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AMENDMENT TO THE GUIDELINES FOR THE CALCULATION OF DAILY SETTLEMENT PRICES FOR FINANCIAL AND COMMODITY OPTIONS CONTRACTS

Executive Summary

This Info-Flash provides details of amendments to the Guidelines for determining Daily Settlement Prices for Financial and Commodity Options Contracts following the introduction of NYSE Liffe's Pricing and Settlement System on 21 September 2009.

1. This Info-Flash provides further information on the impact NYSE Liffe's Pricing and Settlement System ("PSS") will have on the process by which Daily Settlement Prices ("DSPs") are determined for Financial and Commodity Options Contracts.
2. Guidelines for the determination of DSPs for Financial Options Contracts were first published on 6 December 2002. 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. These Guidelines have been revised twice since that date, and the current version was published by way of Notice No. 2745 on 17 February 2006.
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 Commodity and Financial Options Contracts. Consequently the Guidelines have been revised and form Attachment 1 to this Info-Flash. The main points are as follows:
 - (a) as PSS will automatically update, throughout the trading day, the implied volatility calculations used within the pricing model, so NYSE Liffe staff will no longer routinely request information, such as relevant at-the-money straddle strategy option prices, from market participants;
 - (b) **for STIR Options Contracts only** the finer granularity of DSPs of a quarter of a basis point, introduced on Monday 24 April 2006, will be extended to the first four quarterly expiry months and to serial months (i.e. all "White" expiry months); and
 - (c) priority will be given to trading activity that has taken place in outright delivery months, and then to Exchange-recognised strategies in the order set out in the attached Guidelines.

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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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**GUIDELINES FOR DETERMINING SETTLEMENT PRICES FOR FINANCIAL AND
COMMODITY OPTIONS CONTRACTS**

1. Daily Settlement Prices (“DSPs”) for Options Contracts are determined in accordance with NYSE Liffe Trading Procedure 2.3, which states:
 - “2.3.1 The Relevant Euronext Market Undertaking’s objective when determining settlement prices for Options Contracts is to maintain a consistent pricing relationship between the volatilities of one exercise price and the exercise price(s) nearest to it..
 - 2.3.2 The procedures for establishing Daily Settlement Prices are as follows:
 - (a) Market Services will maintain continuous information on market activity, both for each series of each Options Contract and for the underlying Futures Contract or security (as applicable);
 - (b) using this information, implied volatilities will be calculated for each series throughout the Trading Day, which the Relevant Euronext Market Undertaking will review at regular intervals in light of market activity;
 - (c) in the case of less actively traded Options Contracts, or those where no recent bids or offers exist, the Relevant Euronext Market Undertaking may contact Members throughout the trading session in order to ascertain whether implied volatilities are reflective of the market view. In the case of more actively traded Options Contracts, Market Services will monitor implied volatilities toward the settlement time to check consistency with market activity throughout the trading session;
 - (d) at the settlement time, the Relevant Euronext Market Undertaking will calculate settlement prices from implied volatilities or, for designated Options Contracts in PART TWO, from bids and offers quoted on LIFFE CONNECT®. These settlement prices will be displayed on LIFFE CONNECT®; and
 - (e) for a minimum period of five minutes following publication of settlement prices, the Relevant Euronext Market Undertaking may deem it necessary to amend the settlement prices and any appropriate revisions will be displayed accordingly.”
2. Based on these Trading Procedures, NYSE Liffe looks to determine DSPs for all Financial and Commodity Options Contracts within the framework described in paragraphs 3 to 9 below. Whilst not exhaustive, the framework outlines the various factors (and the weighting generally attached to each) which are taken into account during this process.
3. It should be noted that throughout the trading session a number of automated checks are performed by PSS to ensure that there is consistency between market activity and theoretical values calculated by the NYSE Liffe.
4. The underlying principle when determining DSPs is that they will be based upon the theoretical option values calculated by NYSE Liffe. These theoretical values will be automatically compared with a snap-shot of market activity at settlement time. Any Bids/Offer submitted immediately prior to settlement time that do not reflect prevailing fair value will be discounted from this automated process.

5. Trades executed via the Wholesale Trade Window will not be included within the DSP determination process, nor will any market activity that occurs after the official settlement time.
6. **For STIR Options Contracts only** the current practice of applying finer granularity when determining DSPs will be extended to the first four quarterly and two serial expiry months (the “Whites”). These months will be settled to the nearest quarter of a basis point. However, NYSE Liffe reserves the right to apply this finer granularity in any expiry month for a STIR Options Contract, if warranted. **There will be no change to the minimum price movement for trading, which will remain at half a basis point. Furthermore, the method of calculating the reference price used in the expiry process and the exercise process will remain unchanged.**
7. Where market participants are pre-negotiating business away from the central market, this will only be included in the automated settlement process if the relevant orders are submitted to the market prior to the official settlement time, subject to the provisions set out in Sections 4 and 5 above. NYSE Liffe will not take into consideration market activity that is not displayed to all market participants.
8. When determining DSPs, priority will be given to outright markets, followed by strategy markets in the sequence set out in the table below, starting from the top. 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.

Strategy Priority Table
Straddles
Strangles
Call spreads
Put Spreads
Call Butterflies
Put Butterflies
Call calendar spreads
Put calendar spreads
Call diagonal calendar spreads
Put diagonal calendar spreads
Combos
Call ladders
Put ladders
Guts
Iron butterflies
2x1 ratio call spreads
2x1 ratio put spreads
Call strips
Put strips
Straddle strips
Straddles calendar spreads
Diagonal straddle calendar spreads
Condor
Iron condor
Box
Jelly roll

9. 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.