

LONDON INFO-FLASH NO. LO09/09

ISSUE DATE: 7 April 2009

AMENDMENT TO THE GUIDELINES FOR THE CALCULATION OF DAILY SETTLEMENT PRICES FOR FUTURES CONTRACTS

Executive Summary

This Info-Flash provides an update to the guidelines used by the Exchange when determining Daily Settlement Prices for Futures Contracts traded on LIFFE CONNECT®.

1. Members will be aware that Daily Settlement Prices for Futures Contracts are dealt with in Section 2.2 of the NYSE Liffe Trading Procedures. In addition, the Exchange follows published guidelines when determining Daily Settlement Prices, which were last issued under cover of General Notice No. 2182 on 7 March 2003.
2. The Exchange has recently conducted a review of the guidelines in respect of Futures Contracts to ensure that they continue to be reflective of the various factors which need to be taken into account by Exchange staff when determining Daily Settlement Prices. As a result, the guidelines have been changed to reflect current practice and also to update a number of Trading Procedure references.
3. The revised guidelines form the Attachment to this Info-Flash.

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

Rob Fuller

+44 (0)20 7379 2783

rfuller@nyx.com

Web site: www.nyx.com/liffe

The Euronext Derivatives Markets 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 Info-Flash is accurate and not misleading, neither NYSE Euronext, Euronext N.V. nor any of the group companies shall be liable (except to the extent required by law) for the use of the information howsoever arising. NYSE Euronext 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. The contents of this Info-Flash are for information only and shall not constitute investment advice. Neither NYSE Euronext nor any of its group companies, servants, or agents are responsible for any errors or omissions contained herein. None of the content of this Info-Flash will form any part of any contract between us.

REVISED GUIDELINES FOR DETERMINING DAILY SETTLEMENT PRICES FOR FUTURES CONTRACTS

Additions shown underlined/deletions ~~struckthrough~~

1. Daily Settlement Prices (“DSPs”) for Futures Contracts are determined in accordance with ~~LIFFE CONNECT™~~ NYSE Liffe Trading Procedure 3.2 2.2, which states:

~~“3.2.1 The Settlement System in LIFFE Market Services will be used to calculate the Daily Settlement Price by taking a feed of reported prices in the two minute period before the time specified for the settlement of a contract, as notified by the Board. This period is known as the “Settlement Range”. However, exchange officials will also monitor market activity throughout the trading day to ensure that settlement prices are a fair reflection of the market.~~

“2.2.1 The Daily Settlement Price for Futures Contracts is calculated using one of the following two methods:

- (a) Central Order Book price method (described in Trading Procedures 2.2.2-2.2.3); or
- (b) official closing price method (described in Trading Procedure 2.2.4).

The method used to establish the Daily Settlement Price for each Futures Contract is indicated in Annexe One.

2.2.2 In respect of the Central Order Book price method, the Settlement System in Market Services will be used to calculate the Daily Settlement Price by taking a feed of reported prices in the two minute period before the time specified for the settlement of a contract, as notified by the Relevant Euronext Market Undertaking. This period is known as the “Settlement Range”. However, the Relevant Euronext Market Undertaking will also monitor market activity throughout the Trading day to ensure that settlement prices are a fair reflection of the market.

~~3.2.2~~ 2.2.3 The first ninety seconds of the Settlement Range will be used to monitor spread levels. Thereafter, the following criteria will be taken into account, as applicable:

- (a) the traded price during the last thirty seconds of the Settlement Range; or
- (b) the trade weighted average of the prices traded during the last thirty seconds of the Settlement Range, rounded to the nearest tick; or
- (c) the price midway between the active bids and offers at the time the settlement price is calculated, rounded to the nearest tick.

Where a trade weighted average or a midway price between active bids and offers results in a price which is not a whole tick, the rounding convention that will apply in respect of (b) and (c) above will be in accordance with those set out in the relevant contract ~~terms~~ specifications.

In addition, the following criteria are monitored in ~~LIFFE~~ Market Services and may be taken into account, as applicable:

- (d) price levels as indicated by spread quotations;
- (e) spread relationships with other contract months of the same contract;
and
- (e) price levels and/or spread relationships in a related market.

2.2.4 ~~In respect of the official closing price method, which shall be used for such stock futures and index futures as may be specified in Annexe One, the Daily Settlement Price shall be determined by a fair value calculation using the official daily closing price of the company security or the index of such securities (as the case may be) established by the Relevant Stock Exchange. Where such official daily closing price is not available, the Relevant Euronext Market Undertaking shall determine the Daily Settlement Price, at their absolute discretion, on the basis of a fair value calculation which is consistent with cash market values of the shares the subject of such Contract.~~

~~3.2.3~~ 2.2.5 Settlement prices will be displayed on LIFFE CONNECT[®]TM ~~for Futures and Options~~ and for a minimum period of five minutes thereafter, the ~~Exchange~~ Relevant Euronext Market Undertaking ~~(taking into account any consultation with members by telephone where applicable)~~ may deem it necessary to amend the settlement prices to ensure they are a fair reflection of the market.

~~3.2.4~~ 2.2.6 When the ~~exchange official~~ Relevant Euronext Market Undertaking is satisfied that the settlement prices are appropriate in respect of a particular contract, the revised settlement prices will be displayed and for a minimum period of three minutes thereafter any further appropriate revisions will be displayed accordingly.

~~3.2.5~~ 2.2.7 The prices established by the procedure set out in this Trading Procedure ~~3.2 2.2~~ will be transmitted to the Clearing House. In the event that the Clearing House considers that prices do not correctly reflect the true value of contracts in the terms of Futures Contracts within the market, ~~it may require the Exchange to the~~ Relevant Euronext Market Undertaking may amend prices as appropriate.

