

LIFFE CIRCULAR NO: 04/60

18 November 2004

To All Members

SHORT TERM INTEREST RATE ("STIR") FUTURES CONTRACTS

INVITATION TO MEMBERS TO APPLY FOR DESIGNATED MARKET MAKER STATUS

Executive Summary

This Circular invites members to apply for Designated Market Maker status in the back months of the Euribor and Short Sterling Futures Contracts.

1. Introduction

- 1.1 LIFFE Circular No. 04/53, issued on 7 September 2004, informed members of the extension of the Designated Market Maker Scheme ("DMM") appointments in the Three Month Euro (EURIBOR) and the Three Month Sterling ("Short Sterling") Interest Rate Contracts ("the Contracts") in specified "back" (red and green) delivery months.
- 1.2 This Circular invites members to apply for DMM status in the Contracts under a revised DMM scheme ("the Scheme") as described below. Members should also note that the Exchange intends to publish details of initiatives to encourage the development of liquidity in Pack and Bundle strategies in these Contracts in due course.

2. The DMM Scheme in outline

- 2.1 As with the current DMM Scheme, the revised Scheme is designed to encourage business in the STIR back delivery months by incentivising DMMs to quote tight prices in significant size.
- 2.2 Appointed DMMs will receive LIFFE transaction fee rebates and a cash stipend in return for fulfilling the required DMM obligations.
- 2.3 It is intended that the Scheme will operate for a twelve month period from Wednesday 1 December 2004 to Wednesday 30 November 2005 inclusive. It will be subject to ongoing review.
- 2.4 There will be no trade priority advantages provided by the Exchange to DMMs.
- 2.5 Should a DMM materially fail to meet its DMM obligations, the Exchange may determine a course of action to terminate its participation in the Scheme and/or to reduce or remove any entitlement of the DMM and, where appropriate, to re-charge in part or in full any rebates and payments made under the terms of the Scheme.

- 2.6 A DMM may withdraw from the Scheme upon one months' written notice. The Exchange reserves the right to terminate the Scheme in its entirety upon seven days' written notice.

3. DMM obligations

- 3.1 In return for the benefits described in section 4 below, DMMs will be required to meet specified market making obligations. Attachment 1 to this Circular outlines the **minimum** required obligations (quote size/volume requirements) and the associated daily stipend that will be made available to successful DMM applicants for meeting these minimum obligations.
- 3.2 To provide further flexibility in the Scheme and to encourage more specialised market maker support across the back months, the Exchange encourages DMM applicants to offer added value to the back month market by enhancing their offering in relation to the minimum requirements. The Exchange will consider more favourably those applications which improve on the minimum requirements set out in Attachment 1.

4. DMM benefits

- 4.1 Subject to fulfilment of the relevant obligations, successful DMM applicants shall be granted the following LIFFE transaction fee rebates:
- (a) 100% fee rebate on red month market assigned outright business transacted in a market making capacity; and
 - (b) 100% fee rebate on green month market assigned outright business transacted in a market making capacity.
- 4.2 In addition, DMMs will receive a minimum daily cash stipend as set out in Attachment 1 to this Circular. The minimum stipend payments are aimed at meeting a DMM's operational costs associated with the fulfilment of his commitments. Where a DMM can satisfy the Exchange that the costs associated with meeting his commitments are higher than the published daily stipend, the Exchange may, at its discretion, determine to award higher stipends where appropriate.
- 4.3 For any particular month the incentives will be calculated and statements will be issued at the beginning of the following month. Payments will be received at the beginning of the next month. For example, DMM benefits during December will be calculated and notified at the beginning of January and paid to the relevant Clearing Member in early February.
- 4.4 It is intended that the names of DMMs and the nature of their commitments will be promoted by the Exchange and detailed on the LIFFE web site (www.liffe.com).

5. Application process

- 5.1 The Exchange intends to appoint a maximum of three DMMs in each of the Contracts.
- 5.2 Members interested in applying for DMM status should submit an application to Gillian Walmsley at Euronext.liffe **by the close of business on Friday 26 November 2004**, stating the DMM obligations they are prepared to meet. An application form is included as Attachment 2 to this Circular.

