

LONDON NOTICE No. 3497

ISSUE DATE: 2 September 2011
EFFECTIVE DATE: 3 October 2011

SHORT GILT CONTRACT

INTRODUCTION OF A LIQUIDITY POOL PROGRAMME

Executive Summary

This Notice informs Members of the introduction of a Liquidity Pool Programme in the Short Gilt Contract, and invites eligible Members and clients of Members to apply.

1. Introduction

- 1.1 London Notice No. 3489, issued on 24 August 2011, informed Members of the extension of the Liquidity Provider ("LP") Programmes in the Short and Medium Gilt Contracts, until close of business on 30 September 2011.
- 1.2 This Notice informs Members of the introduction of a Liquidity Pool Programme in the Short Gilt Contract ("Pool Programme") which will replace the LP Programmes in the Short and Medium Gilt Contracts. The Pool Programme will be effective on and from Monday 3 October 2011 until close of business on Friday 30 March 2012.
- 1.3 Members are reminded that London Notice No. 3389, issued on 27 January 2011, informed Members of the lowering of the Notional Coupon in the Short and Medium Gilt Contracts from 6% to 3% and 4% respectively from the December 2011 delivery month onwards; and London Notice No. 3468, issued on 7 July 2011, informed Members of the introduction of a Coupon Range Eligibility Criterion for the List of Deliverable Gilts in the Short, Medium and Long Gilt Contracts, and an extension to the Maturity Range in the Medium Gilt Contracts, effective for the December 2011 delivery month onwards.

2. Pool Programme Benefits

- 2.1 Subject to the terms and conditions summarised in this Notice, participants registered on the Pool Programme will be eligible for:
 - (a) a full Exchange trading fee rebate in the Short and Medium Gilt Contracts in respect of Qualifying Business; and

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- (b) a payment of a fixed percentage share of a Liquidity Pool, subject to ranking in respect of Qualifying Business in the Short Gilt Contract only in any given calendar month. The fixed percentage share that a participant is eligible for will be determined by their specific ranking within the top 20 Pool Programme participants as laid out in the table below. The minimum individual payment will be 0.50% of the Liquidity Pool or £1,000, whichever is the greater.

| Rank | Fixed Percentage Share of Liquidity Pool | Rank | Fixed Percentage Share of Liquidity Pool |
|------|--|------|--|
| 1 | 12.50% | 11 | 4.50% |
| 2 | 10.00% | 12 | 4.00% |
| 3 | 9.00% | 13 | 3.50% |
| 4 | 8.00% | 14 | 3.00% |
| 5 | 7.50% | 15 | 2.50% |
| 6 | 7.00% | 16 | 2.00% |
| 7 | 6.50% | 17 | 1.50% |
| 8 | 6.00% | 18 | 1.00% |
| 9 | 5.50% | 19 | 0.50% |
| 10 | 5.00% | 20 | 0.50% |

3. Determining the size of the Liquidity Pool

- 3.1 The size of the Liquidity Pool for any given calendar month will be determined by the average daily volume resulting from trades matched in the Central Order Book, in the Short Gilt Contract measured over the preceding three calendar months (“three month ADV”) and calculated at a rate of £20 per unit lot. For example the Liquidity Pool for October 2011 will be determined with reference to the volume traded during July, August and September 2011. Volume transacted via the NYSE Liffe Wholesale Trading Facilities (i.e. Block Trades, Basis Trades, and Asset Allocations) will not contribute to the three month ADV calculation.
- 3.2 The minimum size of the Liquidity Pool for any calendar month will be £50,000, equivalent to £20 multiplied by a three month ADV of 2,500 lots, (but subject to the minimum individual payment of £1,000, will in practice be £52,250). The maximum size of the Liquidity Pool for any calendar month will be £200,000, when the three month ADV reaches 10,000 lots or above.
- 3.3 The size of the Liquidity Pool for each calendar month will be determined by the Exchange and published by Info-Flash at the beginning of that calendar month. By way of illustration, if the three month ADV were to be determined as 2,500 lots, each Liquidity Pool Payment would be comprised and published as follows:

| Rank | Liquidity Pool Payment £ | Rank | Liquidity Pool Payment £ |
|------|--------------------------|------|--------------------------|
| 1 | 6,250 | 11 | 2,250 |
| 2 | 5,000 | 12 | 2,000 |
| 3 | 4,500 | 13 | 1,750 |
| 4 | 4,000 | 14 | 1,500 |
| 5 | 3,750 | 15 | 1,250 |
| 6 | 3,500 | 16 | 1,000 |
| 7 | 3,250 | 17 | 1,000 |
| 8 | 3,000 | 18 | 1,000 |
| 9 | 2,750 | 19 | 1,000 |
| 10 | 2,500 | 20 | 1,000 |

