Guidelines for cancellation of trades in Structured Products/Special Bonds (SP) and equivalent instruments on Nordic Derivatives Exchange (NDX, MIC:XNGM) based on section 5.5 in the NGM Member rules

These guidelines shall be applied from and including January 3, 2018

Nordic Growth Market NGM AB
Mäster Samuelsgatan 42
SE-111 57 Stockholm
Phone + 46 8 566 390 00
Fax +46 8 566 390 01
info@ngm.se
www.ngm.se

Introduction

These Cancellation Guidelines contain a specification of the Nordic Growth Market (NGM) procedures in connection with erroneous trades in Structured Products/Special Bonds (SP) and equivalent instruments executed on the Nordic Derivatives Exchange (NDX, MIC:XNGM). The guidelines specify what members normally can expect in connection with erroneous trades in these instruments executed on NDX and shall be viewed as a supplement to the NGM Member Rules. The purpose of the Guidelines is to improve the transparency of the NGM procedures. However, NGM always reserves the right to decide any matter in its full discretion, in accordance with the NGM Member Rules applicable from time to time.

1. Erroneous Transactions

The NGM Member Rules section 5.5.1 authorizes NGM - if so required - to ensure the integrity of the Market or in other extraordinary situations, to cancel a trade that is the result of:

"obvious error or mistake caused by a Member or which, in the Exchange's opinion, constitutes an obvious violation of the applicable provision of law, regulation, another enactment, or the Exchange's rules, or which has arisen due to disruptions in the technical system of the Member, a DEA client or the Exchange (including in cases of malfunctioning of the Exchange's mechanisms to manage volatility)"

An Erroneous Transaction is defined as an execution of an order that is clearly entered my mistake by a user in the trading system; e.g. a situation where the executed trades deviate from the existing and recent price pattern to such extent that it is apparent that the 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.

Cancellation as a consequence of section 5.5.1 means that trades are being compulsory cancelled, which in turn means that the counterparties in the affected trades will have no obligation to settle the trades.

2. Cancellation criteria

In determining whether a specific situation will give reason to a forced cancellation, the Market Surveillance Department will consider the following criteria:

1. The trades shall be a consequence of an indisputable error e.g.

- Technical fault or transaction based on a Market Maker order/quote clearly made beyond market level, Wrong security, Switch of price/volume, extra digits

2. The trades shall cause substantial change in the pricing of the instrument.

- The trades must have been executed at a price which deviates substantially from the prevailing market price of the instrument before the erroneous order was entered. The change in the pricing of the instrument must be sudden and of an extraordinary nature where one side of the spread is moved substantially or is cleared altogether.

3. The trades 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 will be taken into consideration.

Members are always 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.

3. Cancellation procedure

The NGM procedure for cancellation of erroneous trades in SP and equivalent instruments on NDX is as follows:

A request for cancellation by a Member on the grounds referred to in section 5.5.1 must be submitted for determination to the Exchange's Market Surveillance Department not later than within sixty (60) minutes of the Time of the Trade. If a cancellation request is submitted later than sixty (60) minutes from the Time of the Trade, the Exchange may decide to cancel the Trade only if, in the Exchange's opinion, there is a special cause. (5.5.2)

Decisions as to whether a Trade is to be regarded as the result of an obvious error or mistake in accordance with section 5.5.1 are made by the Exchange. (5.5.4)

The following price deviations (from **fair market price**, as defined below) will normally be applied as qualifiers for whether trades will be eligible for cancellation:

SP and equivalent instruments

Table 1

Price of instrument	**Deviation**
<0.05 SEK/NOK/DKK / 0.05 EUR	300% or 0.05 SEK/NOK/DKK / 0.05 EUR (2 ticks for sale)
0.05-0.49 SEK/NOK/DKK / 0.05-0.09 EUR	100% or 0.25 SEK/NOK/DKK / 0.05 EUR (50% for sale)
0.50-0.99 SEK/NOK/DKK / 0.10-0.49 EUR	50% or 0.25 SEK/NOK/DKK / 0.125 EUR
1-4.99 SEK/NOK/DKK / 0.50-0.99 EUR	25% or 0.75 SEK/NOK/DKK / 0.15 EUR
5-49.99 SEK/NOK/DKK / 1-4.99 EUR	15% or 5 SEK/NOK/DKK / 0.5 EUR
50-100 SEK/NOK/DKK / 5-10 EUR	10%
>100 SEK/NOK/DKK / >10 EUR	5%

The percentages are applied based on the Market Makers accurate quotes (asked for, and approved by the Exchange) = **fair market price**[1].

The Market Surveillance Department at NGM will as part of consideration concerning possible cancellations of trades request a fair market price from the Market Maker in the concerned instrument. The Market Maker shall provide information concerning fair market price to the exchange without delay.

Trades that are executed after the erroneous order entry - including stop loss orders - will be eligible for cancellations on the same basis as regards 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 too meet the cancellation criteria.

When NGM 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 for the erroneous order would be met. Trades at the spread or close to the spread will normally not be cancelled unless there is an extraordinary reason.

[1] For an instrument quoted in percentage, the deviation from fair market price in accordance with the table above shall be calculated using the relative difference from the fair value. If for instance an instrument is traded at 130% of the nominal value when the fair value of the instrument should have been 155% of the nominal value, the deviation is not 25 % but (155-130)/155 = 16,1%

In the event of missing prices in the underlying instrument, for example due to the fact that a so called volatility guard or trading safe guard has been triggered and a fair price cannot be calculated, table 1 (shown above) is not applicable. Trades that have been executed in connection with such an event can be cancelled if the Exchange deems that the trades, in relation to the market situation before and after the event, do not reflect a reasonable market price.

4. Reservations

NGM may cancel trades in all cases where it can be established that the trades have been executed as a result of an error according to NGM Member Rules section 5.5.1. In the event that NGM cannot get in contact with the Member having initiated the erroneous trades before making the decision, NGM reserves the right to still enforce cancellations if needed, to maintain a true and fair pricing of the instrument.

Any resale[2] of financial instruments will not be taken into consideration.

[2] A resale is defined as a transaction offsetting the buyer's/seller's previous transaction.