

GENERAL NOTICE NO: 1577

ISSUE DATE: 17 February 2000

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EXTENSIONS TO LIFFE' s BASIS TRADING FACILITY

- **SHORT TERM INTEREST RATE FUTURES AGAINST STANDARD FORWARD RATE AGREEMENTS, OTC INTEREST RATE SWAPS AND BONDS**
- **EXCHANGE TRADED FUTURES AGAINST RELATED OTC OPTIONS AND OTC OPTIONS STRATEGIES**
- **ASSET ALLOCATION TRADES INVOLVING A BROADER RANGE OF FUTURES CONTRACTS**

1. Introduction

1.1 In response to member demand, and to further enhance and facilitate the trading relationship between wholesale market activity, particularly in the OTC markets, and exchange traded contracts, LIFFE' s Basis Trading Facility ("BTF") will be extended with effect from **Monday 21 February 2000** to allow:

- Forward Rate Agreements ("FRA"), interest rate swaps ("IRS") and cash bonds to form the "cash" legs of a basis trade involving Short Term Interest Rate ("STIR") futures;
- OTC options and OTC options strategies to form the "cash" leg of a basis trade against related equity and financial futures contracts; and
- a broader range of asset allocation trades between defined combinations of LIFFE futures contracts.

1.2 Accordingly, this General Notice:

- (i) confirms those contracts designated by the Board as capable of being traded under the BTF: against FRAs, IRSs and cash bonds; OTC options and OTC options strategies; and between LIFFE contracts;

- (ii) confirms the required characteristics and hedge ratios for approved “cash” legs of FRAs, IRSs, bonds and OTC options transacted against LIFFE futures contracts under the BTF;
- (iii) details the necessary changes to the LIFFE CONNECT™ for Futures Trading Procedures (Attachment 1); and
- (iv) provides a revised BTF slip (Attachment 2) and Asset Allocation slip (Attachment 3) which members are required to submit to the Exchange for such trades to be registered. These slips are also available on the LIFFE website (www.liffe.com).

1.3 Members are reminded that the Asset Allocation facility is a “sub-set” of the BTF, and is provided within the framework, conditions and Trading Procedures governing the BTF.

1.4 Members should be aware that the validation and subsequent execution of the futures leg(s) of a basis trade requires full details of the related futures leg(s) to be submitted to the Exchange but only the unique reference number/code of the “cash” leg. The unique reference number/code provided on the BTF slip will enable the Exchange to conduct post-trade audits, thus removing the need at the time of validation to provide full details of the “cash” leg. For asset allocation trades, where both legs of the transaction are LIFFE contracts, exchange officials will compare the duration-adjusted nominal value of the two legs prior to validating the trade. For all basis trades, as is currently the case, the price of the futures leg will be validated before it is confirmed as executed, and the counterparties to the “cash” and exchange traded legs must be the same.

2. FRAs, IRSs and cash bonds against STIR futures contracts

2.1 The BTF will be extended to allow participants to combine the execution of FRAs, IRSs and cash bonds with the full range of LIFFE’ s STIR contracts (i.e. Euro (EURIBOR), Euro (LIBOR), Short Sterling, Euroswiss, Euroyen LIBOR and TIBOR). The BTF will allow customers to execute simultaneously, without execution risk, the futures leg of basis trades conducted against FRA, IRS and cash bond activity.

2.2 In order to reflect the cross currency nature of trading activity in the FRA, IRS and bond markets the FRA, IRS or bond “cash” leg will be permitted to involve interest rate exposure to a currency or reference rate other than that imbedded in the Exchange traded contract.

2.3 **The required characteristics for an IRS “cash” leg** approved for basis trading against one or more delivery month(s) of a STIR futures contract shall be the same as

those that apply for trading IRS contracts against Bond and LIFFE \overline{EFB} futures contracts. Namely, a swap contract must be a spot, forward-starting or existing plain vanilla OTC swap contract written under the terms of an ISDA Master Agreement and comprised of regular fixed rate payments against regular floating rate payments, both of which regular payments are denominated in the same permitted currency (as set out in the attached Trading Procedures) and are represented as a percentage of a fixed nominal amount.

