



## AMSTERDAM NOTICE No. 05/016

**Issue date:** 18 November 2005  
**Effective date:** 21 November 2005

### **LIFFE CONNECT® VERSION 9.0: AMENDMENTS TO THE PRICE/TIME TRADE MATCHING ALGORITHM USED BY THE LIFFE CONNECT® EQUITIES TRADING HOST**

#### **Executive Summary**

This Notice advises members of changes to the LIFFE CONNECT® price/time trade matching algorithm which will become effective on and from 21 November 2005 as part of the forthcoming implementation of LIFFE CONNECT® Version 9.0 in relation to the LIFFE CONNECT® Equities Trading Host. These changes involve streamlining the manner in which the Equities Trading Host processes implied orders and allocates traded volume. This upgrade is part of a continual programme designed to improve the performance and reliability of the LIFFE CONNECT® system.

#### **1. Introduction**

- 1.1 LIFFE CONNECT® has been developed as a state-of-the-art trading platform, which is designed to provide optimum levels of performance and reliability. To that end, there is a continual programme of investment undertaken by the Exchange in order to meet the evolving demands of the market.
- 1.2 On Monday 21 November 2005, the LIFFE CONNECT® Equities Trading Host will be upgraded to Version 9.0 (the Attachment to this Notice contains a complete list of products which are available on the Equities Trading Host). The Equities Trading Host upgrade is designed to deliver significant performance improvements through changes to the price/time trade-matching algorithm used by the Equities Trading Host, which are summarised in this Notice. The changes in the price/time trade-matching algorithm are the same as those that were made in respect of the Financials Trading Host on 1 August 2005. Members who have developed specific trading tools that take account of the features of the current trade matching algorithm may wish to adjust these tools in light of the changes detailed in this Notice. The changes to the price/time trade-matching algorithm do not require any further technical changes by Independent Software Vendors or Member Developers.
- 1.3 However, for members who wish to take advantage of other new functionality introduced in API 9 new front-end software needs to be installed at member sites. Members are advised to liaise with their Independent Software Vendor(s) and/or in-house IT development teams to ensure new API 9 conformed software is installed on all desks. Please note that Euronext.liffe will support backwards compatibility with API 8 trading software until **the end of March 2006**.

Web site: [www.euronext.com/derivatives](http://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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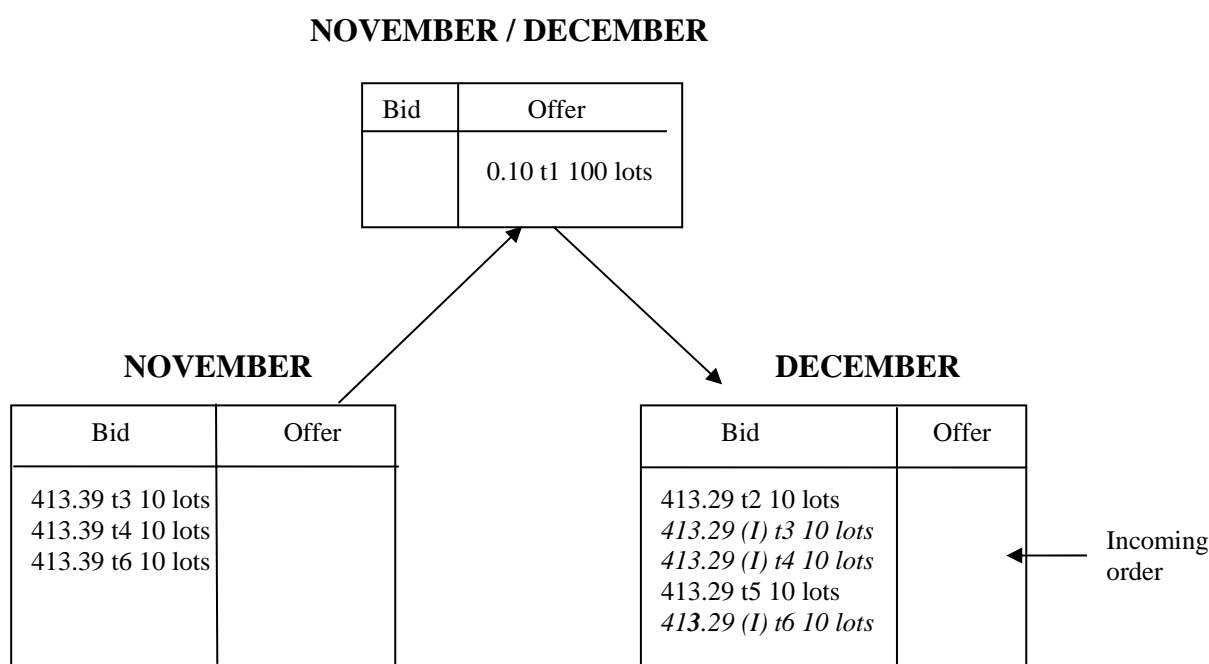
- 1.4 The Attachment to this Notice lists the product groups available for trading on each of the LIFFE CONNECT® Trading Hosts. Sections 3 to 5 below describe the main changes that will be made as part of Release 9.0.

