

LONDON NOTICE No. 3041

ISSUE DATE: 2 June 2008
EFFECTIVE DATE 3 June 2008

LIFFE TRADING PROCEDURES

EXTENSION TO THE LIST OF ELIGIBLE CASH LEGS IN RESPECT OF BASIS TRADES

Executive Summary

This Notice informs Members of further changes to the Liffe Trading Procedures to extend the list of eligible “cash” legs in respect of basis trades.

1. London Notice No. 3028, issued on 9 May 2008, informed Members of amendments to the Liffe Trading Procedures to include all non-Liffe exchange traded interest rate or bond futures contracts in the list of eligible “cash” legs for Liffe STIR Futures and Euro Swapnote[®] Futures Basis Trades. Specifically, the necessary amendments to Section 4.2.14A of the Trading Procedures were published as an Attachment to that Notice.
2. This Notice provides details of the necessary amendments to Section 4.2.6 of the Liffe Trading Procedures to cater for the extension announced by London Notice No. 3028 and also informs Members that the Exchange has determined to include Long Gilt Futures Basis Trades in these arrangements on and from 3 June 2008.
3. Amendments to Section 4.2.6 of the Liffe Trading Procedures to cater for the changes announced in this Notice and in London Notice No. 3028 are contained in Attachment 1 to this Notice. Amendments to Section 4.2.14A to cater for the extension of the arrangement to Long Gilt Futures Basis Trades are contained in Attachment 2 to this Notice. These amendments will be included in the London Market Handbook in due course and will be made available on the Liffe website at www.nyx.com/liffe.

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

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The Euronext Derivatives Markets (“Liffe”) comprise the markets for derivatives operated by Euronext Amsterdam, Euronext Brussels, Euronext Lisbon, Euronext Paris and LIFFE Administration and Management, referred to respectively as the Amsterdam, Brussels, Lisbon, Paris and London markets. Euronext is part of the NYSE Euronext group.

Amendments to Section 4.2.6 of the Liffe Trading Procedures

(Additions are underlined, deletions are ~~struckthrough~~)

4.2.6 The following approaches to the construction of hedge ratios for basis trades are considered acceptable:

- (a) Deliverable bonds against bond futures contracts:
A price factor or duration based method;
- (b) Other bonds against bond futures contracts:
A duration based method;
- (c) Deliverable and non-deliverable bonds against Swapnote[®] futures contracts or one or more delivery month(s) of a short term interest rate futures contract:
A method which is based upon the ratio of the basis point values of shifts in the yield curve of respectively the relevant cash and futures legs;
- (d) Standard plain vanilla OTC swaps against bond futures contracts, Swapnote[®] futures contracts of one or more delivery month(s) of a short term interest rate futures contract:
A method which is based upon the ratio of the basis point values of shifts in the yield curve of respectively the relevant cash and futures legs;
- (e) Forward Rate Agreements (FRAs) against one or more delivery month(s) of a short term interest rate futures contract:
A method which is based upon the ratio of the basis point values of shifts in the yield curve of respectively the relevant cash and futures legs;
- (f) Sale and Repurchase Agreements (Repos) against one or more delivery month(s) of a short term interest rate futures contract: A method which is based upon the ratio of the basis point values of shifts in the yield curve of respectively the relevant cash and futures legs;
- (g) European or American style OTC interest rate options (bond options, swaptions) against bond futures contracts, Swapnote[®] futures contracts or one or more delivery month(s) of a short term interest rate futures contract:
A method based on the relative deltas of the OTC option and futures contracts in order to achieve a delta neutral position;
- (h) Equity securities against Universal Stock Futures Contracts or Single Stock Futures Contracts:

A method based on the relative value of the equity security and the nominal underlying value of the Universal Stock Futures Contracts or Single Stock Futures Contracts;

- (i) Baskets of equity securities against equity index futures contracts: A method based on the relative value of the basket of equity securities and the nominal underlying value of the equity index futures contracts;
- (j) European or American style OTC equity options (stock and equity index options) against equity index futures contracts: A method based on the relative deltas of the OTC option and futures contracts in order to achieve a delta neutral position;
- (k) European or American style OTC or non-Liffe exchange traded equity options against Universal Stock Futures Contracts or Single Stock Futures Contracts: A method based on the relative deltas of the OTC or exchange traded option and Universal Stock Futures Contracts or Single Stock Futures Contracts in order to achieve a delta neutral position;
- (l) Non-Liffe exchange traded short term interest rate or German government bond futures against Liffe short term interest rate futures contracts, Long Gilt futures or Euro Swapnote[®] Futures or Three Month Euro (EURIBOR) Interest Rate Futures Contracts: A method which is based upon the ratio of the basis point values of shifts in the yield curve of the two futures contracts.
- (m) ~~[deleted] Non-Liffe exchange traded Eurodollar futures against Liffe short term interest rate futures contracts: A method which is based upon the ratio of the basis point values of shifts in the yield curve of the two futures contracts.~~
- (n) OTC swaps in relation to cocoa, Robusta coffee, raw sugar, white sugar and wheat, or in relation to a direct product of such commodity, against Cocoa, Robusta Coffee, Raw Sugar, White Sugar or Wheat Futures Contracts, herein defined as an Exchange for Swap (“EFS”):

A method which is based on the quantity of the commodity or a direct product of such commodity underlying the swap position relative to the quantity of the commodity underlying the Futures Contract.

Amendments to Section 4.2.14A of the Liffe Trading Procedures

(Additions are underlined, deletions are ~~struckthrough~~)

4.2.14A Where a basis trade involves a Euro Swapnote[®] Futures, ~~or~~ Liffe short term interest rate futures contract or Long Gilt futures contract against a non-Liffe exchange traded short term interest rate or bond futures contract, the following details must be submitted via LIFFE CONNECT[®] by the basis trade executing Member:

- (a) Liffe Futures Contract in which the BTF is being transacted;
- (b) delivery month(s);
- (c) agreed Liffe Futures Contract price(s);
- (d) number of Futures Contracts;
- (e) a unique identifier/reference number for the non-Liffe exchange traded short term interest rate or bond futures transaction;

In addition, the basis trade executing Member must retain, in an easily accessible form that can be audited by the Relevant Euronext Market Undertaking**, documentary evidence of the following information:

- (f) the exchange on which the non-Liffe short term interest rate or bond futures contract was executed;
- (g) the type of ~~bond~~ futures contract executed;
- (h) the delivery month of the ~~bond~~ futures contract;
- (i) the price (including currency) and number of lots of the ~~bond~~ futures contract; and
- (j) where applicable, the identity and the conversion factor of the cheapest-to-deliver bond in respect of bond futures contracts.

All information required to be retained by the basis trade executing Member, pursuant to this Trading Procedure 4.2.14A, must be retained by the Member for five years. If the basis trade executing Member is not directly responsible for the execution of the cash leg of the basis trade, he must have appropriate arrangements in place with the party organising/executing that leg such that the information in (f) - (j) above can be provided promptly to the Relevant Euronext Market Undertaking**.