EURONEXT DERIVATIVES MARKETS

LONDON NOTICE No. 2812

ISSUE DATE: 8 November 2006
EFFECTIVE DATE: 8 November 2006

OFFER AND SALE OF EQUITY AND INDEX OPTIONS IN THE UNITED STATES

REVISED DISCLOSURE DOCUMENT

Executive Summary

This Notice informs members that the Exchange has issued a revised Disclosure Document.

1. Introduction

1.1 This Notice informs members of the London market that the Exchange has issued a revised Disclosure Document. Members with clients in the United States who wish to trade Equity and Index Options which are available for trading on the London market – and who are qualified to do so – should immediately send each such client a copy of the revised Disclosure Document.

2. Procedure for Offering and Selling Equity and Index Options in the United States

2.1 By virtue of the arrangements which the Exchange has made with the US Securities and Exchange Commission ("SEC"), members of the London market may offer and sell so-called "Approved Options" to prescribed Entities in the United States ("US Entities") under specified conditions. A list of Approved Options forms Attachment 1 to this Notice.

2.2 The procedure for the sale in the US of Approved Options is set out in General Notice No. 436, issued on 16 June 1992. It is made pursuant to Rule 3.28.3 (Rules, Book II). The procedure requires, among other things, members to furnish US Entities with a copy of the Disclosure Document entitled "Special Characteristics and Risks of LIFFE Options on Equities and Stock Indices" before selling Approved Options to US Entities. Members are also required to furnish US Entities with such updates of that Document as may be issued by the Exchange from time to time.

2.3 An updated Disclosure Document has been prepared by the Exchange to reflect revised market arrangements and updates to statistical information.

2.4 The updated Disclosure Document forms Attachment 2 to this Notice.

2.5 In respect of US Entities which have previously received the Disclosure Document (and in respect of which members have complied with the procedure set out in General Notice No. 436), members are:

(a) required to send promptly to such US Entities the updated Disclosure Document; and

(b) permitted to execute trades on behalf of such US Entities if the member retains a record to indicate that the amended Disclosure Document has been sent to that US Entity. It is not necessary to obtain written confirmation from the US Entity that the Disclosure Document has been received.

2.6 In respect of a US Entity which has not previously received a copy of the Disclosure Document, members are required to follow in full the procedure set out in General Notice No. 436 (using the revised Disclosure Document and the list of Approved Options attached to this Notice) before transacting any business in Equity and Index Options on the London market.

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

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List of Approved Options for Sale to US Entities as of 8 November 2006

The following Index Options are Approved Options (as defined in General Notice No. 436):

Index Option	TRS Code	Exchange Contracts
FTSE 100 European style exercise	ESX	129E
Flexible FTSE 100 European style exercise	FLX	129F

The options on the following company shares (Exchange Contract No. 201) are Approved Options (as defined in General Notice
No. 436):

Company (Lot size 1000 shares)	Share	TRS Code
3i Group plc	Ord 62.784p	III
Alliance & Leicester plc	Ord 50p	LEI
Alliance Boots plc	Ord 37.179p	BOT
Amvescap plc	Ord $0.10	AVZ
Anglo American plc	Ord $0.50	AAM
ARM Holdings plc	Ord 0.05p	ARM
AstraZeneca plc +	Ord $0.25	AZA
Aviva plc+	Ord 25p	CUA
BAE Systems plc	Ord 2.5p	AER
Barclays plc +	Ord 25p	BBL
BG Group plc	Ord 10p	BGG
BHP Billiton plc	Ord $0.50	BLT
BP plc+	Ord $0.25	BP
British Airways plc	Ord 25p	AWS
British American Tobacco plc+	Ord 25p	TAB
British Energy Group plc	Ord 10p	BEG
British Sky Broadcasting Group plc+	Ord 50p	BSK
BT Group plc+	Ord 5p	BTG
Cable & Wireless plc	Ord 25p	C+W
Cadbury Schweppes plc	Ord 12.5p	CAD
Capita Group plc	Ord 2p	CPI
Carnival (UK) plc	Ord $1.66	POC
Centrica plc	Ord 6.1728p	CTR
Colt Telecom Group plc	Ord 1.25p	CTM
Compass Group plc	Ord 10p	CPG
Corus Group plc	Ord 50p	STL
Diageo plc+	Ord 28.935p	GNS
DSG International plc	Ord 2.5p	DIX
EMAP plc	Ord 30p	EMA
EMI Group plc	Ord 14p	EMI
Experian Group Ltd	Ord $0.1	EXP
Gallaher Group plc	Ord 10p	GAL
GlaxoSmithKline plc+	Ord 25p	GXO
GUS plc (ex event package)		GSS
Hanson plc	Ord 10p	HSN
HBOS plc	Ord 25p	HAX
Home Retail Group plc	Ord 10p	HRG
HSBC Holdings plc+	Ord $0.50	HSB
Imperial Chemical Industries plc	Ord £1	ICI
Imperial Tobacco Group plc	Ord 10p	IMP
InterContinental Hotels Group plc	Ord 11.428p	IHG
International Power plc	Ord 50p	IPR
Invensys plc	Ord 10p	BRT
ITV plc	Ord 10p	GME

Company (Lot size 1000 shares)	**Share**	**TRS Code**
Kingfisher plc	Ord 15.714 p	KGF
Ladbrokes plc	Ord 28.333p	LDB
Land Securities plc	Ord 10p	LS
Legal & General Group plc	Ord 2.5p	LGE
Lloyds TSB Group plc+	Ord 25p	TSB
LogicaCMG plc	Ord 10p	LOG
London Stock Exchange plc	Ord 6.9186p	LSE
Man Group plc	Ord $0.03	EMG
Marks & Spencer Group plc+	Ord 25p	M+S
Mitchells & Butlers plc	Ord 8.5416p	MAB
Morrison (Wm) Supermarkets plc	Ord 10p	MWR
National Grid plc	Ord 11.395p	NGG
Next plc	Ord 10p	NXT
Northern Rock plc	Ord 25p	NKR
PartyGaming plc	Ord 0.0015p	PTG
Pearson plc+	Ord 25p	PSO
Prudential plc+	Ord 5p	PRU
Reckitt Benckiser plc	Ord 10.526p	RB
Reed Elsevier plc	Ord 12.5p	REI
Rentokil Initial plc	Ord 1p	RTO
Reuters Group plc	Ord 25p	RUT
Rio Tinto plc+	Ord 10p	RTZ
Rolls-Royce Group plc	Ord 20p	RR
Royal & Sun Alliance Insurance Group plc	Ord 27.5p	RYL
Royal Bank of Scotland Group plc+	Ord 25p	RBS
Royal Dutch Shell plc A share+	Ord €0.07	SHA
Royal Dutch Shell plc B share+	Ord €0.07	SHL
SABMiller plc	Ord $0.1	SAB
Sage Group plc	Ord 1p	SGE
Sainsbury (J) plc+	Ord 28.571p	SAN
Scottish & Newcastle plc	Ord 20p	SCN
Scottish & Southern Energy plc	Ord 50p	SSE
Scottish Power plc	Ord 42p	SPW
Shire plc	Ord 5p	SHP
Smith & Nephew plc	Ord $0.2	SNP
Standard Chartered plc	Ord $0.50	SCB
Standard Life plc	Ord 10p	LFI
Tesco plc	Ord 5p	TCO
Tomkins plc	Ord 5p	TMK
Unilever plc	Ord 3.11p	ULV
United Utilities plc	Ord £1	UUL
Vodafone Group plc+	Ord $0.11428	VOD
Whitbread plc	Ord 68.627p	WTB
William Hill plc	Ord 10p	WHL
Wolseley plc	Ord 25p	WSY
WPP Group plc	Ord 10p	WPP
Xstrata plc	Ord $0.50	XST

The expiry months available for trading will normally be the nearest three quarterly expiry months. A new expiry month is available for trading the business day after the Last Trading Day of an expiry month.

+ Serial and longer-dated expiry months are available in these equity options.

Attachment 2 to London Notice No. 2812

Special Characteristics and Risks of

LIFFE Options on Equities and Stock

Indices

For Limited Distribution in the United States Only to Qualified Broker-Dealers and Qualified Institutions

LIFFE Administration and Management
1 Exchange Plaza
55 Broadway
Suite 2602
New York 10006-3008

Registered office:
Cannon Bridge House
1 Cousin Lane
London EC4R 3XX
United Kingdom

November 2006

This document is intended for distribution only to "Qualified Broker-Dealers" and "Qualified Institutions" in the United States. To be Qualified each such entity must have had prior actual experience in the US domestic options markets. In addition, such entities must meet the same qualifications as a "qualified institutional buyer" under Rule 144A of the US Securities and Exchange Commission ("SEC") or as an entity excluded from the definition of "US person" by Rule 902(k)(2)(vi) of Regulation S of the US Securities Act of 1933 (the "Act").

The definitional qualification means, in general, that a Qualified Broker-Dealer must be registered as such with the SEC and must in the aggregate own and invest on a discretionary basis at least $10 million of securities (as defined and provided in Rule 144A). A Qualified Institution must come within the categories of non-broker-dealer entities defined as qualified institutional buyers in Rule 144A and must in the aggregate own and invest on a discretionary basis at least $100 million in securities (as defined and provided in Rule 144A). Alternatively, a Qualified Institution must, as provided in Rule 902(k)(2)(vi) of Regulation S under the Act, be a specified international organisation.

Members of The London International Financial Futures and Options Exchange ("LIFFE" or "the Exchange") will be advised that they may execute opening options transactions with or for a person located in the United States only if that person is a Qualified Broker-Dealer or a Qualified Institution, acting for its own account or the accounts of other Qualified Broker-Dealers or Qualified Institutions or managed accounts of non-US persons within the meaning of Rule 902(k)(2)(i) of Regulation S under the Act. Appropriate documentation will be required for this purpose.

