

## **LONDON NOTICE No. 3120**

ISSUE DATE: 11 February 2009  
EFFECTIVE DATE: 16 February 2009

### **THREE MONTH EURO (EURIBOR) INTEREST RATE FUTURES CONTRACT AND THREE MONTH EONIA SWAP INDEX FUTURES CONTRACT INTER-CONTRACT SPREAD**

### **INVITATION TO APPLY FOR INTER-CONTRACT SPREAD DESIGNATED MARKET MAKER STATUS**

### **UPDATE TO INTER-CONTRACT SPREAD LIQUIDITY PROVIDER SCHEME**

#### **Executive Summary**

This Notice invites Members to apply to participate in the Designated Market Maker (“DMM”) Scheme in Inter-contract Spreads (“ICS”) between the Three Month Euro (EURIBOR) Interest Rate Futures Contract and the Three Month EONIA Swap Index Futures Contract and informs Members of an update to the terms of the existing Inter-contract Spread Liquidity Provider Scheme.

#### **1. Introduction**

- 1.1 London Notice No. 3118, issued on 9 February 2009, informed Members of the introduction of a new LIFFE CONNECT<sup>®</sup> Recognised Strategy, the Inter-contract Spread (“ICS”) (“the ICS Strategy”) which will be made available on LIFFE CONNECT<sup>®</sup> from 16 February 2009 in respect of inter-contract spreads between the Three Month Euro (EURIBOR) Interest Rate Futures Contract (“Three Month Euribor Future”) and the Three Month EONIA Swap Index Futures Contract (“Three Month EONIA Swap Index Future”).
- 1.2 This Notice provides details of a Designated Market Maker Scheme to be introduced in the new ICS Strategy and invites Members and appropriate clients of Members to apply.
- 1.3 London Info-Flash No. LO08/31, issued on 15 December 2008, informed Members of an extension to, and revision of, the Inter-contract Spread Liquidity Provider Scheme (“Inter-contract Spread LP Scheme”) and invited Members and appropriate clients of Members to apply. This Notice informs Members that following the introduction of the ICS Strategy as a Recognised Strategy on 16 February 2009, only business executed using either the ICS Recognised Strategy or the Asset Allocation Facility will be deemed “Qualifying Business” for the purposes of the Inter-contract Spread LP Scheme. Participants registered to the existing Inter-contract Spread LP Scheme will be automatically grandfathered into the revised Scheme as described in section 5.

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

The **Euronext Derivatives Markets** 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.

## **2. DMM benefits**

- 2.1 Subject to fulfilling the relevant obligations, DMMs shall be granted the following Exchange transaction fee rebates:
- (a) a full Exchange transaction fee rebate on market assigned ICS market making business between Three Month Euribor Futures and Three Month EONIA Swap Index Futures; and
  - (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.
- 2.2 Stipends will be paid in **euro**.
- 2.3 There will be no trade priority advantages provided by the Exchange to DMMs.

## **3. DMM obligations**

- 3.1 In return for the benefits described in section 2 above, DMMs will be required to make continuous two way prices, at specified maximum bid/offer spreads, in a specified minimum quote size, for a fixed proportion of the trading session.
- 3.2 **For information and guidance purposes**, details of the benchmark obligations for ICS between Three Month Euribor Futures and Three Month EONIA Swap Index Futures are contained in the Attachment to this Notice.
- 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 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](http://www.nyx.com/liffe)).

## **4. ICS DMM Application process**

- 4.1 Members who wish to apply for ICS 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 23 February 2009**. Members or clients who would like additional information about the ICS DMM Scheme should contact the Fixed Income Derivatives team at NYSE Liffe.
- 4.2 The DMM Scheme is 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 should contain the following information:
- (a) the standard bid/offer spread and quote size obligations that the applicant is prepared to meet for a 90% portion of the trading session;
  - (b) details of the applicant's reasonable identified costs of acting in the capacity of market maker; and
  - (c) the details of one 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 **Applicants should note that, where relevant, their past performance in relation to fulfilment of DMM obligations, bandwidth efficiency and the contribution that the DMM's price injection activity has made to market quality, will be taken into account when allocating DMM status under the new Scheme.**
- 4.6 DMMs will be appointed through a competitive tender process. A Review Panel comprising members of LIFFE's executive will examine applications for DMM status. No Panel member will have a material interest in any applicant, for example by way of personal or financial connection.
- 4.7 The Review Panel's decision shall be final.
- 4.8 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).
- 4.9 The ICS DMM Scheme will run until close of business on Monday 28 August 2009.

## **5. Inter-contract Spread Liquidity Provider Scheme ("the ICS LP Scheme")**

- 5.1 Members will be aware that London Info-Flash No. LO08/31 invited applications for the Inter-contract Spread LP Scheme. This Notice advises Members that following the introduction of the Inter-contract Spread as a Recognised Strategy on 16 February 2009, only business executed using either the ICS Recognised Strategy functionality or the Asset Allocation Facility will be deemed to be "Qualifying Business" for the purposes of the ICS LP Scheme. Inter-contract spreads which have been legged will not constitute Qualifying

Business. At the same time, the restriction on the number of Inter-contract Spread LPs will be removed. Other terms and conditions remain unchanged.

- 5.2 **Members who wish to apply for ICS LP status, either themselves or on behalf of their clients, should contact their Account Manager for an Application Form and the Scheme Terms and Conditions.** The Exchange advises every applicant to ensure that they have read and understood those Terms and Conditions and applicable Notices as these documents govern participation in the Scheme. The Exchange's decision as to whether applications should be approved for LP status shall be final and binding.
- 5.3 Ultimately, it is the responsibility of the applicant to ensure that all information included on the application form is complete and correct. Incorrect information will affect and possibly lengthen the application process and could affect the payment of Exchange transaction fee rebates.
- 5.4 The ICS LP Scheme will run until the close of business on **Tuesday 31 March 2009** and, subject to regulatory approval, will be renewed thereafter. Once registered in the ICS LP Scheme, Members will not need to re-apply to remain in that Scheme if the Scheme is renewed.

For further information in relation to this Notice, Members should contact their Account Manager or the following:

Fixed Income Derivatives

+44 (0)20 7379 2222

stirs@liffe.com

**Benchmark DMM Obligations in the ICS  
between the Three Month Euribor Futures and the Three Month EONIA Swap Index Futures**

<b>Delivery Months</b>	<b>Session Presence (%)</b>	<b>Maximum Bid/Offer Spread (bps)</b>	<b>Minimum Order Size (lots)</b>
Front Quarter	90%	1	50
Second Quarter	90%	1	50
Third Quarter	90%	1.5	50
Fourth Quarter	90%	1.5	50