- 2.4 **The required characteristics of a FRA “cash” leg** approved for basis trading against one or more delivery month(s) of a STIR futures contract must be a conventional FRA written under an ISDA Master Agreement and comprised of a nominal amount, with a predetermined rate from the agreed start date for the tenor of the agreement (as set out in the attached Trading Procedures).
- 2.5 **The required characteristics of a cash bond** approved for basis trading against one or more delivery month(s) of a STIR futures contract shall be the same as those that apply for trading against Bond and LIFFE \overline{EFB} futures contracts. Accordingly any bond (government or non-government) which is a fixed coupon, bullet maturity issue with no embedded optionality or early redemption features, and which has an ISIN code and a fixed principal amount and is denominated in one of the permitted currencies (as set out in the attached Trading Procedures), may be traded as the cash element of a basis trade.
- 2.6 **Acceptable Hedge/Spread Ratios**
- 2.6.1 In order to preserve the characteristics of the BTF and to ensure that the facility is used for genuine cash versus futures activity, the Exchange prescribes the acceptable relationship between the number of futures contracts executed and the value and nature of the “cash” leg. To achieve this, consideration is given to the relative price sensitivity (where applicable) of the two legs and the nominal value traded. In all cases, the number of futures executed will not be tested against the characteristics of the “cash” leg at the point of validation but within any post-trade audit that may be conducted; the “cash” leg must be able to satisfy the following characteristics, that:
- the relationship between the number of LIFFE STIR futures contracts, and the nominal amount of an FRA, IRS or face value of a cash bond transacted against such futures contracts, equates to the nominal value, on a currency adjusted basis, of the “cash” leg against the nominal value of futures traded using a method based upon the ratio of the basis point values of shifts in the yield curve of the cash and futures legs, as set out in the formula below:

$$\# \text{ STIR futures} = \frac{\text{nominal/face value of asset/instrument}}{\text{facevalue of STIR futures}} \times \frac{\text{sensitivity of asset/instrument}}{\text{sensitivity of STIR futures}}$$

- the duration of the futures hedge does not exceed the expiry date of the OTC instrument. For example, a basis trade involving a 2-year IRS starting 1 year forward as the “cash” leg of a basis trade, will not be permitted against futures beyond the third year;
- where the “cash” leg is denominated in a different currency to that of the LIFFE STIR contract, its nominal/face value must be converted into the STIR contract’s currency using the appropriate spot currency exchange rate at the time of organisation.
- the nominal/face value of the “cash” leg must not exceed the nominal value of the largest STIR futures leg traded.

3. OTC options and OTC options strategy against related equity and financial futures contracts

3.1 The BTF is being extended to allow a defined range of LIFFE’s futures contracts to be traded against OTC options and OTC option strategies (e.g. caps, floors, collars, bond options, etc) without execution risk. The OTC option leg must be related to the futures contract in one of the following ways:

- individual stock and equity index options can be traded against all of LIFFE’s FTSE and MSCI index futures contracts; or
- options against bonds, IRS or FRAs can be traded against LIFFE’s STIR, bond or swap futures contracts.

3.2 These types of basis trade are of a new variety for which the current approaches to calculating acceptable hedge ratios (i.e. value for value or duration based) cannot be applied. Accordingly, the hedge ratio for these types of trade will be determined from the delta of the option or the net delta of the options strategy.

3.3 As for all other futures trades executed under the BTF, members will be asked to submit a BTF slip identifying a unique reference code for the OTC options leg. Members will also be required to retain information relating to the OTC options (set out in the attached Trading Procedures) in order that Exchange officials can conduct any post-trade audit (i.e. option price, strike price, option class, underlying instrument, time to expiration and delta of OTC option/option strategy).

4. Asset allocation trades between LIFFE’s futures contracts

4.1 The asset allocation facility currently available allows for the “ex-pit” execution of either: Euroyen (LIBOR) with Euroyen (TIBOR), or Euro (LIBOR) with Euro

(EURIBOR) futures contracts. This facility is now being extended to a wider range of the most natural product combinations.

- 4.2 Given the variety of combinations and asset classes it is necessary to apply one of the two standard hedge ratios, as appropriate. Where the trade involves contracts of the same duration (e.g. FTSE 100 futures versus FTSE Eurotop100 futures) or where no duration bias applies (e.g. Long Gilt futures versus FTSE 100 futures), a currency adjusted nominal value for nominal value ratio will be applied. Where the trade involves products of different duration along the same yield curve (e.g. Short Sterling versus Long Gilt) or different yield curve (e.g. Euro (EURIBOR) versus Long Gilt), then the existing duration based approach that uses the basis point value to align the price sensitivity of each instrument will be applied together with any necessary currency adjustment.
- 4.3 All asset allocation trades must involve two different LIFFE futures contracts. The available combinations under the asset allocation facility will apply to all of LIFFE's financial and index futures contracts, and are:

For combinations of the same duration:

- (i) Equity Index contracts v Equity Index contracts;
- (ii) Equity Index contracts v bond contracts;
- (iii) STIR contracts v STIR contracts;
- (iv) bond contracts v bond contracts;
- (v) bond contracts v swap contracts; and

For combinations of different duration:

- (vi) STIR contracts v bond contracts;
- (vii) STIR contracts v swap contracts;
- (viii) bond contracts v bond contracts;
- (ix) bond contracts v swap contracts; and
- (x) swap contracts v swap contracts.

- 4.4 For the asset allocation trades defined in section 4.3 (i) to 4.3 (v) above, no duration element is involved as exposure is simply being moved from one asset class to another. Such trades will therefore be validated using a nominal value for nominal value hedge ratio, adjusted by currency.

- 4.5 In respect of asset allocation trades between two STIR contracts, only combinations of the same delivery month (e.g. Mar 00 Euro (EURIBOR) versus Mar 00 Short Sterling but not Jun 00 Short Sterling) will be permitted.
- 4.6 For the asset allocation trades defined in section 4.3 (vi) to 4.3 (x) above, a duration based approach that uses the ratio of the basis point values of shifts in the yield curve will be used to account for the relative price sensitivity of the different futures legs.
- 4.7 For both combinations of asset allocation trade, members must submit an Asset Allocation Trade Registration Slip (attached).

5. Trading Procedures and trade publication

- 5.1 Revised sections of the LIFFE CONNECT™ for Futures Trading Procedures are detailed in Attachment 1. These amended procedures replace the existing sections with effect on and from 21 February 2000.
- 5.2 Members should note that price, size and contract month details of the futures leg of a basis trade will continue to be published on LIFFE CONNECT™, and will be distributed to Quote Vendors, marked with the trade type indicator “J”.

6. Further Information

- 6.1 Members seeking further information in relation to this General Notice should contact Nimish Thakker (ext. 2230) or their Account Manager at LIFFE.

BY ORDER OF THE BOARD

NE Carew Hunt
Market Secretary

**LIFFE CONNECT™ for Financial Futures Trading Procedures
in respect of Basis Trades and Asset Allocations**

1. Definitions

1.1.2 In these Trading Procedures, unless otherwise expressly stated:

“approved basis trade instrument” means a security, a basket of securities or an OTC instrument approved for the time being by the Board in relation to a basis trade Exchange Contract specified by the Board;

“asset allocation” means a transaction consisting for one party (“A”) of:

- (i) the purchase of an appropriate number of contracts in the terms of an asset allocation Exchange Contract (A’ s first futures element); simultaneously combined with
- (ii) the sale of an appropriate number of contracts in the terms of another asset allocation Exchange Contract (A’ s second futures element) whereby the ratio between the number of contracts purchased and sold shall be such as to ensure that the purchase and sale have an equal notional value when valued in a common currency;

and, at the same time, for another party (“B”) of:

- (iii) the sale of an appropriate number of contracts in the terms of an asset allocation Exchange Contract (B’ s first futures element); simultaneously combined with
- (iv) the purchase of an appropriate number of contracts in the terms of another asset allocation Exchange Contract (B’ s second futures element) whereby the ratio between the number of contracts sold and purchased shall be such as to ensure that the sale and purchase have an equal notional value when valued in a common currency.

“asset allocation Exchange Contract”	means an Exchange Contract designated by the Board as an Exchange Contract in respect of which contracts comprising one of the futures elements of an asset allocation may be made;
“basis trade”	<p>means a transaction consisting for one party (“A”) of:</p> <ul style="list-style-type: none"> (i) the spot sale of an approved basis trade instrument (A’ s cash element); simultaneously combined with (ii) the purchase of an appropriate number of contracts in the terms of a basis trade Exchange Contract (A’ s futures element); <p>and, at the same time, for another party (“B”) of:</p> <ul style="list-style-type: none"> (iii) the spot purchase of an approved basis trade instrument (B’ s cash element); simultaneously combined with (iv) the sale of an appropriate number of contracts in the terms of a basis trade Exchange Contract (B’ s futures element).
“basis trade Exchange Contract”	means an Exchange Contract designated by the Board as an Exchange Contract in respect of which contracts comprising the futures element of a basis trade may be made;
“cash element or cash leg”	means that part of a basis trade comprising the sale and purchase of approved basis trade instruments;
“futures element or futures leg”	means that part of a basis trade comprising the sale and purchase of contracts in the terms of a basis trade Exchange Contract or one of the elements of an asset allocation comprising the sale and purchase of contracts in the terms of an asset allocation Exchange Contract;

