BRUSSELS NOTICE NO. 13-06

Equivalent Notices are being issued in Paris, Amsterdam, London and Lisbon

Issue Date: 24 October 2013

Effective Date: 21 November 2013

INTRODUCTION OF AN EXCHANGE OF OPTIONS FOR OPTIONS FACILITY FOR THE LONDON AND PARIS COMMODITY CONTRACTS

REVISIONS TO THE EXCHANGE FOR SWAPS FACILITY FOR THE LONDON AND PARIS COMMODITY CONTRACTS

Executive Summary

This Notice informs Members of: (a) the introduction of an Exchange of Options for Options facility for the London and Paris Commodity Options Contracts; and (b) revisions to the Exchange for Swaps facility for the London and Paris Commodity Futures Contracts.

1. Introduction

1.1 Following feedback from Members the Exchange has determined to introduce an Exchange of Options for Options ("EOO") facility and to extend the Exchange for Swaps ("EFS") facility for the London and Paris Commodity Contracts. The details are set out in section 2 and 3 below. The EOO facility and the amended EFS facility will be made available from Thursday 21 November 2013.

2. Introduction of an Exchange of Options for Options facility

2.1 The EOO facility, which will be introduced within the framework of the existing Basis Trading Facility, provides Members with the ability to exchange an OTC option with a NYSE Liffe Option Contract. The buyer and seller of the OTC option must be the counterparties to the EOO. To be eligible for an EOO, the OTC option must have the same underlying Options Contract, the same strike price and be in the same expiry month as a NYSE Liffe Commodity Options Contract.

2.2 The EOO facility is being made available for the Robusta Coffee, Cocoa, White Sugar and Feed Wheat Options Contracts in London and the Milling Wheat, Rapeseed, Malting Barley and Corn Options Contracts in Paris.

2.3 Attachment 1 to this Notice sets out the revisions to the Trading Procedures which are necessary to give effect to the EOO facility. The revisions include details in relation to:

(a) the type of OTC transactions which the Exchange will accept as part of an EOO, including a

requirement for the OTC contract to conform to ISDA standards;

(b) the price range within which the options leg of the EOO may take place;

(c) the transaction details required by the Exchange in order to validate an EOO; and

(d) the documentation that should be retained by the executing Member.

2.4 Attachment 2 to this Notice shows the amendments to Annexe 1 to the Trading Procedures in respect of the introduction of the EOO facility.

2.5 Members wishing to transact an EOO should:

(a) advise European Market Services ("EMS") by email (Marketservices@nyx.com) immediately prior to the submission of the EOO. The email should include the Member mnemonic, trader ITM, the trade details, and the time at which the EOO will be submitted; and

(b) submit the transaction in UTP as if it were an EFS.

3. Revisions to the Exchange for Swaps facility

3.1 The Exchange currently provides an EFS facility within the framework of the existing Basis Trading Facility, whereby a party may exchange an OTC swap position with an appropriate number of NYSE Liffe Futures Contracts.

3.2 As explained above, in response to feedback from Members, the Exchange has determined to make the following revisions to the EFS facility:

(a) to broaden the definition of the underlying OTC instrument to allow additionally for OTC options to be exchanged for an appropriate number of NYSE Liffe Commodity Futures Contracts; and

(b) require that the OTC instrument underlying an EFS transaction conforms to ISDA standards.

3.3 Updates to the Trading Procedures relating to the revisions to the EFS are also detailed in Attachment 1 to this Notice.

4 Further information

4.1 The amended Trading Procedures and Annexes will appear on the NYSE Euronext website (www.nyx.com) in due course.

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

Commodities	+44 (0)20 7379 2038	commodities@nyx.com

Amendments to NYSE Liffe Trading Procedures

(Additions to the Trading Procedures are shown underlined and deletions are shown ~~struckthrough~~)

PART ONE

SECTION 1 – GENERAL

1.2 Definitions

1.2.2 In these Trading Procedures, unless otherwise expressly stated:

"basis trade"

(i) a Transaction consisting for one party ("A") of:

(a) the spot sale of an approved basis trade instrument (A's cash element);

simultaneously combined with

(b) the purchase of an appropriate number of contracts in the terms of a basis trade Exchange Contract (A's futures element);

and, at the same time, for another party ("B") of:

(c) the spot purchase of an approved basis trade instrument (B's cash element);

simultaneously combined with

(d) the sale of an appropriate number of contracts in the terms of a basis trade Exchange Contract (B's futures element); or

(ii) where the Transaction is an Exchange for Swap, the Basis Trade Facility may be used to enable the parties to an OTC swap or option transaction to exchange their respective OTC positions with the appropriate number of futures contracts in the terms of a basis trade

Exchange Contract; and

(iii) where the Transaction is an Exchange of Options for Options, the Basis Trade Facility may be used to enable the parties to an OTC option transaction to exchange their respective OTC positions with the appropriate number of options contracts in the terms of a basis trade Exchange Contract.