3.4 The Info-Flash will also publish the volumes traded at each ranking for the previous calendar month. The Exchange will notify participants of their ranking and associated pool payment within five business days after the end of the calendar month but no information in relation to ranking will be provided by the Exchange intra-month.

3.5 It is the Exchange's intention to review and renew the Pool Programme at six month intervals, subject to the Pool Programme satisfying its commercial and regulatory objectives. It is anticipated that the Exchange will begin to wind down the Liquidity Pool when three month ADV reaches 20,000 lots.

4. Determining a Participant's Ranking

4.1 Registered participants will be ranked at the end of each calendar month based on volume transacted in respect of Qualifying Business in the Short Gilt Contract during that calendar month. Where a registered participant has not transacted any business during a calendar month, they will not be ranked and will not be eligible for a Liquidity Pool payment.

4.2 In the event that two or more top 20 participants transact the same volume of Qualifying Business during any calendar month, the Exchange will also factor in the number of trades taken to achieve that level of volume in order to ascertain a participant's ranking within the top 20. Those participants who achieve their level of volume through a greater number of trades will rank above those with a lesser number of trades for the same level of volume. Where the number of trades is equal, then the time at which the trades occurred will also be taken into account. Those whose total monthly volume was executed earlier in the month will be awarded the higher ranking. Should all these factors be equal, the Exchange will award those participants the same ranking and Liquidity Pool payment, and the ranking sequence will be amended accordingly. For example, if two participants achieve the number 3 ranking, ranking 4 will be omitted, and the next participant would be ranked at number 5.

5. Qualifying Business

5.1 Qualifying Business is business which satisfies the following criteria:

- (a) executed in the Short and/or Medium Gilt Contract in the Central Order Book, and not via NYSE Liffe's Wholesale Trading Facilities (i.e. Block Trades, Basis Trades, or Asset Allocations). In addition, single trader cross transactions will not count as Qualifying Business;
- (b) executed by, and assigned to, a participant after being accepted on the Pool Programme; and
- (c) proprietary business of the participant, and not client business.

6. Eligibility Criteria

6.1 The Pool Programme will be open to all independent proprietary traders whose trading activity (involving behaviour such as price improvement and the facilitation of order flow), supports and enhances the liquidity of LIFFE's Medium and Short Gilt Contracts. A typical example of such behaviour is the frequent submission of orders into the Central Order Book to attract and satisfy customer order flow. Specifically, the Exchange defines eligible participants as:

- (a) those whose principal activities include trading futures on a discretionary basis for his own account, or for the proprietary account of an employer in which he has an interest; and

- (b) those whose trading activity contributes to price discovery and satisfies the futures order flow of other market participants.

7. Application Process

- 7.1 Applicants may apply for the Pool Programme by sending an email, containing the name and/or ITM under which they wish to register for the Pool Programme, to their Account Manager or bonds@liffe.com prior to the first day they wish to start on the Pool Programme. Applicants will be accepted onto the Pool Programme the business day following this application, subject to the subsequent satisfactory completion of a registration form. Any business transacted before acceptance will not be considered Qualifying Business.
- 7.2 Applicants must submit their fully completed registration form (see the Attachment to this Notice) to their Account Manager at least five business days prior to the last business day of the calendar month in order for Qualifying Business to be eligible for the Pool Programme Benefits for that calendar month. The Exchange's decision as to whether applications should be approved for the Pool Programme shall be final and binding.
- 7.3 The registration form for the Pool Programme is also available from Account Managers (+44 (0)20 7379 2138 or accountmanagementlondon@nyx.com) and can be found on the NYSE Euronext website www.nyx.com/lpprogrammes.
- 7.4 Programme Terms and Conditions are attached to the registration form. The Exchange advises every applicant to ensure that they have read and understood those Terms and Conditions, as the Terms and Conditions and applicable Notices govern participation in the Programme.
- 7.5 Ultimately, it is the responsibility of the applicant to ensure that all information included on the registration form is complete and correct. Incorrect information will affect and possibly lengthen the registration process and could affect the payment of Exchange trading fee rebates and the Liquidity Pool payment.

