

LONDON CIRCULAR No. 06/27

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VARIANCE FUTURES CONTRACTS

Executive Summary

This Circular informs members about the forthcoming introduction of Variance Futures Contracts on Bclear, Euronext.liffe's cleared service for wholesale equity derivatives.

1. Introduction

- 1.1 This Circular informs members that Euronext.liffe intends to introduce Variance Futures Contracts on Bclear from Monday 18 September 2006.
- 1.2 This Circular provides details of:
 - (a) the rationale for introducing Variance Futures Contracts on Bclear;
 - (b) the initial list of contracts;
 - (c) the fee structure for Variance Futures Contracts; and
 - (d) the availability of the customer test environment.

2. Introduction of Variance Futures Contracts

- 2.1 The OTC market has seen a substantial growth in variance swap activity over recent years. This is, in part, due to volatility increasingly becoming an asset class which is traded in its own right, resulting in an increased demand for tools which provide scope to gain, or to manage, exposure purely to volatility itself.
- 2.2 Euronext.liffe will offer the first cleared-only exchange solution for variance futures contracts by launching Variance Futures Contracts on Bclear. Variance Futures Contracts will not be available on LIFFE CONNECT®.
- 2.3 The availability of the contracts on Bclear provides customers with key aspects of both exchange and OTC environments. A proven service with over 35 million contracts registered since its introduction in October 2005, Bclear provides the flexibility to negotiate trades directly and privately between counterparties, real-time trade confirmation, post-trade processing through the Trade Registration System ("TRS"), with central counterparty clearing carried out by LCH.Clearnet Ltd.

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.

3. Initial List of Contracts

3.1 The Exchange will launch Variance Futures Contracts with an initial time to maturity of 9, 12 and 15 months on the following indices:

- (a) AEX Index;
- (b) CAC 40 Index; and
- (c) FTSE 100 Index

3.2 Euronext.liffe's Variance Futures Contracts will be cash settled, have quarterly expiries and a standard third Friday Last Trading Day to coincide with the expiry of the futures and options contracts on the same indices.

4. Fee Structure

4.1 Fees will be charged on a per lot, per side basis, subject to a fee cap per transaction. The fee caps will differ depending on whether business is allocated to the member's own/House account or to the member's client accounts. For trades with multiple legs, each leg will be charged separately, up to the fee cap (i.e. for these purposes, each leg is treated as a separate transaction).

4.2 Members wishing to allocate proprietary business to their Non-segregated "N" account should register their N account if they would like such business to be charged on the same basis as business in a House account. This should be done using Form 160, which is available from Euronext.liffe Market Operations (+44 (0)20 7379 2231).

4.3 Details of all fees, including LCH.Clearnet Ltd fees (specifically, clearing and cash settlement fees) applicable to Variance Futures Contracts confirmed through Bclear, will be issued by Notice in due course.

5. Further Information

5.1 Further information on Euronext.liffe's Variance Futures Contracts, including summary contract specifications, fact sheets and educational material, can be found on the Euronext website at www.euronext.com/bclear.

5.2 The full legal Contract Specifications for Variance Futures Contracts will be issued by Notice in due course.

5.3 To submit Variance Futures Contracts trades via Bclear, members require the Futures (FUT) trade subscription enabled (this is the same Futures (FUT) subscription for all single stock and Index futures contracts available for trading on LIFFE CONNECT®). In addition, access to Variance Futures Contracts will be restricted to Individual Trading Mnemonics ("ITMs") which are registered to use Bclear.

5.4 Member testing is strongly recommended for all members who intend to trade Variance Futures Contracts. The test environment is scheduled to be available later this month and the date will be confirmed shortly.

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

Equity Product Management	+44 (0)20 7379 2200	<u>equities@liffe.com</u>
Membership Operations Department	+44 (0)20 7379 2897	<u>membershipops@liffe.com</u>
Atos Euronext Market Solutions' Customer Technical Support Group ("CTSG")	+44 (0)20 7379 2983	<u>CTSG@aems.net</u>