LIFFE is governed by rules and trading procedures which are contained in a Rule Book and Trading Procedures Manual. LIFFE's clearing house, LCH.Clearnet Limited ("LCH.Clearnet") clears transactions made on LIFFE in accordance with its General Regulations, Default Rules and Procedures. Copies of the Rule Book and Trading Procedures Manual and LCH.Clearnet's General Regulations, Default Rules and Procedures are available for inspection at the representative office of LIFFE Administration and Management in New York City. The address is One Exchange Plaza, 55 Broadway, Suite 2602 New York 10006-3008. The most recently published annual report of Euronext NV, which is the company that owns the operator of LIFFE, and of LCH.Clearnet will also be obtainable from that office. A representative in the office will be available to Qualified Broker-Dealers and Qualified Institutions during normal business hours in New York to respond to inquiries of a general or specific nature concerning LIFFE, but not to give advice or receive or direct orders concerning options traded on LIFFE.

This document describes the arrangements for trading, clearing and settling LIFFE Options on equities and stock indices in the normal course of business. In addition, LIFFE, LCH.Clearnet Limited and CREST have powers for dealing with emergency situations. These are set out in their respective rule books.

CONTENTS

LIFFE options have not been registered under the US Securities Act of 1933 or any State securities law. Neither the options nor this document have been approved or disapproved by the SEC or any State securities commission. This document is not a solicitation of orders for transactions on LIFFE, nor does it constitute investment advice.

INTRODUCTION

The London International Financial Futures and Options Exchange ("LIFFE" or "the Exchange") is one of the largest financial and equity derivatives markets in the world. Equity and Index Options have been available for trading on LIFFE since March 23, 1992, following the merger of LIFFE with the London Traded Options Market ("LTOM"). LIFFE has been operating since September 1982 while LTOM opened in April 1978 as a market administered by the London Stock Exchange. LIFFE is operated by LIFFE Administration and Management ("LIFFE A&M"), a wholly-owned subsidiary of LIFFE (Holdings) plc.

LIFFE (Holdings) plc is ultimately wholly owned by Euronext NV and LIFFE is part of Euronext.liffe, the brand name for Euronext NV's derivatives business.

LIFFE A&M is a Recognised Investment Exchange ("RIE") under the Financial Services and Markets Act 2000. Recognition as an RIE has been granted to LIFFE A&M by the Financial Services Authority (the "FSA"), the designated agency under the Financial Services and Markets Act 2000. The Exchange has developed and lists a range of futures and options on futures related to money market and fixed interest rate instruments, commodities and individual stock and stock index futures, which fall outside the scope of this document.

Two basic types of options are referred to in this document: options on individual stocks that are listed and traded on the London Stock Exchange ("Equity Options") and options on stock indices ("Index Options"). LIFFE's Index Options currently comprise standard and flexible options on the FTSE 100 Index ("UK Index Options"). Options on other types of underlying stocks or stock indices may be introduced in the future and may subsequently be made available to US Entities to whom this document is made available.

LIFFE's call and put options for Equity Options are for American-style exercise (that is, they are exercisable during their life). Equity Options are currently available for trading on LIFFE between the hours of 8.00am and 4.30pm London time on UK business days. The standardised FTSE 100 Index Options, which are for European-style exercise, are currently available for trading from 8.02am until 4.30pm London time while Flexible Options are available from 8.00am until 5.00pm London time. (Trading hours may be changed from time to time.)

Prices on LIFFE for Equity and Index Options are publicly quoted, and the options are bought and sold in British pounds sterling (see below for an explanation of the Exchange's plans for Equity and Index Options in the light of European Economic and Monetary Union) in the case of Equity Options and UK Index Options. All transactions creating or closing positions in such options are executed and settled in London by members of LIFFE. LIFFE options are dematerialised (certificateless) transactions and positions are evidenced by statements from LCH.Clearnet to LIFFE clearing members and advices and statements by members to clients (customers).

LIFFE Equity and Index Options are not fungible or interchangeable with options that are traded on any other market. Thus, any LIFFE Equity and Index Options position registered with LCH.Clearnet by a clearing member of the Exchange can be closed only on LIFFE or exercised by the clearing member giving an Exercise Notice to LCH.Clearnet.

The potential risks which apply generally to all aspects of options transactions are assumed to be known to readers of this document. Its purpose is to introduce experienced and sophisticated US registered broker-dealers and large US institutions to the special aspects, requirements and risks involved in trading LIFFE Equity and Index Options. Accordingly, such entities considering LIFFE should have had actual prior experience in options investment in US markets and therefore be familiar with the risks of all options investments and American-style and European-style options.

This document does not suggest or recommend any types of investment strategy. It is limited to a descriptive overview of the LIFFE market, LIFFE Equity and Index Options, the clearing services provided by LCH.Clearnet, UK clearing and settlement practice, and risks peculiar to foreign options transactions.

ECONOMIC AND MONETARY UNION – PROPOSED CONVERSION METHODS FOR LIFFE'S EQUITY AND INDEX OPTIONS

Stage Three of European Economic and Monetary Union ("EMU") began on 1 January 1999. The UK has not joined EMU from the outset, although Her Majesty's Government has indicated that the UK would enter at a later date, providing that economic conditions were suitable.

Although the UK is not participating in EMU, the creation of the euro will have an impact on the UK equity markets. LIFFE's current strategy for accommodating the use of the euro in the UK equity market within its existing range of equity based products is set out below.

The London Stock Exchange is encouraging companies to list new shares in euro~~s~~. It also supports moves to make it easier to re-denominate existing shares in euro. Trading in shares in any particular company is in one currency at any one time; all domestic equities continue to be traded in sterling. A consolidated ticker is published by the London Stock Exchange showing trades in all currencies.

LIFFE currently provides a marketplace for sterling-denominated options on the shares of UK listed companies. The use of the same currency for the underlying share, the exercise price and the premium is taken for granted since this allows for efficient pricing of these standardised exchange products. LIFFE intends to maintain the practice of expressing the exercise price and premium of an option in the same currency as that used for the underlying share. Thus, where a share continues to have a sterling-denominated price available on London Stock Exchange systems, the option specifications will remain sterling-based.

Where the sterling share price ceases to be quoted, and is replaced by a euro- denominated price, exercise prices will be converted to euro. If this changeover occurs at the point at which the UK enters EMU, the irrevocably fixed sterling/euro exchange rate will be used for this conversion. If the changeover occurs before this rate has been fixed, the exchange rate at the close of business on the day before euro trading begins will be used.

Exercise prices will be rounded to the nearest euro cent, and the new figures will be made available to the market as soon as possible. Following the conversion of exercise prices, option premiums will be quoted in euro cents per share. The contract size will remain unchanged.

When a series is converted, any outstanding payments at the time of conversion, either for an option or for shares as a result of exercise, will settle in the currency in which they were traded. In the case of stock transactions arising as a result of the exercise of an option, it is understood that the UK equity settlement system, CREST, will be able to support settlement of trades in either currency. (See page 40 for a description of CREST.)

Following conversion, LCH.Clearnet will calculate margin and net liquidation values in euro. It is expected that current forms of collateral will continue to be accepted.

For the majority of Equity Options, LIFFE lists three expiry months at a time. However, nineteen “focus group” Equity Options on the top UK stocks have serial expiry months, quarterly months in the first year and half-yearly expiry months listed in the second year. In order to reduce the number of series affected by conversion, LIFFE would seek to suspend the listing of the next expiry month where practicable. This would only occur where the timetable for the switch to euro quotes for the underlying share is known, and where doing so would not result in any significant negative impact on market users’ ability to manage longer dated positions. Following conversion, new expiry months would be introduced in euro using standard exercise prices.

LIFFE also currently has options on the FTSE 100 Index. Such Index Options will continue to be denominated in sterling unless a change is warranted by a change to the currency in which the underlying stocks are denominated (for instance, in the event that the UK were to join EMU).

OPERATION OF THE LIFFE MARKET

General

On 30 November 1998, trading in LIFFE's Equity Options migrated from the Exchange's trading floor in the City of London to LIFFE's automated trading platform, LIFFE CONNECT®. LIFFE's standardised FTSE 100 Index Options migrated to LIFFE CONNECT® on 2 May 2000.

LIFFE currently lists Equity Option contracts on approximately 90 equity securities of leading UK companies as well as Index Option contracts on the FTSE 100 Index. During the first quarter of 2006, daily trading volume of Equity Option contracts averaged 60,130 compared with 31,866 during the first quarter of 2005. In relation to standardised FTSE 100 Index Option contracts, the average daily trading volume during the first quarter of 2006 was 72,542 compared with 59,562 in the first quarter of 2005. At the end of March 2006, aggregate open interest for all Equity Options was 2,115,347 and for standardised FTSE 100 Options was 3,010,170. At the end of March 2005 the comparable figure~~s~~ for Equity Options was 1,527,233 and for standardised FTSE 100 Index Options was 2,463,608.

Equity Options

From 30 November 1998, trading in Equity Options has been conducted on LIFFE CONNECT®. The market operates in an anonymous, order-driven environment with orders being matched by the LIFFE CONNECT® Trading Host according to strict price and time priority. In order to participate in the market, members require a Trading Application which links to the Trading Host. Some members have developed their own bespoke trading applications, whilst others use systems developed or provided by third party software vendors.

Trading of Equity and Index Options on LIFFE CONNECT® is conducted by members who hold the appropriate trading rights, who have one or more "responsible persons" registered to them, and who meet other conditions which the Exchange may prescribe. Responsible persons are required to meet requirements stipulated by the Exchange. All orders are submitted under the user name of a responsible person. Each responsible person is required to have the authority to adjust or withdraw any order, whether from clients or from colleagues within the same firm, which is submitted to the market under his user name. Members are required to record order details as specified by the Exchange and such records must be retained by the member for a period of five years. Members are required to make such records available to the Exchange if requested.