"ISDA" the International Swaps and Derivatives Association

SECTION 4 – COMMON TRADING FACILITIES

4.2 Basis Trading

4.2.1 The Basis Trading Facility ("BTF") allows Members to organise and execute, subject to this Trading Procedure 4.2, Transactions involving a combination of an approved basis trade instrument and an appropriate number of offsetting Futures Contracts or, in the case of an Exchange for Swap or Exchange of Options for Options, the appropriate number of related Futures or Options Contracts. For the purposes of these Trading Procedures such Transactions are called "basis trades".

4.2.2 Any Member is permitted to arrange basis trades, subject only to the Member having in place arrangements for the execution of the futures or options leg of a basis trade via a Member holding a relevant trading right ("the basis trade executing Member") to trade the basis trade Exchange Contract.

4.2.3 A basis trade may be organised only during the trading hours of the Futures or Options Contract concerned, as published by the Relevant Euronext Market Undertaking from time to time by Notice.

4.2.4 Basis trades may be transacted only in Exchange Contracts which have been designated by the Relevant Euronext Market Undertaking for that purpose. Such designations will be published, from time to time, by Notice and are detailed in Annexe One. Basis trades are not permitted in a delivery month or expiry month of a designated contract which has never traded. The Basis Trading Facility can be used in respect of a delivery month for a Futures Contract or expiry month of an Options Contract on any Trading Day up to and including the business day preceding the Last Trading Day of that delivery month or expiry month.

4.2.5 The basis trade executing Member is responsible for assigning the price of the futures or options leg(s) of a basis trade. For the futures or options leg(s) to be authorised, the price(s) assigned must be in accordance with the requirements detailed by the Relevant Euronext Market Undertaking in PART TWO.

4.2.6 The following approaches to the construction of hedge ratios for basis trades are considered acceptable:

(a) Deliverable bonds against bond futures contracts: A price factor or duration based method;

(b) Other bonds against bond futures contracts: A duration based method;

(c) Deliverable and non-deliverable bonds against Swapnote® futures contracts or one or more delivery month(s) of a short term interest rate futures contract: A method which is based upon the ratio of the basis point values of shifts in the yield curve of respectively the relevant cash and futures legs;

(d) Standard plain vanilla OTC swaps against bond futures contracts, Swapnote® futures contracts of one or more delivery month(s) of a short term interest rate futures contract:
A method which is based upon the ratio of the basis point values of shifts in the yield curve of respectively the relevant cash and futures legs;

(e) Forward Rate Agreements (FRAs) against one or more delivery month(s) of a short term interest rate futures contract: A method which is based upon the ratio of the basis point values of shifts in the yield curve of respectively the relevant cash and futures legs;

(f) Sale and Repurchase Agreements (Repos) against one or more delivery month(s) of a short term interest rate futures contract: A method which is based upon the ratio of the basis point values of shifts in the yield curve of respectively the relevant cash and futures legs;

(g) European or American style OTC interest rate options (bond options, swaptions) against bond futures contracts, Swapnote® futures contracts or one or more delivery month(s) of a short term interest rate futures contract: A method based on the relative deltas of the OTC option and futures contracts in order to achieve a delta neutral position;

(h) Equity securities against Universal Stock Futures Contracts or Single Stock Futures Contracts: A method based on the relative value of the equity security and the nominal underlying value of the Universal Stock Futures Contracts or Single Stock Futures Contracts;

(i) Baskets of equity securities against equity index futures contracts: A method based on the relative value of the basket of equity securities and the nominal underlying value of the equity index futures contracts;

(j) European or American style OTC equity options (stock and equity index options) against equity index futures contracts: A method based on the relative deltas of the OTC option and futures contracts in order to achieve a delta neutral position;

(k) European or American style OTC or non-NYSE Liffe exchange traded equity options against Universal Stock Futures Contracts or Single Stock Futures Contracts: A method based on the relative deltas of the OTC or exchange traded option and Universal Stock Futures Contracts or Single Stock Futures Contracts in order to achieve a delta neutral position;

(l) Non-NYSE Liffe exchange traded short term interest rate or bond futures against NYSE Liffe Short Term Interest Rate Futures Contracts, Gilt Futures Contracts or Euro Swapnote® Futures Contracts: A method which is based upon the ratio of the basis point values of shifts in the yield curve of the two futures contracts.

