

Guidelines for cancellation of trades based on Nasdaq Nordic Member Rules section 5.7.3

Applicable to the following Nasdaq Nordic
exchanges:

Nasdaq Stockholm AB
Nasdaq Helsinki Ltd
Nasdaq Copenhagen A/S
Nasdaq Iceland hf.

and Nasdaq Baltic exchanges:

Nasdaq Riga AS
Nasdaq Tallinn AS
AB Nasdaq Vilnius

September 2, 2019¹

¹ Previous version entered into force May 1, 2019.

Guidelines for cancellation based on Nasdaq Nordic Member Rules section 5.7.3²

Introduction:

The Cancellation Guideline contains a specification of the Nasdaq Nordic³ exchanges procedures in connection with erroneous trades executed on the equity markets. The efforts of the Exchanges to harmonize the procedures require all Exchanges to apply a common interpretation of the Nasdaq Nordic Member Rules ("NMR"), regarding cancellation of erroneous trades on the equity markets.

This guideline, therefore, specifies what members can expect in connection with erroneous trades executed on a Nasdaq Nordic market and should be viewed as a supplement to the NMR. The purpose of the Guideline is to improve transparency of the Exchange's procedures and to ensure harmonization. However, Nasdaq Nordic reserves the right to decide any matter on its full discretion, in accordance with NMR.

The Nasdaq Nordic exchanges use volatility guards for some of their instruments and market segments. A volatility guard is a feature in the trading system that prevents unwanted volatility and that specifically reduces the expected impact of a trading incident. In the presence of a volatility guard, the need for manual intervention and trade cancellations is reduced. To the extent volatility guards are applied, the Nasdaq Nordic exchanges will strive to have them deal with trading incidents. However, in extraordinary situations manual intervention cannot be ruled out.

This guideline is divided into the following four sections. The first section defines erroneous transactions according to the relevant sections in NMR. The second section defines situations under which Nasdaq Nordic considers cancellation. The third section defines the cancellation procedure, e.g. which trades can be expected to be cancelled, if Nasdaq Nordic decides to cancel trades based on NMR section 5.7.3. The fourth section specifies Nasdaq Nordic's reservations.

1. Erroneous Transactions

NMR section 5.7.3 (i), authorizes Nasdaq Nordic– if so required - to ensure the integrity of the Market or in other extraordinary situations, to cancel a trade that is the result of:

"an indisputable error or unfortunate mistake which is caused by a technical or manual error at the Exchange(s), Member or Member's clients"

An Erroneous Transaction is defined as an execution of an order that is clearly entered in error by a user in the trading system; e.g. a situation where the executed trade(s) deviates from the existing and recent price pattern to such extent that it is apparent that those trades were not meant to be executed at all or at least not on such terms.

An Erroneous Transaction can occur when entering an order that is matched against an existing order(s) or when entering an order that another Member thereafter trades against. An Erroneous Transaction can also be a Manual Trade that has been entered into as a result of an indisputable error.

² For the purposes of this document NMR also refers to corresponding Nasdaq Baltic Member Rulebook(s) (BMR). Nasdaq Baltic refers to Nasdaq Riga AS, Nasdaq Tallinn AS and AB Nasdaq Vilnius.

³ "Nasdaq Nordic" refers, for the purposes of these Cancellation Guidelines, either each individually or all together, to Nasdaq Copenhagen A/S, Nasdaq Helsinki Ltd, Nasdaq Stockholm AB, Nasdaq Iceland hf. and Nasdaq Baltic.

An Erroneous transaction can also occur for other reasons than an erroneous order entry by a participant. NMR 5.7.3 also allows Nasdaq Nordic to cancel transactions that have been the result of:

“in the opinion of Nasdaq Nordic, an indisputable substantial breach of a material provision of law, regulations or the Nasdaq Nordic Member Rules”

The clause above can only be applied on situations where the breach of regulation is very serious and where it can be reasonably concluded within a short time frame that such breach has taken place and that it has had a decisive impact on trading. If a decision is taken to cancel trades with reference to the clause above, Nasdaq Nordic will typically not apply a price deviation margin, but instead decide to cancel all trades that have been deemed to have taken place as a result of the breach of regulation.

