

LONDON NOTICE No. 2783

An equivalent of this Notice is being issued to members of the Lisbon market

ISSUE DATE: 31 July 2006
EFFECTIVE DATE: 7 August 2006

CHANGE IN DAILY SETTLEMENT PROCEDURES FOR CERTAIN FUTURES CONTRACTS

Executive Summary

This Notice provides details of amendments to the Euronext.liffe Trading Procedures in respect of Daily Settlement Prices which will be effective from 7 August 2006, initially for certain Universal Stock Futures Contracts (London market) and Single Stock Futures (Lisbon market) only.

1. In response to member demand, Euronext.liffe has determined to amend the Trading Procedures in respect of Daily Settlement Prices (Trading Procedure 2.2). Trading Procedure 2.2 currently describes the process for determining Daily Settlement Prices based on market activity on LIFFE CONNECT[®], but also includes the ability for Euronext.liffe to take other factors into consideration as part of the process. In particular, reference may be made to, amongst other things, trading activity in the underlying market.
2. Although the Trading Procedures allow for reference to be made to the underlying market, Euronext.liffe has determined to amend the Trading Procedures in order to make a more explicit link to activity in the cash market by introducing an “official closing price method” for the calculation of Daily Settlement Prices in addition to the existing “central order book price method”. This new method will rely upon the official daily closing price of the underlying instrument on the relevant stock exchange, which will be used to calculate a fair value for the futures contract, rather than on market activity in respect of trading on LIFFE CONNECT[®]. Contracts to be settled using the new method will be set out in Annexe One to the Trading Procedures.
3. The official closing price method will be applied on and from 7 August 2006 in respect of the following contracts:
 - (a) those Universal Stock Futures Contracts (“USFs”) on the London market which are available for trading in the Central Order Book, with the exception of contracts for which the underlying stock exchange is either the New York Stock Exchange or the NASDAQ Stock Exchange;
 - (b) those USFs on the London market available for trading via the MATCH Facility; and
 - (c) Single Stock Futures on the Lisbon market.

Web site: www.euronext.com/derivatives

The **Euronext Derivatives Markets** (“**Euronext.liffe**”) include the markets for derivatives operated by Euronext Amsterdam, Euronext Brussels, Euronext Lisbon, Euronext Paris and LIFFE Administration and Management, referred to respectively as the Amsterdam, Brussels, Lisbon, Paris and London markets.

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4. In addition, the settlement time for those London market USFs detailed in paragraph 3(a) above will change from 16:30 hours to 17:30 hours (London time). For the avoidance of doubt, in determining the Daily Settlement Price for the relevant London market USFs, Euronext.liffe will use the official closing price of each underlying share, and not the price of that share at the time at which the DSP is established (i.e. 17:30 hours London time).
5. Amended Trading Procedures are attached to this Notice and will be available in the London Market Handbook and on the Euronext website (www.euronext.com) in due course.

For further information in relation to this Notice, members should contact:

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Amendments to Euronext.liffe Trading Procedures
(Additions to the Trading Procedures are shown underlined)

SECTION 2 – THE OPERATION OF LIFFE CONNECT®

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2.2 Settlement prices – Futures Contracts

2.2.1 The Daily Settlement Price for Futures Contracts is calculated using one of the following two methods:

- (a) Central Order Book price method (described in Trading Procedures 2.2.2-2.2.3);
- (b) official closing price method (described in Trading Procedure 2.2.4).

The method used to establish the Daily Settlement Price for each Futures Contract is indicated in Annexe One.

2.2.2 In respect of the Central Order Book price method, the Settlement System in Market Services will be used to calculate the Daily Settlement Price by taking a feed of reported prices in the two minute period before the time specified for the settlement of a contract, as notified by the Relevant Euronext Market Undertaking**. This period is known as the “Settlement Range”. However, the Relevant Euronext Market Undertaking** will also monitor market activity throughout the Trading Day to ensure that settlement prices are a fair reflection of the market.

2.2.3 The first ninety seconds of the Settlement Range will be used to monitor spread levels. Thereafter, the following criteria will be taken into account, as applicable:

- (a) the traded price during the last thirty seconds of the Settlement Range; or
- (b) the trade weighted average of the prices traded during the last thirty seconds of the Settlement Range, rounded to the nearest tick; or
- (c) the price midway between the active bids and offers at the time the settlement price is calculated, rounded to the nearest tick.

Where a trade weighted average or a midway price between active bids and offers results in a price which is not a whole tick, the rounding convention that will apply in respect of (b) and (c) above will be in accordance with those set out in the relevant contract specifications.

In addition, the following criteria are monitored in Market Services and may be taken into account, as applicable:

- (d) price levels as indicated by spread quotations;
- (e) spread relationships with other contract months of the same contract; and
- (f) price levels and/or spread relationships in a related market.

- 2.2.4 In respect of the official closing price method, which shall be used for such stock futures and index futures as may be specified in Annexe One, the Daily Settlement Price shall be determined by a fair value calculation using the official daily closing price of the company security or the index of such securities (as the case may be) established by the Relevant Stock Exchange. Where such official daily closing price is not available, the Relevant Euronext Market Undertaking** shall determine the Daily Settlement Price, at their absolute discretion, on the basis of a fair value calculation which is consistent with cash market values of the shares the subject of such Contract.
- 2.2.5 Settlement prices will be displayed on LIFFE CONNECT[®] and for a minimum period of five minutes thereafter, the Relevant Euronext Market Undertaking** may deem it necessary to amend the settlement prices to ensure they are a fair reflection of the market.
- 2.2.6 When the Relevant Euronext Market Undertaking** is satisfied that the settlement prices are appropriate in respect of a particular contract, the revised settlement prices will be displayed and for a minimum period of three minutes thereafter any further appropriate revisions will be displayed accordingly.
- 2.2.7 The prices established by the procedure set out in this Trading Procedure 2.2 will be transmitted to the Clearing House. In the event that the Clearing House considers that prices do not correctly reflect the true value of contracts in the terms of Futures Contracts within the market, the Relevant Euronext Market Undertaking** may amend prices as appropriate.
- 2.2.8 Settlement prices will be displayed on LIFFE CONNECT[®] or any such other means of communication as the Relevant Euronext Market Undertaking** sees fit.
- 2.2.9 Where the settlement price of a contract available for trading on LIFFE CONNECT[®] is calculated during the course of the LIFFE CONNECT[®] session for that contract, the Relevant Euronext Market Undertaking** will additionally post the LIFFE CONNECT[®] closing price for each contract month at Market Close. Closing prices, where applicable, will be calculated in the manner set out in PART TWO of these Trading Procedures.

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ANNEXE ONE

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Daily Settlement Prices - Futures Contracts (TP 2.2.1)

The Official Closing Price method is used for Single Stock Futures (Euronext Lisbon) and Central Order Book and MATCH Facility Universal Stock Futures Contracts ("USFs") with the exception of USFs with an underlying stock exchange being either the New York Stock Exchange or the NASDAQ Stock Exchange.

The Central Order Book Price method is used for all other Futures Contracts.

The Official Closing Price method will be introduced for the BEL 20[®] Future (Euronext Brussels) and the PSI 20[®] Future (Euronext Lisbon) on a date to be determined by Euronext and published by Notice.

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