(m) [**Deleted**]

(n) OTC swaps or options conforming to ISDA standards in relation to cocoa, robusta coffee, raw sugar, white sugar, wheat, milling wheat, rapeseed, corn, malting barley and skimmed milk powder, or in relation to a direct product of such commodity, against the relevant Commodity Futures Contract, herein defined as an Exchange for Swap ("EFS"): A method which is based on the quantity of the commodity or a direct product of such commodity underlying the swap or options position relative to the quantity of the commodity underlying the Futures Contract.

(o) OTC options conforming to ISDA standards in relation to cocoa, robusta coffee, raw sugar, white sugar, feed wheat, milling wheat, rapeseed, corn, and malting barley, or in relation to a direct product of such commodity, against the relevant Commodity Options Contract, herein defined as an Exchange of Options for Options ("EOO"): A method which is based on the quantity of the commodity or a direct product of such commodity underlying the OTC option position relative to the quantity of the commodity underlying the Options Contract.

Where a hedge ratio differs from such methods, the Member who is submitting the trade for authorisation (see Trading Procedure 4.2.7) is required to justify the method employed in advance of such submission.

4.2.7 When a Member accepts a basis trade order, he must record the order details set out in Trading Procedure 4.2.8 – 4.2.14~~B~~D and, in addition, the details prescribed by (a) – (c) below, on an order slip. Where a Member employs an electronic system for order routing, such details must be recorded electronically:

(a) time of order receipt;

(b) identity of individual organising the basis trade; and

(c) time stamp (at time of organisation).

All information required to be retained by the basis trade executing Member, pursuant to this Trading Procedure 4.2.7, must be retained by the Member for a minimum period of five years.

After a basis trade has been organised the Member, or where the basis trade has been organised between two Members, the Member who will be the seller of the futures or options leg of the basis trade, must execute the futures or options leg of the basis trade as a cross transaction, as specified in Trading Procedures 4.2.8 – 4.2.14~~B~~D, or must procure that the futures or options leg of the basis trade is so executed by another appropriately authorised Member.

4.2.14C Where a basis trade is an EFS involving a Commodity Futures Contract against an OTC swap or option, the following details must be submitted via UTP by the basis trade executing Member:

(a) Futures Contract in which the EFS is being transacted;

(b) delivery month;

(c) agreed futures price; and

(d) number of lots of each Futures Contract.

In addition, the basis trade executing Member must retain, in an easily accessible form that can be audited by the Relevant Euronext Market Undertaking, ~~documentary evidence in the form of~~ a copy of the relevant ISDA agreement (the " ISDA Agreement") ~~OTC contract itself~~ or the relevant confirmation which forms part of the ISDA Agreement.

The following information should be contained in the documentary evidence:

(a) the ~~fixed price or fixed~~ price formulae of the swap~~, and who pays;~~ or OTC option;

~~(b) the floating price or floating price formulae of the swap, and who pays;~~

(~~c~~b) the termination/maturity date;

(~~d~~c) the effective (start) date of the swap or OTC option;

(~~e~~d) the quantity of the swap or OTC option position relating to the underlying commodity or the direct product of such commodity; and

(~~f~~e) the referenced futures delivery month.

All information required to be retained by the basis trade executing Member, pursuant to this Trading Procedure 4.2.14C, must be retained by the Member for five years. If the basis trade executing Member is not directly responsible for the execution of the cash leg of the basis trade, he must have appropriate arrangements in place with the party organising/executing that leg such that the information above in (a) to (~~f~~e) can be provided promptly to the Relevant Euronext Market Undertaking.

4.2.14D Where a basis trade is an EOO involving a Commodity Options Contract against an OTC option, the following details must be submitted via UTP by the basis trade executing Member:

(a) Options Contract in which the EOO is being transacted;

(b) Options Contract expiry month;

(c) agreed strike price and premium; and

(d) number of lots of each Option Contract.

In addition, the basis trade executing Member must retain, in an easily accessible form that can be audited by the Relevant Euronext Market Undertaking, a copy of the relevant ISDA Agreement or the relevant confirmation which forms part of the ISDA Agreement.

