



LONDON NOTICE No. 2702

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BASIS TRADING FACILITY

ADDITION TO THE ELIGIBLE BASIS TRADE CASH LEGS IN RESPECT OF THE THREE MONTH EURO (EURIBOR) INTEREST RATE FUTURES CONTRACT

Executive Summary

This Notice provides details of the addition of non-Euronext.liffe exchange traded German government bond futures to the list of eligible “cash” legs in respect of Basis Trades in the Three Month Euro (EURIBOR) Interest Rate Futures Contract. This Notice also details the necessary amendments to the Euronext.liffe Trading Procedures.

1. To support further the development of the market in Pack and Bundle strategies, the Exchange has determined to add non-Euronext.liffe exchange traded German government bond futures to the list of eligible “cash” (i.e. non-Euronext.liffe) legs in respect of Basis Trades in the Three Month Euro (EURIBOR) Interest Rate Futures Contract (“EURIBOR”).
2. This change will allow greater ease of execution in trading the basis between the interbank curve and the government bond yield curve. By using Euronext.liffe’s Basis Trading Facility, members may enter into spread strategies between Euronext.liffe EURIBOR Packs and Bundles and non-Euronext.liffe exchange traded German government bond futures contracts in a manner which reduces the legging risk usually associated with effecting contingent transactions on separate markets.
3. The change requires amendments to the Euronext.liffe Trading Procedures, details of which are contained in the Attachment to this Notice.

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

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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.

Amendments to the Trading Procedures for Basis Trades

(Additions 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:

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(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.

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4.2.14A Where a basis trade involves a Euro Swapnote[®] futures or Three Month Euro (EURIBOR) Interest Rate Futures Contract against a non-Euronext.liffe exchange traded German government bond futures contract, the following details must be submitted via LIFFE CONNECT[®] by the basis trade executing Member:

- (a) Euronext.liffe Futures Contract in which the BTF is being transacted;
- (b) delivery month(s);
- (c) agreed Swapnote[®] or EURIBOR futures price(s);
- (d) number of Futures Contracts;
- (e) a unique identifier/reference number for the non-Euronext.liffe exchange traded German government bond futures transaction;