

Premium Based Tick Size (PBTS) for Dutch stock options

Questions and Answers

Question	Answer
What is meant by Tick Size?	The Tick Size (also known as price interval) is the minimum allowed change of the price of an option. Currently the tick size for all option series is €0.05. This means that the price of an option must be divisible by €0.05. Option prices of, for example, €0.15, €2.20 or €8.70 are divisible by €0.05 and are therefore permitted. Option prices of, for example, €1.32 or €15.96 are not divisible by €0.05 and are therefore not permitted. With Premium Based Tick Size lower option prices are allowed with a tick size of €0.01.
What is Premium Based Tick Size (PBTS)?	Currently the tick size for all option series is €0.05. After the introduction of Premium Based Tick Size (PBTS), the tick size will depend on the level of the price of an option: €0.01 for low premiums and €0.05 for high premiums.
What will change?	With PBTS the price of an order at order entry determines the tick size: <ul style="list-style-type: none"> • Orders with a premium below or equal to €0.20 have a tick size of €0.01. • Orders with a premium above €0.20 have a tick size of €0.05. Next to the option premiums of €0.05, €0.10, €0.15 or €0.20 it is possible to trade all premiums between €0.01 and €0.20.
What is the start date of PBTS?	The start date of PBTS was 2 June 2009
For which products will PBTS be introduced?	PBTS will apply to all single stock options traded on the Amsterdam market.
What is the advantage of PBTS?	PBTS is designed to have the tick size match the level of the premium: a small tick size for lower prices and a large tick size for higher prices. For investors, the €0.01 tick size means that there is a greater possibility of more granular pricing thereby increasing trading opportunities. PBTS will also make it possible to reduce the bid-offer spread, potentially leading to lower trading costs.
What happens if an order is entered with a wrong price?	The premium of any incoming order is validated against the relevant tick size. If an order is not a multiple of the relevant tick size, it will be rejected.
Is PBTS also applicable to strategy orders?	The new tick size rules also apply to strategy orders. At order entry, the limit price of a strategy order is subject to validation, not the separate leg prices.

What is meant by strategy order?	A strategy order allows entering multiple orders for different series of the same underlying value via one message. A strategy order is therefore used for one options or futures class.
Above the premium level of €0.20, only orders with a tick size of €0.05 can be entered. Is there still a possibility that above the premium level a trade is executed with a price of the €0.01 interval?	There is a possibility that prices appear in the order book or that trades are executed against prices that do not comply with the tick size rules. These are so-called "odd prices", which are prices above the PBTS threshold with a tick size of €0.01. This can, for example, occur after the creation of implied prices. An implied price is created from a combination order and results in a price in the single order book. Odd prices can also result from the creation of orders at the uncrossing
Above the premium level of €0.20 I can only enter orders with a €0.05 tick size. How can I trade an order in the order book with a price of the €0.01 interval?	An odd price (price above the PBTS threshold with a tick size of €0.01) can be traded in the normal way by entering: <ul style="list-style-type: none"> • A market order (will not be validated); • A limit order with a "crossing" price, which is a buy order with a limit exceeding the odd offer price in the order book or a sell order with a limit below the odd bid price in the order book (the limit orders have to comply with the PBTS threshold); <p>Note: These orders might result in having resting orders in the order book.</p> <ul style="list-style-type: none"> • An immediate or cancel order with the odd price as the limit.
Why is the premium threshold equal to €0.20?	We first want to see the reaction of the market, we have therefore set a relatively low premium threshold. Based on reactions of the market the premium threshold level can be further increased.
Why is PBTS only applicable to single stock options?	With PBTS lower option prices are allowed with a tick size of €0.01. This is especially important for single stock options because the contract size of single stock options is smaller than the contract size of index options. At a later moment in time, PBTS can also be applied to index options.
Where can I learn more?	For more information you can contact your bank or broker and the Retail Relations department of NYSE Liffe: retailamsterdam@nyx.com

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