

Consultation Regarding Change of Derivatives Rules

MAY 2020

TABLE OF CONTENTS

1	INTRODUCTION.....	3
1.1	Background.....	3
1.2	Purpose.....	3
1.3	Scope	3
1.4	Entry into Effect.....	3
2	EURONEXT REGULATION OF THE DERIVATIVES MARKET	3
2.1	Euronext Regulated Markets.....	3
2.2	Harmonised Rules.....	4
2.2.1	Euronext Rule Book I: Harmonised Rules	4
2.2.2	Organisation of Trading	4
2.2.3	Organisation of Members	5
2.3	Non Harmonised Rules.....	6
2.4	Other Useful Documentation	6
3	OVERVIEW OF MAIN CHANGES TO THE DERIVATIVES RULES / CONNECT RULES	7
3.1	Tailor Made Derivatives Discontinued	7
3.2	Stock Forwards Discontinued	7
3.3	New Products Available on the Euronext Platform.....	7
3.4	MPS Discontinued	7
3.5	Provisions Governing Erroneous Transactions.....	8
3.6	Deferred Publication Discontinued	8
4	DERIVATIVES RULES APPENDICES.	8
5	CONSULTATION PROCESS.....	11

1 INTRODUCTION

1.1 BACKGROUND

Following the acquisition of Oslo Børs by Euronext in June 2019, and as communicated previously, the Oslo Børs Derivatives Market will migrate onto the Euronext trading platform Optiq on 30 November 2020. The migration will also include a change of Derivatives CCP from SIX x-clear AG to LCH SA.

1.2 PURPOSE

The purpose of this consultation is to present the new regulation that will govern derivatives trading and products after the migration to Optiq, and to offer our members an opportunity to provide feedback on the changes.

1.3 SCOPE

This document will:

- provide an overview of the new regulatory framework for Derivatives
- list the main changes for current members

In no circumstance should this consultation be considered an exhaustive list of changes, or a complete representation of the Euronext regulatory framework.

1.4 ENTRY INTO EFFECT

Subject to the successful migration of the Oslo Børs Derivatives Market to Optiq, the Euronext regulation will enter into force for Oslo Børs Derivatives on and from 30 November 2020.

2 EURONEXT REGULATION OF THE DERIVATIVES MARKET

2.1 EURONEXT REGULATED MARKETS

After the migration of the Oslo Børs markets onto Optiq, Euronext will operate the following Regulated Markets:

- 7 Securities Markets (Amsterdam, Brussels, Dublin, Lisbon, London, Oslo and Paris)
- 5 Derivatives Markets (Amsterdam, Brussels, Lisbon, Oslo and Paris)

A full overview of the Euronext Regulation is available on the following address:

<https://www.euronext.com/en/regulation/euronext-regulated-markets>

Oslo Børs website will be updated to include the new regulation in due course.

2.2 HARMONISED RULES

All markets are governed by the Harmonised rules, which includes a single harmonised rule book, and notices regarding the organisation of trading and members.

Some regulation is specific to certain products. As an example, the *Organisation of Issuers* section is not relevant for derivatives.

2.2.1 EURONEXT RULE BOOK I: HARMONISED RULES

Rule Book I contains both general provisions regarding membership, access to the market and rules of conduct, as well as chapters specific to the different products. Only chapters relevant to the Derivatives market are presented below.

Chapter 1: General Provisions

Includes definitions and legal provisions regarding the construction and implementation of the Rule Book.

Chapter 2: Euronext Membership

This chapter includes information on how to become a member of Euronext, continuing obligations, clearing arrangements, and provisions regarding resignation, suspension and termination of membership.

Chapter 3: Market Access Arrangements

This chapter contains rules for the electronic access to the Euronext market.

Chapter 5: Trading Rules for Derivatives

This chapter sets forth rules governing trading on the Euronext Derivatives Markets.

Chapter 8: Rules of Conduct

This chapter includes the rules of conduct which members must observe when trading on Euronext Markets.

Chapter 9: Measures in Case of Violation of the Rules

This chapter contains provisions for the process followed by Euronext in case of an alleged violation of the rules by a member, as well as provisions for how rule violations will be dealt with.

2.2.2 ORGANISATION OF TRADING

5-01 Trading Procedures

The Trading Procedures have the same status with regard to enforceability as the Rules. It includes a detailed overview of the operation of the Euronext trading platform, procedures for trading in the Central Order Book, and the reporting of Off Order Book Transactions.

