



## LONDON NOTICE No. 2799

Equivalent Notices are being issued to the following markets: Amsterdam, Brussels, Lisbon and Paris

ISSUE DATE: 20 September 2006

EFFECTIVE DATE: 20 September 2006

### CORPORATE ACTIONS POLICY REFINEMENT

#### Executive Summary

The purpose of this Notice is to announce a refinement to the fair value method within the Corporate Actions Policy.

1. The Corporate Actions Policy of Euronext.liffe provides for a single approach to adjust contract specifications of Euronext.liffe listed equity options and futures when underlying shares are subject to a Corporate Action. The Policy determines that options and futures are settled in cash using the fair value method when the underlying shares are taken over for at least 67% in cash.
2. The fair value method is designed to preserve the time value of the options when the underlying shares are taken over for cash rather than securities. To this end, as soon as the bid is announced Euronext.liffe publishes a ten (10) day average implied volatility for each option series, which is used as a basis to determine the fair value price for these series if and when the bid is declared Unconditional In All Respects ("UIAR") (see Appendix 1 to the Corporate Action Policy).
3. The settlement prices of options traded on the derivative markets in Brussels, Paris and Amsterdam are determined in increments of one tick, whereby the lowest possible settlement price equals the value of one tick. For low value out-of-the money option series, where the settlement prices have been rounded up to the value of one tick, the process described in paragraph 2 above will artificially inflate implied volatilities.

Web site: [www.euronext.com/derivatives](http://www.euronext.com/derivatives)

The **Euronext Derivatives Markets** ("**Euronext.liffe**") include the markets for derivatives operated by Euronext Amsterdam, Euronext Brussels, Euronext Lisbon, Euronext Paris and LIFFE Administration and Management, referred to respectively as the Amsterdam, Brussels, Lisbon, Paris and London markets.

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4. In order to ensure the appropriateness of the implied volatilities of out-of-the-money series on the aforementioned markets, Euronext.liffe has resolved that the implied volatility of the first out-of-the-money series in each month (calls and puts separately) having a settlement price equal to the value of one tick will be used for all further out-of-the money series within that month (calls and puts separately) having the same settlement price. This principle is individually applied to each of the implied volatilities of the ten (10) day period. The Attachment to this Notice serves to clarify this principle.
5. The above refinement to the fair value method will enter into force with immediate effect.

For further information in relation to this Notice, members should contact:

Quality of Derivative Markets                      + 31 (0)20 550 4296                      [DerivativesCorporateActions@liffe.com](mailto:DerivativesCorporateActions@liffe.com)

**Example I** (tick size = €0.05)

Calls	Strike Price		Daily Settlement Price	Calculated Implied Volatility	Corrected Volatility
expiry-A	8.50	C	1.25	28.0	28.0
expiry-A	9.00	C	0.85	26.5	26.5
expiry-A	10.00	C	0.20	22.0	22.0
expiry-A	11.00	C	0.05	28.0	28.0
expiry-A	12.00	C	0.05	41.5	28.0
expiry-A	12.50	C	0.05	44.5	28.0
expiry-A	15.00	C	0.05	70.0	28.0
expiry-A	20.00	C	0.05	106.0	28.0

Puts	Strike Price		Daily Settlement Price	Calculated Implied Volatility	Corrected Volatility
expiry-A	6.00	P	0.05	88.0	22.0
expiry-A	6.50	P	0.05	75.0	22.0
expiry-A	7.00	P	0.05	64.0	22.0
expiry-A	7.50	P	0.05	56.0	22.0
expiry-A	8.00	P	0.05	42.5	22.0
expiry-A	8.50	P	0.05	32.0	22.0
expiry-A	9.00	P	0.05	22.0	22.0
expiry-A	10.00	P	0.45	23.0	23.0
expiry-A	11.00	P	1.25	25.0	25.0

**Example II** (tick size = €0.01)

Calls	Strike Price		Daily Settlement Price	Calculated Implied Volatility	Corrected Volatility
expiry-A	77.50	C	0.73	53.0	53.0
expiry-A	80.00	C	0.31	51.0	51.0
expiry-A	82.50	C	0.13	49.5	49.5
expiry-A	85.00	C	0.04	49.0	49.0
expiry-A	87.50	C	0.01	49.0	49.0
expiry-A	90.00	C	0.01	55.5	49.0
expiry-A	92.50	C	0.01	62.0	49.0
expiry-A	95.00	C	0.01	68.0	49.0
expiry-A	97.50	C	0.01	74.0	49.0
expiry-A	100.00	C	0.01	80.0	49.0

Calls	Strike Price		Daily Settlement Price	Calculated Implied Volatility	Corrected Volatility
expiry-A	16.00	P	0.01	101.5	49.0
expiry-A	20.00	P	0.01	87.0	49.0
expiry-A	24.00	P	0.01	75.5	49.0
expiry-A	28.00	P	0.01	65.5	49.0
expiry-A	32.00	P	0.01	57.0	49.0
expiry-A	36.00	P	0.01	49.0	49.0
expiry-A	40.00	P	0.03	48.5	48.5
expiry-A	50.00	P	0.37	48.0	48.0
expiry-A	55.00	P	0.76	49.0	49.0