4.16 **Basis Trading Facility**

- 4.16.1 The Exchange provides a Basis Trading Facility (“BTF”) which allows members to organise and execute, subject to Trading Procedure 4.16.2, transactions involving a combination of an approved basis trade instrument and an appropriate number of offsetting Futures Contracts. For the purposes of these Trading Procedures such transactions are called “basis trades”. The Trading Procedures relating to the futures leg of a basis trade contained in Trading Procedures 3.1 – 4.15 (except 4.1) do not apply to basis trades except where such an application is explicitly stated.
- 4.16.2 Any member is permitted to arrange basis trades, subject only to the member having in place arrangements for the execution of the futures leg of a basis trade via a member holding a relevant trading right (“the basis trade executing member”) to trade the basis trade Exchange Contract.
- 4.16.3 A basis trade may be organised only during the trading hours of the Futures Contract concerned, as published by the Board from time to time by General Notice.
- 4.16.4 Basis trades may be transacted only in Exchange Contracts which have been designated by the Board for that purpose. Such designations will be published, from time to time, by General Notice. Basis trades are not permitted in a delivery month of a designated contract which has never traded. The Basis Trading Facility can be used in respect of a delivery month for a futures contract on any trading day up to and including the business day preceding the Last Trading Day of that delivery month.
- 4.16.5 The basis trade executing member is responsible for assigning the price of the futures leg(s) of a basis trade. For the futures leg(s) to be authorised, the price(s) must be at the level trading on LIFFE CONNECT™ at the time the basis trade registration slip is submitted for execution, as specified in Trading Procedure 4.16.9 and 4.16.10, or within the high/low traded price that occurred on LIFFE CONNECT™ in the preceding 30 minutes. In the event that no trade has occurred in the relevant delivery month on that day at the time the basis trade registration slip is submitted for execution or in the preceding 30 minutes, the price of the futures leg(s) of the basis trade must be at or within the high/low traded price calculated by the Exchange maintained algorithm.
- 4.16.6 In relation to a bond forming the cash leg of a basis trade against a government bond futures contract, a LIFFE^{EFB} futures contract or one or more delivery month(s) of a short term interest rate futures contract, the basis trade executing member must provide the Exchange with the clean cash price of the bond, as specified in Trading Procedure 4.16.9. The Exchange does not require the provision of the cash price of any other type of security or OTC instrument, which may form the cash leg of a basis trade.

4.16.7 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 LIFFEEFB 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, LIFFEEFB 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;
- (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) European or American style OTC interest rate options (bond options, swaptions) against bond futures contracts, LIFFEEFB 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;
- (g) 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;
- (h) 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.

Where a hedge ratio differs from such methods, the member who is presenting the trade for authorisation (see Trading Procedure 4.16.8) may be required to justify the method employed.

4.16.7B [DELETED].

4.16.8 After a basis trade has been organised the member, or where the basis trade has been organised between two members, the member who will be the seller of the futures leg of the basis trade, must execute the futures leg of the basis trade as a cross transaction, as specified in Trading Procedures 4.16.9 – 4.16.13, or must procure that the futures leg of the basis trade is so executed by another appropriately authorised member.

4.16.8A [DELETED]

4.16.9 Where a basis trade involves a government bond futures contract, a LIFFE~~EF~~B futures contract, or one or more delivery month(s) of a short term interest rate futures contract against a cash bond, in respect of each basis trade, the following details must be recorded on a basis trade registration slip by the basis trade executing member:

- (i) time of organisation;
- (ii) executing member mnemonic;
- (iii) Futures Contract(s) in which the BTF is being transacted;
- (iv) delivery month(s);
- (v) agreed futures price(s);
- (vi) number of Futures Contracts;
- (vii) cash bond ISIN number;
- (viii) clean cash price;
- (ix) hedge ratio methodology (for government bond futures contracts against deliverable bonds only);
- (x) name and signature of individual presenting the trade;
- (xi) time stamp (at point of completion of the trade registration slip); and
- (xii) fax number of basis trade executing member.

