

LONDON NOTICE No. 2886

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EFFECTIVE DATE: 1 May 2007

LONDON COMMODITY CONTRACTS

ADDITION OF EXCHANGE FOR SWAPS TO THE BASIS TRADING FACILITY

EXTENSION OF THE CONTINGENT MULTIPLE ORDER FACILITY TO INCLUDE RAW SUGAR AND WHITE SUGAR FUTURES AND OPTIONS CONTRACTS

Executive Summary

This Notice informs members of: (a) the introduction of an Exchange for Swap facility in respect of the Robusta Coffee, Cocoa, Raw Sugar, White Sugar and Wheat Futures Contracts; and (b) the application of the Contingent Multiple Order pairings functionality to include the Raw Sugar and White Sugar Futures and Options Contracts.

1. Introduction of an Exchange for Swap facility

- 1.1 Euronext.liffe's Basis Trading Facility allows members to organise and execute transactions involving a combination of an approved underlying basis trade instrument ("the cash leg") and an appropriate number of offsetting futures contracts ("the futures leg").
- 1.2 Following consultation with members and other market users, the Exchange has determined to launch an Exchange for Swap ("EFS") facility within the framework of the existing Basis Trading Facility. In relation to EFSs, the futures leg shall be a London commodity futures contract (i.e. a Robusta Coffee, Cocoa, Raw Sugar, White Sugar or Wheat Futures Contract) and the cash leg shall be a specific, identifiable OTC swap transaction in the same commodity or a direct product of such commodity.
- 1.3 Attachments 1 to this Notice sets out revisions to the Euronext.liffe Trading Procedures which are necessary to give effect to the EFS facility. The revisions include details about:
 - (a) the type of OTC transactions which the Exchange will accept as part of an EFS;
 - (b) the price range within which the futures leg of the EFS can take place;
 - (c) the transaction details required by the Exchange in order to validate an EFS; and
 - (d) the documentation that should be retained by the executing member.

Web site: 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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- 1.4 Attachment 2 to this Notice sets out the contract designations in relation to EFSs within the Basis Trading Facility.
- 1.5 The EFS facility will be available on and from 1 May 2007. Specific EFS functionality on LIFFE CONNECT® will be provided in due course. Until that time, members will be able to transact an EFS using the existing Against Actuals (“AA”) facility. This will require the executing member:
- (a) to submit the transaction as if it were an AA, but additionally to populate the “Customer Reference” field with ‘EFS’; and
 - (b) to advise Euronext.liffe Market Services (“ELMS”) by email (Commodities-Indices@liffe.com) immediately after submission that an EFS has been submitted. The email should include the member mnemonic and trader ITM, the trade details, and the time at which the EFS was submitted.
- 1.6 Until the availability of the EFS functionality on LIFFE CONNECT®, the second paragraph in Trading Procedure 4.2.19B (which refers to the trade type indicator “Z”) and the third paragraph in Trading Procedure 4.2.19B (which refers to the publication of the cumulative volume of the futures legs of EFSs) shall not apply.
- 1.7 Members will be notified by separate Notice of the date from which the specific LIFFE CONNECT® EFS functionality will be available.
- 2. Introduction of Contingent Multiple Orders for Raw Sugar and White Sugar Futures and Options Contracts**
- 2.1 The Exchange provides Contingent Multiple Order (“CMO”) functionality which enable members to submit outright limit orders across contract pairings which the Trading Host will match on a “fill or kill” basis in the relevant outright markets. There are at present no CMO pairings for commodity contracts.
- 2.2 On and from 1 May 2007, the following contract pairings will be made available through the CMO functionality:
- Raw Sugar Futures Contracts and White Sugar Futures Contracts;
 - Raw Sugar Options Contracts and White Sugar Options Contracts.
- 2.3 The necessary revisions to the Euronext.liffe Trading Procedures to include the new pairings are set out in Attachment 3 to this Notice.
- 3. Further information**
- 3.1 The necessary revisions to the Euronext.liffe Trading Procedures will appear in the London Market Handbook and on the Euronext website (www.euronext.com) in due course.

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

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Amendments to Euronext.liffe Trading Procedures

(Additions to the Trading Procedures are shown underlined and deletions are shown ~~struck through~~)

4.2 Basis Trading

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4.2.6 The following approaches to the construction of hedge ratios for basis trades are considered acceptable:

(a) Deliverable bonds against bond futures contracts:

A price factor or duration based method;

(b) Other bonds against bond futures contracts:

A duration based method;

(c) Deliverable and non-deliverable bonds against Swapnote® futures contracts or one or more delivery month(s) of a short term interest rate futures contract:

A method which is based upon the ratio of the basis point values of shifts in the yield curve of respectively the relevant cash and futures legs;

(d) Standard plain vanilla OTC swaps against bond futures contracts, Swapnote® futures contracts of one or more delivery month(s) of a short term interest rate futures contract:

A method which is based upon the ratio of the basis point values of shifts in the yield curve of respectively the relevant cash and futures legs;

(e) Forward Rate Agreements (FRAs) against one or more delivery month(s) of a short term interest rate futures contract:

A method which is based upon the ratio of the basis point values of shifts in the yield curve of respectively the relevant cash and futures legs;

(f) Sale and Repurchase Agreements (Repos) against one or more delivery month(s) of a short term interest rate futures contract:

A method which is based upon the ratio of the basis point values of shifts in the yield curve of respectively the relevant cash and futures legs;

(g) European or American style OTC interest rate options (bond options, swaptions) against bond futures contracts, Swapnote® futures contracts or one or more delivery month(s) of a short term interest rate futures contract:

A method based on the relative deltas of the OTC option and futures contracts in order to achieve a delta neutral position;

(h) Equity securities against Universal Stock Futures Contracts or Single Stock Futures Contracts:

A method based on the relative value of the equity security and the nominal underlying value of the Universal Stock Futures Contracts or Single Stock Futures Contracts;

(i) Baskets of equity securities against equity index futures contracts:

A method based on the relative value of the basket of equity securities and the nominal underlying value of the equity index futures contracts;

(j) European or American style OTC equity options (stock and equity index options) against equity index futures contracts:

A method based on the relative deltas of the OTC option and futures contracts in order to achieve a delta neutral position;

(k) European or American style OTC or non-Euronext.liffe exchange traded equity options against Universal Stock Futures Contracts or Single Stock Futures Contracts:

A method based on the relative deltas of the OTC or exchange traded option and Universal Stock Futures Contracts or Single Stock Futures Contracts in order to achieve a delta neutral position;

(l) Non-Euronext.liffe exchange traded German government bond futures against Euro Swapnote® Futures or Three Month Euro (EURIBOR) Interest Rate Futures Contracts:

A method which is based upon the ratio of the basis point values of shifts in the yield curve of the two futures contracts.

(m) Non-Euronext.liffe exchange traded Eurodollar futures against Euronext.liffe short term interest rate futures contracts:

A method which is based upon the ratio of the basis point values of shifts in the yield curve of the two futures contracts;

(n) OTC swaps in relation to cocoa, Robusta coffee, raw sugar, white sugar and wheat, or in relation to a direct product of such commodity, against Cocoa, Robusta Coffee, Raw Sugar, White Sugar or Wheat Futures Contracts, herein defined as an Exchange for Swap (“EFS”):

A method which is based on the quantity of the commodity or a direct product of such commodity underlying the swap position relative to the quantity of the commodity underlying the Futures Contract.

Where a hedge ratio differs from such methods, the Member who is submitting the trade for authorisation (see Trading Procedure 4.2.7) ~~may be~~ is required to justify the method employed in advance of such submission.

4.2.14C Where a basis trade is an EFS involving a Robusta Coffee, Cocoa, White Sugar, Raw Sugar or Wheat Futures Contract against an OTC swap, the following details must be submitted via LIFFE CONNECT® by the basis trade executing Member:

- (a) Futures Contract in which the EFS is being transacted;
- (b) delivery month;
- (c) agreed futures price;
- (d) number of lots of each Futures Contract;

In addition, the basis trade executing Member must retain, in an easily accessible form that can be audited by the Relevant Euronext Market Undertaking**, documentary evidence in the form of a copy of the OTC contract itself.

The following information should be contained in the documentary evidence:

- (a) the fixed price or fixed price formulae of the swap, and who pays;
- (b) the floating price or floating price formulae of the swap, and who pays;
- (c) the termination/maturity date;

- (d) the effective (start) date of the swap;
- (e) the quantity of the swap position relating to the underlying commodity or the direct product of such commodity;
- (f) the referenced futures delivery month.

All information required to be retained by the basis trade executing Member, pursuant to this Trading Procedure 4.2.15, must be retained by the Member for five years. If the basis trade executing Member is not directly responsible for the execution of the cash leg of the basis trade, he must have appropriate arrangements in place with the party organising/executing that leg such that the information above in (a) to (f) can be provided promptly to the Relevant Euronext Market Undertaking**.

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4.2.19A With the exception of a basis trade which is an EFS in accordance with Trading Procedure 4.2.6(n), the following information with respect to the futures leg of a basis trade will be broadcast on LIFFE CONNECT®:

- (a) Futures Contract(s) and delivery month(s);
- (b) futures price(s); and
- (c) volume of futures traded.

In addition, these details will be distributed to Quote Vendors, marked with the trade type indicator “J”.

For each Exchange Contract, the cumulative volume of futures traded as the futures leg of basis trades/asset allocations during the day will also be published.

4.2.19B Where the basis trade is an EFS in accordance with Trading Procedure 4.2.6(n), the following information with respect to the futures leg of an EFS will be broadcast on LIFFE CONNECT®:

- Futures Contract(s) and delivery month(s); and
- volume of futures traded.

In addition, these details will be distributed to Quote Vendors, marked with the trade type indicator “Z”.

For each Exchange Contract, the cumulative volume of futures traded as the futures leg of EFSs posted during the day will also be published.

