

**NOTICE**

April 1, 2010

**Category(ies):**  
Trading; General

**Attachments:**  
Revised sections of Rules 8C and 8D

**Summary of content**

Changes to NOS program, including introduction of delta-neutral futures, effective Monday, April 5, 2010.

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**Enhancements to Negotiated Option Strategy (“NOS”) rules**

Effective Monday, April 5, 2010

In August 2008, ICE Futures Canada introduced rules permitting Negotiated Option Strategy trades (NOS). This permits eligible counterparties to conduct bilateral negotiations for strategies comprised of exchange-traded options contracts. The rule requirements for NOS transactions are set out at Rule 8D.14.

In response to requests, and in consultation with the Options Committee, the Exchange has revised the NOS rules to permit the inclusion of futures on a delta neutral basis, as attached. Non-disapproval has been received from the Manitoba Securities Commission, and the new Rules will be effective on **Monday, April 5, 2010**.

Highlights of the rule revisions include:

- A futures contract may be included in a NOS transaction, provided that it is the underlying contract to the options leg of the NOS. For example, an NOS could consist of November/10 350 call options against November/10 futures.
- A maximum of one leg of an NOS may be a futures contract. However, an NOS involving futures may have more than one options leg. Options-only NOS transactions involving two (or more) options legs are also still permitted.
- The volume of futures in an NOS transaction must be determined by using the prevailing delta of the option(s) leg(s).
- There are now minimum quantities for the options leg(s) of all NOS:

<u>Type of NOS</u>	<u>Minimum options quantity</u>
Options only	100 contracts
Delta-neutral	200 contracts

These minimums apply to the total number of options in the NOS. For example, an options-only NOS involving two options legs would require each options leg to have a minimum quantity of 50 contracts.

- The quoting and pricing requirements in the previous NOS rules have been removed, in favour of a “fair and reasonable” pricing evaluation.
- All negotiations respecting NOS transactions must now begin with an “Initial Expression of Interest”, detailing the NOS transaction sought, and must be circulated by email to all individuals on the Eligible Counterparty list published by the

Exchange. Negotiations may then occur bilaterally; however, any revisions to the specifications of the NOS – other than price and quantity – require a new Initial Expression of Interest to be circulated to all individuals on the Eligible Counterparty list. .

- The method of submitting NOS trades through the Participant's clearing firm, and the requirement to notify the Exchange within 15 minutes of an NOS transaction, remain in force. **Clearing Participants should use the new "R" trade type when entering NOS transaction legs into the clearing system**, as noted in the clearing notice circulated on March 26.

It is important to note that individuals who are interested in participating in NOS negotiations must (a) be a registered Participant of the Exchange, or an employee of a registered Participant, and (b) request that their name and contact information be placed on the Eligible Counterparty list that is maintained by the Exchange. Individuals interested in adding their name to the Eligible Counterparty list must send an email to the address noted in the Rule: [canadaclearingsupport@theice.com](mailto:canadaclearingsupport@theice.com)

The Eligible Counterparty list can be found on the Exchange's website at:

[https://www.theice.com/publicdocs/futures\\_canada/NOS\\_Eligible\\_Counterparties\\_List.pdf](https://www.theice.com/publicdocs/futures_canada/NOS_Eligible_Counterparties_List.pdf)

Any questions on NOS rules may be directed to Steve Teller at (204) 925-5019 or [steve.teller@theice.com](mailto:steve.teller@theice.com). Questions on operational or clearing aspects of NOS may be directed to Wenzel Lieb at (204) 925-5017 or [wenzel.lieb@theice.com](mailto:wenzel.lieb@theice.com)

The following text has been added /~~deleted~~:

#### 8C.09 Negotiated Option Strategy

A Negotiated Option Strategy is a Clearing System Transaction involving ~~Exchange Traded Options which must~~ at least two separate underlying Exchange-listed contracts ("Legs"), and:

- a. At least one of the Legs must be an Exchange Traded Option;
- b. No more than one of the Legs may be an Exchange Traded Future
- c. If one Leg is an Exchange Traded Future, it must be the underlying Exchange Traded Future to the Exchange Traded Option Series forming the other leg of the Negotiated Option Strategy;
- d. If all Legs are Exchange Traded Options, they must be of different Series.

~~include two or more different listed options Series.~~ A Negotiated Option Strategy is negotiated on a bi-lateral basis between Eligible Counterparties and must adhere to the requirements as set out in Rule 8D.01.