In addition, the basis trade executing member must retain, in an easily accessible form that can be audited by the Exchange, documentary evidence of the following information:

- (a) coupon and maturity of the cash bond;
- (b) frequency of coupon payments;
- (c) currency of cash bond; and

- (d) nominal value of cash bond.

All information required to be retained by the basis trade executing member, pursuant to this Trading Procedure 4.16.9, must be retained by the member for 3 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 the cash leg such that the information in (a) – (d) above can be provided promptly to the Exchange.

4.16.10 Where a basis trade involves a government bond futures contract, a LIFFEFB futures contract or one or more delivery month(s) of a short term interest rate futures contract against a plain vanilla OTC swap the following details must be recorded on a basis trade registration slip by the basis trade executing member:

- (i) time of organisation;
- (ii) executing member mnemonic;
- (iii) Futures Contract(s) in which the BTF is being transacted;
- (iv) delivery month(s);
- (v) agreed futures price(s);
- (vi) number of Futures Contracts;
- (vii) name and signature of individual presenting the trade;
- (viii) time stamp (at point of completion of the trade registration slip); and
- (ix) fax number of basis trade executing member.

The basis trade executing member must also record on the basis trade registration slip the **unique identifier/reference number of the swap transaction**. The basis trade executing member must retain, in an easily accessible form that can be audited by the Exchange, documentary evidence which contains the following information:

- (i) the cash market counterparty identifier(s) for the cash leg;
- (ii) fixed rate of the swap, including accrual convention;
- (iii) floating reference rate of the swap;
- (iv) termination/maturity date;
- (v) effective (start) date of the swap;

- (vi) next fixed and floating reset dates of the swap;
- (vii) replacement/liquidation value of the swap;
- (viii) frequency of payments;
- (ix) currency of floating and fixed legs of the swap; and
- (x) nominal value of the swap.

Where a basis trade involves one or more delivery month(s) of a short term interest rate futures contract against a FRA the following details must be recorded on a basis trade registration slip by the basis trade executing member:

- (i) time of organisation;
- (ii) executing member mnemonic;
- (iii) Futures Contract(s) in which the BTF is being transacted;
- (iv) delivery month(s);
- (v) agreed futures price(s);
- (vi) number of Futures Contracts;
- (vii) name and signature of individual presenting the trade;
- (viii) time stamp (at point of completion of the trade registration slip); and
- (ix) fax number of basis trade executing member.

The basis trade executing member must also record on the basis trade registration slip the **unique identifier/reference number of the FRA transaction**. The basis trade executing member must retain, in an easily accessible form that can be audited by the Exchange, documentary evidence which contains the following information:

- (i) the cash market counterparty identifier(s) for the cash leg;
- (ii) reference rate of the FRA;
- (iii) termination/maturity date;
- (iv) effective (start) date of the FRA;
- (v) replacement/liquidation value of the FRA;
- (vi) currency of the FRA; and

- (vii) nominal value of the FRA.

All information required to be retained by the basis trade executing member, pursuant to this Trading Procedure 4.16.10, must be retained by the member for 3 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 (i) - (x) above can be provided promptly to the Exchange.

4.16.10A Where a basis trade involves equity index futures contracts against a basket of equity securities, the following details must be recorded on the basis trade registration slip by the basis trade executing member:

- (i) time of organisation;
- (ii) executing member mnemonic;
- (iii) Futures Contract in which the BTF is being transacted;
- (iv) delivery month;
- (v) agreed futures price;
- (vi) number of Futures Contracts;
- (vii) a unique identifier/reference number for the basket of equity securities transaction;
- (viii) name and signature of individual presenting the trade;
- (ix) time stamp (at point of completion of the trade registration slip); and
- (x) fax number of basis trade executing member.

In addition, the basis trade executing member must retain, in an easily accessible form that can be audited by the Exchange, documentary evidence of the following information:

- (a) the identity and volume traded of each equity security comprising the basket;
- (b) the price (including currency) at which each equity security was traded; and
- (c) any supplementary cash payment made in conjunction with the transaction.

All information required to be retained by the basis trade executing member, pursuant to this Trading Procedure 4.16.10A, must be retained by the member for 3 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 (a) - (c) above can be provided promptly to the Exchange.