Annexe One - Trading Arrangements

This document lists the different types of derivatives contracts listed for each market, and includes information such as matching policy, and opening hours of the LIS Trade Facility.

Annexe Two – Recognised Strategies

This document lists the recognised strategies that may be traded on the Euronext Trading Platform.

Annexe Three – Trading Algorithms

This document explains the two matching policies used on Euronext Derivatives Markets. These are *Price Time Priority* and *Price Pro Rata*.

Annexe Four – European Market Services Contact Details

This document contains the contact details of the Euronext operational teams, and will be updated with Oslo contacts details ahead of migration.

5-02 Corporate Actions Policy

This policy document details the policy of Euronext Derivative Markets in relation to Corporate Actions. It is issued pursuant to, and should be read in conjunction with, the terms of the relevant formal contract specifications and Trading Procedures.

5-03 Order withdrawal and trade cancellation

This Notice sets out the principles for order withdrawal and trade cancellation applicable on the derivatives market.

5-04 “Look-alike” Derivatives Contracts

This notice include provisions on trading of alternative “Look-alike” contracts, and reminds members of their obligations to inform clients properly on which products are being offered.

2.2.3 ORGANISATION OF MEMBERS

2-01 Registration of Authorised Representatives and Responsible Persons

This document specifies the procedure for registration of *Authorised Representatives* (Rule Book I, Rule 2401), and the procedure for registration of *Responsible Persons* (Rule Book I, Rule 2202).

8-02 Automated Price Injection Models

This document provides requirements for the conformance tests customer applications need to undergo before being allowed to trade on a Euronext Market.

8-03 Pre Trade Risk Management

This document provides details of what is expected of members when using the risk management tools made available by Euronext.

9-01 Specification of Scales of Liquidated Damages Pursuant to Rule 9301/1 (ii) (a) and (vii)

This document specifies the penalties applicable for violations of Rule Book I, Rule 9301/1.

2.3 NON HARMONISED RULES

Regulation specific to each market is included in *The Non Harmonised Rules Section*, which includes the *Rule Book II* for each local market, and other local policy documents where needed.

There will be no *Rule Book II* for Oslo derivatives.

2.4 OTHER USEFUL DOCUMENTATION

Some parts of the current regulation will under the Euronext Regulation be included in other documentation, outside of the regulatory framework presented above. Below is a list of links to useful documents on the Euronext website.

[Contract Specifications](#)

[Euronext Market Making Scheme for Derivatives Markets](#)

[Euronext Derivatives: How the Market Works](#)

[Euronext Derivatives Markets Trading Fee Guide](#)

[Euronext Trading Hours](#)

[Financial Derivatives Tick Sizes](#)

[LIS Thresholds](#)

[Product Directory](#)

3 OVERVIEW OF THE MAIN CHANGES TO THE DERIVATIVES RULES/ CONNECT RULES

This section includes the main changes for current members of the Oslo Børs Derivatives market. This is not a complete list of changes, but intends to highlight where main services or products are discontinued, or where there will be a significant change from the current practice.

3.1 TAILOR MADE DERIVATIVES DISCONTINUED

Unstandardized derivatives traded on the Multilateral Trading Facility Oslo Connect will no longer be offered after migration to the Euronext platform. As communicated in *Oslo Børs Exchange Notice Derivatives 19-33*, issued on 13 December 2019, trading will only be allowed for contracts with expiries up to and including 18 September 2020.

As a consequence, the Oslo Connect Rules, including appendices, will be withdrawn as of a date to be announced by notice.

3.2 STOCK FORWARDS DISCONTINUED

As communicated in *Oslo Børs Exchange Notice Derivatives 19-33*, Stock Forward contracts will be discontinued when the derivatives market migrates to the Euronext platform.

Any reference to Stock Forwards in the Derivatives Rules or Appendices will no longer be relevant after the migration, and will therefore not be included in the new regulation.

3.3 NEW PRODUCTS AVAILABLE ON THE EURONEXT PLATFORM

In addition to the Stock Futures with physical delivery already offered in the Oslo market, stock futures with cash settlement will be offered past migration.

Other products such as Dividend Futures is also available on the Euronext platform, and may also be added to the Oslo market offering.

3.4 MPS DISCONTINUED

Oslo Børs currently operates two market places for Derivatives; the electronic MARKETPLACE, EMP, and the telephone-based MARKETPLACE, MPS.