The following information should be contained in the documentary evidence:

(a) the price formulae of the OTC option;

(b) the termination date;

(c) the start date;

(d) the quantity of the position relating to the underlying commodity or the direct product of such commodity; and

(e) the referenced options expiry month.

All information required to be retained by the basis trade executing Member, pursuant to this Trading Procedure 4.2.14D, must be retained by the Member for five years. If the basis trade executing Member is not directly responsible for the execution of the cash leg of the basis trade, he must have appropriate arrangements in place with the party organising/executing that leg such that the information above in (a) to (e) can be provided promptly to the Relevant Euronext Market Undertaking.

4.2.15 The basis trade details must be submitted on UTP as soon as practicable. In any event, details of the basis trade must be submitted by the basis trade executing member within fifteen minutes of the time at which the basis trade was organised. Members must not delay submission of a basis trade. No basis trade can be submitted for execution later than five minutes prior to the close of trading of the Futures or Options Contract in which the basis trade is being transacted. The Relevant Euronext Market Undertaking will check the validity of the details submitted by the executing Member. If the Relevant Euronext Market Undertaking is satisfied that all such details are valid, it will authorise the futures or options leg of the basis trade. The executing Member will then receive confirmation of the details of the trade.

4.2.16 [**Deleted**]

4.2.17 Details of the executed futures or options leg(s) of a basis trade will be submitted to Trade Registration by the Trading Host.

4.2.18 Authorisation by the Relevant Euronext Market Undertaking of a Transaction does not preclude the Relevant Euronext Market Undertaking from instigating disciplinary proceedings in the event that the Transaction is subsequently found to have been made other than in compliance with Rules and Trading Procedures.

4.2.19A With the exception of a basis trade which is an EFS or an EOO in accordance with Trading Procedure 4.2.6(n) or 4.2.6(o) respectively, the following information with respect to the futures leg of a basis trade will be broadcast on UTP:

(a) Futures Contract(s) and delivery month(s);

(b) futures price(s); and

(c) volume of futures traded.

In addition, these details will be distributed to Quote Vendors, marked with the trade type indicator "J".

For each Exchange Contract, the cumulative volume of futures traded as the futures leg of basis trades/asset allocations during the day will also be published.

4.2.19B Where the basis trade is an EFS or an EOO in accordance with Trading Procedure 4.2.6(n) or 4.2.6(o) respectively, the following information with respect to the futures or options leg of an EFS or EOO respectively will be broadcast on UTP:

- Futures Contract(s) and delivery month(s) or Options Contract(s) and expiry month(s); and
- volume of futures or options traded.

In addition, these details will be distributed to Quote Vendors, marked with the trade type indicator "Z".

For each Exchange Contract, the cumulative volume of futures or options traded as the futures or options leg of basis trades/asset allocations during the day will also be published.

4.2.20 Both the long and short positions associated with the futures or options leg(s) of a basis trade will be passed to Trade Registration and matched under the basis trade executing Member's mnemonic.

4.2.21 Upon request by the Relevant Euronext Market Undertaking the basis trade executing Member must produce satisfactory evidence that the basis trades have been organised in accordance with the Rules and Trading Procedures. Basis trade executing Members must,

therefore, be in a position to supply documentary evidence in connection with a basis trade, including, but not limited to, evidence confirming the cash leg of basis trades.

Basis trade executing Members may also be required from time to time by the Relevant Euronext Market Undertaking to request, and copy to it, confirmation of the details of the cash leg of a basis trade where another party was responsible for the execution of the cash leg.

SECTION 2 – TRADING PROCEDURES IN RELATION TO THE LONDON MARKET

For convenience, each provision in this Section 2 in relation to the Euronext Derivatives Market organised by LIFFE Administration and Management ("The London Market") is prefixed with the letters "Lo".

Lo.13 Pricing of basis trades

Lo.13.1 Pursuant to Trading Procedure 4.2.5, with the exception of a basis trade which is an EFS in accordance with Trading Procedure 4.2.6(n) or an EOO in accordance with Trading Procedure 4.2.6(o), for a basis trade to be authorised, the price of the future leg(s) must be at the level trading on UTP at the time the basis trade is submitted for execution or within the high/low traded price that occurred on UTP in the preceding thirty minutes. In the event that no trade has occurred in the relevant delivery month on that day at the time the basis trade is submitted for execution or in the preceding thirty minutes, the price of the futures leg(s) must be at or within the high/low traded price calculated by the Exchange maintained algorithm.

