

LONDON INFO-FLASH NO. LO09/28

ISSUE DATE: 6 August 2009

INTER-CONTRACT SPREAD (“ICS”) BETWEEN THREE MONTH EONIA SWAP INDEX FUTURES CONTRACT AND THREE MONTH EURO (EURIBOR) INTEREST RATE FUTURES CONTRACT

RENEWAL OF THE ICS DESIGNATED MARKET MAKER SCHEME AND EXTENSION OF THE ICS LIQUIDITY PROVIDER SCHEME

Executive Summary

This Info-Flash informs Members of the renewal of the Designated Market Maker (“DMM”) Scheme and the extension of the Liquidity Provider Scheme in Inter-contract Spreads (“ICS”) between the Three Month EONIA Swap Index Futures Contract and the Three Month Euro (EURIBOR) Interest Rate Futures Contract, and invites Members and appropriate clients of Members to apply.

1. Introduction

- 1.1 London Notice No. 3129, issued on 12 March 2009, informed Members of the list of Designated Market Makers (“DMMs”) in the ICS Strategy DMM Scheme, and London Notice No. 3133 issued on 13 March 2009 informed Members of the extension to, and revision of, the terms of the Inter-contract Spread Liquidity Provider Scheme (“ICS LP Scheme”).
- 1.2 This Info-Flash advises Members of the renewal of the DMM Scheme in the ICS Strategy and the extension of the ICS LP Scheme, and invites Members and appropriate clients of Members to apply. Both schemes will remain in place **until close of business on 26 February 2010**.

2. Benefits of the ICS DMM Scheme

- 2.1 Subject to fulfilling the relevant obligations, DMMs shall be granted the following benefits:
 - (a) a full Exchange transaction fee rebate on market assigned ICS market making business between Three Month EONIA Swap Index Futures (“Three Month EONIA Futures”) and Three Month Euro (EURIBOR) Interest Rate Futures (“Euribor Futures”); and
 - (b) a stipend that reflects a proportion of its reasonable identified costs of acting in a DMM capacity, e.g., staff costs and cost of trading software and hardware. Applicants should include a breakdown of such costs in euro as part of their application. If agreed, this will be paid on a monthly basis in respect of each day during the calendar month in which the DMM meets its obligations. For the avoidance of doubt, the Exchange will not subsidise the market position and/or margin payments arising from an applicant’s activity in a DMM capacity. Finally, the Exchange will not make stipend payments in respect of capital or opportunity costs.

Web site: www.nyx.com/liffe

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- 2.2 Stipends will be paid in **euro**.
- 2.3 There will be no trade priority advantages provided by the Exchange to DMMs.
- 3. ICS DMM obligations**
- 3.1 In return for the benefits described in section 2 above, DMMs will be required to make continuous two way prices, at specified maximum bid/offer spreads, in a specified minimum quote size, for a fixed proportion of the trading session.
- 3.2 For information and guidance purposes, details of the current obligations in place in relation to the existing ICS DMM Scheme between Three Month EONIA Futures and Euribor Futures are contained in the Attachment to this Info-Flash.
- 3.3 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.
- 3.4 In the event that any business which may give rise to a benefit under the terms of the DMM Scheme may also qualify as business undertaken by the DMM giving rise to a benefit under any other Exchange market making, liquidity provision, or other similar scheme or arrangement (regardless of whether such scheme or arrangement is an “incentive scheme” within the FSA’s guidance), the Exchange reserves the right in its absolute discretion to take one or more of the following actions:
- (a) not to credit any further rebates otherwise due under the Scheme;
 - (b) to re-charge some or all of the discounted transaction fees made under the Scheme; and
 - (c) to terminate the Agreement by notice to the parties with immediate effect.
- 3.5 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).

4. ICS DMM Scheme Application process

- 4.1 Members who wish to apply for ICS 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 17 August 2009**. Members or clients who would like additional information about the ICS DMM Scheme should contact the Fixed Income Derivatives team at NYSE Liffe.
- 4.2 The ICS 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 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, where relevant, 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. 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).
- 5. Benefits of the ICS LP Scheme**
- 5.1. Under the terms of the ICS LP Scheme, approved ICS LPs who have registered their account references with the Exchange will receive a 100% Exchange transaction fee rebate on all proprietary business transacted in Inter-contract Spreads between Three Month EONIA Futures and Euribor Futures on a one for one basis, capped to a maximum monthly limit of 200,000 lots each of Euribor Futures and Three Month EONIA Futures, i.e. a maximum of 200,000 Euribor/Three Month EONIA Futures spreads.
- 5.2 Those who are already registered in the ICS LP Scheme will be deemed to continue as members of the Scheme from 1 September 2009 unless the Exchange is otherwise notified on or before 28 August 2009.

