

## LONDON NOTICE No. 3092

ISSUE DATE: 25 November 2008

EFFECTIVE DATE: 9 December 2008

**OPTION CONTRACT ON EQUITY RELATED SECURITIES  
(INCLUDING COMPANY SHARES AND EXCHANGE TRADED FUND SHARES)  
(EXCHANGE CONTRACT NO. 201)**

**NORTHERN ROCK PLC**

**TEMPORARY TRADE REPORTING FACILITY**

### Executive Summary

This Notice informs Members of the Exchange's intention to provide a temporary trade reporting facility in respect of Northern Rock plc Individual Equity Options via Bclear.

**This Notice requires the immediate attention of Members' staff who are involved in the trading and settlement of LIFFE equity options. Members with clients who hold open positions in Northern Rock plc Individual Equity Options should make such clients aware of the arrangements set out in this Notice.**

### 1. Introduction

- 1.1 Corporate Action Notice No. CA/2008/073/Lo, issued on 22 February 2008, advised Members of the suspension of trading in Individual Equity Options based upon the shares of Northern Rock plc ("the Contract") (Contract Code NKR), both via LIFFE CONNECT® and Bclear, following the transfer of Northern Rock plc shares to the Treasury Solicitor as nominee of HM Treasury, pursuant to the Northern Rock plc Transfer Order 2008. Furthermore, the Northern Rock plc Compensation Scheme Order 2008 promulgates the basis on which any compensation payable by HM Treasury to Northern Rock shareholders shall be determined ("the Compensation Scheme").
- 1.2 The Corporate Action Notice also informed Members of the suspension of option exercise and noted that the Effective Date of the corporate action adjustments would depend upon the timing of the outcome of the Compensation Scheme, such that it would be no sooner than a compensation amount has been finally determined following that process. Consequently, all positions have remained open in the Clearing Processing System ("CPS"), pending the completion of that process. As explained in Corporate Action Notice No. CA/2008/073/Lo, positions which remain open at the end of that process will be settled at their intrinsic value by reference to the compensation amount established under the Compensation Scheme.

Web site: [www.nyx.com/liffe](http://www.nyx.com/liffe)

The **Euronext Derivatives Markets ("Liffe")** comprise 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. Euronext is part of the NYSE Euronext group.

- 1.3 It was also noted in Corporate Action Notice No. CA/2008/073/Lo that, following further consideration and depending on progress in relation to the Compensation Scheme, LIFFE may operate a temporary facility in relation to Northern Rock plc Individual Equity Options in order to provide an opportunity to Members and their clients to close existing positions should they choose to do so. Use of such a facility would be voluntary; those not wishing to use it would have their positions settled at intrinsic value in the manner described in Corporate Action Notice No. CA/2008/073/Lo. Having considered these matters, and in light of feedback received from Members holding positions in the Contract, either on their own behalf or on behalf of clients, the Exchange has determined that a temporary trade reporting facility (“the Facility”) shall be made available via Bclear, the Exchange’s over-the-counter clearing service, for three consecutive business days, beginning on Tuesday 9 December 2008 and ending on Thursday 11 December 2008. The basis on which the Facility will operate is described in the remainder of this Notice. Any failure to adhere strictly to the conditions set out in this Notice and the Rules may result in disciplinary action.

