

GENERAL NOTICE NO: 1609

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EXTENSION OF BASIS TRADING FACILITY

INCLUSION OF EXCHANGE-TRADED FUNDS (“ETFs”) WITHIN THE CASH LEG OF AN ELIGIBLE BASKET OF SECURITIES AGAINST INDEX FUTURES CONTRACTS

1. Introduction

1.1 In order to enhance the trading relationship between wholesale market activity and on-exchange business, LIFFE’s Basis Trading Facility (“BTF”) will be extended on and from **Friday 28 April 2000** to allow the inclusion of exchange-traded funds (“ETFs”) within the cash leg of an eligible basket of securities against index futures contracts.

2. Exchange-traded funds

2.1 General Notice No. 1420, issued on 19 May 1999, confirmed that baskets of securities could be traded against LIFFE’s index futures contracts under the BTF provided that such baskets of securities met the criteria specified in section 2 of that General Notice (“the BTF criteria”).

2.2 The London Stock Exchange (“LSE”) has recently announced the introduction of the first UK-listed ETF, namely the “iSharesTM iFTSE 100”. ETFs are open-ended investment companies designed to track indices and whose shares are listed on a stock exchange. The “iSharesTM iFTSE 100” will be listed on the LSE and made available to be traded on SETS on and from Friday 28 April 2000.

2.3 The purpose of this General Notice is to confirm that shares in an ETF constitute an approved basket of securities in respect of the BTF provided that the BTF criteria are met.

2.4 The shares held by the ETF rather than the ETF itself should be used in order to assess whether the BTF criteria are met. In particular:

- (a) in respect of ETFs tracking the FTSE 100 Index or the FTSE 250 Index, the requirement is that each security held by the ETF is listed on the LSE, not that the ETF is so listed (i.e. an ETF listed on another stock exchange would also be acceptable). The requirement for pan-European indices should be interpreted equivalently;
- (b) in respect of the requirements specifying the minimum number of securities required, it is the number of securities held by the ETF which is relevant (i.e. the ETF itself is not regarded as a single security);
- (c) in respect of the requirement specifying a minimum number of country constituents to be included in the cash leg of a BTF against a pan-European index futures contract, the number of countries included in the ETF shall count toward the minimum number of countries required for the BTF (e.g. an ETF containing securities listed on the Dutch, French and German stock exchanges shall count as including securities of three countries within the basket of eligible securities); and
- (d) the requirement that no single security should account for more than 25% of the value of the basket (and, if the security is a constituent of the index in question, no more than its index weighting + 5%, whichever is the higher) is waived in respect of the ETF. However, each individual security within the ETF must satisfy this requirement.

3. Further Information

- 3.1 Members seeking further information in relation to this General Notice should contact Jonathan Seymour (ext. 2425) at LIFFE.

BY ORDER OF THE BOARD

N E Carew Hunt

Market Secretary