be capped to a maximum number of contracts.
- This number can be different per class and is based on the traded volume of the class.

# contracts	Group	capped # contracts	
		PMM	CMM
≥ 2,000,000	A	50,000	10,000
≥ 250,000	B	25,000	5,000
< 250,000	C	0	0

- The division in groups is based on the traded volume of a 12 month period.
- The capped # of contracts is a monthly cap per LP.
- 'O' classes are always in stock group C.
- New classes will start in group C.

Surcharge Cap

Group A
AEX
ING
FOR
RD
AGN
UN
PHI
MT
KPN
AH
Dailies
Weeklies
ASL

Group B	
AKZ	FUR
DSM	REN
TPG	BAM
TTM	USG
SBM	EDX
RND	AAI
HEI	SR
CRU	WKL

Group C		
WES	BOS	WHV
MOO	DRK	IM
ASM	ORD	DEX
LC	HEY	LAU
NUO	AFA	UOO
VPK	CIO	ISX
BCK	ASO	FED
CSM	UBL	FDE
OCE	FOO	

For classes auctioned in April the volume of the previous period April - March will be used.

For classes auctioned in October the volume of the previous period October – September will be used.

This overview is based on turnover during March 08 – February 09

Surcharge Cap

- Note that the €0.07 trading fees are the basis fees, also for classes where PBTS is applicable.
 - A liquidity provider performing between 85 and 90% will pay €0.07 trading fees for all his trades, below and above the threshold, uncapped.
 - ▶ For example: a class using PBTS and an LP performing at 86%. All trades which have been charged €0.04 will get a surcharge of €0.03. However, the cap of €40 per order will remain in place.
 - A liquidity provider performing between 80 and 85% will pay €0.12 trading fees up to a maximum number of contracts and will pay €0.07 for all the remaining traded contracts.
 - ▶ For example: a group A class using PBTS and a PMM performing at 84%. All traded contracts that have been charged €0.04 will get a surcharge of €0.03. After that the first 50,000 contracts will get an additional surcharge of €0.05. The cap of €40 per order will remain in place.
 - A liquidity provider performing below 80% will pay €0.17 trading fees up to a maximum number of contracts and will pay €0.07 for all the remaining traded contracts.
 - ▶ For example: a group C class using PBTS and a PMM performing at 45%. All traded contracts that have been charged €0.04 will get a surcharge of €0.03. The cap of €40 per order will remain in place. There is no additional charging since the Surcharge Cap for a group C class is zero.

Surcharge Cap

- Only charged contracts are taken into account for the calculation of the number of contracts that have been traded.

A LP trades 1500 contracts in 1 trade at €0.50
The transaction fees are capped at €40
Number of charged contracts $(40 / 0.07)$ 571

A LP trades 1500 contracts in 1 trade at €0.13
PBTS is active for the specific class
Number of charged contracts $(40 / 0.04)$ 1000

- Performance Related Fees only apply to transactions carried out in the Central Order Book.
- Prof trades can therefore not be charged a higher fee.
- Note that prof trades also do not profit from the €0.04 fees charged for trades below the threshold for classes with PBTS being applicable.

Fines

- When an LP under-performs, but also does not trade, there will be no down-side according to the PRF model.
- Therefore a fine system is still in place.
- A fine will be imposed after a period of three consecutive months of under-performance.

Class group	Fine
A	€ 10,000
B	€ 5,000
C	€ 1,000

- In case of another consecutive month of under-performance within the contract period this fine will be imposed again.
- A performance below 80% is considered as under-performance.

Implementation of Performance Related Fees

- The implementation of PRF will take place together with the introduction of PBTS on 2 June 2009.
- On a daily basis trades are charged a trading fee of €0.07 or €0.04 per contract with a maximum of € 40 per order.
- When the final monthly (calendar month) performance percentages are determined by the Performance Committee, the Performance Based Fees are calculated for that calendar month.
- Following this calculation, the difference between the actual fees paid and the Performance Based Fees are surcharged.

Summary

- The performance percentages for the opening, continuous, closing and expiration periods are weighted to get a monthly average per class.
- Based on the monthly performance of the LP a fee per contract is determined.
- A inferior performance can result in higher transaction fees.
- Measurement is done on a class by class basis.
- Fee caps will apply for higher trading fees (> €0.07).
- Three months of consecutive under-performance will result in a fine, regardless of the traded volume.

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