Liffe INFO-FLASH NO. LO14/55

Issue Date: 17 June 2014

FTSE 100 DECLARED DIVIDEND INDEX CONTRACT
(EXCHANGE CONTRACT NO. 98B)

RENEWAL OF THE PRIMARY MARKET MAKER PROGRAMME

Executive Summary

This Info-Flash invites Members to apply to participate in the renewal of the Primary Market Maker (“PMM”) Programme in respect of the FTSE 100 Declared Dividend Index Contract. The Programme will run from 1 July 2014 to 31 December 2014.

1. Introduction

1.1 London Info-Flash No. LO13/40, issued on 10 June 2013, informed Members of the renewal of the Primary Market Maker (“PMM”) Programme in respect of the FTSE 100 Declared Dividend Index Contract from 1 July 2013 until 30 June 2014.

1.2 This Info-Flash advises Members of the renewal of the PMM Programme and invites Members to apply. The PMM Programme will run from 1 July 2014 until close of business on 31 December 2014.

1.3 Subject to the completion of the legal agreements, PMMs currently appointed on the Programme will be deemed to continue as a participant unless the Exchange is otherwise notified.

1.4 The appointed PMMs will benefit from Exchange and Clearing fee reductions in return for fulfilling quantified market obligations.

1.5 The details of the PMM Programme are explained in the remainder of this Info-Flash.

2. PMM role

2.1 A PMM will have the obligation to maintain two-way prices with a maximum spread of 8 Index Points in the first seven December maturities. The size obligation for each maturity is set at 100 lots.

2.2 In order to benefit from the maximum Exchange and Clearing fee reduction, PMMs are required to provide two-way prices for 90% of the trading day (the “Continuous Measurement”) and for 90% of the last 5 minutes of the trading day (the “Closing Measurement”).

2.3 Details of exemptions that may be applied to the above PMM obligations can be found in the Attachment to this Info-Flash.
3. **Performance Bands and Fee Incentives**

3.1 The financial incentives for PMMs will comprise Exchange and Clearing fee reductions. These will be determined by each PMM’s performance against his market obligations. The following table shows the final Exchange and Clearing fees based upon the different performance bands and effective per lot Exchange and Clearing fees to be charged in relation to the PMMs:

<table>
<thead>
<tr>
<th>Performance Band</th>
<th>Performance score</th>
<th>Exchange and Clearing Fee Per Lot</th>
</tr>
</thead>
<tbody>
<tr>
<td>Band 1</td>
<td>≥ 90.0%</td>
<td>8p</td>
</tr>
<tr>
<td>Band 2(^1)</td>
<td>&gt; 70.0% &lt; 90.0%</td>
<td>L=8p H=18p % fee=0.5p</td>
</tr>
<tr>
<td>Band 3</td>
<td>≥ 50.0% - ≤ 70.0%</td>
<td>18p</td>
</tr>
<tr>
<td>Band 4</td>
<td>&lt; 50.0%</td>
<td>23p</td>
</tr>
</tbody>
</table>

**Example:**

A PMM who has performed his market obligation for 87% (Band 2) of the relevant period during the trading day (taking into account the Continuous, Open and the Closing Measurements), will pay an effective fee of 9.5p per lot per side. At 90% performance (Band 1) an 8p fee would have applied. Each percentage point below Band 1 equates to an additional 0.5p charge. i.e. 8+(90-87)*0.5=9.5p.

3.2 Per lot Exchange and Clearing fee reductions will be applied to all of the PMM’s proprietary business booked to the House “H” or Market Making “M” accounts, whether executed via the Central Order Book or reported via Bclear.

4. **Performance measurement for PMMs**

4.1 A PMM must assign market making business in the Contract to the Market Making “M” account. Performance measurement will be based upon assigned ITM(s) only. Members must provide the Exchange with details of the specific ITMs by which this business may be identified.

4.2 A daily performance percentage is calculated, which is equal to the weighted average of the daily Continuous and Closing Measurements. The Continuous and Closing Measurement results are multiplied by the Continuous and Closing Measurement weight factors respectively. Thereafter, the sum of these two scores determines the final daily performance percentage. The monthly performance is equal to the sum of the daily performance percentages:

Continuous Measurement weight factor: 75%
Closing Measurement weight factor: 25%

\(^1\) The Band 2 performance fee is calculated as a linear function of the difference in fee between Band 1 and Band 3 divided by the difference in the performance band percentage between Band 1 and Band 3
4.3 Any PMM encountering technical problems which could prevent it from complying with its obligations must inform Liffe Market Services by telephone as quickly as possible (+44 (0)20 7379 2001). Once the technical issue has been resolved, the market maker concerned may send a request for its performance measurement to be adjusted, along with the description of the problem and the solution, by email to: LPEurope@nyx.com. Liffe will decide whether or not there are sufficient grounds for making an adjustment to the calculation of the market maker’s monthly performance.

