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Additional clarification on basis trade reporting

INTRODUCTION

1. The purpose of this Notice is to clarify what is expected from Members in respect of reporting details of basis trade instruments or OTC contracts when seeking approval for basis trades.

BASIS TRADING FACILITY: ADDITIONAL CLARIFICATION

2. The Basis Trading Facility (“BTF”) is specified in section 4.2 of the Trading Procedures. In summary, the facility is defined as:
 - The spot sale / purchase of a cash element simultaneously combined with the purchase / sale of the futures element, or
 - The exchange of OTC contracts with the appropriate number of futures or options contracts.
3. Trading Procedure 4.2.6A makes clear that Members should not submit basis trades for authorisation unless there is a corresponding execution of basis trade instruments. Section 4.2 of the Trading Procedures provides, for each category of basis trades, what information should be provided to Euronext as part of the request for authorisation and for how long such information should be retained by the Member following execution. A distinction is made between listed equity derivatives and listed commodity derivatives.
4. In respect of basis trades involving equity index and single stock futures / options, Members are required to submit a unique identifier / reference number for the transaction in the cash element or in an OTC contract. This should normally be generated by the Member organising or executing the cash element or OTC contract of the basis trade. Where there are multiple identifiers / reference numbers, for example where the cash element is a basket of securities, a Member may specify one of the identifiers / reference numbers which forms part of the cash element. Likewise, in so-called “cash close” transactions where parties do trade the basis by agreeing in advance to set accordingly the

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future price against the index closing value but do not exchange themselves the same cash component (e.g. index tracking ETF unit on one side, basket of the same index on the other one), the executing Member may opt for an ad hoc identifier/reference reflecting the specificity of such transaction.

5. Although the Trading Procedures require a “unique identifier/reference number”, Euronext is prepared to accept a narrative if Members find it more appropriate to use this approach to specify the execution of the basis trade instruments.
6. Where a Member fails to submit summary details of the basis trade instruments, Euronext shall withhold approval until such details have been provided and shall explain to the Member the reason why approval has been withheld.
7. In respect of basis trades involving commodity futures / options, Members are not required to submit summary details of the basis trade instrument but are required to keep copies of the relevant ISDA agreement or confirm which forms part of the agreement. Members are expected to retain the same for OTC contracts which form part of a basis trade for equity index or single stock futures / options.
8. Member Compliance will as part of its Member audit programme verify the summary details submitted.

CONTACT

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