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

Executive Summary

This Info-Flash provides details of amendments to the Guidelines for determining Daily Settlement Prices for Futures Contracts following the introduction of NYSE Liffe's Pricing and Settlement System.

1. London Notice No. 3192, issued 26 August 2009, advised Members of changes to the NYSE Liffe Trading Procedures for certain Futures Contracts following the introduction of NYSE Liffe's Pricing and Settlement System ("PSS"). This Info-Flash provides further information on the impact PSS will have on the process by which Daily Settlement Prices ("DSPs") are determined for those Futures Contracts whose DSP is determined by the Central Order Book price method described in NYSE Liffe Trading Procedure 2.2.2 – 2.2.3.
2. London Info-Flash No. LO09/09, issued on 7 April 2009, contained the latest version of the Guidelines for the determination of DSPs for Futures Contracts. This was in response to customer demand for greater transparency as to how NYSE Liffe applies the relevant sections of the Trading Procedures and the factors taken into account when determining the DSPs for these contracts.
3. The introduction of PSS on 21 September 2009 will result in a far greater automation of the current process by which DSPs are determined for Futures Contracts. Consequently the Guidelines have been revised, and form the Attachment to this Info-Flash.
4. For the avoidance of doubt, Block Trades will not be taken into consideration when determining DSPs.
5. NYSE Liffe will continue to keep these Guidelines under review, and Members and their clients are invited to provide comment/feedback to NYSE Liffe.

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REVISED GUIDELINES FOR DETERMINING DAILY SETTLEMENT PRICES FOR FUTURES CONTRACTS

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

“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 for a period of no less than two minutes 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.

2.2.3 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 minute of the Settlement Range; or if there is more than one traded price during this time:
- (b) the trade weighted average of the prices traded during the last minute of the Settlement Range, rounded to the nearest tick; or if there are no traded prices during this time:
- (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 that set out in the relevant contract specification.

In addition, the following criteria are monitored in 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.
- 2.2.5 Settlement prices will be displayed on LIFFE CONNECT[®] and for a minimum period of five minutes thereafter, the Relevant Euronext Market Undertaking may deem it necessary to amend the settlement prices to ensure they are a fair reflection of the market.
- 2.2.6 When the 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.
- 2.2.7 The prices established by the procedure set out in this Trading Procedure 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, the Relevant Euronext Market Undertaking may amend prices as appropriate.
- 2.2.8 Settlement prices will be displayed on LIFFE CONNECT[®] or any such other means of communication as the Relevant Euronext Market Undertaking sees fit.
- 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 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 PART TWO of these Trading Procedures.”
2. Based on the Trading Procedures as described above, NYSE Liffe looks to determine DSPs within the framework described in paragraphs 3 to 6 below. Whilst not exhaustive, the framework outlines 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 DSP when NYSE Liffe determines that, to include such Bids/Offers/Trades in its calculation, would not be a fair reflection of the market.
4. Having determined the DSPs for the outright Delivery Months, PSS will then seek to accommodate the order activity that has taken place in Exchange-recognised strategies. However, it should be noted that strategy trades (e.g. Calendar Spreads, Butterflies etc) that

are executed as individual legs are not recognised by PSS as the underlying strategy and these cannot be considered other than through the trading activity that results from them.

5. The priority given to Exchange-recognised strategies is set out in the table below, starting from the top. The settlement values derived from the outright markets will be automatically checked against each strategy in turn, and amended where appropriate so as to ensure that the settlement value is within the best Bid/Offer of the relevant strategy as determined by market activity (bids/offers). However, it should be noted that no adjustment will be made if the result would be such as to create a settlement value that would be outside the best Bid/Offer of the relevant outright market or higher priority strategy, as appropriate.

Strategy Priority Table
Consecutive Calendar Spreads
Consecutive Butterflies
Non-Consecutive Calendar Spreads
Non-Consecutive Butterflies
Condors
Packs
Bundles
Strips

6. Notwithstanding these Guidelines it should be noted that in relation to Futures Contracts cleared by LCH.Clearnet SA, it has the right to determine a settlement price for clearing purposes at a level other than that initially established by the NYSE Liffe.