In the absence of a regulatory scheme which would allow foreign exchanges to place securities trading facilities in the US, market users in the US will not themselves have direct access to the LIFFE CONNECT® system for the trading of Equity Options and Index Options. Access to the market will be through Exchange members and only those members located outside the United

States will be able to input orders to LIFFE CONNECT® in respect of Equity Options and Index Options.

Orders may be submitted at any time during the period from the market Pre-Opening (beginning at 6.30am London time for Equity Options) until the Market Close (4.30pm London time). Trading begins at the Market Opening (8.00am London time) and continues until the Market Close. (Trading hours may be changed from time to time.)

Further information about LIFFE CONNECT® is available from the Exchange.

Index Options

Trading in standardised FTSE 100 Index Option contracts has been conducted on LIFFE CONNECT® since 2 May 2000.

Option Classes, Expiry Months and Series

Equity and Index Options listed on LIFFE, with the exception of flexible Options, are traded in both puts and calls ("classes"), with several standardised durations ("expiry months") and several standardised exercise prices ("series"). Flexible Options may be listed as puts or calls and, subject to parameters set by LIFFE A&M, have an investor-specified duration ("expiry date") and an investor-specified exercise price. All Equity Options are traded only with American-style exercise. The standardised and flexible FTSE 100 Index Options are only traded with a European-style exercise.

Equity Option Primary Market Makers

From 11 September 2000, LIFFE has operated a Primary Market Maker ("PMM") Scheme under which there is a single PMM for each Equity Option. Under the PMM Scheme, members are invited to submit bids to fulfil the role of PMM in respect of groups of Equity Options. Members are able to submit bids in respect of one or more groups. When bidding, prospective PMMs are required to specify whether they are able to meet "benchmark" PMM obligations which are established by the Exchange. In summary, the current benchmark obligations are as follows:

- Ensure that continuous bids and offers are maintained by the PMM in the LIFFE CONNECT® Trading Host in five consecutive call and five consecutive put strikes, including the at-the-money ("ATM") strike, in both the first and second standard quarterly expiry months and in the ATM strike and one strike either side of it in the third expiry month, again for both calls and puts.

- Ensure that a minimum size of 7 lots in the first expiry month, 5 lots in the second expiry month and 3 lots in the far expiry month are available from the PMM in the market at no worse than the PMM's obligated bid/offer spread.

- Ensure that all bid/offer spreads of the PMM are quoted no wider than those specified by LIFFE A&M for the relevant contract month.

- Ensure that all outright and 50% of strategy Request For Quotes ("RFQs") in all options in which the member is the PMM are responded to, within 30 seconds of submission, according to the PMM's maximum bid/offer spread and minimum lot size with a quote made available for a minimum of 10 seconds (unless traded with). Where the RFQ is for a greater size than the PMM's minimum obligation, the PMM may respond on a "Best Endeavours" basis.

- Ensure that strategies are quoted by responding to RFQs in no worse a spread than the aggregate of the outright spreads for the relevant options.

Given the wide range of Equity Options and the diversity in the characteristics of the underlying stocks (e.g. stock price, volatility, depth of the market in the underlying stock), members are permitted to bid for the role of PMM with proposed obligations which vary from the benchmark obligations. PMMs are selected by a review panel, consisting of senior Exchange staff, which is independent of those bidding.

Full details of the PMM Scheme, including the PMM obligations in relation to each Equity Option are published by Circular and on the Euronext website (www.euronext.com).

Equity Option Designated Market Makers

From 1 April 2002, the Exchange has operated a Designated Market Maker ("DMM") Scheme in Equity Options. The DMM Scheme runs in parallel with the PMM Scheme, its objective being to enhance liquidity in the "focus group" of equity options on the 19 top-tier UK stocks.

DMMs were invited to apply for DMM status in a minimum of ten of the "focus group" equity options by agreeing to meet fixed obligations in terms of spreads and quote sizes as determined by the Exchange.

Full details of the DMM Scheme, including the DMM obligations in relation to each Equity Option are published by Circular and on the Euronext web site.

Index Option Designated Market Makers

From 1 April 2003, the Exchange has operated a Designated Market Maker ("DMM") Scheme in the standardised FTSE 100 Index Option. DMMs were invited to apply for DMM status by agreeing to meet the following fixed obligations as determined by LIFFE A&M:

> For 90% of each trading session (that is, contract opening through to close), the DMM is required to quote two way competitive prices and order sizes, either:
>
> (a) over the telephone; or
>
> (b) through answering RFQs on LIFFE CONNECT®.
>
> DMMs are required to choose one of the two methods set out above for the duration of the DMM Scheme. The chosen method may be changed from time to time if notified, in advance, to the Exchange in writing.
>
> DMMs are required to meet the obligations in all expiry months and series listed.

Full details of the DMM Scheme are published by Circular and on the Euronext web site.

Broker-dealers

Broker-dealers, are able to execute option orders on LIFFE for customers and as principals for their own account. All members of LIFFE are required by the rules to transact business in LIFFE contracts in the legal capacity of a principal. When a customer's order is executed, the requirement that the member executing the transaction contracts as a principal means that such member is the counterparty to the customer on the one hand and, on the other hand, counterparty to the member with whom the trade was conducted on the market. The second of these two contracts (i.e. that created on the market between the two members) will be subject to novation. This means that where a customer has dealt through a non-clearing member of

LIFFE, there will be a chain of linked, or "back-to-back", contracts as follows: (i) between customer and non-clearing member, (ii) between non-clearing member and clearing member and (iii) between clearing member and LCH.Clearnet. The broker's customer therefore obtains no contractual relationship with anyone other than the broker. (The treatment of customer funds and property is explained on page 20 below).

Orders by customers may generally be placed with member brokers for execution either "at market" or at, or better than, a certain price (a limit order). An instruction to "deal at market" means that the member broker will attempt to buy or sell the required number of option contracts for the customer at the best market price currently available. Customers may further specify that an order should only be matched if a minimum volume can be achieved or that it should only be matched if the entire order can be traded. In addition, orders may be entered on the basis that they are Good 'Til Cancelled ("GTC") or that they should be matched on an Immediate or Cancel ("IC") basis.

At the end of the trading day, all orders on LIFFE CONNECT® – with the exception of GTC orders – will be withdrawn automatically from the central order book. Prior to the conclusion of this "session end" period, traders may, in addition, withdraw any GTC orders which they do not wish to remain in the market on the following day.

LIFFE CONNECT® continuously generates price limits in real-time, and rejects orders submitted outside the limits (i.e. bids at a price above the "limit bid" and offers at a price below the "limit offer"). For Equity and Index Options, LIFFE A&M calculates a theoretical fair value price for each series. The fair value will generate a spread, the range of which is determined from the applicable option delta value. The spread range is then employed by the Trading Host as the price limit for the option series concerned.

Attempts to enter orders priced outside the prevailing price limits will be rejected by the Trading Host – unless overridden by Exchange Officials - and the responsible person submitting the order will be informed accordingly.

Members may execute cross transactions through LIFFE CONNECT®. Provided orders are entered in accordance with the crossing procedures promulgated by the Exchange, business transacted through LIFFE CONNECT® may be pre-negotiated within the same member, with other members or with clients. Those crossing procedures stipulate that members and responsible persons must ensure that, when pre-negotiating a client order and/or when executing client business by way of a cross transaction, they act with due skill, care and diligence; and that the interests of the client or clients are not prejudiced. Pre-negotiated business will be transacted at the best bid and offer available in the market.

Members may transact those strategy trades which have been recognised by LIFFE. Details of such strategy trades are contained in the Annexe to the LIFFE CONNECT® Trading Procedures, a copy of which may be found on the Euronext website (www.euronext.com) under "Trading

Information”, “Trading Procedures”. Such strategy trades include Stock Contingent Trades (see below).

Stock Contingent Trades

Members who are eligible to trade in Equity Options may enter strategy trades which involve the simultaneous execution of transactions in options and the underlying stocks. Members may enter a number of different types of Stock Contingent Trades involving various combinations of options against stock. As noted above, details are contained in the Annexe to the LIFFE CONNECT® Trading Procedures, a copy of which may be found on the Euronext website (www.euronext.com) under “Trading Information”, “Trading Procedures”.

Both the Equity Option contracts and the underlying company security components of these Stock Contingent Trades must be executed on behalf of the same client or on behalf of the same house account.

Members who are eligible to trade in Index Options may also transact volatility trades either for their own account or for their customers. In this case, a volatility trade entails the making of an Index Futures contract simultaneously, and in combination, with one or more Index Option contracts (i.e. the FTSE 100 Index Futures Contract with the standardised or flexible FTSE 100 Index Option Contract). The FTSE 100 Index Futures Contract has been approved for sale to US customers.

Block Trade Facility

The Exchange offers a Block Trade Facility ("the Facility") for both Equity Options and Index Options. This Facility is designed to encourage new large order business to the Exchange that would otherwise not be executed on-exchange, whilst ensuring that price discovery on LIFFE's electronic trading mechanism remains robust. The Facility permits members (and their wholesale clients) to enter into transactions in large size at a price negotiated between the parties without requiring prior exposure of the transaction to the Exchange's electronic trading mechanism. Block Trades are subject to LIFFE's Trading Procedures which specify requirements regarding minimum order size thresholds, fair market value pricing and transaction reporting to LIFFE.

The Facility is restricted to members and, pursuant to customer suitability requirements stipulated by the relevant regulatory agency, those customers with sufficient knowledge, experience and understanding of the Exchange and its contracts and the implications of using the Facility.