Trading Procedures in relation to LIFFE

Lo.13 Pricing of basis trades

Lo.13.1 Pursuant to Trading Procedure 4.2.5, with the exception of a basis trade which is an EFS in accordance with Trading Procedure 4.2.6(n), for a basis trade to be authorised, the price of the future leg(s) must be at the level trading on LIFFE CONNECT® at the time the basis trade is submitted for execution or within the high/low traded price that occurred on LIFFE CONNECT® in the preceding thirty minutes. In the event that no trade has occurred in the relevant delivery month on that day at the time the basis trade is submitted for execution or in the preceding thirty minutes, the price of the futures leg(s) must be at or within the high/ the high/low traded price calculated by the Exchange-maintained algorithm.

Where the basis trade is an EFS in accordance with Trading Procedure 4.2.6(n), for the futures leg(s) to be authorised the price(s) assigned must be within the price range established to date in respect of the delivery month in the relevant Exchange Contract.

Euronext.liffe Trading Procedures(Additions are shown underlined and deletions ~~struck through~~)**Annexe One – Part I****(c) Commodity Products**

Futures Contract	Order Prioritisation (TP 3.3.1)		Block trade facility (TP Part Two Section 1	Prof trade facility (TP Part Two Section 6)	Basis trade facility (TP 4.2)	Asset allocation facility (TP 4.3)	Against Actuals Facility (TP 4.4)	Post-settlement trading (TP Lo.2) and Evening Trading Session Contracts (TP P.2)	Trade invalidation by mutual consent (TP 3.5.3)	Pre- negotiation correction facility (TP 3.7)
	Price/Time	Pro Rata								
LIFFE										
Cocoa	x	✓	x	x	* ✓	x	✓	x	x	x
Robusta Coffee	x	✓	x	x	* ✓	x	✓	x	x	x
White Sugar	x	✓	x	x	* ✓	x	✓	x	x	x
Raw Sugar	x	✓	x	x	* ✓	x	✓	x	x	x
Wheat	x	✓	x	x	* ✓	x	✓	x	x	x
Euronext Paris										
Rapeseed	✓	x	x	x	x	x	✓	x	x	x
Rapeseed Oil	✓	x	x	x	x	x	✓	x	x	x
Milling Wheat	✓	x	x	x	x	x	✓	x	x	x
Corn	✓	x	x	x	x	x	✓	x	x	x

Contingent Multiple Orders

Amendments to Annexe One of the Euronext.liffe Trading Procedures

(Additions to the Trading Procedures are shown underlined and deletions are shown ~~struck through~~)

Annexe One – Part II - Additional information

1. Order types (TP 3.2)

Contingent Multiple Orders - Designated Contract Pairings for CMOs:

Futures with Futures

Euribor – Short Sterling
Euribor – Euroswiss
Euribor – Euroyen
Euribor – Two Year Euro Swapnote®
Euribor – Five Year Euro Swapnote®
Euribor – Ten Year Euro Swapnote®
Euribor – MTS Deutschland Government Index (7-10 years)
Euribor – MTS France Government Index (7-10 years)
Euribor – MTS Italy Government Index (7-10 years)
Euribor – EuroMTS Eurozone Government Broad Index (7-10 years)
Short Sterling – Euroswiss
Short Sterling – Euroyen
Short Sterling – FTSE 100
Euroyen – Euroswiss
Two Year Euro Swapnote® – Five Year Euro Swapnote®
Two Year Euro Swapnote® - Ten Year Euro Swapnote®
Five Year Euro Swapnote® - Ten Year Euro Swapnote®
Ten Year Euro Swapnote® – MTS Deutschland Government Index (7-10 years)
Ten Year Euro Swapnote® – MTS France Government Index (7-10 years)
Ten Year Euro Swapnote® – MTS Italy Government Index (7-10 years)
Ten Year Euro Swapnote® – EuroMTS Eurozone Government Broad Index (7-10 years)
Long Gilt – Short Sterling
Long Gilt – FTSE 100
Long Gilt – MTS Deutschland Government Index (7-10 years)
Long Gilt – MTS France Government Index (7-10 years)
Long Gilt – MTS Italy Government Index (7-10 years)
Long Gilt – EuroMTS Eurozone Government Broad Index (7-10 years)
JGB – Long Gilt
FTSE 100 – FTSE 250
MSCI Euro – MSCI Pan-Euro
MTS Deutschland Government Index (7-10 years) - MTS France Government Index (7-10 years)
MTS Deutschland Government Index (7-10 years) - MTS Italy Government Index (7-10 years)
MTS Deutschland Government Index (7-10 years) - EuroMTS Eurozone Government Broad Index (7-10 years)
MTS France Government Index (7-10 years) - MTS Italy Government Index (7-10 years)
MTS France Government Index (7-10 years) - EuroMTS Eurozone Government Broad Index (7-10 years)

MTS Italy Government Index (7-10 years) - EuroMTS Eurozone Government Broad Index (7-10 years)

Raw Sugar – White Sugar

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Options with Options

Euribor – Sterling

Euribor – Mid Curve Sterling

Euribor – Mid Curve Euribor

Short Sterling – Mid Curve Short Sterling

Short Sterling – Mid Curve Euribor

FTSE 100 (ESX) – FTSE 100 (SEI)

Raw Sugar – White Sugar