LIFFE NOTICE NO. 3862

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CHANGES TO THE ARRANGEMENTS IN RESPECT OF FLEXIBLE EQUITY DERIVATIVE CONTRACTS FOR THE MIGRATION TO ICE FUTURES EUROPE

Executive Summary

This Notice describes the arrangements that will apply in respect of certain standard and flexible Equity derivatives contracts before and after the migration from LIFFE to ICE Futures Europe ("ICE").

1. Introduction

1.1 As Members are aware, the current Liffe practice in respect of certain Equity derivative products is to list a limited set of expiry/delivery months for standard contracts and to allow trading of flexible contracts between the standard expiries and beyond the last standard expiry. If a standard contract is listed at a later date which exactly matches the characteristics of an existing flexible contract, any positions in the flexible product are automatically converted into the standard product. This process is known as Flex Novation.

1.2 Following the migration to the ICE trading platform, there will be no automatic conversion of positions from flexible products into equivalent standard products. This Notice describes the arrangements that will apply in respect of both standard and flexible Equity derivatives contracts before and after the migration to accommodate the removal of Flex Novation.

1.3 For the avoidance of doubt, the affected contracts are as follows:

Standard Contract	LIFFE Contract No.	Flexible Contract	LIFFE Contract No.
Individual Equity Options on UK names	201	Flexible Individual Equity Options on UK names	201F
Those Universal Stock Futures Contracts currently available on both the Liffe Central Order Book and Bclear	56	Flexible Universal Stock Futures Contracts	66F
FTSE 100 Index Options	129E	Flexible FTSE 100 Index Options	351F

2. Ongoing Arrangements Post Migration

2.1 Both standard and flexible products will continue to be listed on the ICE platform. Standard products will be listed as "monthlies" and flexible products will be listed as "dailies". Flexible products and longer dated standard products[1] will only be available for trading through ICE Block just as, today, these products/expiries are only available on Liffe via Bclear.

2.2 The requirement for novation post migration will be removed by ensuring that the **standard product is always available for trading on any third Friday within the date range that is allowed for the flexible product**, albeit that longer dated expiries will only be available on ICE Block. Taking the FTSE 100 Index Option as an example, the standard option ("ESX") is currently listed out to 2 years whereas the equivalent flexible option ("FLX") is available, on Bclear only, out to 10.5 years. On the ICE platform, serial months will be listed out to 10.5 years (serial months out to two years on the ICE central order book and longer dated expiries[1] on ICE Block) in the standard option to match the latest permissible expiry month for a flexible option.

3. "Conversion" of Relevant Flexible Positions

3.1 Any positions in flexible products that have been created on Liffe, which would qualify for Flex Novation, will be "converted" into positions in the equivalent standard products by bringing about their Flex Novation. This novation will be undertaken in three phases:

Phase	Date	Platform	Scope
1	22 Sep 2014 (Start of day)	Liffe	**Positions**: Flexible positions with third Friday expiry dates in months that would normally be listed in the equivalent standard product by the end of 2014 will be converted into the standard product. **Products**: The introduction of new months that would normally be listed in October, November and December will be brought forward to September. Any strikes in which there is open interest in the flexible product will also be listed (see below for details). **Example**: A position in the flexible option[2] on Barclays plc ("BBQ") with an expiry of 20 Feb 2015 will be converted into the newly listed Feb 2015 expiry in the standard option on Barclays plc ("BBL").

[1] Longer dated expiries being:

FTSE 100 index options (ESX) beyond two years with a maximum expiry of 10.5 years;

Target Group Individual Equity Options beyond two years with a maximum expiry of five years;

Non-Target Group Individual Equity Options beyond one year with a maximum expiry of five years; and

Single Stock Futures beyond 6 months with a maximum expiry of five years.