8. Identification of Qualifying Business

- 8.1 Once a participant has been registered on the Pool Programme, their Qualifying Business will be identified through a single unique entry into the User Specified field (a LIFFE CONNECT® field that translates into a single Account Reference in the Clearing Processing and Trade Registration System, which is now known as the Universal Clearing Platform ("UCP")) used exclusively by the registered participant and solely for his activity in that capacity (as defined in section 6).
- 8.2 Applicants should be aware that after a LIFFE CONNECT® trade enters UCP, the Account Reference field can be amended through UCP post trade processing any time up until 21:30 hours (London time) on the same business day. As such, applicants should ensure that they submit in their registration form the final Account References based on market assigned trades for the Exchange to identify Qualifying Business accurately.
- 8.3 It is essential that submitted Account References are accurate as a simple error will result in Qualifying Business not being identified. For example, if Account Reference "ABC1" was submitted as "ABC", no Qualifying Business would be identified and no trading fee rebates or Pool Programme Benefits will be awarded in respect of this business.
- 8.4 The Exchange stresses that any underpayment of trading fee rebates resulting from inaccurate registration details will not be corrected retrospectively by the Exchange.

- 8.5 If a registered participant decides to make changes to the trading and/or clearing arrangements which were detailed in the registration form, particularly those used by the Exchange to identify Qualifying Business (e.g. Clearer, Member and Account Reference details), it is the responsibility of the participant to provide the Exchange with formal notification of such amendments. Notification should ideally be made in advance of the change, but in all cases by no later than close of business on the last business day of the month in which the change occurred. Only volumes transacted during the calendar month in which the notification of changes was received by the Exchange (and any subsequent programme months) will be eligible for the benefits specified in paragraph 2.

9. Billing Arrangements

- 9.1 In relation to the Short and Medium Gilt Contracts, Exchange trading fees will be billed (as they are currently) to Clearing Members at the beginning of the following calendar month. This initial bill is calculated on the basis of 20 pence per lot, per side for all delivery months. The Exchange will then calculate the rebates on Qualifying Business for registered participants and make rebates to Clearing Members during the following calendar month. For example, rebates for Qualifying Business transacted in October 2011 will be calculated in November 2011 for payment to Clearing Members at the beginning of December 2011.
- 9.2 The Exchange will determine the ranking of registered participants on the Pool Programme based on total Qualifying Business during a given calendar month. The Exchange will notify participants of their ranking, and associated liquidity pool payment (if any) via email within five business days after the end of the calendar month. Participants within the top 20 are required to submit an invoice to the Exchange in order for the funds to be released to the designated bank account specified on the registration form.
- 9.3 In the event that any Qualifying Business under the Pool Programme may also qualify as business undertaken by the participant giving rise to a benefit under any other Exchange liquidity provision, market making or other similar programme or arrangement (“other arrangement”) (regardless of whether such programme or arrangement is an “incentive scheme” within the FSA’s guidance), the Exchange will in its absolute discretion take one or more of the following actions:
- (a) withhold the credit of any further rebates otherwise due under the other arrangements;
 - (b) withhold the credit of any further rebates and/or liquidity pool payments otherwise due under the Short Gilt Liquidity Pool Programme;
 - (c) re-charge some or all of the rebates and/or liquidity pool payments made under the other arrangements or the Short Gilt Liquidity Pool Programme.

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

Fixed Income Derivatives

+44 (0)20 7379 2222

bonds@liffe.com

**Terms and Conditions for the Liquidity Pool Programme
for Short Gilt Contract**

1. Introduction

- 1.1 These Terms and Conditions, together with the Registration Form (attached as Appendix 1) and London Notice No. 3497, issued on 2 September 2011, and any amendments prescribed by the Exchange by London Notice from time to time (the “Agreement”), govern participation in the Short Gilt Liquidity Pool Programme. The parties to this Agreement are the Exchange and the signatories to the Registration Form.
- 1.2 Capitalised or italicised terms (not defined in these Terms and Conditions) shall have the meanings given to them in London Notice No. 3497, the Registration Form or the Rules of the Exchange, as the case may be.

