

LONDON INFO-FLASH NO. LO14/16

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ULTRA LONG GILT FUTURES CONTRACT

INTRODUCTION OF A DESIGNATED MARKET MAKING PROGRAMME

Executive Summary

This Info-Flash informs Members of the introduction of a Designated Market Maker Programme in the Ultra Long Gilt futures contract and invites Members, and appropriate clients of Members, to apply.

1. Introduction

- 1.1 London Notice No. 3803, issued on 21 February 2014, informed Members of the launch date for the Ultra Long (30 year) Gilt Futures Contract (the "Contract") which will be made available for trading on the Universal Trading Platform (UTP) and within Bclear, on and from 31 March 2014.
- 1.2 This Info-Flash informs Members of the introduction of a Designated Market Maker ("DMM") Programme in respect of the Contract, which will come into effect from 31 March 2014 until close of business 31 March 2016.
- 1.3 Members and appropriate clients of Members are invited to apply for DMM status. A maximum of five DMMs will be appointed to the Programme subject to the criteria set out in section 6.4.

2. DMM Benefits

- 2.1 Subject to fulfilling DMM Commitments, DMMs shall be granted the following benefits:
 - (a) a full Exchange trading and clearing fee ("Exchange Fee") rebate on DMM Qualifying Business for the duration of the Programme as set-out in the table below:

Platform	Exchange Fees (per lot, per side)
UTP	£0.23
Bclear	£0.33

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- (b) on a monthly basis, a share of 50% of the net Exchange Fee revenue (“Net Revenue”) earned in the Contract for the duration of the Programme. The share of the 50% Net Revenue will be granted on a monthly basis in the form of fee credits which may be used to offset against any Exchange Fees incurred by appointed DMMs in any LIFFE London Interest Rate Futures and Options (“Fee Credit Offset Business”) contract during the same calendar month in which the fee credits are earned;
- (c) Net Revenue will be distributed among DMMs according to each DMM’s Market Share, adjusted by their DMM Monthly Performance score. The formula for calculating each DMM’s share of the 50% Net Revenue and thus Fee Credits is set-out below:

$$\text{Fee Credit} = 50\% \times \text{Net Revenue} \times \text{DMM Market Share} \times \text{DMM Monthly Performance}$$

where DMM Market Share for any given calendar Month n is defined as the arithmetic mean (over the period from Month 1 to Month n) of the monthly percentage of DMM Qualifying Business as a proportion of the monthly total market making business from all appointed DMMs (“Total DMM Qualifying Business”), as set-out in the formula below:

$$\text{DMM Market Share (Month } n) = \frac{1}{n} \sum_{t=1}^n \frac{\text{DMM Qualifying Business}_t}{\text{Total DMM Qualifying Business}_t}$$

- 2.2 Thus, if a DMM fully fulfils all DMM Commitments, he will receive the same proportion of Net Revenue as his DMM Market Share in the Contract.
- 2.3 Net Revenue is defined as the Gross Exchange Fee revenue generated in the Contract less all Exchange Fees rebated in respect of the Contract including the Ultra Long Gilt DMM Programme and any other LIFFE Incentive Programmes in which the Contract is included (as may be amended from time to time by the Exchange).
- 2.4 For the avoidance of doubt, post-trade fees such as Delivery Fees are excluded for the purposes of rebates, revenue calculations and fee credit applications.
- 2.5 There will be no trade priority matching advantages provided by the Exchange to appointed DMMs.

3. DMM Commitments

- 3.1 In return for the benefits described in section 2 above, appointed DMMs will be required to make continuous two-way prices for 80% of the trading session between 08:30 and 16:30 hours London time (the “Quotation Period”) on every London business day for the duration of the Programme.
- 3.2 DMMs are requested to maintain any, or a combination, of the spread and size pairings set out in the table below. Where a DMM quotes wider than 0.24 price points no quoting will be recognised for the purposes of calculating the Spread Performances.

Spread and Size Requirements	
Spread (Price Points)	Size (Lots)
0.02	10
0.04	20
0.06	30
0.08	40
0.10	50
0.12	60
0.14	70
0.16	80
0.18	90
0.20	100
0.22	110
0.24	120

3.3 Allowance will be made for smaller size quoted at any given spread i , and/or reduced session presence during the Quotation Period, as set-out in the formula below:

$$\text{Spread Performance Score } (i) = \frac{\text{actual size}}{\text{size requirement for spread } (i)} \times \frac{\text{actual presence}}{80\%}$$

3.4 DMM quoting activity will be measured on a daily basis by taking the sum of the different Spread Performance Scores associated with each unique spread and size combination quoted by the DMM between 0.02 price points and 0.24 price points as set-out in the formula below:

$$\text{Daily Performance Score} = \sum_{i=0.02}^{0.24} \text{Spread Performance Score}_i$$