6. Qualifying Business for the ICS LP Scheme

- 6.1 The Exchange transaction fee rebate will only be available in respect of “Qualifying Business” transacted by individuals registered by the Exchange as ICS LPs.
- 6.2 “Qualifying Business” is business which satisfies the following criteria:
- (a) business executed as an Inter-contract Spread between Three Month EONIA Futures and Euribor Futures, either using the Recognised Strategy functionality or using the Asset Allocation Facility;
 - (b) proprietary business of the ICS LP and not client business; and
 - (c) business executed on LIFFE CONNECT[®] by the ICS LP and not assigned to any other person.
- 6.3 In general terms, an ICS LP is an individual who, through his trading activity (involving behaviour such as price improvement and the facilitation of order flow), supports and enhances liquidity. A typical example of such behaviour is the frequent submission of orders into the LIFFE CONNECT[®] central order book to attract and satisfy customer order flow. Specifically, the Exchange defines an ICS LP as:
- (a) an individual whose principal activities include trading futures on a discretionary basis for his own account, or for the proprietary account of an employer in which he has an interest; and
 - (b) whose trading activity contributes to price discovery and satisfies the futures order flow of other market participants.
- 6.4 Any Futures leg of the Inter-contract Spread which falls within the definition of “Qualifying Business” for the purposes of the ICS LP Scheme will be automatically excluded from being deemed to be “Qualifying Business” for the purposes of any other Exchange scheme.

7. ICS LP Scheme Application Process

- 7.1 The ICS LP Scheme application form is available from Account Managers and on the NYSE Euronext website at www.nyx.com/liffe. Those wishing to apply for ICS LP status should complete the application form and submit it to their Account Manager.
- 7.2 Scheme Terms and Conditions are attached to the application form. The Exchange advises every applicant to ensure that they have read and understood those Terms and Conditions as the Terms and Conditions and applicable Notices govern participation in the Scheme.
- 7.3 Ultimately, it is the responsibility of the applicant to ensure that all information included on the application form is complete and correct. Incorrect information will affect and possibly lengthen the application process and could affect the payment of Exchange transaction fee rebates.
- 7.4 The Exchange’s decision as to whether applications should be approved for LP status shall be final and binding.

8. Identification of Qualifying Business for the ICS LP Scheme

- 8.1 Once an individual has been registered as an ICS LP, his Qualifying Business will be identified through a single unique entry in the User Specified field (a LIFFE CONNECT[®] field

which translates into a single Account Reference in the Trade Registration System (“TRS”)) used exclusively by the ICS LP and solely for his activity in that capacity.

- 8.2 It is essential that submitted Account References are accurate as a simple error will result in Qualifying Business not being identified. For example, if Account Reference “ABC1” was submitted as “ABC”, no Qualifying Business would be identified and no transaction fee rebates would be made.
- 8.3 Applicants should be aware that after a LIFFE CONNECT® trade enters TRS, the Account Reference field can be amended through TRS post trade processing. For example, allocation can be made to a different Account Reference. As such, applicants should ensure that they submit in their application the final Account Reference of their trades for the Exchange to identify Qualifying Business accurately.
- 8.4 The Exchange stresses that any underpayment of transaction fee rebates resulting from inaccurate application/registration details will not be corrected retrospectively by the Exchange.
- 8.5 If a registered ICS LP decides to make changes to the trading and/or clearing arrangements which were detailed in the application, particularly those used by the Exchange to identify Qualifying Business (e.g. clearer, Member and Account Reference details), it is the responsibility of the ICS LP to provide the Exchange with formal notification of such amendments in a timely manner, ideally in advance. Failure to do so could result in inaccurate registrations and transaction fee rebates not being received.

9. Billing Arrangements for the ICS LP Scheme

- 9.1 Exchange transaction fees will be billed to clearing members shortly after the end of each month on the basis of 25 pence per lot per side for all delivery months. Fees paid in respect of volume transacted at or below the monthly cap will be rebated to clearing members in the following month on the basis of the relevant Exchange transaction fee, e.g. fees arising from transactions in September will be paid in October and rebated in November.

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

Fixed Income Derivatives

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**Existing Designated Market Makers' Obligations in the Inter-Contract Spread ("ICS") between
Three Month EONIA Swap Index Futures Contract and Three Month Euro (EURIBOR)
Interest Rate Futures Contract**

Pi Financial, trading through The Kyte Group Limited

Delivery Months	Session Presence (%)	Maximum Bid/Offer Spread (bps)	Minimum Order Size (lots)
Front Quarter	90%	1.0	50
Second Quarter	90%	1.0	50
Third Quarter	90%	1.5	50
Fourth Quarter	90%	1.5	50

RSJ Invest, a.s.

Delivery Months	Session Presence (%)	Maximum Bid/Offer Spread (bps)	Minimum Order Size (lots)
Front Quarter	90%	1.5	50
Second Quarter	90%	1.5	50
Third Quarter	90%	1.5	50
Fourth Quarter	90%	1.5	50

DMM A

Delivery Months	Session Presence (%)	Maximum Bid/Offer Spread (bps)	Minimum Order Size (lots)
Front Quarter	90%	1.5	100
Second Quarter	90%	1.5	100
Third Quarter	90%	1.5	100
Fourth Quarter	90%	2.0	100