## 2. The Price/Time Trade Matching Algorithm

- 2.1 Currently, matching follows a strict price/time order. This means that the existing matching algorithm does not make a distinction between explicit and implied orders. On and from 21 November 2005, all explicit orders will be filled in their entirety ahead of any implied order unless an implied price is better than the then prevailing explicit price. A comparison of the current process and the new process is set out in sections 2.3 and 2.4 below in order to illustrate this change.

### 2.2 Current Process

- (a) This example assumes the submission of the following orders into the Trading Host: an offer to sell 100 lots of the November/December AEX futures calendar spread at 0.10, three bids for 10 lots each in November AEX futures at 413.39, and two bids for 10 lots each in December AEX futures at 413.29. The interaction of the explicit bids in November futures and the explicit offer in the November/December calendar spread results in three implied bids for 10 lots each in December futures, which are interleaved with the existing December explicit bids (implied orders are shown in italics and are denoted with an “I”; order time stamps are shown as t1, t2 etc.):

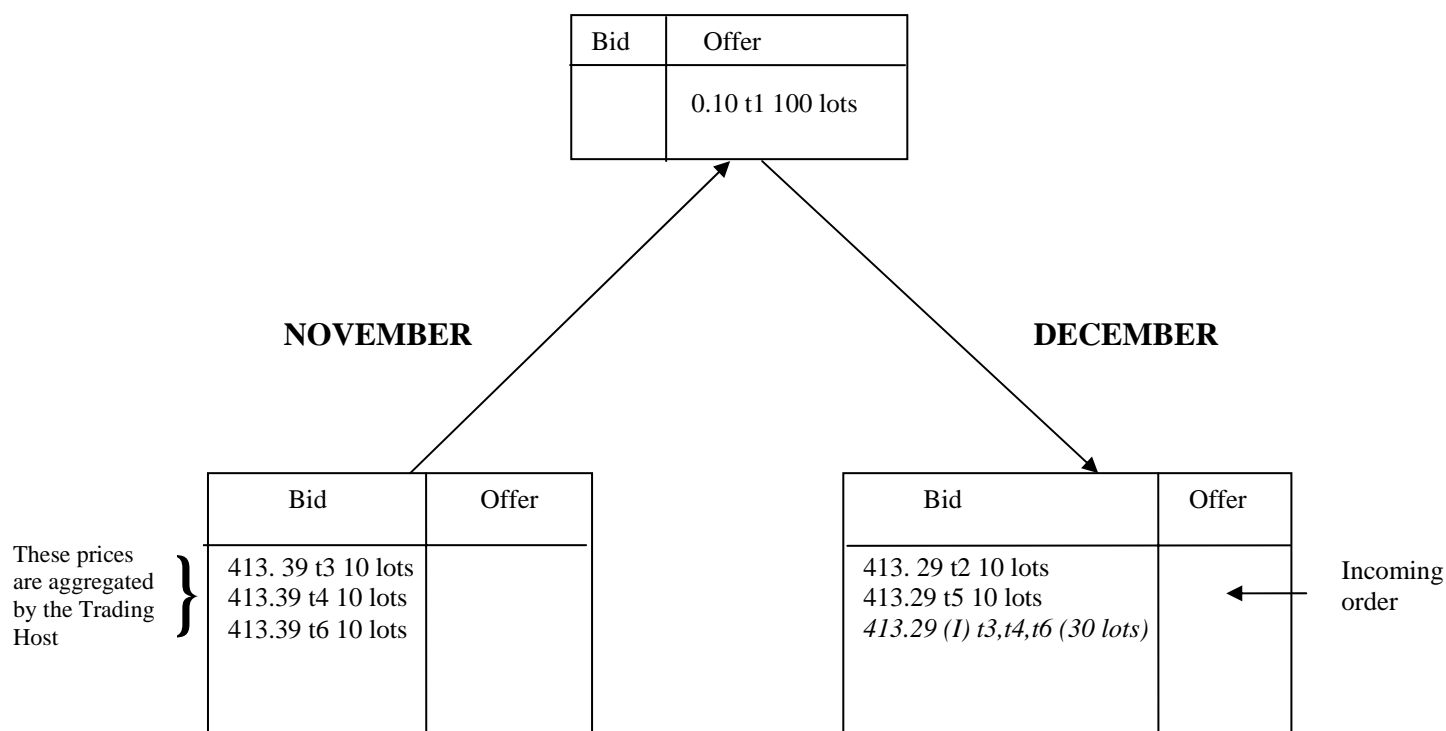


- (b) An incoming outright order to sell December futures at 413.29 will match against the explicit and implied bids in December futures in the sequence shown in the diagram in section 2.3(a) above.

## 2.3 New Process

- (a) Applying the new process, the outright orders in November futures are aggregated and result in a single implied bid for a total of 30 lots in December futures.

### NOVEMBER / DECEMBER



- (b) The incoming outright order to sell December futures will first match against the two explicit bids in their entirety and any residual volume will then be allocated against the aggregate implied bid. Within the aggregate implied bid, orders will continue to trade in the time priority of their parent order in the November market.

For further information in relation to this Notice, members should contact their Account Manager. The equivalents of this Notice are being issued simultaneously in Amsterdam, Brussels and Paris and therefore members may receive duplicate information.

## 3. **Introduction of additional Delta Neutral Options Strategies (Financials and Equities Hosts)**

- 3.1 Release 9.0 will make the following options strategies available for trading on a delta neutral basis, i.e. against the relevant underlying stock or future:

Call/Put Diagonal Calendar Spread  
 Butterfly  
 Iron Condor  
 Condor  
 Iron Butterfly  
 Straddle Calendar Spread  
 Diagonal Straddle Calendar Spread  
 Guts

- 3.2 The new delta neutral strategies will be made available for the following products/product groups:

All Euronext.liffe Individual Equity Options  
All Euronext.liffe Index Options  
All Euronext.liffe Commodity Options  
Currency Options on the Amsterdam market  
Financial Options on the London market  
Trackers on the Paris market

- 3.3 Amendments to Annexe 2 of the Euronext.liffe Trading Procedures to reflect the additional delta neutral options strategies will be made available by Notice in the coming period.

#### **4. Introduction of Buy/Sell Indicator in Persisted Fills (Financials and Equities Hosts)**

- 4.1 Persisted fills enable a trader to log off from his trading application and use an alternative trading application, either in the same or a different location, without the need for a complex local order book to be maintained.
- 4.2 Release 9.0 will enhance the persisted fills information with the addition of a buy/sell indicator to each persisted fill record so that - along with the delivery month/series, price and volume information already available - trading applications will be able to identify all of the most important elements of any returned trade.
- 4.3 Members should note that the buy/sell information maintained for strategy trades will consist of the buy/sell information for each leg of the strategy and will not indicate whether the strategy as a whole was bought or sold.

#### **5. Further Information**

The Trading Procedure amendments associated with the new functionality described in section 3 inclusive above, and additional information in relation to Release 9.0, will be issued in due course.

For further information in relation to this Notice, members should contact their Account Manager at Euronext.liffe.

**Product Groups available for trading on the LIFFE CONNECT® Equities Host**

- All Amsterdam Products
- All Brussels Products
- All London Individual Equity Options
- All Paris Individual Equity Options

**Product Groups available for trading on the LIFFE CONNECT® Financials Host**

- All other London Products
- All Lisbon Products
- All other Paris Products