2. Participant Obligations

- 2.1 Where the participant is neither a Member of the Exchange nor a *Responsible Person*, the participant acknowledges and agrees that it shall be deemed a *Relevant Person* and agrees to be bound by the Rules (as amended from time to time).
- 2.2 The participant represents and warrants, both at the date of submission to the Exchange of the Registration Form and throughout its participation in the Programme, that the participant meets the relevant Eligibility Criteria as set out in London Notice No. 3497, as the same is amended by London Notice from time to time by the Exchange.
- 2.3 The participant agrees that all market-assigned business submitted using the UCP Account Reference(s) provided by the participant on the Registration Form will meet the definition of Qualifying Business, as the same is amended by London Notice from time to time by the Exchange.
- 2.4 The participant agrees to provide immediate written notice to the Exchange in the event of any change to representations made under this clause 2 or information provided in the Registration Form.

3. Obligations

- 3.1 Where the participant is not a Member of the Exchange, the Clearing Member and Member (if any) shall, to the extent practicable, ensure that the only market-assigned business submitted under the participant’s Account Reference(s) (as given in the relevant Registration Form) as Qualifying Business is business of the participant.
- 3.2 The Exchange will charge the Clearing Member the trading fees at the applicable rate.
- 3.3 The Clearing Member and the Member (if a party to this Agreement) agree to pass on all the rebates received from the Exchange under the Programme in accordance with any arrangements in place between the Clearing Member, the Member (if a party to this Agreement) and the participant.
- 3.4 Clause 3.3 shall not apply where the Exchange and the participant are the only parties to this Agreement.

- 3.5 The Clearing Member, Member (if a party to this Agreement), and the participant shall each be responsible for ensuring that they comply with any applicable law or regulation governing the subject matter herein. The Exchange draws particular attention to Rule 8104/1 of the Harmonised Rules “No Fraudulent or Misleading Conduct” which, amongst other things, prohibits the use of wash trades.

4. Payment of Rebates

- 4.1 The Exchange will calculate the trading fee charges based on the standard trading fee per lot per side for all Qualifying Business using the Account Reference(s) provided on the Registration Form. The Exchange will then calculate the rebate due in accordance with London Notice No. 3497 and any amendments thereto and pay the appropriate rebate in accordance with this Agreement. The Exchange will only credit rebates for Qualifying Business submitted using the precise UCP Account Reference provided by the participant on the relevant Registration Form and the Exchange accepts no liability for any errors, omissions or any underpayment resulting from inaccurately submitted business.
- 4.2 In the event that any Qualifying Business under the Programme may also qualify as business undertaken by the participant giving rise to a benefit under any other Exchange liquidity provision, market making or other similar programme or arrangement (“other arrangement”) (regardless of whether such programme or arrangement is an “incentive scheme” within the FSA’s guidance), the Exchange will in its absolute discretion take one or more of the following actions:
- (a) withhold the credit of any further rebates otherwise due under the other arrangements;
 - (b) withhold the credit of any further rebates and/or liquidity pool payments otherwise due under the Short Gilt Liquidity Pool Programme; and
 - (c) re-charge some or all of the rebates and or liquidity pool payments made under the other arrangements or the Short Gilt Liquidity Pool Programme.

5. Payment of Liquidity Pool

- 5.1 The Exchange will calculate the participant’s ranking based on Qualifying Business using the Account Reference(s) provided on the Registration Form. The Exchange will then calculate the associated liquidity pool payment due in accordance with London Notice No. 3497 and any amendments thereto and pay the appropriate sums in accordance with this Agreement. The Exchange will only credit liquidity pool payments for Qualifying Business submitted using the precise UCP Account Reference provided by the participant on the relevant Registration Form and the Exchange accepts no liability for any errors, omissions or any underpayment resulting from inaccurately submitted business.

6. Term and Termination

- 6.1 The Programme will come into effect on 3 October 2011. This Agreement shall be effective upon approval by the Exchange of the completed Registration Form, or on 3 October 2011 if such approval takes place before that date.
- 6.2 The Exchange may terminate the Programme in its entirety, and thereby this Agreement, at any time on seven days’ written notice.