On each occasion of quoting a Block Trade price, the member must make it clear to the wholesale client that the price being quoted is a Block Trade price. The price of a Block Trade must represent the fair market value for that trade, that is the price considered by the member to be the best available for a trade of that kind and size. When negotiating a Block Trade price, a member and a client should, in particular, take into account the prevailing price and volume available on the electronic system, the liquidity of the electronic market and general market conditions. Block Trades must be reported to the Exchange within 5 minutes of the time of trade in relation to trades which are not contingent on a transaction in another instrument, unless there are exceptional market circumstances. If a trade is contingent on a transaction in another instrument, or if there are exceptional market circumstances, trades must be reported within fifteen minutes. Where a trade is authorised by the Exchange, trade details will be published to the market as soon as possible thereafter.

FTSE 100 FLEX® Option Trading Mechanism

LIFFE facilitates the trading of flexible FTSE 100 Index Option contracts. Such contracts are flexible in that certain of their characteristics (specifically, the exercise price and the expiry date) may be established by the counterparties, rather than being determined in advance by the Exchange. Trades in these contracts may be made solely by a process of bilateral negotiation amongst members, and submitted as a matched trade to the Exchange. The procedures for trading, reporting, validation and publication are akin to those for Block Trades.

Members are required to trade a minimum number of 100 lots in order to open a position in a series not previously traded. This restriction is designed to discourage both non-institutional business and the use of the flexible Option as an alternative to the standardised FTSE 100 Index

Option. There is no restriction on the number of lots that may be traded in existing flexible Option series.

Once a flexible Option trade has been organised, details of the transaction must be submitted to the Exchange by the executing member. Submission is through LIFFE CONNECT®. The executing member is required to submit details of the flexible Option transaction as soon as possible following the organisation of the trade, and in any event within fifteen minutes of trade organisation. This method of execution applies both to new and existing flexible Option series.

Following submission, Exchange officials will verify the eligibility of the flexible Option series submitted. Exchange officials will also verify the traded price of each series with reference to an Exchange-administered pricing model. Members may be required to justify the prices submitted where they deviate materially from the model price. Where an Exchange official is satisfied with the validity of the trade details he will declare the trade to be executed.

The Exchange will publish details of series, price and volume for each flexible Option trade promptly following execution. The Exchange will register both sides of the trade to the "executing" member who submitted the trade.

Trading Halts

Trading in one or more options may be suspended if events threaten the orderly conduct of business. Such events may include a LIFFE CONNECT® technical failure or an act of God or other event outside the Exchange's control. Furthermore, trading in an Equity Option may be suspended if trading in the underlying security has been suspended. Similarly, trading in Index Options may be halted if market conditions or other circumstances prevented or interrupted timely calculation of the relevant Index.

An announcement of a trading halt will be made as soon as practicable on LIFFE CONNECT® or on the display systems of LIFFE's licensed quote vendors or on both. Trading will begin again when, in the opinion of two Exchange Officials, business may be resumed on an orderly basis. No open position may be closed or a new position opened while trading in an option is suspended. When trading in an underlying security has been suspended, option exercise notices may still be submitted. Investors should note that trading may be resumed on LIFFE before or after any suspension on the London Stock Exchange has ended.

Handling of LIFFE CONNECT® Technical Failures

In the event of a failure of either a Trading Application associated with a particular Individual Trading Mnemonic ("ITM") or a link to the Trading Host, the Host will attempt to transfer any extant orders to a nominated replacement ITM within the member. If there are no replacements nominated, or if none is logged-on, all relevant orders (with the exception of GTC orders) will be withdrawn from the central order book. The Trading Host will confirm the deletion of orders from the order book when the trader re-connects and asks for “retrieve orders”.

In the event of a failure of this sort, the trader may also withdraw GTC orders, if he so wishes, by telephoning designated Exchange officials.

In the event of failure of the Trading Host, the Trading Application will receive a “system error” message and all non GTC orders will be withdrawn. Designated Exchange officials will decide whether to re-open the market on the same day.

Trade Reporting and Matching

Once an options bargain (trade) has been executed, a message will be sent from LIFFE CONNECT® to the traders who have executed the trade to notify them of such execution. At the same time the details of the trade are notified by LIFFE CONNECT® automatically to LIFFE’s Trade Registration System (“TRS”), which is a real-time matching system. These details are passed by TRS to LCH.Clearnet for registration following the close of trading on that day.

TRS provides members with the facility to perform the following post trade administration functions:

- Allocation of Trades: When a trade has been undertaken on a brokerage basis on behalf of another member, TRS provides a facility for the allocation process to take place through a ‘give-up’ transaction.

- Assignment of Trades: TRS provides a facility to enable members to assign trades to one of a number of specific account types. This process allows trades to be assigned to the correct clearing account prior to clearing processing being undertaken at the end of the day.

In addition, TRS also gives users a wide range of enquiry and trade report functions.

LCH.Clearnet

LCH.Clearnet is a Recognised Clearing House under the Financial Services and Markets Act 2000. It clears trades for LIFFE, in addition to other futures and options markets in London and the London Stock Exchange and virt-x Exchange. It is responsible for the clearing and settlement of LIFFE contracts that are presented to it for registration by LIFFE clearing members. See page 35 for further information on LCH.Clearnet, clearing and settlement. LCH.Clearnet is 45.1% owned by its members, 45.1% owned by the three derivative exchanges whose contracts it clears, and 9.8% owned by Euroclear.

Visibility of Quotes and Transactions

A range of information on LIFFE Equity and Index Options is made available via LIFFE's own systems and a large number of licensed Quote Vendors, many of them available to subscribers in the US.

The information that is made publicly available on each series of LIFFE Equity and standardised Index Options includes:

1.	Exercise price and expiry month
2.	Current bid and offer premium prices.
3.	Premium price of last trade
4.	Aggregate open interest at the close of LIFFE the previous day
5.	Previous day's volume in numbers of contracts
6.	Previous day's closing premium bid and offer prices
7.*	Current quotation for the underlying security
8.*	"Settlement Price", for collateral purposes (and exercise of American-style options), calculated by LIFFE from price of underlying security or index (iii).
9.	Current matched volume
10.	Limit Orders - price and size
11. *	Index values and change on day

Notes:

(i) The item marked with a hash (#) represents the prices displayed on LIFFE CONNECT®, which are member-quoted prices, or those generated by Autoquote; Autoquote is a system that uses various parameters agreed between the Exchange and members to generate theoretical prices determined by, inter alia, moves in the underlying security price. The Autoquote system thus provides an automatic means of updating option prices and is carried by a number of the Quote Vendors that take LIFFE's price feed.

(ii) Items marked with an asterisk (*) are not provided to Quote Vendors by LIFFE. That information is received by Quote Vendors from the London Stock Exchange or the relevant index provider**;**

(iii) For the standardised and flexible FTSE 100 Index Options, prices are currently denominated in sterling although this may change with the advent of Economic and Monetary Union in Europe (see page 6 above for details).

Broker Responsibilities

Members of LIFFE acting as brokers for customers may also be trading for their own account. Under the requirements of the FSA, brokers must pay due regard to the interests of their customers. There are express rules which require firms to execute customer orders and own account orders fairly and in due turn. The effect of this is to require brokers to give precedence and priority to customer orders over contemporaneous orders for their own account.

LIFFE members are subject to regulation under LIFFE rules in their market activities and, for most members, in their customer-relationships by the FSA. Firms regulated by the FSA are required to operate under rules concerning the segregation of client funds and the safe custody of client assets. Some members of LIFFE who may conduct transactions on LIFFE are resident entities in other jurisdictions to whom separate regulatory and additional currency exchange rate considerations may apply.

Treatment of Customer Funds and Property

Firms authorised by the FSA under the Financial Services and Markets Act 2000 (including all relevant LIFFE members) are subject to the FSA rules, including the rules relating to client money contained in the Client Assets Sourcebook ("CASS"). Although the application of the CASS rules varies according to the type of firm and the activities involved, the general objective is to impose a statutory trust upon all client money and thereby to protect customers' cash assets in the event of the insolvency of the firm. Under the provisions in CASS, "client money" is money which a firm holds in connection with investment business with or for a customer, or which a firm elects to treat as client money. (Note that EU firms doing business in the UK by virtue of an European passport" are subject to the client money rules of their home State. However, the EU's Investment Services Directive ("ISD") provides a minimum standard for such rules within the EU.)

CASS 4.3.34R requires client money to be paid into a segregated client bank account (i.e., segregated from the money of the firm) with an approved bank. A firm owes a duty of care to a client when deciding where to place client money and must take reasonable steps to ensure that the banks with which it chooses to place client money are appropriate for that purpose.

In certain circumstances, the FSA rules permit a member to agree with a customer that its money is not segregated from that of the firm (CASS 4.1.8 - 4.1.14). Where the client is a market counterparty or an intermediate customer (i.e. not a private customer), the firm may rely upon written acknowledgement from that customer that the money will not subject to the protections under the client money rules and as a consequence the money will not be segregated from the firm's own money and the customer will rank only as a general creditor of the firm.

Non-cash collateral is handled differently. Its treatment in the event of the insolvency of the firm will depend on the terms on which it has been lodged with that firm (and, where relevant, on the terms that the firm has lodged it with others, such as a custodian or clearing house). Chapter 42 of CASS imposes detailed custodianship requirements in respect of a client's investments, including giving to the member the responsibility for safekeeping of documents of title and certificates and requiring the registration of investments in the customer' name or in another name in circumstances as specified in the CASS rules. A number of disclosures must also be made to the customer in certain circumstances in order that the customer understands the custodian arrangements.

Broker Insolvency

A compensation scheme has been established under the Financial Services and Markets Act 2000 (and the FSA's Compensation Sourcebook) under which certain "eligible claimants" are able to claim compensation in the event that a firm defaults and is unable to meet the client's claims upon it. On the basis that the compensation scheme is generally available to private customers, it is unlikely to be available to a US Qualified Broker-Dealer or Qualified Institution.

