

UNIVERSAL STOCK FUTURES ONE STEP CLOSER TO A PERFECT WORLD

Despite the early resistance, this product, from Euronext.liffe, has rapidly taken off since its launch in 2001

In an ideal world, investors would be able to take advantage of the current volatility of market indices, without the high costs of frequently buying and selling shares in their component companies.

They would profit from the movements of the markets by short-selling stocks without paying hefty fees. A perfect system would work on a cross-border basis, without any reliance on stock borrowing.

This dream scenario is in fact a reality for customers of Euronext.liffe in the form of its universal stock future (USF), according to Max Butti, manager of the product.

USFs, he says, are a type of single stock future that provides exposure to a range of equities from different countries and different currencies. They work in an intriguing way.

» ADVANTAGES

USFs involve cheap and efficient transactions, which do not entail taking ownership of the relevant stocks.

Neither do USFs involve borrowing stock. This is a practice typically only open to institutions and which involves the risk that the lender will recall stocks at an inconvenient moment.

Trades are carried out on the same platform and cleared and settled under the same regulatory regime.

This allows investors global diversification, without the hassle of dealing with the different rules and tax obligations of different countries.

As a result, cross-border settlement costs are slashed. This is important because they account for 60 per cent of transactions costs, according to a study carried out by the Bank of International Settlements in 2001.

All this simplifies the execution of complex cross-border investment strategies, such as relative performance (pairs) trading.

Mr Butti gives an example of how USFs can be used: "USFs are a very powerful hedging and asset allocation tool. They allow investors to reallocate entire portions of portfolio without disturbing the underlying make-up. For a portfolio indexed to the MSCI Europe a portfolio manager could use USFs to hedge the single components. He doesn't want to sell them, as in the current market



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Max Butti, Euronext.liffe

environment, most of the time it would mean crystallising a loss. So he can use USFs to hedge the companies he thinks will underperform and perhaps increase exposure to the ones he thinks will do well. Thus he is optimising his portfolio without actually selling any of it and realising losses."

Nonetheless, USFs have come in for a degree of criticism. Some commentators claim they add to volatility of stock prices. Mr Butti counters that he "has never seen any additional volatility as a consequence of trading in universal stock futures".

» THE MARKET

In terms of market structure, liquidity in USF contracts is supplied by a group of designated market makers who have a commitment to provide two-way prices on the first serial and quarterly months with a maximum spread in a minimum pre-determined size. The market operates



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a centralised order book on a first-in/first-out basis. This means that the quotes you see on screen are the prices you can deal at. “If a user of USFs doesn’t like the spreads on screen, he can always interact with the market and enter a limit order inside the market maker spread” says Butti.

USFs have taken off rapidly since the launch of the first 15 contracts on 21 January 2001. The first batch included contracts on Nokia (Finland), Alcatel (France), Deutsche Bank (Germany) and Royal Dutch Petroleum Company (Netherlands).

Today there are 116 different contracts available.

» NEW CONTRACTS

Euronext.liffe estimates that 3.95m USF contracts, with a notional value of €20.8bn, changed hands in 2002. Towards the end of the year a number of new contracts were launched, including one on France’s Lafarge and another on Spain’s Repsol. Greater activity is expected this year.

Mr Butti is convinced that once investors become more educated about USFs the market will mushroom: “We expect private wealth managers to become substantial users of this product. USFs allow them unprecedented access to hedging techniques, even for small portfolios.”

The next step for Euronext.liffe is to take the USF concept to the US. The Shad-Johnson Accord, which banned single stock futures trading, has now been repealed. Euronext.Liffe has teamed up with Nasdaq to form NQLX, which is taking single stock futures to investors across the Atlantic. However, US regulators still prevent US-based investors from using non-US single stock futures.

About Euronext.liffe

Euronext.liffe is the derivatives business of Euronext, comprising the Amsterdam, Brussels, LIFFE, Lisbon and Paris derivatives markets. It was formed following the purchase of LIFFE (the London International Financial Futures and Options Exchange) by Euronext in 2001.

Euronext.liffe is the world’s leading exchange for euro short-term interest rate derivatives and equity options.

It also offers a greater choice of derivatives products than any other exchange: it offers futures and options on short and long-term interest rate products, on equities, indices, government bonds and commodities.

Euronext.liffe is creating a single market for derivatives, by bringing all its derivatives products together on a single electronic trading platform, LIFFE CONNECT(r)

LIFFE CONNECT(r) is the world’s most advanced electronic trading platform, with an unrivalled speed of execution and flexibility.

It is the world’s most widely accessible electronic

trading platform, making the derivatives market it supports available to customers at more than 550 locations in 26 countries worldwide. It has also been chosen by the Tokyo derivatives exchange, TIFFE, NQLX, and most recently, the Chicago Board of Trade to support derivatives trading in their markets.

LIFFE CONNECT(r) is the only trading platform in the world providing the necessary functionality and technological edge needed to trade complex short-term interest rate products electronically.