Cancellation as a consequence of section 5.7.3 means that trades are being compulsory cancelled, which in turn means that the counterparties in affected trades have no obligation to settle the trade.

With regard to trades that are cleared via a Central Counterparty (CCP) appointed by Nasdaq Nordic and as evidenced by the CCP’s rules and instructions, cancellations will only be accepted by the CCP for transactions processed on the same business day. Cancellations that are received after the CCP’s End of Day procedure will not be processed or included in the net settlement instruction by the CCP. Should the parties to the cancelled trade fail to agree, the only way to handle this for a Member will be to do a “reversed trade” on Nasdaq Nordic the next business day, however always subject to prior approval from Nasdaq Nordic. The reversed trade will be treated as a regular transaction on the same terms and otherwise unchanged conditions as the canceled trade.

Nasdaq Nordic’ right to remove trades from the post trade information, according to NMR section 4.6.3, is not affected by this guideline.

2. Cancellation criteria

In determining whether a specific situation initiates a forced cancellation, Surveillance will consider the following criteria:

1. The trade(s) shall be a consequence of an indisputable error e.g.
 - Wrong security, Switch of price / volume, extra digits
2. The trade(s) shall cause substantial change in the price picture
 - The trade shall be executed at a price which deviates substantially from the prevailing market price⁴ of the instrument before the erroneous order was entered. The change in the price picture shall be sudden and of an extraordinary nature where the one side of the spread is moved substantially or is cleared altogether.
3. The trade shall be perceived as unreasonable, considering the current market conditions and the trading activities for related instruments.
4. The prevailing market conditions, market activity, volatility and the traded value of the instrument are taken into consideration.

Members are expected to be aware of publicly available information. Failure of a Member to acknowledge publicly available information will not be regarded as an indisputable error, unless extreme conditions apply.

⁴ Please see NMR clause 4.6.1

3. Cancellation procedure

The Nasdaq Nordic procedures for the cancellation of erroneous transactions are as follows:

- If a Member executes a Transaction that it considers as an erroneous transaction, the Member shall contact the respective Nasdaq Nordic exchange in question immediately, and no later than 10 minutes after the execution of the transaction.
- The respective Nasdaq Nordic exchange considers whether grounds for trade cancellation(s) exist. In case a decision to cancel will be made the respective Nasdaq Nordic exchange discloses an announcement in the Trading system that the trades in question are considered to be cancelled as soon as possible.

Nasdaq Nordic reserves the right to cancel trades also if a request for a cancellation is not made within 10 minutes, but the probability of a late request being approved is substantially lower. Trades in large cap securities (including ETFs) will not be cancelled if a request has not been made within 10 minutes, unless extreme circumstances exist.

- When Nasdaq Nordic initiates a forced cancellation, the cancellation normally does not include the trades which are considered to be at the market price even though the cancellation criteria's would be met. Trades at the spread or close to spread (or, in the absence of a recent and representative spread, another more relevant reference price for the relevant value of the instrument) will normally not be cancelled unless there is an extraordinary reason.
- If there is a volatility guard active for an order book and if an erroneous transaction takes place under normal market conditions in such order book, trades will normally not be cancelled. This means that if a volatility guard for example allows for 5 % movements in a share price before the volatility guard is triggered, trades will normally not be cancelled within that 5 % interval. In extraordinary situations, the Exchange will still evaluate trade cancellations. Thresholds for volatility guards can be found in the Market Model document.
- For Erroneous transactions in stocks traded on Nasdaq Nordic for which the primary market is another market place and for which Nasdaq Nordic does not apply volatility guards, price deviations used in volatility guards applied on corresponding stocks will be used. This means the deviation limits of volatility guards for similar stocks with regards to price level and liquidity. In absence of such reference a deviation limit of 5 % from last paid on the corresponding stock traded at the primary market will be used. In the absence of a recent last paid price another reference price may be used.
- In addition to what has been stated above specific measures will be taken to handle erroneous transactions with regards to opening, closing and scheduled intraday calls. In such scheduled call auctions increased limits will be applied that allow for larger movements. The allowed deviation is set to be twice the deviation range of the instrument's dynamic volatility guard which implies that an erroneous trade will typically be required to exceed this limit in order to be subject to cancellation.
- If all trades in the closing auction are cancelled all trades executed during the Trading @ Close Price phase (T@CP) will be cancelled as a consequence. Nasdaq

Nordic will *not* cancel trades in T@CP if the closing call is completed without cancellations unless extreme circumstances exist.

