

LONDON INFO-FLASH NO. LO09/39

ISSUE DATE: 5 November 2009

SHORT AND MEDIUM GILT FUTURES CONTRACTS

INVITATION TO APPLY FOR DESIGNATED MARKET MAKER STATUS

Executive Summary

This Info-Flash advises Members of the introduction of Designated Market Maker Schemes in the Short and Medium Gilt Futures Contract and invites Members and appropriate clients of Members to apply.

1. Introduction

- 1.1 London Notice No. 3213, issued on 5 November 2009, informed Members of the launch of Short and Medium Gilt Futures Contracts (the “Contracts”), to be made available for trading on LIFFE CONNECT[®] on and from **Monday 23 November 2009**.
- 1.2 This Info-Flash provides details of Designated Market Maker (“DMM”) Schemes to be introduced in the Contracts and invites Members and appropriate clients of Members to apply. The Schemes will run until the **close of business on 28 May 2010**.

2. DMM Benefits

- 2.1 Subject to fulfilling the relevant obligations, DMMs shall be granted the following benefits under each of the Schemes:
 - (a) a full Exchange transaction fee rebate on market assigned business in the relevant Gilt Futures Contract, executed in a market making capacity;
 - (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; and

Web site: www.nyx.com/liffe

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- (c) 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. The factor that will be taken into consideration when determining a DMM’s share (if any) of the “performance related pool” payment will be the DMM’s share of market maker traded volume.

- 2.2 Stipends will be paid in **euro**.
- 2.3 There will be no trade priority advantages provided by the Exchange to Short and Medium Gilt Futures DMMs.

3. DMM obligations

- 3.1 In return for the rebates and stipend described in section 2 above, DMMs in the Schemes will be required to make continuous two way prices, at specified maximum bid/offer spreads, in a minimum quote size, for a fixed proportion of the trading session between **08:00 and 16:30 hours** (London time) in the relevant Gilt Futures Contract.
- 3.2 For guidance purposes, details of benchmark obligations for DMMs are contained in the table below.

DMM Scheme	Session Presence (%)	Maximum Bid/Offer Spread (bps)	Minimum Order Size (lots)
Short Gilt Futures	90%	2.0	50
Medium Gilt Futures	90%	3.0	25

- 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 either 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 DMM 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. DMM 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 Monday 16 November 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 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 for DMM status should contain the following information:
- (a) the standard bid/offer spread and quote size obligations that the applicant is prepared to meet and the proportion of the trading session for which the applicant is proposing to meet those obligations;
 - (b) details of the applicant's reasonable identified costs of acting in the capacity of market maker; and
 - (c) 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 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.
- 4.6 The Review Panel's decision shall be final.
- 4.7 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:

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