



# Memo

**To:** NZX Derivatives Market Participants

**From:** NZX Limited

**Date:** 25 November 2011

**Subject:** Amendment to NZX Derivatives Market Procedures and designation of WMP Options Individual Contract Specification

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As the market is aware, NZX proposes to launch a suite of dairy options contracts ("Options"), with the first, an Option on NZX Derivatives Market Contract No. 1 Global Whole Milk Powder (WMP) Futures Contract, to go live on 30 November 2011.

To facilitate trading of the Options on the Derivatives Market, a number of amendments to the NZX Derivatives Market Procedures ("Procedures") were required. NZX hereby notifies the market that, effective from market open on 30 November 2011, the Procedures will be amended as follows:

- (a) Procedure 8.3.1 will be amended to include that, in the case of Options, the Provisional Daily Settlement Price shall be released by NZX within 60 minutes of the Close;
- (b) Procedure 8.3.2 will be amended to include that, in the case of Options, the Final Daily Settlement Price shall be released by NZX within 90 minutes of the Close;
- (c) Procedure 8.3.4 will be amended by adding a paragraph (e) which will set out the method used by NZX to calculate the Provisional and Final Daily Settlement Prices for Options;
- (d) Procedure 8.3.5 will be amended so that the rounding convention is applicable to the method of calculating the Provisional and Final Daily Settlement Prices for Options;
- (e) Part A of Appendix One to the Procedures, will be amended to specify the Trading Algorithm that applies to trading the Options;
- (f) Part B of Appendix One to the Procedures, will be amended to specify the Rounding convention that applies when calculating the Daily Settlement Price for the Options;
- (g) Part C of Appendix One to the Procedures, will be amended to specify the Minimum Volume Threshold that applies to the Block Trading Facility available for the Options; and
- (h) Part D of Appendix One to the Procedures, will be amended to specify the Session States that apply to trading in the Options.

A copy of the relevant amended Procedures is attached. The full Procedures as amended will be available at [www.nzx.com](http://www.nzx.com) and [www.nzxfutures.com](http://www.nzxfutures.com) from 30 November 2011.

NZX also advises that the Financial Markets Authority has approved the Global WMP Option Individual Contract Specification as currently displayed at:

[http://www.nzxfutures.com/dairy/contract\\_specifications/wmp\\_options](http://www.nzxfutures.com/dairy/contract_specifications/wmp_options).

Trading in this Contract Specification will commence on 30 November 2011. The NZX Derivatives Market Contract No. 4 Options on Dairy Futures Contract Terms and Administrative Procedures will also be available at [www.nzxfutures.com/](http://www.nzxfutures.com/) from 28 November 2011.

For further information, please email [dairy@nzx.com](mailto:dairy@nzx.com).



NZX LIMITED

## Derivatives Market Procedures

| ~~26 October~~ 30 November 2011

## Section 8: Obligations when Trading on the Market

### Price Limit Procedure

#### *Procedure for Rule 8.1.1*

**8.1.1** *In order to prevent the execution of Orders submitted to the Trading System which are at unrepresentative price levels or are the subject of manifest price errors, the Market is subject to price limits as prescribed in the Procedures ("**Price Limits**"). All Orders on the Market must be entered within those Price Limits.*

#### **8.1 Calculation of Price Limits**

**8.1.1** The Price Limits for each Contract Month will be determined from time to time by NZX in the Individual Contract Specifications and notified to the Market. Price Limits for a Contract will be calculated for a Contract Month according to the previous Trading Day's Daily Settlement Price as further specified in the Individual Contract Specification for that Contract. Price Limits may be adjusted to reflect market conditions with the objective of preventing the execution of any Orders submitted to the Trading System with manifest pricing errors and/or at unrepresentative price levels.

#### **8.2 Orders to be within Price Limits**

**8.2.1** All Orders on the Market must be executed within Price Limits throughout the Trading Session and during Pre-Open Session State.

**8.2.2** Any Orders submitted outside of these Price Limits in the relevant Contract Month will automatically be rejected by the Trading System.

**8.2.3** In response to volatile or illiquid market conditions, NZX may, at its discretion, remove the restriction of the entry of Orders outside the prevailing Price Limits.

#### **8.3 Calculation of Daily Settlement Prices**

**8.3.1** Subject to Procedure 8.3.3, within 5 minutes of the Close, or, in the case of Options, within 60 minutes of the Close, a Provisional Daily Settlement Price (for Contracts whose settlement time is at the Close) shall be released to the Market by NZX.

