

## LONDON NOTICE No. 2727

Equivalent Notices are being issued to the following markets:

**Amsterdam, Brussels and Paris**

**ISSUE DATE:** 23 December 2005

**EFFECTIVE DATE:** 23 December 2005

### CORPORATE ACTIONS POLICY CONSULTATION

#### Executive Summary

The purpose of this paper is to consult the market about a specific element of the fair value method within the Corporate Actions Policy. Members are requested to submit in writing any comments on the alternatives outlined in this paper by Friday 20 January 2006 to Quality of Derivative Markets in Amsterdam.

1. On 15 November 2004, the harmonised Corporate Actions Policy became effective for all Euronext.liffe markets, under London Notice No. 2540. This policy provides for a broadly harmonised approach to adjust contract specifications of Euronext.liffe listed options and futures when underlying shares are subject to a corporate action.
2. When shares are taken over for greater than 67% in cash, the policy determines that outstanding options and futures are settled in cash using the fair value method. The purpose of this Notice is to obtain feedback from market participants about a specific element of the fair value method, as described below.
3. The fair value method is designed to preserve any remaining 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, the Exchange publishes implied volatilities which are calculated on the basis of the settlement prices of the relevant options established on the five previous business days.
4. Currently, implied volatilities are determined and published immediately after a press release has been issued in which the bid is announced (this can be a press release of the company issuing the bid, the target company or both). Statements to the effect that a company is *considering* or *intending* to issue a bid do not trigger the publication of implied volatilities.

---

\* Regardless of whether the take over is effected by means of a Public Offer or a Scheme of Arrangement (applicable only in the UK Market).

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.

5. The Exchange seeks the assistance of market participants in finding the optimal timing for determining the implied volatilities, striking the right balance between meeting the objectives of the fair value method (preservation of time value) and providing certainty to market participants. The Exchange would appreciate receiving comments on the following alternatives, although it is open for members to suggest other potential approaches.

6. Alternative approaches to the determination and publication of implied volatilities are:

- (a) as soon as a firm price is mentioned by the company issuing the bid. This can be an intended bid.

*The advantage of this method is that the volatilities are not so much influenced by market reactions to the bid itself. In other words, the volatilities are relatively "clean". The disadvantage, however, is that implied volatilities are determined even if an offer is perhaps less likely to be successful. In this respect it is noteworthy that the Exchange does not normally introduce new series once implied volatilities have been published.*

- (b) upon receipt of a press release in which the bid is announced including all material details. When the statement of the company suggests that the company is only considering a bid or merely intends to issue a bid, it will not be considered a bid.

*The advantage of this approach is that volatilities are published relatively early on in the process. A disadvantage is that, at times, press releases are ambiguous, which means that ultimately the Exchange would need to exercise a degree of discretion as to whether it is a bid or not.*

- (c) immediately after approval of the offer document by the relevant regulator.

*This method would offer optimal clarity. However, as the volatilities are often only published relatively late in the process, they may have been influenced by the bid. After all, in most cases the market will already have been made aware of the material details of the bid.*

- (d) as soon as the offer document is made available to market participants.

*The advantages and disadvantages are similar to those mentioned under alternative (c).*

7. Members are requested to submit in writing any comments on the alternatives outlined in this paper by Friday 20 January 2006 to Quality of Derivative Markets (PO Box 19163, 1000 AG Amsterdam) or by e-mail to [qualityofmarkets@euronext.com](mailto:qualityofmarkets@euronext.com). As this announcement has been issued simultaneously in Amsterdam, Brussels, London and Paris, members may receive duplicate information.

For further information in relation to this Notice, please contact:

Laurens Koning

+ 31 20 550 4404

[laurens.koning@euronext.com](mailto:laurens.koning@euronext.com)