- For Danish Collective Investment Schemes and Units in Funds , trades will be cancelled if the price deviation exceeds a 3 % movement unless there is an extraordinary reason. The price deviation will be calculated from the latest published Net Asset Value prior to the possible erroneous trade(s). In absence of a recent updated Net Asset Value another reference price, such as Market Maker price, may be used.
- For instruments that are not protected by volatility guards the following price deviations will normally be applied as qualifiers for whether trades will be eligible for cancellation⁵:

Warrants, rights and structured products	
<0.05 SEK / 0.05 DKK / 0.05 EUR	300% (2 ticks for sale)
0.05-0.50 SEK / 0.05-0.50 DKK / 0.05-0.10EUR	100% (50% for sale)
0,51 – 1.00 SEK / 0,51-1.00 DKK / 0,11-0.50 EUR	50%
1.01-5 SEK / 1.01-5 DKK / 0,51-1 EUR)	25%
5.01-50 SEK / 5.01-50 DKK / 1.01-5 EUR	15%
50.01-100 SEK / 50.01-100 DKK / 5.01-10 EUR	10%
>100 SEK / >100 DKK / >10 EUR	5%

- The percentages are applied based on the last paid price before the erroneous order, for liquid Instruments. For less liquid Instruments, or in absence of a recent last paid price, another reference price may be used. Original spread, before the incident will, if relevant, be used as such reference price.
- Trades executed on Extended evening trading market segments after 16:20 CET (First North Sweden NOK)/ 16:55 CET (First North Denmark)/ 17:25 CET (First North Sweden and First North Finland) and eligible for cancellation may be cancelled the following Exchange Day before the opening of the Trading Hours. Trades cancelled the following Exchange Day before the opening of the Trading Hours will not affect the data disseminated on the previous Exchange Day. The parties to the Trade must refrain from settling the Trade.

Trades that are executed after the erroneous order entry - including stop/loss orders - will be eligible for cancellation on the same basis as the initial erroneous trades. Trades in other Instruments, executed as a direct or indirect consequence of the Erroneous Transaction, will only be cancelled if they individually meet the cancellation criteria.

A message informing the market participants of the possible cancellation of trades will be distributed as soon as possible, and in most cases no later than 5-10 minutes after the incident. An additional message will be distributed informing the market about the respective Nasdaq Nordic exchange's decision on the matter.

Incidents that only involve very few trades and / or Members can be handled directly with the Members, without sending market wide notices.

⁵ Cancellations of trades in fixed income instruments on Nasdaq Iceland are evaluated on a case by case basis.

Trades that are not cancelled 60 minutes after the first message has been distributed can be considered as valid trades. Nasdaq Nordic can prolong this time limit by sending out a new notice within the 60 minute period, informing about the circumstances that led to the extension of the time limit.

4. Reservations

Nasdaq Nordic may cancel trades in all cases where it can be established that the trade has been executed as a result of an error according to NMR section 5.7.3 or corresponding clauses of BMR.

In the event that Nasdaq Nordic cannot get in contact with the Member having initiated the erroneous transaction, Nasdaq Nordic reserves the right to enforce cancellation if needed *to maintain a true and fair price picture*.

Any resale of shares will **not** be taken into consideration.⁶

If the counterparties come to an internal agreement on settling trades that have been cancelled according to NMR section 5.7.3, the parties must inform the respective Nasdaq Nordic exchange and without undue delay report the trades manually using the relevant Manual Trade type.

In general, Nasdaq Nordic recommends that Members do whatever possible to avoid the registration of erroneous orders. Filters for deviating orders are a natural part of the preparation. Entering of erroneous orders may also result in disciplinary actions, if the event is judged to be a breach of NMR section 4.6.1. The Members are recommended to assist in cancellations.

Nasdaq Nordic will not be a part of disputes between parties involved in a trade that has been cancelled, but will consider the trade as having been compulsory cancelled.

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⁶ A resale is defined as a transaction offsetting the buyers/sellers previous transaction.