

LIFFE GENERAL NOTICE NO: 2515

ISSUE DATE: 17 September 2004

EFFECTIVE: 24 September 2004

PRE-NEGOTIATION OF LIFFE BUSINESS

Executive Summary

This General Notice informs members of new requirements in relation to the pre-negotiation of LIFFE business.

1. In response to member demand, the Exchange issued LIFFE Circular No. 04/15 on 5 February 2004 in order to provide guidance on the quotation of bids and offers during pre-negotiation discussions, specifically in relation to the minimum price movement of Exchange Contracts. Since LIFFE Circular No. 04/15 was issued it has come to light that the spirit of that guidance may not have been followed in all cases. The Exchange has therefore decided to issue this General Notice, which complements LIFFE Circular No. 04/15.
2. The practice of requesting or making prices within the minimum price movement can be problematic in the case of most Exchange Contracts, given the nature of the markets in those Contracts and the manner in which such Contracts are currently traded.
3. Notwithstanding this, the Exchange recognises that the dynamics which apply to most Exchange Contracts do not necessarily apply to all equity products. For example, the Exchange appreciates that for Universal Stock Futures Contracts there is general agreement that the ability in the negotiation of business to seek and to provide pricing within the relevant minimum price movement is a desirable feature of the market. **For equity products (i.e. standard and flexible Equity and Index Options, Index Futures and Universal Stock Futures Contracts)**, members are therefore advised that, pending further dialogue with market participants, they may offer their clients or negotiate with other members an aggregate or average price inside the minimum price movement (which requires execution at two or more price levels to achieve the desired price) provided, where relevant, the client is made aware of the legging risk involved in executing such business and such business is conducted in compliance with all relevant LIFFE Rules and Trading Procedures.
4. **In respect of all Exchange Contracts other than equity products**, the Exchange has hereby resolved to introduce new requirements which stipulate that, during pre-negotiation discussions, a relevant person shall not request or make contingent quotes or agree to facilitate contingent orders from a client in the same series, delivery month or strategy which would have the effect of achieving a transaction at an aggregate or average price inside the minimum price movement of the Contract concerned. Such requirements shall be introduced on and from **24 September 2004**.

5. For the avoidance of doubt, members are advised that failure to comply with the requirements contained in this General Notice may lead to disciplinary action under Section 5 of the LIFFE Rules (Rules, Book II).
6. The Exchange appreciates that situations may arise in which business has been transacted in compliance with these requirements that could nonetheless give an impression that the requirements may have been breached (e.g. where two non-contingent trades have been executed in quick succession at different price levels). Given this possibility, members may wish to ensure that appropriate records are maintained which would enable them easily to demonstrate that no such breach had occurred.
7. The Exchange will keep the requirements under review and, if warranted, may extend them to some or all equity products in due course.
8. Members seeking further information in relation to this General Notice should contact Laurence Walton (+44 (0) 20 7379 2782) or their Account Manager at Euronext.liffe.

BY ORDER OF THE BOARD

N E Carew Hunt
Market Secretary