Market Notice

Number:	**A1450**
Date	**05 July 2011**

Option volatility mark to market (m-t-m) methodology amended

As per notice A1431 whereby the proposal to amend the option volatility mtm methodology was addressed in detail, no negative feedback was received in this regard. The enhancement to better reflect the daily mtm volatility changes was also tabled at a recent Agricultural Advisory meeting and supported by its members.

The new methodology will be implemented as of **Monday 11 July 2011**. A copy of the updated procedure is as follows:

- Options traded over the last hour of the trading session will be considered for the m-t-m process
- Three strike prices either side of the option at the money will be considered eg if at the money strike is 1600, then 1540, 1560, 1580 and 1620, 1640 and 1660 strikes will be considered in the process
- If 60 or more contracts have traded across all strikes for the entire day, the contract will be considered liquid
- The opposite applies to illiquid contracts, if less than 60 contracts across all strikes have traded for the entire day then the contract is classified illiquid
- If classified as liquid, then a volume weighted average of 40 or more contracts across the selected strikes will be required in the last hour of trade as the m-t-m volatility, if this quantity does not trade then the volatility will remain unchanged
- If classified as illiquid, then a volume weighted average of 20 or more contracts across the selected strikes will be required in the last hour of trade for the m-t-m volatility, if this quantity does not trade then the volatility will remain unchanged
- As an exception, where the future contracts trade limit up or down for most of the option m-t-m period, only options traded on the delta option window will be considered for m-t-m volatility purposes
- No options traded on price through the naked option window will be considered
- If the number of delta options traded do not meet the liquid or illiquid criteria as described above, the bids and offers on the delta window will be considered as a last resort and at the exchanges discretion
- The exchange reserves the right to make the final decision regarding the m-t-m volatility and may exercise its discretion as need be.

If there are any further questions regarding the updated methodology, please contact the Commodities Team.

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