4.16.10B Where a basis trade involves a government bond futures contract, a LIFFEFB futures contract, one or more delivery month(s) of a short term interest rate futures contract, or equity index futures contracts against an OTC option/options strategy, the following details must be recorded on the basis trade registration slip by the basis trade executing member:

- (i) time of organisation;
- (ii) executing member mnemonic;
- (iii) Futures Contract(s) in which the BTF is being transacted;
- (iv) delivery month(s);
- (v) agreed futures price(s);
- (vi) number of Futures Contracts;
- (vii) a unique identifier/reference number for the OTC options/options strategy transaction;
- (viii) name and signature of individual presenting the trade;
- (ix) time stamp (at point of completion of the trade registration slip); and
- (x) fax number of basis trade executing member.

In addition, the basis trade executing member must retain, in an easily accessible form that can be audited by the Exchange, documentary evidence of the following information:

- (a) the price(s) (including currency) and nominal value of the OTC option/options strategy;
- (b) the strike price(s) of the OTC option/options strategy;
- (c) class – call(s) and/or put(s);
- (d) the price(s) of the underlying instrument(s) for the OTC option/options strategy;
- (e) the time to expiration of the OTC option/options strategy; and
- (f) the delta of the OTC option/options strategy.

All information required to be retained by the basis trade executing member, pursuant to this Trading Procedure 4.16.10A1, must be retained by the member for 3 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 (a) - (e) above can be provided promptly to the Exchange.

- 4.16.11 The completed basis trade registration slip must be faxed or e-mailed to the Market Control Centre (fax number: 329 3976/7; e-mail address: block_basis@liffe.com) by the basis trade executing member within 30 minutes of the time at which the basis trade was organised. No basis trade can be submitted for execution later than 15 minutes prior to the close of trading of the Futures Contract in which the basis trade is being transacted. An exchange official will check the validity of the details submitted on the basis trade registration slip. If the exchange official is satisfied that all such details are valid, he will declare that the futures leg of the basis trade is executed. The exchange official will then add the following information to the basis trade registration slip:
- (i) time stamp (at point of execution);
 - (ii) signature of exchange official; and
 - (iii) basis trade identifier (unique alpha-numeric code given to the trade by the Exchange).
- 4.16.11A If a member intends to submit Basis Trade registration slips to the Exchange via e-mail, the e-mail address to be used by the member for that purpose must be lodged with the Exchange in advance of using such e-mail address for Basis Trade submission. Such notifications should be sent to block_basis@liffe.com.
- 4.16.12 The Exchange will retain the authorised basis trade registration slip and will return by fax / e-mail a copy of the authorised basis trade registration slip to the basis trade executing member. Details of the executed futures leg(s) of a basis trade will be input to TRS by the Exchange. Details of the futures leg(s) of a basis trade cannot be entered into TRS via DMI, or by submission of a trade registration slip to the Exchange TRS area.
- 4.16.13 Authorisation by an exchange official of a transaction does not preclude the Exchange from instigating disciplinary proceedings in the event that the transaction is subsequently found to have been made other than in compliance with Exchange Rules and Trading Procedures.
- 4.16.14 The following information with respect to the futures leg of a basis trade will be published on LIFFE CONNECT™:
- (i) Futures Contract(s) and delivery month(s);
 - (ii) futures price(s); and
 - (iii) volume of futures traded.

In addition, these details will be distributed to Quote Vendors, marked with the trade type indicator “J”.

For each Exchange Contract, the cumulative volume of futures traded as the futures leg of basis trades/asset allocations during the day will also be published.

- 4.16.15 Both the long and short positions associated with the futures leg(s) of a basis trade will be entered into TRS and matched under the basis trade executing member’s mnemonic.
- 4.16.16 Upon request by the Market Supervision Department the basis trade executing member must produce satisfactory evidence that the basis trades have been organised in accordance with the Rules and Trading Procedures. Basis trade executing members must, therefore, be in a position to supply documentary evidence in connection with a basis trade, including, but not limited to, evidence confirming the cash leg of basis trades.

Basis trade executing members may also be required from time to time by the Market Supervision Department to request, and copy to the Exchange, confirmation of the details of the cash leg of a basis trade where another party was responsible for the execution of the cash leg.

Failure to provide satisfactory evidence in accordance with these Trading Procedures may result in the instigation of disciplinary action under Section 5 of the Rules. Sanctions available under Section 5 of the Rules rise to the suspension of some/all of a member’s rights.

