

## LONDON INFO-FLASH NO. LO09/20

ISSUE DATE: 9 June 2009

### FTSE 100 INDEX OPTION CONTRACT (ESX)

### DESIGNATED MARKET MAKER SCHEME

#### Executive Summary

This Info-Flash invites Members to apply for participation in the renewed Designated Market Maker Scheme in respect of the FTSE 100 Index Option Contract (ESX).

#### 1. Introduction

- 1.1 The current Designated Market Maker (“DMM”) Scheme in respect of the FTSE 100 Index Option Contract (ESX) (“the Contract”) expires on 30 June 2009. This Info-Flash provides details of an extension to the DMM Scheme from 1 July 2009 until close of business on 30 June 2010 and invites Members to apply.
- 1.2 All Members with the appropriate trading rights are eligible to apply for DMM status and, subject to paragraph 4.3 below, such Members may apply at any time during the Scheme’s duration.
- 1.3 The appointment of each DMM will be subject to a binding contract (“the Agreement”) between the DMM and the Exchange. An application does **not** constitute such an Agreement. Furthermore, a successful applicant’s DMM status, and therefore the period for which he may receive financial benefits, will not be deemed to have commenced until the Agreement is completed, signed and received by the Exchange.
- 1.4 The Exchange shall appoint a maximum of five DMMs at its absolute discretion.
- 1.5 The new DMM Scheme will be subject to standard contractual terms (e.g. in respect of early termination).
- 1.6 Members are advised that the DMM Scheme will operate alongside the ELPS-based Primary Market Maker and Primary Liquidity Provider Schemes which were announced under cover of London Info-Flash No. LO09/18, issued on 8 June 2009. It should be noted that it will not

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be possible for a Member to be both a PMM or PLP and a DMM in the FTSE 100 Index Option at the same time.

## 2. Obligations of DMMs

- 2.1 Details of the obligations that DMMs will be required to meet in the Contract are contained in the Attachment to this Info-Flash. Following the conclusion of a DMM Agreement between the Member and the Exchange, the obligations set out in the Agreement will be firm and binding.
- 2.2 Where necessary, DMMs will be required to work with Exchange officials who are responsible for establishing Daily Settlement Prices and ensuring that the Exchange's pricing model accurately reflects indicative prices in the relevant options.
- 2.3 DMM participation in the market is mandatory throughout each and every market day, subject to the exemptions set out in the Attachment to this Info-Flash.

## 3. Financial Benefits to DMMs

- 3.1 A transaction fee discount structure will apply to qualifying market making business (i.e. excluding customer business). Transaction fee discounts shall apply to that proportion of each DMM's market assigned volume in the Contract which exceeds a threshold of 50,000 lots per month. The transaction fee discounts shall be as follows:

| Volume Bands (lots) |   |         | Fee (per side, per lot) |
|---------------------|---|---------|-------------------------|
| 0                   | - | 50,000  | 25p                     |
| 50,001              | - | 100,000 | 20p                     |
| 100,001             | - | 350,000 | 15p                     |
| 350,001 and above   |   |         | 10p                     |

NB: The volume bands are applied on a marginal basis, e.g. where a DMM's total market assigned volume in a given month was 200,000 lots, he would pay 25p per side, per lot for the first 50,000 lots, 20p per side, per lot for the next 50,000 lots and 15p per side, per lot for the remaining 100,000 lots.

- 3.2 The transaction fee discounts referred to in paragraph 3.1 will be available in respect of "Qualifying Business" transacted by DMMs.
- 3.3 "Qualifying Business" is business which satisfies the following criteria:
- (a) it is executed in the Contract;
  - (b) it is traded or claimed by a Member registered by the Exchange as a DMM in the Contract and acting in that capacity;
  - (c) it comprises only outright trades and delta neutral strategy trades (recognised strategy trades, for which a separate discount scheme applies, do not qualify although DMM obligations continue to apply to them); and
  - (d) it is proprietary business of the DMM and not client business.
- 3.4 Where market making business is allocated to the Non-Segregated Account rather than the House Account, the Member must provide the Exchange with the unique account reference(s) by which this business may be identified on the Trade Registration System ("TRS") as non-customer business.

3.5 In practice, the transaction fee discounts will be effected by way of rebate.

#### **4. Application process**

4.1 Members who wish to apply to become a DMM, either in their own right or on behalf of clients, should contact Quality of Derivative Markets at +31 (0)20 550 5110 or via email at [qualityofderivativemarkets@liffe.com](mailto:qualityofderivativemarkets@liffe.com). Applications must be received by close of business on Friday 15 June 2009. The Exchange's decision as to whether an application should be approved shall be final.

4.2 Applications should contain details of the Individual Trading Mnemonics through which market making business will be submitted and of the TRS Account Reference to which market making business will be assigned. Please note that all market making business must be assigned exclusively to nominated TRS Account(s).

4.3 Members may request to commence participation in the DMM Scheme at any time, subject to the Exchange appointing a maximum of five DMMs. Having done so, and following the Exchange's approval, DMM status will commence from the first business day of the month following receipt by the Exchange of a completed Agreement.

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

Equity Product Management

+44 (0)20 7379 2200

[equities@liffe.com](mailto:equities@liffe.com)

### **FTSE 100 Index Option Contract (ESX): DMM Obligations**

#### **DMMs will be required to meet the following obligations:**

1. For 90% of each trading session (that is, contract opening through to close), the DMM will be required to quote two way competitive prices and order sizes, either:
  - (a) over the telephone; or
  - (b) by responding to Requests for Quotes (“RFQs”) on LIFFE CONNECT®.

DMMs will be required to choose one of the two methods set out above for the duration of the DMM Scheme. The chosen method may be changed from time to time if notified, in advance, to the Exchange in writing.

2. DMMs will be required to meet the obligations in all expiry months and series that are available for trading.

#### **Exemptions:**

1. Where intra-day market conditions prevent a DMM from honouring its obligations, for example, over the announcement of significant economic news and during technical issues, the DMM must inform the Exchange at its earliest convenience.
2. Where a DMM determines to meet the obligations by responding to RFQs on LIFFE CONNECT®, the DMM is obliged to respond to no more than one RFQ every 20 seconds in the case of outright RFQs, and one every 60 seconds in respect of recognised strategy or delta neutral strategy RFQs.