Default

Both LIFFE and LCH.Clearnet have default rules, as required by the Financial Services and Markets Act 2000 (Recognition Requirements for Investment Exchanges and Clearing Houses) Regulations 2001. If a clearing member appears to LCH.Clearnet to be unable, or to be likely to become unable, to meet its obligations to LCH.Clearnet, it may be declared a defaulter under LCH.Clearnet's default rules in relation to the contracts registered by it with LCH.Clearnet. Where a clearing member has been declared a defaulter by LCH.Clearnet, contracts between such clearing member and its non-clearing members and clients will be dealt with under the Exchange's default rules. A default by a non-clearing member will also be dealt with under the Exchange's rules.

The Exchange's default rules permit the Exchange to direct that open contracts to which a defaulting member is party be dealt with in one of a number of ways including, for example, off-set against matching contracts to which the defaulter is party, closing-out through trading out on the market, transfer to another member or invoicing back.

SPECIAL FACTORS IN INVESTING ABROAD IN LIFFE CONTRACTS

In addition to the general risks inherent in buying and writing traded options, importantly including market supply and demand effects on the liquidity of particular options series, special risk factors are present and should be considered in transacting in options abroad. These factors include differences in the currency, differences in time zones, differences in settlement periods and procedures, differences in market features and certain differences in option features. Whilst there are features of its operation and self-regulation which LIFFE has in common with US options exchanges and while LIFFE options are American-style in exercisability (with the exception of index options), there are differences. Significant differences in market, contract and settlement features are developed in separate sections of this document. Additional significant factors are referred to below.

Currency Exchange Rates

As all Equity and FTSE 100 Index Option premiums, settlements and exercises are (currently) payable in pounds sterling, a US transactor should take into account the exchange rate between the US dollar and the UK pounds sterling. Any movement in the US dollar buying and selling rates for such currencies may alter profit and loss profiles for any LIFFE options position or strategy. If US dollars or dollar-denominated securities are used as margin for written positions, an exchange rate change may also affect the amount of margin required. It should especially be noted that written put option contracts will, on allocation, be required to be satisfied by payment for the underlying security in pounds sterling.

The high and low currency exchange rates for the US dollar/UK pounds sterling over recent years have been as follows:

US$/GBP	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
High	$1.6577	$1.5100	$1.6133	$1.7943	$1.9550	$1.9325
Low	$1.3954	$1.3682	$1.4044	$1.5463	$1.7481	$1.7049

Calculation of the equivalent US dollar value of the pounds sterling or euro exercise price of a LIFFE option and the current pounds sterling or euro market price on the London Stock Exchange of the security underlying the LIFFE option would permit comparison with a quoted ADR price, if any, in the US for that security.

As noted above, LIFFE's Equity and Index Options that are currently denominated in sterling may in future be denominated in euro (see page 6 for details). The high and low currency exchange rates for the Euro/US dollar over recent years have been as follows:

US$/Euro	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
High	1.0414	0.9594	1.0505	1.2647	1.3666	1.3582
Low	0.8230	0.8352	0.8565	1.0336	1.1761	0.9990

Time Zones and Holidays

The trading hours on LIFFE for Equity Options are currently 8.00am to 4.30pm London time. Standardised FTSE 100 Index Options currently trade from 8.02am until 4.30pm London time. Flexible FTSE 100 Index Options can trade between 8.00am and 5.00pm London time. The trading hours of the London Stock Exchange for the securities underlying such options are currently from 8.00am to 4.30pm London time. Such hours may be changed in accordance with the rules of the relevant market. The Block Trade Facility is available during the normal trading hours of the contract concerned.

US investors should take time zone differentials into account when timing investment decisions and when making required premium or margin payments. The overlap of opening of US markets and the LIFFE trading hours will vary depending on the time of year (standard or daylight saving time in the US and the UK) and in which US time zone the investor is located. Greenwich Mean Time is five hours ahead of Eastern Standard Time; that is, 9.00am Eastern Standard Time in New York is 2.00pm Greenwich Mean Time in London. London does not always switch from Greenwich Mean Time to British Summer Time, or back, on the same date that New York switches from Eastern Standard to Eastern Daylight Saving Time, or back.

For US investors the time periods allowed by brokers for payment of premium or provision of margin may be abbreviated by the time zone differential, since deadlines are stated in London time throughout. In this connection, allowance may also have to be made for the time needed for US-UK communication. An effect of the time zone difference is that if the US markets were to fall during their afternoon, LIFFE Equity and Index Options positions could not be closed out until the next morning London time.

There are days on which LIFFE will be closed when US businesses are open, and vice versa, because of differing national holidays. In addition, the days on which LIFFE is closed may vary from year to year.

UK EQUITY OPTIONS

Underlying Securities

The Equity Options traded on LIFFE will be subject to regular review by LIFFE A&M.

Equity Options have been introduced on stocks usually drawn from the most highly capitalised securities traded on the London Stock Exchange. All stocks underlying LIFFE's equity options are traded on the Stock Exchange Electronic Trading Service ("SETS"). SETS is the London Stock Exchange's electronic order driven trading platform for all FTSE 100 Index constituent stocks (and a number of smaller stocks). SETS was introduced on 20 October 1997 to replace the old quote driven system known as "SEAQ". SETS trades are published immediately.

Trades in excess of eight times Normal Market Size[1] may be executed away from SETS by means of a Worked Principal Agreement. This enables the principal to offset market risk prior to trade publication. Details of such trades are published when 80% of the risk has been offset or by the end of the trading day, whichever is earlier.

Other trades executed on the Stock Exchange but away from the central order book are reported and published within three minutes.

SETS trades, and those executed by means of Worked Principal Agreements, currently settle on a T+3 basis.

It should be noted that most London Stock Exchange listed stocks of British companies, including those on which LIFFE trades options, have a market price of lower than £10 per share, the average price being around £4 (400p).

The London Stock Exchange sometimes lists for trading equity securities that are new; they are being initially publicly offered and distributed in the UK. In some cases during this period, LIFFE may list options on these securities. LIFFE may restrict its members, or the issuer may prohibit underwriters, from entering into transactions in such options under LIFFE rules with US entities during and for some period after such distributions.

[1] Normal market size will generally result in a transaction involving in excess of £250,000.

Expiry Months and Dates

For the majority of Equity Options, the maximum life is nine months. However, those Equity Options in the “focus group” of Equity Options on the top 19 UK stocks have a maximum life of two years. The expiry dates are arranged on a quarterly cycle. The cycle is: March-June-September-December.

The expiry date of an Equity Option is currently set as the third Friday of the expiry month.

Trading in an Equity Option can occur during an expiry day until the usual time for close of business.

Exercise Prices

For each expiry month, in both put and call classes, four or more series of Equity Option contracts are created with different exercise (or “strike”) prices. Normally two series are created at an exercise price above the then current market price of the underlying security, and two at an exercise price below that market price. As is the case with US options exchanges, new series may be introduced at any time during the life of an option having a fixed expiry date when the market price has moved through the exercise price range of existing series.

The exercise price for an Equity Option series is fixed in accordance with the following scale (in pence):

25	40	60	90	120	160	220	280	360	460
30	45	70	100	130	180	240	300	390	500
35	50	80	110	140	200	260	330	420	

Between 15p and 25p, the scale falls in intervals of 5p, with 1p intervals below 15p. Above 500p the scale rises in intervals of 50p, with 100p intervals above 1500p, and 200p intervals above 4000p. An exception may occur when the exercise price of an existing option is adjusted to reflect a capital change in the underlying security. Exercise prices are not usually adjusted for normal dividends, whether cash or scrip. However, the Exchange reserves the right to make such adjustments where it considers them to be justified.

The Exchange may apply an alternative scale of exercise price intervals to specified individual Equity Option contracts if appropriate. Such alternative scales are notified by means of a Notice.

Contract Size

While the premium for an Equity Option is quoted in pence per share, the minimum unit of trading in Equity Options is one contract, which normally represents the options on 1,000 shares of the underlying security. Occasionally, it is necessary to adjust the size of existing option contracts to reflect changes in the capitalisation of companies concerned.

All orders in Equity Options should refer to the number of contracts and not to the number of shares of the underlying security to which the option contracts relate; e.g. an order for options on 5,000 shares of the underlying security, where each contract represents options on 1,000 shares, should be placed as an order for 5 contracts. Orders cannot be executed in fractions of a contract.

Corporate Actions Policy

LIFFE's methodology for handling the consequences of Corporate Actions is based on the principle that, when the shares underlying an Equity Option (which has not been exercised) become ex entitlement, options on such shares should be amended to reflect in economic terms (as far as practicable) a holding equivalent to the ex entitlement shares and the relevant entitlement, and may be effected as follows

- by altering the exercise prices and the lot size of Equity Options; or

- by substituting the underlying shares in a proportion determined by the ex entitlement holding with the new underlying shares; or

- by settling (closing) Equity Options at their respective Fair Value.

As a general matter, contract adjustments are not made to reflect payment of normal dividends, whether cash or scrip. However, where a dividend is identifiable as a "special dividend" outside the normal pattern of payments, it will be treated as a capital event leading to adjustment of the option exercise price and contract size. Full details of the Exchange's Corporate Action Policy are published via Notice and on the Euronext web site (www.euronext.com).

Position Limits

LIFFE imposes no limits on the number of Equity Option contracts which any individual or single group of investors may hold. However, the number of contracts held by any one investor or group of investors in respect of a particular Equity Option must (pursuant to the Companies Act 1985) be disclosed to the relevant UK authority unless the holding of such contracts either alone or in conjunction with a holding of the underlying shares is less than 3% of the relevant share capital of the issuer.

Premiums

Premiums on Equity Options are currently quoted in pounds sterling in 1 penny units with the minimum quotation being ½ penny (or ¼ penny in the case of some Equity Options). Please refer to the List of Contract Details for Exchange Contract No. 201 (www.euronext.com/stockoptions>Select London Stock Options from the View Contracts drop down menu) for further information. (As explained above, premiums may in future be quoted in euro (see page 6 for details). The premium is the only variable factor, all other terms of the options contract being pre-determined. The premium is expressed as an amount per option on a single share of the underlying equity. It is payable to LCH.Clearnet by the buying clearing member in full in cash pounds sterling, with respect to each options contract (usually of 1,000 shares), by 10.00am London time on the business day following the trade. Such premium will be made available by LCH.Clearnet to the selling clearing member by 1.30pm London time on that day.