4.16A Asset Allocation Facility

- 4.16A.1 The Exchange provides an Asset Allocation Facility (“AAF”) which allows members to organise and execute, subject to Trading Procedure 4.16A.2, transactions involving an Exchange specified combination of two Exchange Contracts in an appropriate ratio. For the purposes of these Trading Procedures such transactions are called “asset allocations”. The Trading Procedures relating to the individual legs of an asset allocation contained in Trading Procedure 3.1 – 4.15 (except 4.1) do not apply to asset allocations except where such an application is explicitly stated.
- 4.16A.2 Any member is permitted to arrange asset allocations, subject only to the member having in place arrangements for the execution of the individual legs of the asset allocation via a member holding a relevant trading right (“the asset allocation executing member”) to trade the asset allocation Exchange Contracts.
- 4.16A.3 An asset allocation may be organised only during the hours of the Futures Contracts concerned, as published by the Board from time to time by General Notice.

- 4.16.A.4 Asset allocations may be transacted only in Exchange Contracts which have been designated by the Board for that purpose. Such designations will be published, from time to time, by General Notice. Asset allocations are not permitted in respect of a delivery month of a designated contract which has never traded. The Asset Allocation Facility can be used in respect of a delivery month for a Futures Contract on any trading day up to and including the business day preceding the Last Trading Day of that delivery month.
- 4.16.A.5 The asset allocation executing member is responsible for assigning the price of the individual legs of an asset allocation. For the individual legs to be authorised, the prices must be at the level trading on LIFFE CONNECT™ at the time the asset allocation is submitted for execution, as specified in Trading Procedure 4.16A.8, or within the high/low traded price that occurred on LIFFE CONNECT™ in the preceding 30 minutes. In the event that no trade has occurred in the relevant delivery month on that day at the time the asset allocation registration slip is submitted for execution or in the preceding 30 minutes, the price of the individual legs of the asset allocation must be at or within the high/low traded price calculated by an Exchange maintained algorithm.
- 4.16.A.6 The hedge ratio considered acceptable will be either:
- (a) for contracts of the same duration or asset class (e.g. FTSE 100 futures versus FTSE Eurotop 100 futures) or where no duration bias applies (e.g. Long Gilt futures versus FTSE 100 futures): nominal value for nominal value (currency converted if applicable); or
 - (b) for contracts of different duration along the same (e.g. Short Sterling futures versus Long Gilt futures) or different (e.g. Euro (EURIBOR) futures versus Long Gilt futures) yield curve: a method based upon the ratio of the basis point values of shifts in the yield curve of, respectively, the relevant futures legs.
- 4.16.A.7 After an asset allocation has been organised the member, or where the asset allocation has been organised between two members, the member who will be the seller of the first futures leg of the asset allocation, must execute the futures leg of the asset allocation as cross transactions, as specified in Trading Procedure 4.16A.8, or must procure that the individual legs of the asset allocation are so executed by another appropriately authorised member.
- 4.16.A.8 In respect of each asset allocation, the following details must be recorded on an asset allocation registration slip by the asset allocation executing member;
- (i) time of organisation;
 - (ii) executing member mnemonic;
 - (iii) each Futures Contract in which the asset allocation is being transacted;

- (iv) Delivery month(s) of the Futures Contracts;
- (v) Agreed futures prices;
- (vi) Number of lots of each Futures Contract;
- (vii) Name and signature of individual presenting the trade;
- (viii) Time stamp (at point of completion of the trade registration slip); and
- (ix) Fax number of asset allocation executing member.

All information required to be retained by the asset allocation executing member, pursuant to this Trading Procedure 4.16A.8, must be retained by the member for three years.

4.16A.9 The completed asset allocation registration slip must be faxed or e-mailed to the Market Control Centre (fax number 329 3976/7; e-mail address: block_basis@liffe.com) by the asset allocation executing member within 30 minutes of the time at which the asset allocation was organised. No asset allocation can be submitted for execution later than 15 minutes prior to the close of trading of the Futures Contracts concerned. In the case of contracts with different closing times, no asset allocation can be submitted for execution later than 15 minutes prior to the earliest close of trading of the contracts concerned. An exchange official will check the validity of the details submitted on the asset allocation registration slip. If the exchange official is satisfied that all such details are valid, he will declare that the asset allocation is executed. The exchange official will then add the following information to the asset allocation registration slip:

- (i) time stamp (at point of execution);
- (ii) signature of exchange official;
- (iii) asset allocation identifier (unique alpha numeric code given to the trade by the Exchange).

4.16A.10 If a member intends to submit asset allocation slips to the Exchange via e-mail, the e-mail address to be used by the member for that purpose must be lodged with the Exchange in advance of using such e-mail address for asset allocation submission. Such notifications must be sent to block_basis@liffe.com.