Where the basis trade is an EFS in accordance with Trading Procedure 4.2.6(n), for the futures leg(s) to be authorised the price(s) assigned must be within the price range established to date in respect of the delivery month in the relevant Exchange Contract.

Where the basis trade is an EOO in accordance with Trading Procedure 4.2.6(o), for the options leg(s) to be authorised the price(s) assigned must be within the implied volatility range established to date in respect of the expiry month in the relevant Exchange Contract.

SECTION 3 – TRADING PROCEDURES IN RELATION TO THE PARIS MARKET

For convenience, each provision in this Section 3 in relation to the Euronext Derivatives Markets organised by Euronext Paris ("The Paris Market") is prefixed with the letter "P".

P.13 Basis Trading Facility

P.13.1 Notwithstanding the relevant restriction contained in Trading Procedure 4.2.4, the Basis Trading Facility can be used in respect of a delivery month for a Futures Contract on any Trading Day including the Last Trading Day of that delivery month.

P.13.2 Pursuant to Trading Procedure 4.2.5, for a Basis Trade to be authorised, the price of the future leg(s) must be within the high/low range of traded prices on UTP that Trading Day or at or within the best bid and offer, for the Derivative concerned, at the time the basis trade is organised.

P.13.3 Where the basis trade is an EFS in accordance with Trading Procedure 4.2.6(n), for the futures leg(s) to be authorised the price(s) assigned must be within the price range established to date in respect of the delivery month in the relevant Exchange Contract.

P.13.4 Where the basis trade is an EOO in accordance with Trading Procedure 4.2.6(o), for the options leg(s) to be authorised the price(s) assigned must be within the implied volatility range established to date in respect of the expiry month in the relevant Exchange Contract.

Amendments to NYSE Liffe Trading Procedures

(Additions to the Trading Procedures are shown underlined and deletions are shown ~~struckthrough~~)

Options Contracts	Order Prioritisation (TP 3.3.1)		Block Trade Facility (TP 4.5)	Prof Trade Facility (TP AB.5)	Basis Trade Facility (TP 4.2)	Asset Allocation Facility (TP 4.3)	Against Actuals Facility (TP 4.4)	Post-settlement trading (TP Lo.2) and Evening Trading Session Contracts (TP P.2)	Trade invalidation at a member's request (TP 3.5.5 – 3.5.7)[1]	Pre-negotiation correction facility (TP 3.7)
	Price/Time	Pro Rata								
The London Market										
Cocoa	✓	×	×	×	~~×~~✓[5]	×	×	×	✓	✓
Robusta Coffee	✓	×	×	×	~~×~~✓[5]	×	×	×	✓	✓
White Sugar	✓	×	×	×	~~×~~✓[5]	×	×	×	✓	✓
Feed Wheat	✓	×	×	×	~~×~~✓[5]	×	×	×	✓	✓
The Paris Market										
Rapeseed	✓	×	×	×	~~×~~✓[5]	×	×	×	✓	×
Rapeseed Oil*	✓	×	×	×	~~×~~✓[5]	×	×	×	✓	×
Milling Wheat	✓	×	×	×	~~×~~✓[5]	×	×	×	✓	×
Corn	✓	×	×	×	~~×~~✓[5]	×	×	×	✓	×
Malting Barley	✓	×	×	×	~~×~~✓[5]	×	×	×	✓	×

Notes:

1. While the trade invalidation at a Member's request facility is restricted to options contracts, an exception is made for futures contracts which have been executed as cross transactions or wholesale trades, for which the facility is also available.
2. Options contracts on the Amsterdam and Brussels Markets have Price/Time preferencing enabled. Certain options contracts, as detailed by Notice, provide for Primary Market Makers to receive trade priority status. The details of such trade priority, and its implications for the order prioritisation above, are detailed by Notice.
3. Block trades can be facilitated up to 18.30 CET for these contracts which are traded on either the Paris or the Lisbon Markets.
4. Block trades may only be organised during normal trading hours but, subject to Trading Procedures 4.5.19-4.5.21, may be submitted up to 15 minutes after the Central Order Book in the relevant Exchange Contract has closed, except on the Last Trading Day when the Block Trade Facility will continue to close at the same time as the Central Order Book in relation to expiring Exchange Contracts.
5. Referred to in the Trading Procedures as Exchange for Swaps (EFS) transactions or Exchange of Options for Options transactions, as relevant.
6. Prof Transactions can be facilitated up to 18.30 CET for these contracts which are traded on either the Amsterdam or the Brussels Markets.

* **These contracts are currently suspended.**