

DATE: 17 July 2009

TO: Warrants & Certificates Market Participants

FROM: Exchange Traded Products Group

RE: **Request for feedback on the new NYSE Euronext Warrants & Certificates market model**

CONSULTATION ON THE BENEFITS AND DRAWBACKS LINKED TO THE NEW FEATURES INTRODUCED ON 23 MARCH 2009 TO THE WARRANTS AND CERTIFICATES SEGMENT ON NYSE EURONEXT

The purpose of this consultation is to receive feedback from Warrants and Certificates market participants on the new features introduced to this segment on 23 March 2009. This feedback will be taken into account by our college of regulators in giving their final approval for the new market features. As a reminder, regulators have given their approval for the new market model to be tested as a pilot. Several regulatory processes are still ongoing and final regulatory approval will only be considered at the end of the pilot phase.

Overview of the new features

The objective of the new features, specifically designed for this market, is to bring greater transparency and fluidity to this segment.

Traditional price discovery mechanisms do not apply to this market segment. The new features take this specificity into account and offer an adapted trading environment to both investors and product issuers. Price discovery on warrants and certificates does not follow the traditional pattern where transaction price is the result of the confrontation of offer and demand. Products are priced depending on several other factors, one of which is the price of the underlying asset. The new features integrate this price discovery mechanism into the market model's core matching principles.

Price formation is now secured by price-driven features managed by the issuers, ensuring transaction reliability and accuracy. Several transparency indicators will enable investors to gauge the quality of the service offered by the issuer. These indicators will be available on the NYSE Euronext website from 1 August 2009.

The new features have been created around the principles of a price-driven market, incorporating the following four elements:

- the compulsory presence¹ of the issuer;
- the quote boundary mechanism;
- the one-sided quote situation;
- the refresh mechanism.

¹ Under normal market conditions: notably in the case the underlying asset price is unavailable, this obligation is suspended. The presence of the issuer is defined as: the presence of a Bid and an Ask quote for a minimum quantity in the book, or a one-sided quote – a buy order in a bid-only situation or sell order in an offer-only situation.



Issuer presence

- The absence of the issuer triggers the reservation of the instrument concerned and the issuer is immediately informed.
- The issuer can then send a quote to the market, thus making the instrument available for trading again.
- No trade can be executed on an instrument without the presence of the issuer managing the instrument.

Quote boundaries

- Trades can never occur at prices strictly above or below the issuer quotes, except in a specific one-sided quote situation (described below).
- No trade can be executed outside of the issuer quotes (static thresholds are replaced by issuer quotes).

Flag for one-sided quote situations

- If an issuer is sold out he flags his instrument and limits the quote he sends to a bid only. Investors are aware of the issuer absence on the offer side.
- If the price of an instrument is so low that the issuer is unable to provide a bid he flags his instrument and limits the quote he sends to an offer only.
- Trading can continue. Investors can exchange products amongst themselves within the boundaries that complete the issuer quote. During a bid-only period, a theoretical sale quote is derived from the issuer bid price by the trading system:
 - The price of this quote is the maximum price authorized for investor executions;
 - The price of the offer quote is recalculated each time the issuer bid quote changes;
 - This offer quote aims at avoiding any transactions at unfavourable prices to investors.
- During an offer-only period, a virtual minimum price is defined and set to the instrument's minimum tick size. Investors are aware of the issuer absence on the buy side.
- One-sided quote situations cease as soon as the issuer re-enters a complete quote (bid and offer quotes).

Smart refresh mechanism

- When an investor enters an executable order on products most sensitive to market movements, a specific message is sent to the issuer; he is then obliged to refresh his quotes immediately.
- The dedicated message only contains instrument identification information. It does not contain any market sensitive information such as the price, side or size of the incoming order. It is sent to the issuer who manages the instruments prior to any transactional execution; this prompts the issuer to provide the market with an updated quote.
- If the issuer does not respond within a certain timeframe, the transaction is executed based on the last available issuer quote.
- No trade can be executed without the confirmation of the issuer quote before the expiration of a refresh period.
- Each transaction price is perfectly in phase with the most recent evolutions of all parameters that are taken into account for the valuation of the products. The matching algorithm limits transaction prices to the boundaries reset by the issuer's fresh quotes.
- The issuer receiving a Request For Execution message may react as follows:
 - Respond by sending a fresh quote to the market. As soon as the new quote hits the order book, any possible transaction is then executed. This includes any other



- entering order that might have hit the book between the moment the Request For Execution message was sent to the issuer and the moment he sends a fresh quote;
- Decide that his existing quote is in line with current underlying market conditions and therefore needs no update. In this case the transaction will be executed at the end of a certain period of time called the Refresh Period.

All materials linked to this service are available at:

<http://www.euronext.com/editorial/wide/editorial-62818-EN.html>

The specific trading manual is available at:

<http://www.euronext.com/fic/000/045/703/457032.pdf>

Responses to this consultation should be sent to ETPeurope@nyx.com by 25 August 2009, using the questionnaire form attached with the info-flash.

For any questions you may have, please contact Alicia Suminski on +33 (0)1 4927 1067 or Myriam Coince on +33 (0)1 4927 1382.