4.16A.11 The Exchange will retain the authorised asset allocation slip and will return by fax/e-mail a copy of the authorised asset allocation slip to the asset allocation executing member. Details of the executed individual legs of an asset allocation cannot be entered into TRS via DMI, or by submission of a trade registration slip to the Exchange TRS area.

- 4.16A.12 Authorisation by an exchange official of a transaction does not preclude the Exchange from instigating disciplinary proceedings in the event that the transaction is subsequently found to have been made other than in compliance with the Exchange Rules and Trading Procedures.
- 4.16A.13 The following information with respect to the individual legs of the asset allocation will be published on LIFFE CONNECT™:
- (i) Futures Contracts and delivery month(s);
 - (ii) futures prices; and
 - (iii) volume of futures traded.

In addition, these details will be distributed to Quote Vendors, marked with the trade type indicator “J”.

For each Exchange Contract, the cumulative volume of futures traded as asset allocations/basis trades during the day will also be published.

- 4.16A.14 Both the long and short positions associated with the individual legs of the asset allocation will be entered into TRS and matched under the asset allocation executing member’s mnemonic.
- 4.16A.15 Upon request by the Market Supervision department the asset allocation executing member must produce satisfactory evidence that the asset allocation has been organised in accordance with the Rules and Trading Procedures. Asset allocation executing members must, therefore, be in a position to supply documentary evidence in connection with an asset allocation.

Failure to provide satisfactory evidence in accordance with these Trading Procedures may result in the instigation of disciplinary action under section 5 of the Rules. Sanctions available under Section 5 of the Rules rise to the suspension/expulsion of some/all of a members’ rights.

BASIS TRADE REGISTRATION SLIP

(Effective 21 February 2000)

Slip can be e-mailed to the Market Control Centre at block_basis@liffe.comOR faxed the Market Control Centre on **0171 329 3976/7**

To be completed by member	
Time Stamp	
Time of Organisation	
Executing Member mnemonic	
Contract Code	FOR STIR STRIP COMBINATIONS*
Delivery Month(s)	
Futures Price(s)	
Number of lots	
FOR BOND & LIFEEFB FUTURES	
For bond cash legs:	
Cash Bond Code – ISIN only	
Clean cash price	
Hedge Ratio <i>(for government bond futures contracts against deliverable bonds only)</i>	Price Factor / Duration Approach (Delete as appropriate)
For swap legs:	
Unique swap identifying number	
FOR EQUITY INDEX FUTURES	
Unique stock basket identifying number	
FOR STIR FUTURES	
Unique FRA/swap identifying number	
FOR OTC OPTIONS	
Unique OTC option identifying number	
Individual presenting Basis Trade Name	
Signature	
Fax number of basis trade executing member	
To be completed by Exchange Official	
Basis Trade Identifier	
Trade Authorisation - Signature	
Time Stamp	Copies of this must be held as follows: 1 – Retained by Exchange 1 – Retained by Executing Member 1 - Passed to Clearing Member of Executing Member
* Tick for continuation sheet – <i>for STIR strips only</i> <i>sheet of sheets in total</i>	

ASSET ALLOCATION BASIS TRADE REGISTRATION SLIP**(Effective 21 February 2000)**Slip can be e-mailed to the Market Control Centre at block_basis@liffe.comOR faxed the Market Control Centre on **0171 329 3976/7**

Time Stamp						
Time of Organisation						
Executing Member mnemonic						
FIRST FUTURES ELEMENT (LEG 1)		FOR STIR STRIP COMBINATIONS *				
Contract Code						
Delivery Month						
Futures Price						
Number of lots						
SECOND FUTURES ELEMENT (LEG 2)		FOR STIR STRIP COMBINATIONS *				
Contract Code						
Delivery Month						
Futures Price						
Number of lots						
Individual presenting Basis Trade Name:						
Signature :						
Fax number of basis trade executing member						
Telephone number of basis trade executing member						
TO BE COMPLETED BY AN EXCHANGE OFFICIAL						
Basis Trade Identifier						
Trade Authorisation – Signature						
Time Stamp	Copies of this must be held as follows: 1 – Retained by Exchange 1 – Retained by Executing Member 1 - Passed to Clearing Member of Executing Member					
* Tick for continuation sheet – <i>for STIR strips only</i> <i>sheet .. of..... sheets in total</i>						