# AMSTERDAM NOTICE No. 07/027

Equivalent Notices are being issued to members of the following markets:

**Brussels, London and Paris**

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**INTRODUCTION OF NEW SERIES AFTER IMPLIED VOLATILITY CALCULATIONS HAVE BEEN MADE**


**Executive summary**

This Notice informs members about the introduction of new series in contracts where a corporate action implied volatility calculation has taken place in respect of an Individual Equity Option Contract after a takeover offer in cash (or an offer which consists of 67% or more cash) has been announced.


## 1. Background

1.1 When there is a cash offer on a company (or an offer which consists of 67% or more cash) implied volatilities are calculated for all existing Individual Equity Option Contracts ("IEOs"). After the publication of the implied volatilities, the policy of Liffe for the Amsterdam, Brussels and Paris markets is that no new series will be introduced. Liffe has decided to change this policy and may introduce new series for IEOs where there has been an implied volatility calculation. This shall apply to all Liffe markets. For the London market, it was already possible for the Exchange to introduce higher series in the existing lifetimes. The introduction of any new series after an implied volatility calculation will be subject to a specific decision by Liffe.

## 2. Central Order Book

<u>New strikes higher than the highest existing strike or lower than the lowest existing strike in the same expiry month</u>

2.1 The implied volatility of the highest existing strike in that expiry month will be used for all higher strikes to be introduced in that expiry month. Similarly, the implied volatility for the lowest existing strike in that expiry month will be used for all lower strikes in that expiry month.

<u>New strikes in between existing series</u>

2.2 The implied volatility for such new strikes will be calculated by interpolation of the implied volatilities of the existing series in that expiry month.

New expiry months in between existing expiry months

2.3 The implied volatility for the series of the new expiry months will be calculated by interpolation of the implied volatility of the series with the same strikes in the existing expiry months. If for a certain series only one expiry month is available, then the implied volatility will be calculated by interpolation of the two nearest series.

New expiry month longer than the longest expiry month

2.4 Generally, longer expiry months will only be introduced if the offer period exceeds the latest expiry month. The implied volatilities of series of the last known expiry month will be used for the same series of new longer expiry months. In all cases the Exchange will only introduce the first expiry month of the existing expiration cycle of the IEO concerned.

Series on Request

2.5 Where relevant, the Series on Request facility will be available. The introduction of series shall be at the discretion of Market Services.

**3. Bclear**

3.1 For Bclear, expiry months and series may only be introduced where they have the same strike prices as series in the central order book (albeit that the exercise style and delivery style of such series may differ). These series will have the same implied volatility as comparable series in the central order book.

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

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