Exercise by Holders

If the holder of an option wishes to exercise the right to buy or sell the underlying security at the specified price, the holder should instruct its broker to ensure that an Exercise Notice is submitted to LCH.Clearnet. An Exercise Notice may be submitted to LCH.Clearnet either manually or automatically. Options will only be exercised if an Exercise Notice is submitted to LCH.Clearnet. On the Last Trading Day, expiring Equity Options that are in-the-money by the amount specified by the Clearing Member in CPS (the Clearing Processing System[2]) – or, if the Clearing Member has not so specified, by the amount established as the CPS default setting - will be exercised by an Exercise Notice being sent automatically to LCH.Clearnet.

Holders are entitled to exercise Equity Options on any LIFFE business day during the option's life. If the quotation of an underlying security on which LIFFE options are listed is suspended by the London Stock Exchange, the holder of an option may still submit an Exercise Notice.

All exercise instructions need to be given before certain cut-off times on each business day that are established by the LIFFE broker with respect to its clients, because the broker will need to ensure that LCH.Clearnet receives the Exercise Notice before 5.20pm (6.00pm on an expiry day) London time. The deadline is strictly observed by LCH.Clearnet. The exercise

[2] Two main functions are available through CPS. They are Position Maintenance and Margin Calculation. CPS updates members' positions in "real time" from trade based information delivered through TRS. Members of LIFFE are able to interrogate CPS to determine the positions on their accounts for all contracts during the trading day. CPS updates users' historic positions and allows for various transfer and settlement operations in order that members' end of day positions can be reconciled so that the margining process can take place.   At the end of the trading day, and once position maintenance activities are complete, a set of processes is initiated to enable CPS to calculate initial and variation margin for all member positions.

instructions are submitted to LCH.Clearnet by the relevant clearing member via a computer terminal. The clearing system allocates the exercise instructions to the open short positions held by LCH.Clearnet in the same series by means of a computer program which randomly allocates the clearing members' accounts at LCH.Clearnet without discrimination.

Allocation to Writers

By 7.00am London time on the day after timely submission of an Exercise Notice, LCH.Clearnet will have randomly allocated a clearing member by way of an Allocation Notice, requesting that it or one of its clients who is an option writer in that series fulfil the terms of the options contract. If a clearing member's customer account is allocated, the clearing member is required, by random non-discriminatory selection, to designate a customer who is a writer to receive the Allocation Notice.

Once a writer has received an Allocation Notice, the writer may not then close its position in that contract by way of a closing purchase but must honour that contract by delivering the underlying security in the case of a call option, or by taking delivery of the underlying security in the case of a put option. If, in light of the underlying security price, a writer of an option were to anticipate an allocation and early in the morning purchase an equivalent option to close the open position, the writer may not assume that its obligations as a writer have been extinguished until it receives confirmation from its broker. If the writer has been allocated but not yet informed by its broker, the attempt to close the written position will have resulted in the writer's having purchased an option to open a new position and the writer still having to fulfil the obligations of the written position which was allocated.

LCH.Clearnet is a principal to the clearing members in respect of the equity transactions resulting from the exercise of an option.

Upon receipt of written confirmation from LCH.Clearnet by both the clearing member that provided the Exercise Notice and the clearing member that was allocated, both members are required to ensure that details of the resulting equity transactions with LCH.Clearnet are input to CREST for settlement. Any stock transactions that result from an Equity Option exercise remain subject to the LIFFE Contract Terms and thus to standard equity settlement procedures via CREST.

Dividends

The holder of a call contract is not entitled to receive any payment of dividend, whether or not in the form of cash, declared on the underlying security. Consequently, no adjustment is made to the terms of LIFFE Equity Option contracts as the result of the underlying security being marked "ex dividend" with respect to normal dividends, although allowance for this may be reflected by changes in the premiums at which contracts trade in the market. It should be noted that in the UK, dividend payments may be more random and hence less predictable than in the

US. Many UK companies do not pay dividends on fixed dates each year, are more likely to do so half-yearly than quarterly, and sometimes pay special dividends.

In order to receive the benefit of a dividend, a holder of a call contract must exercise before the underlying security is declared “ex dividend” by the London Stock Exchange. The London Stock Exchange seeks to provide a minimum of three business days’ notice of declaration of a security going ex dividend, but under UK practice the timing of such declarations is within the discretion of the issuer company. To exercise an equity option “cum dividend” for an equity going ex dividend, it is necessary to submit an Exercise Notice prior to the exercise deadline on the last day on which the stock is trading “cum dividend”.

INDEX OPTIONS

LIFFE trades two different options on the FTSE 100 Index. Options on the FTSE 100 Index were first listed on the London Traded Options Market ("LTOM"). The standardised FTSE 100 Index Option with European-style exercise was introduced in February 1990. The flexible FTSE 100 Index Option with European-style exercise was introduced on 30 June 1995.

The stocks constituting the FTSE 100 Index represent the leading UK equity shares listed on the London Stock Exchange, in terms of capitalisation and liquidity. The FTSE 100 Index reflects the values and risks of a broader and marginally different universe of companies than the aggregate of those for which trading exists in Equity Options. Some Equity Options are on stocks that are not included in the FTSE 100 Index.

Development of UK Indices

The FT 30 Industrial Share Index was first published in 1935 in response to demand from investors for a yardstick by which to measure the performance of the UK equity market and the behaviour of their portfolios. For more than fifty years it served as the barometer of day-to-day movements in share prices in the UK. It is an unweighted Index.

As equity investment became more sophisticated, the need was felt for a more refined measurement of the market, and in 1962 the Financial Times in collaboration with the Institute of Actuaries developed the "FT Actuaries Share Indices". The resultant "All-Share Index" covers more than 740 different companies divided into six main groups and sub-divided into thirty-five different market sectors. These FT Actuaries Indices are "weighted" i.e. the larger the company the greater the influence on the Index.

The creation of the Financial Times-Stock Exchange 100 Share Index ("FTSE 100 Index") marked a further stage in this process of development. It is a capitalisation weighted index which is representative of the market, and sufficiently compact to be calculated every 15 seconds throughout the trading day.

How the FTSE 100 Index is Compiled

The Index is calculated by FTSE International ("FTSE"). It has been published since 3 January 1984, with a base value of 1000.0. The value is calculated to one decimal place. The annual high-low range of the FTSE 100 Index in recent years has been:

	2000	**2001**	**2002**	**2003**	**2004**	**2005**
High	6930.2	6360.3	5362.3	4491.8	4826.2	5647.2
Low	5915.2	4219.8	3609.9	3277.5	4283.0	4765.4

With few exceptions, the largest 100 London Stock Exchange-listed companies by market capitalisation are included in the FTSE 100 Index. These leading 100 companies account for approximately 80 per cent[3] of the total market value of all UK equities, so the Index covers a very substantial part of the market and correlates closely to the FT Actuaries All-Share Index.

In accordance with the Ground Rules for the management of the UK Series compiled by the FTSE Actuaries Share Indices Steering Committee, the UK Indices Committee, composed of market users and representatives from the Financial Times, the London Stock Exchange, the Institute of Actuaries and LIFFE, meets periodically to consider any changes in the constituents of the FTSE 100 Index which may be necessary, principally by reason of size and weighting changes.

The performance of a portfolio of stocks, other than one composed of all stocks in the FTSE 100 with appropriate weightings, will not necessarily be mirrored by the performance of such Indices. It may not be possible to purchase a portfolio of stocks constituting the FTSE 100 Index nor to sell such a portfolio, at the Index price.

Calculation of the FTSE 100 Index

The value of the FTSE 100 Index is calculated by FTSE every fifteen seconds by taking actual traded prices of the constituent securities and applying an arithmetical formula. The Index may exist in the following states:

1. Firm

   The Index is being calculated during the Official Market Hours[4] of the London Stock Exchange on actual trades from SETS. No message will be displayed against the Index value.

2. Closed

   FTSE has ceased calculating the Index for the day. The message "CLOSE" will be displayed against the Index value calculated by FTSE.

3. Held

   During Official Market Hours, the Index has exceeded pre-set operating parameters (i.e. the Index level has moved by more than 10% within a given trading session) and real time calculation of the Index has been suspended. The message "HELD" will be displayed against the last Index value calculated by FTSE.

[3] As at 25 May 2006.
[4] Official Market Hours are defined as that period when SETS is open for order execution, i.e. between 08.00 and 16.30 (London Time).

4. Indicative

> If there is a system problem or situation in the market that is judged to affect the quality of the constituent prices at any time when the Index is being calculated, the Index will be declared indicative (e.g. normally where a 'fast market' exists in the equity market). The message “IND” will be displayed against the Index value calculated by FTSE.

On the third Friday of each month FTSE International calculates the Expiry Value for expiring FTSE 100 Index Futures and Options. The Expiry Value is derived from an intra-day auction in each of the 100 stocks within the Index, as explained on page 34. During the auction period, an indicative Expiry Index is calculated and published. The Expiry Index effectively indicates the level at which the final settlement price of expiring FTSE 100 Index Options would be set if the intra-day auction were to cease at that moment.

FTSE 100 Index Options may continue to be available for trading when the FTSE 100 Index is “Held” or “Indicative”. Currently, standardised FTSE 100 Index Options are not available for trading when the Index is “Closed”, while flexible FTSE 100 Index Options are available until 5.00pm (London time).