**8.3.2** Within 30 minutes of the Close or, in the case of Options, within 90 minutes of the Close, the Final Daily Settlement Price (for Contracts whose settlement time is at the Close) shall be released to the Market by NZX.

**8.3.3** Where there is a major technical failure preventing timely

calculation of either the Provisional Daily Settlement Price and/ or the Final Daily Settlement Price, NZX will release the Provisional Daily Settlement Price and/ or the Final Daily Settlement Price as soon as possible.

8.3.4 Subject to Procedure 8.6.2, the Provisional Daily Settlement Price and Final Daily Settlement Price shall be released to the Market, and shall be calculated with a view to ensuring that Provisional Daily Settlement Prices and Final Daily Settlement Prices are a fair reflection of the market for the relevant Contracts, using any one, or a combination, of the following methods:

(a) Central Order Book Method 1 (“**Method 1**”):

- (i) The Trading System will take a feed of reported prices for a period of no less than 30 minutes before the time specified for the settlement of the Contract. This period is known as “**Settlement Range**”;
- (ii) The Settlement Range will be used to monitor spread levels, and the Daily Settlement Price for a Contract will be calculated according to:
  - (A) the VWAP of the prices rounded to the nearest tick, Traded during the Settlement Range; or
  - (B) the last Traded price on the Market during the Settlement Range; or
  - (C) if there are no Traded prices during this time, the price midway between the final Bid and final Offer at the time the Provisional Daily Settlement Price is calculated, rounded to the nearest tick.

(b) Central Order Book Method 2 (“**Method 2**”):

- (i) In the event of failure to obtain the Provisional Daily Settlement Price or Final Daily Settlement Price through Method 1 or where, in NZX’s opinion, Method 2 will produce a Provisional Daily Settlement Price or Final Daily Settlement Price which is the most fair reflection of the market for the relevant Contracts, the last Traded price for a Contract on the Trading Day may be the Provisional Daily Settlement Price or Final Daily Settlement Price or if there is no last Traded price for that Contract on the Trading Day, the previous Trading Day’s Daily Settlement Price may be the Provisional Daily Settlement Price or Final Daily Settlement Price;

(c) Central Order Book Method 3 (“**Method 3**”):

- (i) In the event of failure to obtain the Provisional Daily Settlement Price or Final Daily Settlement Price through Method 1 or Method 2, or where, in NZX’s

opinion, Method 3 will produce a Provisional Daily Settlement Price and Final Daily Settlement Price which is the most fair reflection of the market for the relevant Contracts, the Provisional Daily Settlement Price or Final Daily Settlement Price will be the final Bid or final Offer for that Contract, whichever is nearest to the previous Trading Day's Daily Settlement Price;

(d) Fair Value Method ("**Method 4**"):

Part E,  
Appendix One

- (i) In Contracts where there has been limited or no Trading in the central order book, NZX may utilise a theoretical fair value method, whereby the Daily Settlement Price is the price of the Commodity in the Underlying Market for that Contract, as specified in Part E of Appendix One to the Procedures (as calculated by NZX).

(d)(e) Implied Volatility Method (in respect of Options only)  
("Method 5")

- (i) NZX will review Trading System information and other information relevant to market activity, both for each series of every Option and for the underlying (as applicable); and
- (ii) Using this information, NZX may calculate implied volatilities for each series in order to calculate the Provisional Daily Settlement Price and Final Daily Settlement Price according to a formula applied by NZX in its discretion.

- 8.3.5 Where the calculation of the Provisional Daily Settlement Price or Final Daily Settlement Price a VWAP or a midway price between active Bids and Offers that results in a price which is not a whole tick, the rounding convention that will apply in respect of all methods of calculating the Provisional Daily Settlement Price or Final Daily Settlement Price will be in accordance with those set out in Part B of Appendix One to the Procedures.

Part B,  
Appendix One

## 8.4 Exposure of Provisional Daily Settlement Price

- 8.4.1 NZX shall display the Provisional Daily Settlement Price at the Close for a minimum period of five minutes after posting.

## 8.5 Amendment to Provisional Daily Settlement Price

- 8.5.1 Where a Provisional Daily Settlement Price is disputed by at least two Participants and where those objections are received within 5 minutes of the publication of that Provisional Daily Settlement Price, NZX shall have the discretion to amend the Provisional Daily Settlement Price as it sees fit.