~~3.2.6~~ 2.2.8 Settlement prices will be displayed on LIFFE CONNECT[®]TM ~~for Futures and Options~~ or any such other means of communication as the ~~Exchange~~ Relevant Euronext Market Undertaking sees fit.

~~3.2.7~~ 2.2.9 Where the settlement price of a contract available for trading on LIFFE CONNECT[®]™ is calculated during the course of the LIFFE CONNECT[®]™ session for that contract, the Exchange Relevant Euronext Market Undertaking will additionally post the LIFFE CONNECT[®]™ closing price for each contract month at Market Close. Closing prices, where applicable, will be calculated in the manner set out in Trading Procedure 3.3 PART TWO of these Trading Procedures.”

2. Based on the Trading Procedures as described above, the Exchange looks to determine DSPs within the following framework which, whilst not exhaustive, does attempt to outline the various factors (and the weighting attached to each) which are taken into account during this process.
3. The aim is to maintain a consistent approach and on some occasions it may be necessary to settle a Delivery Month outside of a current Bid/Offer quote or to settle an Explicit Spread outside of a Bid/Offer quote. Where this occurs, it is typically the result of volatile market conditions in the period immediately prior to the settlement period.

Furthermore, certain Bids/Offers/Trades that are present during the Settlement Range may be disregarded for the purpose of calculating the Daily Settlement Price when the Exchange determines that, to include such Bids/Offers/Trades in its calculation, would not be a fair reflection of the market.

4. The following sections provide further information with regard to specific product groups.

5. **Short Term Interest Rate Futures (“STIRs”) and Commodity Futures**

- 5.1 With regard to these products, the monitoring during the day takes into account not only outright activity but also spread market activity and any strategy trading activity that takes place. In respect of Commodity Futures, for the far-listed~~less active forward~~ Delivery Months greater emphasis is placed upon spread market activity than on outright trading activity. In respect of~~For~~ STIRs, for the far-listed Delivery Months greater emphasis is placed on spread market and strategy (particularly Butterfly trading) activity ~~for the far-listed Delivery Months~~.

- 5.2 However, it should be noted that strategy trades (e.g. Calendar Spreads, Butterflies etc) that are executed as individual legs are not recognised by the Trading Host as the underlying strategy and these cannot be considered other than through the trading activity that results from them.

- 5.3 Where the spread market is active during the settlement period – either by way of trading activity or active bids/offers – then the criteria contained in Trading Procedure ~~3.2.32~~2.32(a) – (c) outlined above will be applied.

- 5.4 However, in those instances where the spread market is not active, or is deemed not to be a fair reflection of the market, then the aim is principally to ensure that the spread is settled in line with the spread price established from the previous DSPs in the relevant

outright Delivery Months, subject to the prices in the relevant outright markets. However, the Exchange also seeks to ensure that there is consistency along the yield curve such that if, for example, the calendar spreads have generally widened in neighbouring areas of the yield curve, then this will be reflected in the settlement of the inactive area. Furthermore, where a theoretical link to the underlying cash market can be established then price movements in this market, as displayed by quote vendor screens, will also be taken into account when determining the DSPs.

5.5 With regards to Calendar Spreads, consecutive spreads (e.g. Mar/Jun, Sep/Dec etc.) will take priority over non-consecutive spreads (e.g. Mar/Dec), and again the criteria outlined in Trading Procedure ~~32.2.32~~ (a) – (c) will be applied.

5.6 When monitoring trading activity, and active bids/offers, equal consideration is given to Implied and Explicit Spread market activity.

6. **Bond, Index, Swapnote[®] and Universal Stock Futures (“USFs”) with the exception of those USFs subject to the official closing price method**

6.1 When determining settlement prices for these products, reference is also made to the relevant Fair Value Calculator maintained by the Exchange, and the following paragraphs detail how this is used for the differing product groups.

6.2 For Bond Futures (Long Gilt, ~~Schatz, and~~ Japanese Government Bond ~~and Euro Bund~~) reference is made to both the price of the Cheapest-to-Deliver bond in the underlying market and prices of similar contracts in other markets. Whilst the Settlement Range, as defined in Trading Procedure ~~23.2.24~~ above, remains the same for all products, for this group particular attention is paid to market activity in the last 30 seconds of trading.

6.3 With regard to the Swapnote[®] group of products (Two, Five and Ten Year Futures denominated in Euro and U.S. Dollars), a Fair Value Calculator is used to assist in the calculation of settlement prices for those Delivery Months which experience little trading activity. ~~Details as to how this calculator works can be found on the LIFFE website at:~~

www.liffe.com/products/swapnote/calculator.

6.4 For Index Futures, reference is made to both trading activity and to reference prices quoted in the OTC and underlying markets. Information regarding OTC and other underlying market activity is sought from a wide range of those market participants who have been actively involved during the day.

6.5 The process for determining settlement prices for USFs (with the exception of those USFs subject to the official closing price method) relies heavily upon the information provided by the Fair Value Calculator. This incorporates the following information when calculating an appropriate futures price: the prevailing futures price, the current share price, the interest rate for the period to the maturity of the future (quoted as an annual rate), the time to maturity of the future (in years), each dividend for which the shares are marked ex-dividend in the period to maturity and the time to the ex-dividend date.

7. Notwithstanding these Guidelines it should be noted that ~~the London Clearing House~~ LCH.Clearnet Ltd has the right to determine a settlement price for clearing purposes at a level other than that initially established by the Exchange.