3.5 The Monthly Performance score for a DMM is the average of the Daily Performance Score over N trading days during a given calendar month, up to a maximum Monthly Performance Score of 100% as set-out in the formula below:

$$\text{DMM Monthly Performance Score} = \min\left(100\%, \frac{\sum_{j=1}^N \text{Daily Performance}_j}{N}\right)$$

3.6 DMM quoting activity will be monitored using the Individual Trader Mnemonic(s) (“ITM”) registered with the Exchange and used exclusively by the DMM for the purpose of their market making activity. Quoted spreads and sizes will be determined by taking the tightest spread (i.e. the difference between the best bid and best offer) and associated size maintained by a DMM at any given time.

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3.7 In the period leading up to and during the Contract roll, the DMM may elect to switch their quoting activity from the front quarterly delivery month to the second quarterly delivery month at their absolute discretion.

4. DMM Qualifying Business

4.1 DMM Qualifying Business is business which satisfies the following criteria:

- (a) executed in a market making capacity in the Contract;
- (b) executed through the LIFFE Central Order Book, Wholesale Facilities and/or Bclear; and
- (c) assigned to registered Universal Clearing Platform (“UCP”) account references of an appointed DMM.

5. Fee Credit Offset Business

5.1 Fee Credits may be offset against business which satisfies the following criteria:

- (a) executed in any of the following LIFFE London Interest Rate Futures and Options contracts as elected by the appointed DMM at his discretion (as may be updated from time to time to reflect new contract listings):
 - Long Gilt Futures
 - Medium Gilt Futures
 - Short Gilt Futures
 - Long Gilt Options
 - Three Month Euro (EURIBOR) Interest Rate Futures
 - Three Month Sterling (Short Sterling) Interest Rate Futures
 - Three Month Euro Swiss Franc (Euroswiss) Interest Rate Futures
 - One Month Euro Overnight Index Average (EONIA) Futures
 - Three Month EONIA Swap Index Futures
 - Euribor Options (including Mid-Curve Options)
 - Sterling Options (including Mid-Curve Options)
 - Euroswiss Options
 - Two, Five and Ten Year Euro Swapnote[®] Futures and Options Contracts
 - Two, Five and Ten Year Dollar Swapnote[®] Futures and Options Contracts
- (b) executed through the LIFFE Central Order Book, Wholesale Facilities and/or Bclear; and
- (c) assigned to registered account references, or a registered account (e.g. house account) of an appointed DMM during the same calendar month as when the Fee Credits are earned.

6. Application Process

6.1 Members who wish to apply for DMM status, either for themselves or on behalf of their clients, should contact the Fixed Income Derivatives team at the following email address: rates@nyx.com for a copy of the full legal terms under the market maker Agreement.

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- 6.2 The Programme is open to all Members with the appropriate trading rights. A non-member may undertake the market making activities through a Member. However, in such cases, the activities of the participant in relation to the Programme remains the responsibility of the Member and, as such, applications must be made to the Exchange with the full understanding and agreement of the Member.
- 6.3 Applications for DMM status should contain details of the ITMs through which the DMMs market making activity will be monitored. In addition, DMMs must provide details of the UCP Account and Account Reference(s) through which market making business will be assigned and where fee credits should be applied. Please note that all market making business and all business eligible for fee credits must be assigned to exclusively nominated UCP Account(s).
- 6.4 The following will be taken into account, in descending order of priority when selecting DMMs under the Programme:
- (a) each applicant's access to the underlying Gilt cash market, in particular those with Gilt-edged Market Maker (GEMM) status (defined by the Debt Management Office (DMO) as "a primary dealer in gilts and actively trades in either conventional gilts, index-linked gilts or both");
 - (b) each applicant's past performance in relation to fulfilment of market maker obligations in the other programmes operated by the Exchange;
 - (c) the contribution that the applicant's prices and trading activity have made to market activity in other contracts; and
 - (d) each applicant's past bandwidth efficiency.
- 6.5 A Review Panel comprising members of the Exchange's executive will examine applications using the above criteria. No Panel member will have a material interest in any applicant, for example by way of personal or financial connection. The Review Panel's decision shall be final.
- 6.6 The appointment of a DMM will be subject to a binding contract ("the Agreement") between the DMM and the Exchange. A successful applicant's DMM status, and therefore the period for which he may receive financial benefits, may not be deemed to have commenced until such Agreement is completed, signed and received by the Exchange. All DMM appointments will be subject to standard contractual terms.
- 6.7 Each Programme constitutes an incentive scheme under the FCA Recognition Requirements. The Member should ensure the Member's compliance officer is aware of the Member's commitments and obligations under the Programmes and the compliance officer will be required to acknowledge this in the application form.
- 6.8 Should a DMM materially fail to meet its DMM requirements as set out in the Agreement, for instance, in the event that the Member fails to achieve a Monthly Performance Score at or above 25% for three consecutive months, the Exchange may in its absolute discretion put the DMM on notice of termination. In the event that a DMM fails to improve its performance, the Exchange may determine a course of action to terminate its participation in the Programme and remove any entitlement of the DMM.