#### 8D.01 Options Definitions

- a. **"Exchange Traded Option" means** an option listed by ICE Futures Canada which is traded on the Trading System.
- b. **"Class" means**, all options of the same Type covering the same Underlying Interest.
- c. **"Type" means**, the classification of an option as either a "put" or a "call".
- d. **"Series" means** all options of the same Type, covering the same Underlying Interest and having the same Exercise Price and Expiration Date.
- e. **Negotiated Option Strategy** – is defined in Rule 8C.09;
- f. **Eligible Counterparties** are individuals permitted to negotiate the terms of a Negotiated Option Strategy and must be individuals who are registered with the Exchange as Participants or who are employees of registered Participants, who have provided their contact information to the exchange in such form as the Exchange requires.
- g. **"Exchange Traded Future" means** a futures contract listed by ICE Futures Canada which is traded on the Trading System.
- h. **"Initial Expression of Interest" means** the communication of interest in a particular Negotiated Option Strategy by an Eligible Counterparty.

#### 8D.14 Negotiated Option Strategy

- a. Except as specifically set out herein, all Rules pertaining to Exchange Traded Options shall apply to a Negotiated Option Strategy.
- b. Only Eligible Counterparties may negotiate the terms of a Negotiated Option Strategy.
- e. ~~To qualify as a Negotiated Option Strategy a trade must be comprised of at least two (2) different options Series, each of which must be~~
  - i. ~~Currently listed for trading as an Exchange Traded Option, and~~
  - ii. ~~Currently quoted, either bid or offered or both, in the Trading System at the time of the negotiations.~~
- d. ~~The price of each option Series that make up a Negotiated Option Strategy must be at or above the best bid and/or at or below the best offer of the Exchange Traded Option in the Trading System at the time of the negotiations.~~
- c. Minimum quantities shall apply to the Exchange Traded Option leg(s) of all Negotiated Option Strategies. This minimum quantity shall be assessed on the total volume represented by all options legs of the Negotiated Option Strategy, and shall be as follows:
  1. In the case of Negotiated Options Strategies involving an Exchange Traded Futures leg, a minimum options quantity of 200 contracts.
  2. In the case of options-only Negotiated Option Strategies, a minimum options quantity of 100 contracts.
- d. In the case of Negotiated Option Strategies involving an Exchange Traded Futures leg, the quantity of such leg shall be determined in conjunction with the prevailing delta(s) for the Exchange Listed Option leg(s), on a delta-neutral basis, within a fair and reasonable calculation of futures volume.

- e. The price of each leg of a Negotiated Option Strategy shall be fair and reasonable in light of the size of the Negotiated Option Strategy, and the price and size of other trades in the same contracts in the Electronic Trading System at the relevant time.
  - f. Negotiated Option Strategies may only be transacted during the hours in which trading on the Electronic Trading System is open for the contracts involved in the strategy.
  - g. All transactions in Negotiated Option Strategies must begin with an Initial Expression of Interest.
  - h. An Initial Expression of Interest must contain specific information on the option(s) series and futures contract (where applicable) that the Eligible Counterparty wishes to negotiate.
  - i. For each Initial Expression of Interest, an Eligible Counterparty must send an email to all other Eligible Counterparties, as determined by the list produced by the Exchange and available on the Exchange's website. In addition, each Initial Expression of Interest must be copied to the Exchange at [canadaclearingsupport@theice.com](mailto:canadaclearingsupport@theice.com)
  - j. Any changes to the parameters of an Initial Expression of Interest, other than price or quantity, shall constitute a new Initial Expression of Interest requiring a new email to all Eligible Counterparties and the Exchange.
- e- k. Each Eligible Counterparty must submit information about a trade in a Negotiated Option Strategy to the Exchange and to its clearing firm (or in the case of an Eligible Counterparty which does not have a Clearing Participant, to its Futures Commission Merchant), in an email to the Exchange, at [canadaclearingsupport@theice.com](mailto:canadaclearingsupport@theice.com) within fifteen (15) minutes of the conclusion of negotiations. This information shall include:
- i. The name of the Registered Participant submitting the Negotiated Option Strategy;
  - ii. The name of the Clearing Participant or FCM of the entity submitting the Negotiated Option Strategy;
  - iii. The name of the client (company or individual), if the Registered Participant is not the beneficial owner of the Negotiated Option Strategy;
  - iv. The identity of both of the Eligible Counterparties to the Negotiated Option Strategy;
  - v. The options Series and Futures contract (where applicable) involved in the Negotiated Option Strategy;
  - vi. The price of the strategy, and of the underlying legs;
  - vii. The number of contracts traded for each leg; and
  - viii. Whether the submitting party is the buyer or seller of each leg.
- ¶ l. A Negotiated Option Strategy must be submitted through the clearing system, by the Clearing Participant of each Eligible Counterparty, in the form prescribed by the Exchange. It is the responsibility of the Eligible Counterparties to ensure their respective side(s) of each Negotiated Option Strategy are entered into the clearing system on the same Trading Day on which the negotiations took place. Entry of trades into the Clearing System after this date are at the sole discretion of the President or his designate.
- g m. The Exchange must be notified of any cancellation of a Negotiated Option Strategy trade, by the end of the Trading Day on which it was negotiated.