

**LONDON INFO-FLASH NO. LO09/07**

ISSUE DATE: 3 April 2009

**OPTIONS ON LONG GILT FUTURES CONTRACT****INVITATION TO APPLY FOR DESIGNATED MARKET MAKER STATUS****Executive Summary**

This Info-Flash provides details of a new Designated Market Maker (“DMM”) Scheme to be introduced in the Option on Long Gilt Futures Contract and invites Members and appropriate clients of Members to apply.

**1. Introduction**

- 1.1 This Info-Flash provides details of a DMM Scheme to be introduced in the Option on Long Gilt Futures Contract (“Long Gilt Option”) (the “Scheme”).
- 1.2 In the current climate of significant government debt issuance and given the strong liquidity in the Exchange’s Long Gilt Futures Contracts, the Exchange is looking to encourage growth in the Long Gilt Options market.

**2. DMM benefits**

- 2.1 Subject to fulfilling the relevant obligations, appointed DMMs shall benefit from reduced Exchange transaction fees, the ability to submit Market Making Orders (“MMOs”) to LIFFE CONNECT<sup>®</sup> and a share of net trading revenue derived from Long Gilt Options business, as follows:
  - (a) a full Exchange transaction fee rebate on market assigned outright business executed in Long Gilt Options in a market making capacity;
  - (b) a rebate equal to 100% of Exchange transaction fees for Long Gilt Futures executed for hedging Long Gilt Options business executed in a market making capacity;
  - (c) DMMS will be entitled to a share of up to 40% of the net trading revenue derived from Long Gilt Options. This will be distributed on a pro-rata basis according to the traded volume of each DMM and will be paid one month in arrears;

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- (d) appointed DMMs will have the ability to use Market Making Orders (“MMOs”) to submit, revise or pull simultaneous bids and offers in an options series. MMOs are submitted in batches using a single message. DMMs will also be able to use the Delta Protection facility which maintains, on an ongoing basis, the DMM’s cumulative delta position on the trading day. When the delta position exceeds a delta limit set by the DMM, the Trading Host will send a message to alert the trader and, optionally pull all his / her remaining MMOs in that expiry of the Long Gilt Option. This functionality has already been successfully deployed in the Equity and Index options marketplaces.

### **3. DMM obligations**

- 3.1 The Scheme is intended to encourage liquidity in the Long Gilt Option by offering incentives for DMMs to make competitive two way prices in either a screen or a voice-brokered capacity. The specific obligations are:
  - (a) for 90% of each trading session (that is, contract opening through to close), each DMM, upon demand i.e in response to a Request For Quotes (“RFQ”) or a telephone request for quotes, will be required to quote two way competitive prices and order sizes, either over the telephone, or through LIFFE CONNECT®; and
  - (b) upon reasonable demand, each DMM will be required to provide the Exchange with theoretical pricing of Long Gilt Options to assist the Exchange with intra-day modelling and settlements publication.
- 3.2 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.
- 3.3 It is intended that the names of DMMs and the nature of their commitments will be promoted by the Exchange and detailed on the NYSE Euronext 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 27 April 2009**. Members or clients who would like additional information about the DMM Scheme should contact the Fixed Income Derivatives team at NYSE Liffe.
- 4.2 The revised DMM Scheme is 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) details of the applicant’s reasonable identified costs of acting in the capacity of market maker; and

- (c) 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 Scheme.**
- 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 the Scheme. 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).
- 4.9 The DMM Scheme will run until the close of business on 10 May 2010, and will be renewed subject to regulatory approval.

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

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