[2] Flexible American style physically delivered options

2	22 Sep 2014 to 14 Nov 2014	Liffe	**Positions**: Any positions at new strikes in flexible products with a matching expiry date in the standard product will be converted into the standard product. **Products**: New strikes will be listed in the standard product on the day after a new strike has been created. Positions will therefore be converted into the standard contract at the start of the day after the trade (see below for details). **Example**: A position in the BBQ flexible option with an expiry of 20 Feb 2015 at a new strike of 187 will be converted into the 187 strike in the standard BBL option, expiry Feb 2015.
3	8 Dec 2014 (Start of day)	ICE	**Positions**: All remaining flexible positions which qualify for conversion – i.e. longer-dated flexible positions with third Friday expiry dates that were not listed on the Liffe platform. **Products**: The range of standard months will be extended and any gaps will be filled so that a standard month is listed for every third Friday over the full range of dates listed for the flexible product. **Example**: A position in the FLX flexible option with an expiry date of 17 Dec 2021 will be converted into the newly listed Dec 2021 expiry in the standard ESX option.

3.2 Between 14 November and 5 December 2014 (between migration and the final position conversion) no new months will be listed on the ICE platform and Members will continue to be able to trade long-dated[1] standard expiries in the flexible products through ICE Block. After 8 December 2014, when the position conversion takes place on the ICE platform, all trades for a third Friday expiry must be entered in the standard product.

3.3 It is possible that there may be positions in a flexible product, which would otherwise novate, but which cannot be converted directly because the flexible and standard products have different lot sizes (i.e. due to the contract having been affected by a Corporate Action). Prior to performing a position conversion, it may therefore be necessary to align the lot sizes of flexible and standard contracts as described in section 5 below.

4. Changes to Month and Strike introductions prior to migration

The standard month and strike introduction rules for the relevant contracts will be changed as described below.

4.1 Month Introductions

Following the Sep 2014 expiry in each of these products the new expiries that are listed will include the expiries that would normally be introduced following the Oct 2014, Nov 2014 and Dec 2014 expiries.

When the additional option expiries are initially listed, only those strikes in which there is open interest in the equivalent flexible product will be listed. A single ATM strike will be listed for any expiries in which there is no open interest in the equivalent flexible product.

The products fall into 5 groups in terms of month cycles:

(a) *Standard Universal Stock Futures (Liffe Exchange Contract No. 56)*

These are configured to have 3 Serial months and a number of quarterly months.
Following the Sep 2014 expiry, the Jan 2015, Feb 2015 and Jun 2015 expiries will be introduced in addition to the expected Mar 2015 expiry.

(b) *Target Group Standard Individual Equity Options (Liffe Exchange Contract No. 201)*

These are configured to have the following expiries:
1, 2, 3 (Serial Months), 6, 9, 12 (Mar, Jun, Sep, Dec), 18, 24 (Jun, Dec), 36 (Dec)
Following the Sep 2014 expiry the Jan 2015, Feb 2015, Dec 2017 expiries will be introduced in addition to the expected Sep 2015 expiry.

(c) *Non Target Group Standard Individual Equity Options (Liffe Exchange Contract No. 201) ("NTG serial IEO")*

These are configured to have the following expiries:
1, 2, 3 (Serial Months), 6, 9, 12 (Mar, Jun, Sep, Dec)
Following the Sep 2014 expiry the Jan 2015, Feb 2015, Dec 2015 expiries will be introduced in addition to the expected Sep 2015 expiry.

(d) *Non Target Group Standard Individual Equity Options (Liffe Exchange Contract NO. 201) with quarterly expiries only ("NTG quarterly IEO")*

These are configured to have the following expiries:
3, 6, 9, 12 (Mar, Jun, Sep, Dec)
Following the Sep 2014 expiry the Dec 2015 expiry will be introduced in addition to the expected Sep 2015 expiry.