## Appendix One: Key Contract Information

Procedure 8.15

### 14.20 Part A: Trading algorithms

For the purposes of Procedure 8.15, the following trading algorithms will apply to each Contract or Class of Contracts as set out below:

Type of Trading Algorithm	Contract No. 1 Global Whole Milk Powder (WMP) Futures	Contract No. 2 Global Anhydrous Milk Fat (AMF) Futures	Contract No. 3 Global Skim Milk Powder (SMP) Futures	Contract No. 4 <u>Options on Dairy Futures</u>
Price/Time Priority Method	✓	✓	✓	<u>✓</u>
Pro-Rata Priority Method	X	X	X	<u>X</u>

Procedure 8.3.5

### 14.21 Part B: Rounding convention

For the purposes of Procedure 8.3.5, the rounding convention that will apply to each Contract or Class of Contracts is set out below:

Contract No. 1 Global Whole Milk Powder (WMP) Futures	Contract No. 2 Global Anhydrous Milk Fat (AMF) Futures	Contract No. 3 Global Skim Milk Powder (SMP) Futures	Contract No. 4 <u>Options on Dairy Futures</u>
Where a Daily Settlement Price results in decimals and/or a price that is not a valid tick size (USD 5) this price will be rounded to the nearest whole number and then rounded to the nearest whole tick. Where the Daily Settlement Price results in a decimal that is an exact uneven multiple of 0.5 this will be rounded up to the nearest whole number and then rounded to the nearest whole tick.	Where a Daily Settlement Price results in decimals and/or a price that is not a valid tick size (USD 5) this price will be rounded to the nearest whole number and then rounded to the nearest whole tick. Where the Daily Settlement Price results in a decimal that is an exact uneven multiple of 0.5 this will be rounded up to the nearest whole number and then rounded to the nearest whole tick.	Where a Daily Settlement Price results in decimals and/or a price that is not a valid tick size (USD 5) this price will be rounded to the nearest whole number and then rounded to the nearest whole tick. Where the Daily Settlement Price results in a decimal that is an exact uneven multiple of 0.5 this will be rounded up to the nearest whole number and then rounded to the nearest whole tick.	<u>Where a Daily Settlement Price results in decimals and/or a price that is not a valid tick size (USD 0.50) this price will be rounded to the nearest whole tick. Where the Daily Settlement Price results in a decimal that is exactly 0.250 or 0.750 this will be rounded up to the nearest whole tick.</u>

Procedures 9.1.6 and 9.2.11

### 14.22 Part C: Block Trading Facility, EFP Facility and EFS Facility – Minimum Volume Thresholds

For the purposes of Procedures 9.1 and 9.2, the following Minimum Volume Thresholds are specified for each Class of Contracts or Contracts:

Name of Facility	Contract No. 1 Global Whole Milk Powder (WMP) Futures	Contract No. 2 Global Anhydrous Milk Fat (AMF) Futures	Contract No. 3 Global Skim Milk Powder (SMP) Futures	<u>Contract No. 4 Options on Dairy Futures</u>
<b>Block Trading Facility</b>	50 Lots	50 Lots	50 Lots	<u>50 Lots</u>
<b>EFP Facility</b>	N/A	N/A	N/A	<u>N/A</u>
<b>EFS Facility</b>	N/A	N/A	N/A	<u>N/A</u>

#### 14.23 Part D: Session States Times

Procedure 10.1.2

Unless otherwise notified by NZX to Trading Participants (by message or code displayed in the Trading System or by such other means as NZX considers appropriate), Session States will apply at the times (New Zealand time) indicated in the timetable set out below in respect of the Contacts or Class of Contracts indicated:

Name of Session State	Contract No. 1 Global Whole Milk Powder (WMP) Futures	Contract No. 2 Global Anhydrous Milk Fat (AMF) Futures	Contract No. 3 Global Skim Milk Powder (SMP) Futures	<u>Contract No. 4 Options on Dairy Futures</u>
<b>Enquiry (Log on)</b>	07.00 – 07.30	07.00 – 07.30	07.00 – 07.30	<u>07.00 – 07.30</u>
<b>Pre-Open</b>	07.30- 08.00	07.30- 08.00	07.30- 08.00	<u>07.30- 08.00</u>
<b>Open</b>	08.00 –15.58	08.00 –15.58	08.00 –15.58	<u>08.00 – 16.00</u>
<b>Pre-Close</b>	15.58-16.00	15.58-16.00	15.58-16.00	<u>16.00-16.02</u>
<b>Close</b>	16.00-16.30	16.00-16.30	16.00-16.30	<u>16.02-16.30</u>
<b>Enquiry</b>	16.30 –	16.30 –	16.30 –	<u>16.30 –</u>