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- 6.9 In such an event, the Exchange may invite other DMMs to replace terminated DMMs subject to the maximum of five DMMs.
- 6.10 Potential applicants are reminded that the Programme will operate from 31 March 2014 to 31 March 2016. However, in the event that average daily volumes, as measured over the three calendar months leading up and including 30 June 2014, fail to achieve 1,000 lots or above, and/or over the three calendar months leading up to and including 31 March 2015 fail to achieve 10,000 lots, the Exchange reserves the right in its absolute discretion to terminate the DMM Programme by Notice.

7. Identification of DMM Qualifying Business and Fee Offset Business

- 7.1 Once a DMM has been registered on the Programme, DMM Qualifying Business and Fee Offset Business will be identified through entries into the Client Info Field (a field that translates into the Account Reference field in UCP used exclusively by the DMM), in respect of the relevant transaction records.
- 7.2 Applicants should be aware that after a 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 application, the final Account References based on market assigned trades for the Exchange to identify market making business accurately.
- 7.3 It is essential that submitted Account References are accurate as a simple error will result in market making activity not being identified. For example, if Account Reference "ABC1" was submitted as "ABC", no Qualifying Business would be identified and no Exchange fee rebates would be awarded.
- 7.4 The Exchange stresses that any underpayment of Exchange fee rebates and/or fee credits resulting from inaccurate application details will not be corrected retrospectively by the Exchange.
- 7.5 If an approved DMM decides to make changes to the trading and/or clearing arrangements which were detailed in the application form, particularly those used by the Exchange to identify market making business (e.g. Clearer, Member and Account Reference details), it is the responsibility of the DMM to provide the Exchange with formal notification of such amendments in a timely manner, ideally in advance and in all cases by no later than close of business on the last business day of the month in which the change occurred. If this is not done, then only volumes transacted during the calendar month in which the notification of changes was received by the Exchange will be eligible for benefits specified in section 2.

8. Identification of DMM Quoting Activity

- 8.1 Once a DMM has been appointed, DMM quoting activity will be monitored via ITMs used exclusively by the DMM solely for the purpose of market making activity.
- 8.2 It is essential that submitted ITMs are accurate as a simple error will result in market maker quotes not being monitored. The Exchange stresses that any underpayment of a DMM's share of the Net Revenue resulting from inaccurate ITMs will not be corrected retrospectively by the Exchange.
- 8.3 If an approved DMM decides to make changes to the ITM(s) which were detailed in the application, it is the responsibility of the DMM to provide the Exchange with formal notification of such

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amendments in a timely manner, and in all cases before the change is implemented. If this is not done, any quoting activity performed by a DMM under the revised ITM(s) will not be monitored by the Exchange and will not be counted towards their DMM Performance. DMM quoting activity under the new ITM will only be monitored on and from the business day following the day on which the correct ITM is notified to, and approved by, the Exchange.

9. Billing Arrangements

Rebates

- 9.1 Exchange 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 **23** pence per lot, per side. The Exchange will then calculate the rebates on DMM Qualifying Business for registered DMMs and make rebates available during the following calendar month. For example, rebates for DMM Qualifying Business transacted in April 2014 will be calculated in May 2014 for payment to Clearing Members at the beginning of June 2014.

Fee Credits

- 9.2 The share of Net Revenue apportioned to a DMM as a fee credit during any given month will be used to offset against the DMM's net Exchange Fee (determined as the DMM's total gross Exchange Fee less any rebates) resulting from the Fee Credit Offset Business and will be paid alongside the Exchange Fee rebates for that month. For example, Fee Credits in respect of the fees incurred by the DMM in respect of Fee Credit Offset Business during April 2014, will be calculated in May 2014 for payment to the Clearing Members at the beginning of June 2014. Fee Credits will only be applied in the month in which they were earned, in the example above, in respect of March 2014 business.

Other Exchange Programmes

- 9.3 In the event that any DMM Qualifying Business under the Programme may also qualify as business undertaken by the DMM 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 FCA'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) re-charge some or all of the rebates made under the Other Arrangements.
- 9.4 The Exchange reserves the right in its absolute discretion to terminate the DMM Programme by Notice.

For further information in relation to this Info-Flash, Members should contact:

Fixed Income Derivatives

+44 (0)20 7379 2222

rates@nyx.com