(e) *FTSE 100 Index Option (ESX) (Liffe Exchange Contract No. 129E)*

This product is configured to have the following expiries:
1, 2, 3, 4 (Serial Months), 6, 9, 12, 15, 18, 21, 24 (Mar, Jun, Sep, Dec)
Following the Sep 2014 expiry the Feb 2015, Apr 2015 and Dec 2016 expiries will be introduced in addition to the expected Jan 2015 and Sep 2016 expiries.

4.2 Strike Introductions

(a) *Non-standard strikes*

In addition to the change to the month introductions a change will be made to the way new series are introduced on the standard products. Each day, if a new strike has been traded in the novatable flexible product which matches an existing standard expiry, a matching strike will be listed in the standard product. This will prompt the flexible series to novate overnight.

Taking the FTSE 100 Index Option as an example, in FLX there are currently a number of strikes with last trading day 16 December 2016 (third Friday). On the evening of 19 September 2014 an ESX series will be listed which matches each of these flexible series causing the FLX positions to novate overnight into the matching ESX strikes.

This change will also affect existing standard expiries where a flexible series exists which has a matching expiry date but a non-standard strike price. For example, the flexible option on AstraZeneca ("AZQ") has a 2700 strike listed with an expiry date of 19 December 2014 (third Friday). This strike is not listed on the equivalent standard option on AstraZeneca ("AZA"). On the evening of 19 September 2014, the 2700 strike will be listed on AZA and the AZQ position will novate overnight into the new AZA series.

(b) *Standard strikes*

The standard strike introduction rules will be applied following the Oct 2014 expiry, to those expiry months that would normally have been listed in October 2014 but will now be listed in September 2014. In September 2014, the only strikes that will be listed are strikes in which there is open interest in the equivalent flexible product or, if there is no open interest in the flexible product, a single ATM strike. In October 2014, the strikes which would normally be listed when the new month is listed in October 2014 will also be listed.

For example, if the current strike introduction rule for a NTG serial IEO is that when the Jan 2015 expiry month is listed in October 2014 the ATM strike should be listed plus 2 strikes either side, then these strikes will be listed on Monday 20 October 2014.

5. Treatment of "Non-Standard" Lot Sizes to Accommodate "Conversion"

5.1 It is currently possible for two contracts which would otherwise novate to have different lot sizes. For example, a position in a flexible product which has been affected by a Corporate Action will have a non-standard lot size. If a new expiry month is listed in the standard product after the Corporate Action, it will be listed at the standard lot size.

5.2 To ensure that Members are able to trade out of any positions in flexible products, any flexible positions which would otherwise novate will be converted to the same lot size as the standard contract (i.e. the standard lot size). This will be effected by Liffe via a modification of the position volume in the flexible contract to harmonise the lot sizes. Where rounding of position volume has to occur, payments will be made and received in order to neutralise this.

5.3 Taking, for example, a flexible option on Vodafone Group plc (“VOQ”) the VOQ 20150417 257 Call, which would novate to the standard option on Vodafone Group plc (“VOD”) VOD 20150400 257 Call if both contracts had the same lot size:

- Position in VOQ with volume of 7050 long in the 257 call with a lot size of 975
- Position in VOQ with volume of 7050 short in the 257 call with a lot size of 975

In order to change the lot size of the VOQ 257 call to 1000, which is the lot size of the VOD 20150400 257 Call, the VOQ volume will be divided and the lot size multiplied by a ratio of 1.025641, which gives a position volume of 6873.75.

The position volume would therefore be rounded up to 6874 such that:

- the Short position holder receives 0.25 * new lot size * settlement price
- the Long position holder pays 0.25 * new lot size * settlement price

5.4 Any Members that will be affected by such a lot size conversion will be contacted directly by Liffe in due course, with full details of the required position conversion.

6. Further Information

6.1 The contract details in respect of Exchange Contract Nos. 201, 56 and 129E will be updated to accommodate the listing of additional expiry/delivery months on 22 September 2014 and made available on the website in due course.

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

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