5. Application Process

5.1 All Members with the appropriate trading rights are eligible to apply for PMM status. Applicants should complete the Application Form available on the website: www.nyx.com/elps. The Application Form should be sent to the Business Statistics & Data Intelligence department via fax (+31 (0)20 550 5101) or email (LPEurope@nyx.com) by no later than the close of business on 24 June 2014.

5.2 Members are reminded that the appointment of a PMM is subject to a binding contract (“the Agreement”) between the successful applicant and the Exchange. A completed application form does not constitute an Agreement. Furthermore, a successful applicant’s market maker status, and therefore the period for which the market maker may receive financial benefits, may not be deemed to have commenced until the Agreement is completed and signed by all parties.

6. Selection of PMMs

6.1 The Exchange will select a maximum of three PMMs on the basis of:

(a) the quality of their market making in previous FTSE 100 Dividend Index Programmes or on other Exchange-operated programmes (in terms of performance and quote efficiency) where applicable; and

(b) the technological and human resources to be allocated to the market making activity.

6.2 A Review Panel, comprising Market Services, Equities Product and Market Development and Regulatory and Legal Management will select the PMMs with a view to maximizing the quality of the Exchange’s market in the Contract. The Review Panel’s decision is final.

6.3 If, having completed this process not all market making roles have been taken, any remaining positions will be held open for the remainder of the Programme period and may be filled during that period by a subsequent appointment.

7. Discretionary authority

7.1 The Exchange, in its absolute discretion, may limit or create additional role(s) during the selection process and Programme period if it deems it is in the best interests of the market.

7.2 The Exchange reserves the right to terminate at any time, with immediate effect the role of any PMM in whole or in part if it believes, in its absolute discretion, that actions undertaken or being undertaken by that PMM, or any affiliate of the PMM, undermine or are likely to undermine the integrity and quality of the market considering, without limitation, the objectives of the
8. Billing arrangements

8.1 For market making business allocated to the Market Making Account, the relevant Exchange and Clearing fee will be charged on a monthly basis in arrears, depending on a PMMs performance against contractually defined obligations during the month concerned (i.e. using the table set out under paragraph 3.1).

8.2 For a market maker’s proprietary business allocated to the House Account, Exchange and Clearing 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 the full Exchange and Clearing fee per lot, per side. The Exchange will then calculate the rebates for the approved PMM(s) and will make rebates to Clearing Members during the following calendar month. For example, rebates for a market maker’s proprietary business transacted in July 2014 will be calculated in August 2014 for payment to Clearing Members at the beginning of September 2014.

8.3 In the event that any business which may give rise to a benefit under the terms of the PMM Programme may also qualify as business undertaken by the PMM giving rise to a benefit under any other Exchange market making, liquidity provision, or other similar programme or arrangement (“Other Arrangements”) (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) withhold the credit of any further rebates otherwise due under the PMM Programme; and

(c) re-charge some or all of the rebates made under the Other Arrangements or the PMM Programme.

8.4 The Exchange reserves the right in its absolute discretion to terminate the PMM Programme by Notice.

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

Business Statistics & Data Intelligence +31 (0)20 550 5110 LPEurope@nyx.com
Exemptions to PMM obligations in respect of the FTSE 100 Declared Dividend Index Contract

1. A PMM may, subject to notifying Liffe Market Services in advance, relax its commitment if it has breached internal trading limits. In such circumstances the Exchange may require evidence to support such action and may additionally, at its discretion, review and/or amend benefits accordingly.

2. A PMM may, subject to the prior approval of Liffe Market Services, relax its commitment in periods of increased underlying stock market volatility. In this event, the PMM may widen the maximum bid-offer spreads to which the PMM has committed, but must quote continuously.

3. A PMM may, subject to notifying Liffe Market Services in advance, relax or suspend its market making activity in a specific contract or all contracts in the event of a failure of any computer hardware or software of the PMM or the Exchange or any telecommunications connections, lines or devices between them which prevent the PMM from fulfilling its obligations. In such circumstances the Exchange may require evidence to support such action, and may additionally, at its discretion, review and/or amend benefits accordingly.