Starting with the successful Brussels market migration in March, and continuing with the transfer of the Paris and Amsterdam markets, the replacement of multiple trading venues with a single market supported by a state-of-the-art electronic trading system will reduce costs for both Euronext.liffe itself and its customers, and make cross-border trading easier and cheaper.

For further details, visit www.euronext.com and www.liffe.com

ACCESS

USFs are available to any private bank, independent financial adviser, broker or order-router with a connection to Euronext.liffe.

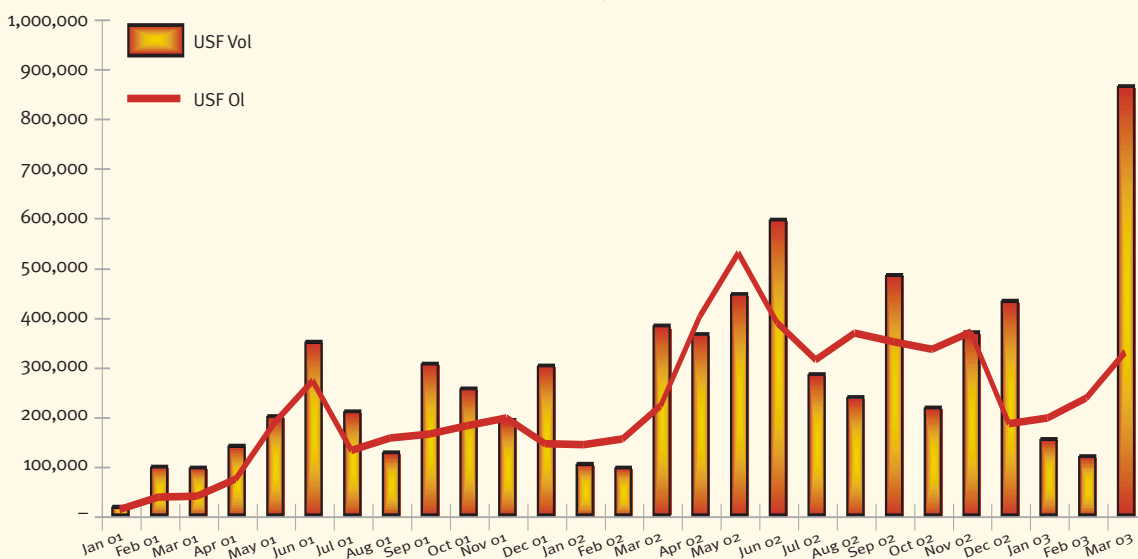
Although they are most popular with institutions in the equity financing business and virtually unknown to high net worth investors, they are gaining ground with private banks who are looking at USFs as a way to hedge portfolios.

USF NEWS

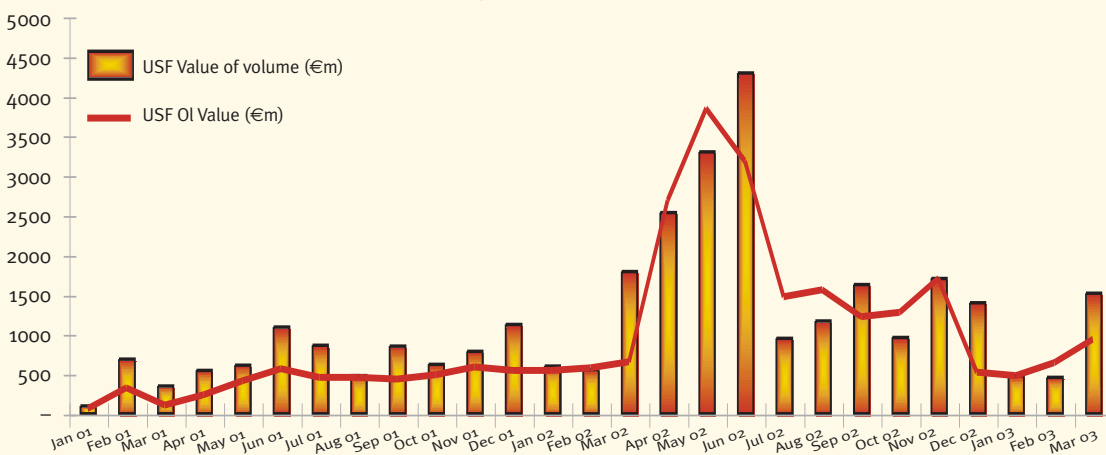
The latest USFs, introduced by Euronext.liffe on Monday, 31 March 2003:

COMPANY	Liffe contract code	Country of origin	Relevant stock exchange
BANCA INTESA	BIN	Italy	Borsa Italiana
RIUNIONE ADRIATICA DI SICURTA	RAS	Italy	Borsa Italiana
STMICROELECTRONICS	STM	Italy	Borsa Italiana

Trading update



Trading update – Value of volume



Source: Euronext.liffe

CORPORATE STATEMENT

Euronext.liffe is the derivatives business of Euronext, formed after Euronext's purchase of the London International Financial Futures and Options Exchange at the end of 2001. Euronext.liffe is the world's largest exchange, trading more business by value than any other exchange. The list of 116 universal stock futures now listed on LIFFE covers 13 countries.



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