The closing value of the Index is calculated from the official closing auction uncrossing prices published by the London Stock Exchange following the closing auction call. The closing auction call period for all SETS securities runs from 4.30pm to 4.35pm (London time) (specifically, the closing auction call period has a random end time between 4:35:00pm and 4:35:30pm). In addition, the closing auction call period may be extended under certain circumstances in order to reduce the likelihood of unrepresentative prices being generated. During the closing auction, continuous trading is disabled, although London Stock Exchange member firms are able to enter and delete orders. Orders are then matched during the closing auction uncrossing period using the London Stock Exchange’s uncrossing algorithm.

The FTSE 100 Index Option Contract Specification

LIFFE lists two types of FTSE 100 Index Options, a standardised European-style exercise and a European style flexible Option. European-style FTSE 100 Index Options are exercisable only on their expiry day.

Each FTSE 100 Index Option represents a notional value of £10 multiplied by the FTSE 100 Index. This means that if the FTSE 100 Index stands at 5000, each contract has an underlying value of £50,000.

Expiry Months and Exercise Prices:

	FTSE 100 Index Option (European-style)	**Flexible FTSE 100 Index Option (European-style)**
Expiry Months/Expiry Days	Eight quarterly months on March, June, September, December cycle plus such additional months that the four nearest calendar months are always available for trading.	Any business day as specified by the counterparties, up to, and including, the business day five years and six months from the date the contract is made.
Exercise Prices	50 or 100 Index point intervals, at 25 and/or 75 point levels	Any whole number of index points

Premiums: For the FTSE 100 Index Options, the premium for each series is quoted in index points. Thus a quote of, say, 30 index points would represent a total consideration per contract of £300 (plus commission). The minimum permitted price fraction is 1/2 an index point.

Special Features of flexible Options

It should be noted that:

i) a flexible Option cannot be introduced with the same expiry day and exercise price as an existing European-style exercise FTSE 100 Index Option; and

ii) when a European-style exercise FTSE 100 Index Option contract is listed with the same exercise price and expiry date as an existing flexible Option series, the existing flexible Option series will be novated into the corresponding European-style exercise FTSE 100 Index Option contract series.

Calculation of Index Value for Exercise of FTSE 100 Index Options

The expiry day (known as the “Last Trading Day”) for the standardised FTSE 100 Index Option is the third Friday of the expiry month. On that day, an intra-day auction is held on the London Stock Exchange which is used to derive the price of each component stock in the FTSE 100 Index. The intra-day auction begins at 10.10.00am (London time) and ends at a random time between 10.15.00am and 10.15.30am (London time) unless pre-set price parameters are breached (in which case the auction in the stock(s) in question is extended until 10.29.30am (London time) at the latest).

The prices derived from the intra-day auction are used to determine the Expiry Value of the FTSE 100 Index on which the final settlement price (known as the “Exchange Delivery Settlement Price” or “EDSP”) of the standardised FTSE 100 Index Option is based. Trading in expiring series ceases as soon as reasonably practicable following determination of the Expiry Value.

The same process is applied to those flexible FTSE 100 Index Options which have an expiry date of the third Friday of the month. For those flexible FTSE 100 Index Options which have an expiry date other than the third Friday of the month, the EDSP will be determined by reference to the prices of constituent stocks derived through the closing auction on the London Stock Exchange. On such days, trading in the expiring series of the flexible FTSE 100 Index Option ceases at 4.30pm (London time).

Exercise, Assignment and Settlement of the FTSE 100 Index Option

Exercise entitles the holder to cash settlement only, in pounds sterling, of an amount equal to £10 times the difference between the EDSP and the exercise price of the contract. FTSE 100 Index Options, both standardised and flexible, may only be exercised on the relevant expiry day (Last Trading Day). If the holder wishes to exercise an option, the holder should instruct its broker to ensure that an Exercise Notice is submitted to LCH.Clearnet. An Exercise Notice may be submitted to LCH.Clearnet either manually or automatically. Options will only be exercised if an Exercise Notice is submitted to LCH.Clearnet. On the Last Trading Day, expiring FTSE 100 Index Options that are in-the-money by the amount specified by the Clearing Member in CPS (the Clearing Processing System) – or, if the Clearing Member has not so specified, by the amount established as the CPS default setting - will be exercised by an Exercise Notice being sent automatically to LCH.Clearnet.

When a FTSE 100 Index Option contract is exercised, a writer of the same series is randomly allocated overnight. Settlement of the cash consideration then takes place the day after the day of submission of the Exercise Notice (whether effected manually or by automatic exercise).

Position Limits

There are no position limits for any of the option contracts traded on LIFFE.

TAXATION AND TRANSACTION COSTS

Before engaging in LIFFE Equity and Index Options transactions, US entities should consult their own tax advisors with respect to UK and US federal, state and local tax considerations relevant to them. The following discussion does not purport to be exhaustive or applicable to particular circumstances.

UK Taxes

Advice has been received from external accountants that US resident investors are not liable for UK income, capital gains, corporation or value added (VAT) taxation on transactions in LIFFE options, unless their options dealings are transacted in the UK through a permanent establishment in the UK, or are associated with such an establishment's trade. A US resident's transactions in LIFFE options through a UK broker who acts for the non-resident as part of its normal business would not alone establish a taxable presence of the US resident in the UK.

There is no stamp duty (or other transfer tax) payable on transactions in LIFFE Equity and Index Options. If the underlying security is bought by exercise of a call option or sold by exercise of a put option, stamp duty will be payable by the purchaser on the transfer of the underlying security. When the settlement of the underlying security transfer is conducted through the CREST system, the applicable stamp duty is automatically collected and paid to Her Majesty's Revenue and Customs ("HMRC"). Please see page 40 for an explanation of the CREST system.

US Taxes

Income tax considerations in the US may significantly affect the profitability of options transactions, including those effected abroad. The rules governing federal income taxation of options transactions, domestic and foreign, by US entities are complex and often depend upon an investor's particular situation. In this connection, advice has been received from US counsel that LIFFE options held by US entities will not be subject to the mark-to-market provisions of the Internal Revenue Code (the "Code") or treated as "qualified covered call options" for purposes of the provisions of the Code governing straddles, because LIFFE currently is not designated by the Secretary of the Treasury as a "qualified board or exchange" for those purposes. In addition, the acquisition and disposition of pounds sterling by investors whose "functional currency" is the US dollar may be subject to the provisions of the Code governing transactions in foreign currency. The anticipated conversion of the exercise prices to the euro in conjunction with the conversion of the price for the underlying security to the euro may also have US tax consequences.

Transaction costs

The transaction costs borne by investors include brokers' commissions that reflect charges for opening and closing positions and for exercise. LIFFE does not impose minimum or maximum commission rates, which are a matter to be decided between the member broker and customer. LIFFE charges an exchange fee (currently 25 pence per contract for U.K. Index Options, and 37 pence per contract for Equity Options). In each case, LCH.Clearnet charges a clearing fee of 3 pence per contract. LCH.Clearnet also charges an exercise fee (currently 40 pence per contract) to the exercisor only plus a £3 CREST "per transaction" charge for Equity Option delivery. LIFFE members generally pass these charges on to clients.

LCH.CLEARNET, CLEARING AND SETTLEMENT

LCH.Clearnet is a Recognised Clearing House under the Financial Services and Markets Act 2000. It provides central counterparty services to the following markets and services:

- London Stock Exchange (LSE)
- Virt-x
- LIFFE
- London Metal Exchange (LME)
- Intercontinental Exchange (ICE) and ICE Futures
- RepoClear and SwapClear

As legal counterparty to each clearing member in respect of registered business, LCH.Clearnet bears any loss arising from the default of a clearing member, beyond the margin deposits held as security in respect of the defaulting member's liabilities. LCH.Clearnet's supplementary resources for use in default cases, should those margin deposits be insufficient, comprise a £582 million Default Fund[5], which is provided by members and held in cash by LCH.Clearnet, and £200 million of default insurance cover. Each member's Default Fund contribution is assessed every three months on the basis of that member's initial margin and (in the case of exchange traded derivatives) trading volumes over the preceding three months. The Default Fund is mutual in nature, in the sense that any loss faced by LCH.Clearnet as a result of a default which cannot be met from the defaulter's margin cover at LCH.Clearnet or from his contribution to the Default Fund will be met by the Default Fund generally. Customers of a defaulting clearing member have no contractual relationship with LCH.Clearnet, but are protected to the extent of their client agreement and any segregation arrangements in place with that member. LCH.Clearnet uses a stress testing model to ensure that its post-default financial backing is of appropriate size. The stress testing model assesses the adequacy of initial margin requirements and the £582 million Default Fund on the basis of extreme price movements in all contracts cleared by LCH.Clearnet.

Trade Registration

An options trade that has been matched in TRS is passed to LCH.Clearnet for registration after the close of trading on the same day. Registration occurs one hour after TRS' end of day signal is sent to LCH.Clearnet (i.e. when TRS closes, which is normally at 09:45pm London time). Upon registration LCH.Clearnet is interposed as the buyer to every clearing member seller, and seller to every clearing member buyer on a principal-to-principal basis. The day after a trade is made the clearing member buyer will pay premium to LCH.Clearnet, by 10:00am London time, and LCH.Clearnet will pay the premium to the clearing member seller by 1:30pm London time. While no direct link then remains between the buyer and seller in the original trade, for every current holder of an options contract there is a current writer with a corresponding open position.

[5] This fund is a single fund used in respect of the markets and services set out above.

When a holder exercises a contract, LCH.Clearnet appoints, by a process of random selection, a clearing member who is, or has a customer who is, a writer of a contract in the same series, to deliver or to receive shares or to cash settle in accordance with the terms of the contract. LCH.Clearnet becomes a principal to each resulting equity delivery contract; for example, the clearing member exercisor of a put option will deliver the shares to LCH.Clearnet's account within CREST (the UK equity settlement system), and LCH.Clearnet will deliver the shares to the selected writer.

