AMSTERDAM NOTICE NO. 13/011

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Effective Date: 27 September 2013

SWITCHING OFF IMPLIED FUNCTIONALITY AND THE INTRODUCTION OF PREMIUM BASED TICK SIZE FOR OPTIONS ON THE AEX-INDEX®

Executive Summary

NYSE Liffe has decided to switch off implied functionality for Index Option Classes based on the AEX-Index® on 27 September 2013. On 4 October 2013 NYSE Liffe will introduce Premium Based Tick Size with a threshold set at € 1.50 for Index Option Classes based on the AEX-Index®. At the same date NYSE Liffe will increase the inbound order throttle rate to 8 order messages per second for all users of Index Option Classes based on the AEX-Index®.

1. Introduction

1.1 NYSE Liffe herewith informs Members about the changes to be made to the Index Option Classes based on the AEX-Index®.

1.2 Recent research on strategy behaviour has indicated that approximately 10% of strategy orders are traded against implied prices. The vast majority of strategy orders are traded against orders in the strategy order book. In the AEX-Index® option classes less than 2% of the traded volume is traded against implied prices. Over the recent period we have seen an increase of strategy creations by Members, sometimes with the goal to mimic quoting behaviour. The impact of these additional strategy creations on the implied functionality leads to increased usage of system capacity. NYSE Liffe has therefore decided to remove the implied functionality. The ELPS Liquidity Provider model ensures tradable prices in all series and the electronic eyes of market participants will trade against orders in both the outright and the strategy order books. The removal of the implied functionality releases system resources which will improve the order roundtrip time as well as the overall quality of the market. To further improve market quality the exchange introduces Premium Based Tick Size for Index Option Classes based on the AEX-Index® in combination with a 100% uplift in order entry capacity for all Members.

1.3 The changes are described in the remainder of this Notice and aim to:

- Increase market quality, by allowing finer price granularity that will improve the bid-ask spread;
- Offer enhanced trading opportunities thereby attracting additional volume.

1.4 The following Option Classes are based on the AEX-Index® :

- The monthly AEX-index® option contract (AEX);
- The AEX-index® weekly option contracts (AX1, AX2, AX4, AX5);
- The AEX-Index® daily option contracts (A1,…,A31);
- The AEX-index® mini option contract (MOA); (to be introduced on 2 September 2013)

2. Changes to Implied Functionality for AEX-Index® Options

2.1 Currently the implied functionality is switched on for Spread, Straddle and Strangle strategies.

2.2 On 12 August 2013 (in CTSG-test environment) and on **27 September 2013 (in UTP derivatives production environment)** NYSE Liffe will switch off implied functionality for the Option Classes based on the AEX-index®.

2.3 As a result of this change, strategies (Spread, Straddle and Strangle) that are created will no longer interact with the outright series. However, these strategies, can still be traded in the strategy order book like all other strategy types.

3. Introduction of Premium Based Tick Size.

3.1 Until 14 August 2013 (in CTSG-test environment) and until **4 October 2013 (in UTP derivatives production environment)** the Option series based on the AEX-index® are traded with a standard tick size of € 0.05; all series of an Option Class based on the AEX-index® are traded with the same tick size.

3.2 As from 14 August 2013 (in CTSG-test environment) and as from **4 October 2013 (in UTP derivatives production environment)** Premium Based Tick Size (PBTS) will be introduced for the Option Classes based on the AEX-Index®. The tick size will depend on the premium threshold, which will initially be set at **€ 1.50** for each Option series based on the AEX-index®.

3.3 The premium of an order at order entry (above, below or at the premium threshold) determines the tick size. The premium of any incoming order is validated against the relevant tick size; if an order fails validation (i.e. is not a multiple of the relevant tick size) it will be rejected.

- If the premium of an order is below or equal to the premium threshold, the tick size is € 0.01;
- If the premium of an order is above the premium threshold, the tick size is € 0.05.

3.4 Example.
The following prices will be available for trading around the threshold:

	Premium (in €)
Tick size € 0.01	0.01 … 1.48 1.49
Premium threshold	**1.50**
Tick size € 0.05	1.55 1.60 1.65 …

Hence from a premium of € 1.50 the next valid higher price is € 1.55 whilst the next valid lower price is € 1.49.

3.5 All order types will be validated against the appropriate tick size with the exception of Immediate and Cancel orders.

3.6 Immediate and Cancel orders are not subject to Premium Based Tick Size validation. Any order of this type will be validated against the lower tick size. This enables a trader to hit orders that are resting at prices not normally available for order entry. This can happen as a result of the uncrossing algorithm.

- The uncrossing algorithm uses the contract's lower tick size for all calculations. This means that any converted Market-on-Open orders can rest at a price not available for order entry. Additionally, any trades conducted at the uncrossing price can be at a price not available at order entry. In this case the resting order can also be hit using a market order, or a limit order at a better price.

3.7 Prof trades.
Prof trades are not subject to Premium Based Tick Size validation, the tick size for all Prof trades remains unchanged at € 0.01.

4. New order throttle rate increase

4.1 NYSE Liffe recognises that with a finer tick size granularity there is a requirement to update the price of an order more frequently.

4.2 For this reason NYSE Liffe will increase the order throttle rate for the Option Classes based on the AEX-Index® from 4 to **8** messages per second as from 27 September (in CTSG-test environment) and on **4 October 2013 (in UTP derivatives production environment)**

4.3 This order throttle increase will be applicable to all Members (ITMs) submitting or revising orders for the Option Classes based on the AEX-index®.

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

Sales & Account Management Amsterdam, NYSE Liffe	+31 (0)20 550 5315	beneluxsales@nyx.com