## **2. Trade Reporting Arrangements**

- 2.1 Trade reporting will be permitted via Bclear primarily to provide Members and their clients with an opportunity to reduce or close out positions currently held in the Contract. The Facility will operate on the basis of the Bclear Rules, with the following variations:
- (a) trade reporting shall be permitted only in series where open interest exists, and no new expiry months or series will be made available;
  - (b) no stock legs may be reported with an options trade, i.e. the Trade with Hedge facility will not be available;
  - (c) no minimum volume thresholds shall apply; and
  - (d) the Exchange will not determine whether trades have been entered into at a fair value.
- 2.2 Bclear will be available for trades to be reported to the Exchange between 08:00 and 17:00 hours (London time) on Tuesday 9, Wednesday 10 and Thursday 11 December 2008. Trade reporting will not be possible after 17:00 hours (London time) on Thursday 11 December 2008 and Members should make no assumption that any such Facility will be made available after this time.
- 2.3 Trade details should be pre-negotiated between counterparties in the OTC market, and reported to the Exchange, via Bclear, by one of the parties. Trades can then be registered in the Trade Registration System (“TRS”) and closed out where necessary using CPS menu option 13 – Settlement Instructions. All registered trades will be subject to the current Bclear Exchange and clearing fee schedule, including associated fee caps.
- 2.4 Given the special circumstances regarding the underlying shares, Members should note that, as set out in paragraph 2.1 (d) above, the Exchange will not apply a price validation check prior to the acceptance of a reported trade. Pricing is therefore a matter of bilateral agreement between the counterparties, and the Exchange will not determine whether or not transactions have been entered into at a fair value.

## **3. Pre-Negotiation of Trades**

- 3.1 The Exchange recognises that open interest holders may potentially face difficulties with regard to price discovery and finding a counterparty for a transaction. Therefore the Exchange intends to publish on its website a list of traders at Member firms who, on a no-obligations basis, would be willing to be contacted by interested parties in relation to

transactions in the Contract. Details can be found at the following address: [www.nyse.com/bclearnorthernrock](http://www.nyse.com/bclearnorthernrock).

- 3.2 It may also be possible for Members to post or view 'Indications of Interest' in the Contract on Cscreen. Cscreen is an electronic pre-trade price discovery tool, provided by LIFFE Services Limited, which provides customers with an efficient way of disseminating prices for wholesale equity derivatives by reducing the administration involved in inter-dealer brokerage. Further information can be found at [www.cscreen.com](http://www.cscreen.com) or [www.nyx.com/cscreen](http://www.nyx.com/cscreen).

#### **4. Settlement**

- 4.1 Details of trades reported via Bclear during the operation of the Facility may be used by the Exchange to re-evaluate Daily Settlement Prices published for the purposes of the margining of remaining open interest. Option exercise will remain suspended.
- 4.2 Open interest holders are under no obligation to participate in this Facility. They should therefore note that, following the closure of the Facility on 11 December 2008, remaining open interest will continue to be cleared in CPS and margined by LCH.Clearnet Ltd until such time that the outcome of the Compensation Scheme is known and is final, at which point remaining positions will be cash-settled at their intrinsic value. The compensation amount shall be used as the reference point for the calculation of the intrinsic value of the options.

#### **5. Client Business**

- 5.1 Members should remind their clients that no underlying stock price is available in respect of Northern Rock plc. Any clients wishing to enter into a transaction in Northern Rock plc Individual Equity Options in the OTC market which is intended to be reported via the Facility ("a Relevant Transaction") should be made aware by the Member of the implications of doing so. In particular, the Member should make it clear that the Exchange will not perform a price validation check prior to the acceptance of a Relevant Transaction. Pricing will therefore be a matter of bilateral agreement between the counterparties, and the Exchange will not determine whether or not Relevant Transactions have been entered into at a fair value.
- 5.2 A Member may not accept an order from a client in respect of a Relevant Transaction unless he has explicitly informed the client about the nature of the Facility and satisfied himself of the client's understanding in this respect. This requirement applies whether the Member is acting in an advisory or execution-only capacity on behalf of that client.

#### **6. U.S. Regulatory Position**

- 6.1 Members should note that Northern Rock plc Individual Equity Options are not Approved Options for the purposes of the Exchange's arrangements with the U.S. Securities and Exchange Commission. As such, Relevant Transactions should not be reported via the Facility by, for, or on behalf of, U.S. clients.

#### **7. Additional Information**

- 7.1 Additional information can be found at the following address: [www.nyx.com/bclear](http://www.nyx.com/bclear).

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

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