- 5.3 On the application form, members should nominate up to three Individual Trading Mnemonics (“ITMs”) through which their market making activity will be submitted. Members must also indicate the TRS account reference(s) to which their market making business will be assigned.
- 5.4 In addition, members should provide any supporting information with their application which they feel would be relevant, including, but not limited to:
- (a) the number and experience of staff, both in terms of Responsible Persons and other staff, available to support the market making commitment;
 - (b) the level of sophistication of their Automated Price Injection Models, as any models must be registered with and approved by the Exchange;
 - (c) the level of financial support, including in particular the level of risk capital available to support the market making commitment; and
 - (d) where a stipend higher than the minimum set out in Attachment 1 is being requested, the operational costs associated with fulfilment of their commitments.
- 5.5 The Scheme is open to all members. A non-member may undertake the market making activities on behalf of a member. However, in such cases the performance of the DMM obligations remains the responsibility of the member and, as such, DMM applications must be submitted to the Exchange with the full understanding and agreement of the member.
- 5.6 The selection of DMMs shall be made at the Exchange’s absolute discretion.
- 5.7 The appointment of a member as a DMM will be subject to a binding contract between the member and the Exchange. A completed application form does not constitute such a contract. Members who have made successful applications will receive a formal contract for their signature from the Exchange.

6. Further Information

- 6.1 Members seeking further information in relation to this Circular should contact Interest Rate Product Management (+ 44 (0)20 7379 2222) or their Account Manager at Euronext.liffe.

N E Carew Hunt
Market Secretary

**Three Month Euro (EURIBOR) and Three Month Sterling (Short Sterling)
Interest Rate Futures Contracts**

Designated Market Maker (“DMM”) Minimum Obligations:

Euribor Futures Outrights	Trading Session Presence	Maximum Bid/Offer Spread (bps)	Minimum Order Size (lots)	Daily Stipend
Back Reds (Q7 & Q8)	90%	1.5	150	£300
Front Greens (Q9 & Q10)	90%	2.5	100	
Back Greens (Q11 & Q12)	90%	3	100	

Short Sterling Futures Outrights	Trading Session Presence	Maximum Bid/Offer Spread (bps)	Minimum Order Size (lots)	Daily Stipend
Reds (Q5 to Q8)	90%	3	75	£450
Front Greens (Q9 & Q10)	90%	3	50	
Back Greens (Q11 & Q12)	90%	4	50	

Exemptions:

- (a) on UK, US and German national holidays, the Exchange will determine which DMM obligations, if any, should be honoured.
- (b) where intra-day market conditions prevent a DMM from honouring its obligations, for example, over the announcement of significant economic news and during technical issues, the DMM must inform the Exchange at its earliest convenience.

APPLICATION FOR DESIGNATED MARKET MAKER STATUS IN SHORT TERM INTEREST RATE FUTURES CONTRACTS

Member Name (and Non-Member Name if applicable)		TRS Account References	
Clearing Member			
Contact Name			
Telephone			
E-mail			
DMM ITMs (maximum of three)			

Applicants may use this space to provide any supporting information in relation to the application:

Proposed DMM Obligations

EURIBOR Futures Outrights	Trading Session Presence	Maximum Bid/Offer Spread (bps)	Minimum Order Size (lots)	Stipend
Back Reds (Q7 & Q8)				
Front Greens (Q9 & Q10)				
Back Greens (Q11 & Q12)				

Short Sterling Futures Outrights	Trading Session Presence	Maximum Bid/Offer Spread (bps)	Minimum Order Size (lots)	Stipend
Reds (Q5 to Q8)				
Front Greens (Q9 & Q10)				
Back Greens (Q11 & Q12)				

Completed Application Forms should be sent to Gillian Walmsley, Interest Rate Product Management at Euronext.liffe at the address shown on the first page of this LIFFE Circular.