

LONDON INFO-FLASH NO. LO09/35

ISSUE DATE: 1 October 2009

SHORT TERM INTEREST RATE (“STIR”) FUTURES CONTRACTS

INVITATION TO APPLY FOR DESIGNATED MARKET MAKER STATUS

Executive Summary

This Info-Flash informs Members of the renewal of the Designated Market Maker (“DMM”) Schemes in respect of: (a) specified “back” (green and blue) delivery months of the Three Month Euro (EURIBOR) Interest Rate Contract; (b) specified “back” (back red and green) delivery months of the Three Month Sterling (Short Sterling) Interest Rate Contract; and (c) the Three Month Euro (EURIBOR) Interest Rate Contract during late opening hours, and invites Members and appropriate clients of Members to apply.

1. Introduction

- 1.1 London Info-Flash No. LO09/10, issued on 15 April 2009, invited Members to apply for participation in the renewed DMM Scheme in the “back” (green and front blue) delivery months of the Three Month Euro (EURIBOR) Interest Rate Contract (“Euribor Futures”) (“Euribor Back Month DMM Scheme”) and in the “back” (red and green) months of the Three Month Sterling (Short Sterling) Interest Rate Futures Contract (“Short Sterling Futures”) (the “Sterling Back Month DMM Scheme”) and in the renewed DMM Scheme in Euribor Futures during extended trading hours (i.e. between 18:00 hours and 21:00 hours, London time) (the “Euribor Late Opening DMM Scheme”).
- 1.2 London Notice No. 3148, issued on 30 April 2009, informed Members of the appointment of DMMs in the Euribor and Sterling Back Month DMM Schemes and the Euribor Late Opening DMM Scheme. London Notice No. 3152, issued on 18 May 2009, provided Members with an updated list of DMMs in the Euribor and Sterling Back Month Schemes.
- 1.3 This Info-Flash advises Members of the renewal, for a period of six months, of the Euribor Late Opening and Euribor and Sterling Back Month DMM Schemes, **on the basis of revised terms and conditions (as set out in section 2.1 below)** and invites Members and appropriate clients of Members to apply. The renewed Schemes will run for a six month period, from 2 November 2009 until close of business on 30 April 2010.

2. DMM benefits

- 2.1 Subject to fulfilling the relevant obligations, DMMs shall be granted the following Exchange transaction fee rebates:

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- (a) **Euribor Back Month DMM Scheme:** a full Exchange transaction fee rebate on market assigned outright business in the **Q9 to Q16 months (“greens and blues”)** transacted in a market making capacity.
- (b) **Sterling Back Month DMM Scheme:** a full Exchange transaction fee rebate on market assigned outright business in the **Q7 to Q12 months (“back reds and greens”)** transacted in a market making capacity.
- (c) **Euribor Late Opening DMM Scheme:** a full Exchange transaction fee rebate on market assigned outright business transacted in the Euribor Futures Contract in a market making capacity between 18:00 hours to 21:00 hours (London time).

2.2 In addition, for each contract in each Scheme in which the DMM participates, the DMM will be granted a cash payment, consisting of:

- (a) 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 on which the DMM meets the standard DMM bid/offer spread and quote size commitments for the specified portion of the trading day. 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; and
- (b) an additional “performance related pool” payment to be calculated monthly from a fixed cash amount to be divided amongst DMMs on a pro-rata basis depending on the quality of market provided by the DMM. Factors that will be taken into consideration when determining a DMM’s share (if any) of the “performance related pool” payment will be the portion of the trading session in which the DMM has tightened bid/offer spreads beyond the agreed DMM obligations and the DMM’s share of market-maker traded volume.

2.3 Stipends and any additional liquidity pool payment will be paid in **euro**.

2.4 There will be no trade priority advantages provided by the Exchange to DMMs.

3. DMM obligations

3.1 In return for the benefits described in section 2 above, DMMs will be required to meet obligations agreed with the Exchange for the periods between:

- (a) 07:00 hours to 18:00 hours (London time) for the Euribor Back Month DMM Scheme;
- (b) 07:30 hours to 18:00 hours (London time) for the Sterling Back Month DMM Scheme; and
- (c) 18:00 hours to 21:00 hours (London time) for the Euribor Late Opening DMM Scheme.

Members should note that DMMs who wish to participate in the “performance related pool” payment will be required to improve on those agreed obligations and provide tighter bid/offer spreads.

3.2 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.

3.3 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 effected under the Scheme; and
- (c) to terminate the DMM Agreement by notice to the parties with immediate effect.

3.4 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. Application process

4.1 Members who wish to apply for 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 Thursday 15 October 2009**. Members or clients who would like additional information about the DMM Schemes should contact the Fixed Income Derivatives team at NYSE Liffe.

4.2 The revised DMM Schemes are 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 (as defined in 3.1 above);
- (b) the tighter bid/offer spread that the applicant expects to be able to provide for a specified portion of the trading session, within the standard 90% arrangements (DMMs will not be required to meet such tighter spread);
- (c) details of the applicant’s reasonable identified costs of acting in the capacity of market maker; and
- (d) the details of one Individual Trading Mnemonic (“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 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 Schemes.**
- 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 in the Schemes. 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).

For further information in relation to this Info-Flash, Members should contact their Account Manager or the following:

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