6.3 The Exchange may terminate this Agreement by written notice with immediate effect on the occurrence of one or more of the following events:

- (a) a material change in the ownership or the nature of the business and operations of the other party (or, where there is more than one other party, any of the other parties) which, in the Exchange's opinion, might affect the performance of the obligations of that party under this Agreement (or, where there is more than one other party, the obligations of any of the other parties);
- (b) the other party (or, where there is more than one other party, any of the other parties), being a Member of the Exchange, ceases to be a Member of the Exchange, has its trading rights suspended or is declared a defaulter pursuant to the Rules;
- (c) any of the other parties is subject to criminal, regulatory or insolvency (or other analogous) proceedings;
- (d) the clearing agreement between the Member, if any, and the Clearing Member is terminated; and/or
- (e) the relationship between the participant, the Member, if any, and the Clearing Member is terminated.

6.4 In the event the Exchange determines, in its absolute discretion, that any of the other parties materially breaches or fails to perform any of its respective obligations under this Agreement, the Exchange may decide, in its absolute discretion, to take one or more of the following actions:

- (a) to terminate this Agreement by notice to the parties with immediate effect;
- (b) not to credit some or all of the rebates and liquidity pool payments (where relevant) for the period or periods affected by the breach or failure or any future period; and
- (c) to re-charge some or all of the rebates and liquidity pool payments (where relevant) in respect of any period affected by the breach or failure.

7. Liability

7.1 On termination of the Programme or this Agreement for whatever reason, the other party (or where there is more than one, the other parties) shall have no claim against the Exchange for damages or compensation of whatever nature.

7.2 Termination of this Agreement shall not affect the accrued rights and obligations of any of the parties except that the Exchange reserves the right not to credit rebates and/or liquidity pool payments where this Agreement is terminated pursuant to clause 4.2, clause 6.3(c) or clause 6.4.

8. Miscellaneous

8.1 Any notice required to be given pursuant to this Agreement shall be in writing and may be given electronically, by facsimile, by hand or by post to the address of the relevant party which appears on the Registration Form or which is notified to each of the other parties from time to time for that purpose. Any such notice shall be deemed received when sent except in the case of delivery by post which shall be deemed

received 24 hours after posting (if sent to an address in the United Kingdom mainland) or three working days after posting if sent to an address outside the UK.

- 8.2 No party to this Agreement may assign, sub-contract or delegate any of its rights or obligations under this Agreement without the prior written consent of the other parties.
- 8.3 A person who is not a party to this Agreement shall have no right under the Contract (Rights of Third Parties) Act 1999 to enforce any term of this Agreement but this shall not affect any right or remedy of a third party which exists or is available apart from that Act.
- 8.4 In the event of any conflict between this Agreement and the Rules, the Rules shall prevail.
- 8.5 This Agreement (together with any disputes arising under or in connection with this Agreement) shall be governed by English law and the parties submit to the exclusive jurisdiction of the English courts.

Appendix 1 – Registration Form for the Liquidity Pool Programme in the Short Gilt Contract (“Short Gilt Liquidity Pool Programme”)

- Please complete in BLOCK CAPITALS ensuring such information is clear and correct.
- If you need assistance to complete this form, please contact your NYSE Liffe Account Manager.
- The Exchange stresses that any underpayment of trading fee rebates and liquidity pool payments resulting from inaccurate registration details will NOT be corrected retrospectively by the Exchange.

Participant Details

| | |
|---|---------------------|
| Name of participant (please insert full legal name) | |
| Participant Name/ITM..... | |
| Firm /Employer Name..... | |
| Postal Address..... | |
| Telephone Number..... | |
| Email..... | |
| Bank Account Details | |
| Sort Code..... | Account Number..... |
| User Specified field(s) on LIFFE CONNECT® /Account Reference(s) on the Universal Clearing Platform (“UCP”) | |
| | |
| By signing this Agreement, the participant agrees to be bound by its terms | |
| Signature..... | Date..... |

| | |
|---|-----------|
| <u>Member authorisation</u> (this section can be left blank where the participant is a Member or where the participant trades through a Clearing Member) | |
| Full legal name..... (the “Member”) | |
| By signing this Agreement, the Member agrees to be bound by its terms | |
| Signature..... | Date..... |
| Name of signatory..... | |
| Position..... | |

| | |
|---|-----------|
| <u>Clearing Member authorisation</u> (this section can be left blank where the participant is a Clearing Member) | |
| Full legal name..... (the “Clearing Member”) | |
| By signing this Agreement, the Clearing Member agrees to be bound by its terms | |
| Signature..... | Date..... |
| Name of signatory..... | |
| Position..... | |