As the counterparty to every clearing member LCH.Clearnet reduces the scope for counterparty risk between clearing members. LCH.Clearnet is legally responsible for the financial performance of the contracts that it has registered, and any resulting delivery contracts. All clearing members deposit margin with LCH.Clearnet to cover the risk on their net positions.

LCH.Clearnet is not counterparty to trades with customers. Behind contracts between LCH.Clearnet and a clearing member there may exist further "back-to-back" contracts; for example, if a customer buys an option the clearing member is the seller to the client and the buyer from LCH.Clearnet (once the trade has been registered). These customer contracts are subject to LIFFE's rules, but LCH.Clearnet is not a party to them.

LCH.Clearnet Participants

LIFFE has two types of clearing members: Individual Clearing Members who clear and settle business for their own account or, in the case of broker-dealers, on behalf of their customers; and General Clearing Members who, in addition, clear and settle business on behalf of other LIFFE members. All trades of non-clearing members must be cleared through a specific clearing member.

All clearing members must also be members of LCH.Clearnet and all are subject to standards of capital adequacy[6]. Clearing members must also satisfy LIFFE and LCH.Clearnet that they have adequate systems and controls to clear and settle trades.

Clearing members undertaking business for clients are subject to UK client money rules or, if they are authorised outside the UK, similar rules of the relevant regulator. In the European Union, those rules are governed by the Investment Services Directive. Most LIFFE clearing members are UK-authorised. They are required to segregate customer funds except in instances where the investor, if permitted to do so, contracts out of the segregation requirement. Each clearing member may have two accounts with LCH.Clearnet: one for segregated customer business (the "Client margin account"), and one for all house and non-segregated client business

[6] Standards of capital adequacy are set by LCH.Clearnet rather than by LIFFE. Clearing members will, however, also be subject to capital adequacy requirements set by their regulators.

(the “House margin account”). Neither LCH.Clearnet nor the clearing members can offset liabilities on the House margin account with credits arising on the Client margin account.
Time of Settlement

All trades on LIFFE are transacted for settlement by payment of premium and initial deposit of margin by the writer, by 10.00am London time on the business day after the day of trade. Member brokers will require their customers to provide them with the agreed premium, and if writers with margin, before that time. Although a minimum margin is calculated by LCH.Clearnet, a member may increase this for customers at its discretion.

On the business day after the day of trade, LCH.Clearnet makes available to all clearing members statements showing their transactions for the previous day with details of premiums payable and receivable, together with fees and margin requirements. Any payment due must be made to LCH.Clearnet by 10.00am London time and monies payable by LCH.Clearnet will be available to clearing members from 1.30pm. Sterling, dollar and euro transactions are processed with same day value the next business day. Similar arrangements apply in the case of Net Liquidation Value (NLV) payments, which are discussed below.

LCH.Clearnet has established procedures for settlement and margin collection for all of the currencies in which LIFFE contracts are denominated. It is mandatory for clearing members to maintain appropriate currency accounts at LCH.Clearnet approved banks for all contracts they clear. In addition, LCH.Clearnet has formal multi-currency overdraft and borrowing facilities with a number of major banks.

Margin Maintenance

Margin provided to LCH.Clearnet by or on behalf of writers is required to be maintained. LCH.Clearnet revalues the margin position on at least a daily basis to take account of changes or volatility in the market price of the underlying UK security or Index and in LCH.Clearnet's valuation of margin collateral provided in the form of securities. All clearing members must provide LCH.Clearnet with margin cover to cover the risk on their total net positions for each account. Margin is also called on equity delivery contracts resulting from the exercise of Equity Options. LCH.Clearnet revalues the margin requirements each night using the London SPAN method. London SPAN (Standard Portfolio Analysis of Risk) was adapted from the Chicago Mercantile Exchange's margining system, which is designed to match margin to risk. London SPAN does this by simulating how a portfolio would react to changing market conditions. Understanding London SPAN is published by LCH.Clearnet and is available from the LCH.Clearnet website at (www.lchclearnet.com). The initial margin requirement for the portfolio is the largest loss identified under these various market conditions that might reasonably occur, taking into account risk offsets within the portfolio, including those between index options and index futures. Initial margin is refunded when the position is closed. It is designed to protect LCH.Clearnet against the worst likely loss from one or two day's move in the market. Net Liquidation Value ("NLV") is the value of the portfolio at closing market prices. It represents the income or expenditure which would be associated with closing out an Equity or Index Option. This figure is added to initial margin to give the total margin requirement. During the day LCH.Clearnet monitors market prices and clearing members' positions and may call for additional margin payments. LCH.Clearnet's margin requirements are only applicable to clearing members. Brokers set the margin requirements applicable to their customers.

Margin Collateral

Arrangements for the provision of margin cover are a matter for negotiation between the customer, broker and clearing member.

LCH.Clearnet accepts a variety of collateral types from clearing members in respect of their margin liabilities to LCH.Clearnet. These apply to both initial margin and NLV payments. Members may meet margin requirements by cash payments in the following currencies: sterling, US dollars, yen, Swiss francs, and euro. In addition, LCH.Clearnet will accept an extensive range of collateral including approved bank guarantees, certain UK treasury bills, UK gilts, sterling and US dollar certificates of deposit, German, Italian and Spanish government bonds and UK equities. Any such securities must be charged to LCH.Clearnet by the clearing member in accordance with LCH.Clearnet procedures. Any UK equities charged to LCH.Clearnet as collateral must be registered in the name of a UK depository company approved by LCH.Clearnet. Where customers charge UK equities to clearing members or other brokers, without intending those securities to be charged by a clearing member in favour of LCH.Clearnet, the parties may make such arrangements as they wish for the collateral.

To avoid frequent changes in the amount of collateral provided, clearing members may lodge margin in excess of the LCH.Clearnet minimum. LCH.Clearnet pays interest to clearing members on such balances. Interest payments are made at the London Deposit Rate. This is currently the overnight London Inter-Bank Bid Rate (LIBID) minus 25 basis points.

With the customer's permission, equities belonging to a client may be "passed through" the customer's broker to the clearing member and to LCH.Clearnet. Any securities over which LCH.Clearnet has a security interest will be used to cover the clearing member's liabilities to LCH.Clearnet; these liabilities are not the same as, and may be significantly larger than, the customer's liabilities to its broker and in the event of a default such securities may be sold by LCH.Clearnet without reference to the customer. Where a customer only permits a security interest, in such equities, in favour of its direct counterparty (the broker or clearing member), the clearing member may need to provide other forms of margin cover to LCH.Clearnet.

Certificateless Transactions

No certificates of ownership are issued to holders of LIFFE options contracts. LCH.Clearnet maintains a daily record of contracts held and written, and every member firm of LIFFE is required to keep a continuous record of the option contracts held or written by its customers. Transactions in LIFFE options are evidenced by contract notes (advices) and periodic statements issued by members to their customers.

While LIFFE members are subject to general regulatory oversight by LIFFE and most by the FSA, neither LIFFE nor LCH.Clearnet is responsible for inaccuracies or omissions in advices or statements rendered to customers by member firms.

Because option contracts held or written by customers, as well as the day-to-day margin requirements, are in the books of the member through which the original transactions were made, further transactions should be made through the firm which executed the opening purchase or sale. A customer may request the transfer of its open option positions from one firm to another by issuing to both the transferring firm and the receiving firm a written instruction to transfer its account.

UK EQUITY SETTLEMENT SYSTEM

LCH.Clearnet Settlement of LIFFE Options Transactions

For both buy and sell transactions in LIFFE options, premiums are payable or receivable on the business day following the trade. Exercise of Index Options is for cash only settlement, which takes place on the business day following exercise. Such settlements of opening and closing transactions in all LIFFE options and of exercise of Index Options are conducted with LCH.Clearnet. None of these involves the UK equity settlement system.

Equity Settlement Period

Under three-day rolling settlement, T+~~5~~3, introduced on 5 February 2003, all securities transactions must be settled three business days after the date of the trade. Equity transactions arising as a result of the exercise of an equity option are settled four days after the Exercise Notice is received by LCH.Clearnet.

CREST

CREST is the electronic settlement system for shares and other corporate securities in the UK and Ireland. It is owned and operated by CRESTCo, which is a Recognised Clearing House under the UK Financial Services and Markets Act. 2000. Since September 2002, CRESTCo has been part of the Euroclear group. CREST provides for the simultaneous exchange of payment and securities. Shares of companies and other corporate securities that are settled through CREST are fully dematerialised; that is, they exist only in electronic form and no certificates exist anywhere for such shares or securities. That said, if a shareholder requires physical certificates he is able to obtain them, through his broker, by using the CREST Courier and Sorting Service (“CCSS”). The CCSS takes receipt of, and dispatches, physical certificates in respect of share transactions being settled through CREST. Certificates received in this way will be passed by CCSS to the registrar for the securities in the case of sales by a person who has physical certificates. The registrar will pass securities to the CCSS in cases where the purchaser has requested a physical certificate. The CCSS matches the certificates with electronic instructions entered into CREST (see below).

The process of settlement begins with the parties to a transaction sending their electronic instructions to CREST as soon as possible after dealing. In the case of the exercise of a LIFFE Individual Equity Option, LCH.Clearnet will be both the principal to the exercising clearing member and to the clearing member which has been selected as the writer of the Equity Option. CREST matches each party’s electronic instructions. Once this has been done, CREST checks that the seller has adequate stock available to deliver and that the buyer has adequate credit available to pay. If the necessary conditions are satisfied, the transaction will be settled. If not, CREST will continue to check throughout that day and continually thereafter until it is possible to settle the transaction. All transactions are settled gross in CREST and are not netted.

The legal basis for these arrangements is provided by the UK Uncertificated Securities Regulations 2001.

Additional Information

A number of booklets are available from LIFFE and LCH.Clearnet which give further details on LIFFE options and the margining and settlement systems for these products. Information about LIFFE Rules is also available.