Euronext only operates an electronic marketplace, similar to Oslo Børs EMP. After the Derivatives market migration to Optiq, the MPS market place will be discontinued. All references to MPS in the current rule book will therefore no longer be relevant after the migration.

3.5 PROVISIONS GOVERNING ERRONEOUS TRANSACTIONS

The *Derivatives Rules 3.5* includes provisions on establishing collars to assess whether a transaction can be deemed 'obviously erroneous', and therefore subject to adjustment or cancellation if a member makes a complaint.

The Euronext Markets operate Automated Price Controls, called Dynamic Collars, which guard against obvious errors in the submission of orders. These controls mean that it will not be necessary to invalidate trades in the normal course of events.

Provisions for Trade Invalidation are described in *Notice 5-03 Order withdrawal and trade cancellation*.

3.6 DEFERRED PUBLICATION DISCONTINUED

Deferred publication of transactions that meet the Post-trade LIS thresholds will not be available after the migration.

4 DERIVATIVES RULES APPENDICES.

This section will provide information on where to find information included in Appendix A, B and C to the Derivatives Rules. The intention is to make it easier for Oslo Børs members to find this information in the new framework, as well as highlighting changes where appropriate.

Appendix A – Definitions and General Rules

A.1 Definitions

Lists of definitions are included in *Rule Book I, 1.1.; Trading Procedures, 1.2; and Corporate Actions Policy, 2.*

A.2 General Rules for Derivatives Contracts

A.2.1 General Provisions

This section is generally covered by the *Euronext Contract Specifications*.

A change worth noting is that the Series Designation will change from the current method described in A.2.1.15, to the *Automated Market Reference (AMR Code)* described in *How the Market Works*.

A.2.2 General Rules for Stock Derivative Contracts

This section is covered by the *Euronext Derivatives Corporate Actions Policy*. Although different in structure, the outcome of the adjustment methods described will generally be the same.

Changes worth mentioning:

- VWAP replaced by Closing Price in ratio calculations.
- Equalisation Payments will be introduced in order to neutralise the effect of the rounding of the Lot Size.

A.2.3 General Rules for Index Derivatives Contracts

Provisions for establishing the *Fixing value*, in the meaning of a *Daily Settlement Price (DSP)* for OBX Index Futures, is described in Trading Procedure 2.2.4, and will be the same as the current method.

Provisions for establishing the *Fixing value*, in the meaning of the *Exchange Delivery Settlement Price (EDSP)* for OBX Index Derivatives, will be described in the Contract Specifications, and will be the same as the current method (VWAP).

A.3 Contract Specifications

Euronext Contract Specifications are available per market and product, and will be made available for Oslo products (except Stock Forwards) ahead of the migration.

Appendix B – Fees and General Information

B.1 List of Fees

The Euronext fee list is available in the *Euronext Derivatives Markets Trading Fee Guide*. The Oslo Derivatives fees will be included in the list ahead of the migration.

The new fee list will only include Trading fees charged by Euronext, while clearing fees will be listed on the website of LCH SA, and charged separately.

B.2 Quotation List for Oslo Børs

An overview of listed products for the Oslo market will be made available in the *Product directory*.

B.3 Trading Hours and Accessibility Hours on Oslo Børs

Information about trading hours is available in the document *Euronext Trading Hours*, which will be updated to include Oslo hours ahead of the migration.

B.4 Co-operating Exchanges and Clearing Houses

As previously announced, the clearing provider for the Oslo Derivatives market will change from SIX x-clear AG, to LCH SA, at the time of the migration. Provisions regarding clearing is included in *Rule Book I, 2.5. Clearing Arrangements*.

B.5 Trading Safeguards for Derivative Contracts on Oslo Børs

Provisions for the calculation of the Dynamic Collar Reference Price and the application of the Dynamic Collars, is listed in *Trading Procedures, 2.1 Price, Volume & Value limits*.

A more detailed explanation of the trading safeguard is included in *Euronext Derivatives: How the Market Works, 5. Trading Safeguards*.

B.6 Transparency Thresholds for Oslo Børs

The list of Pre-trade LIS thresholds applicable on Euronext at any time is available in the *LIS Tresholds* document available on the Euronext website.

The list does not include Post-trade LIS thresholds, as Deferred Publication is not available on Euronext.

Appendix C – Membership Agreement and Market Making

C.1 Derivatives Membership Agreement

The Euronext Membership Agreement is available on request to the Euronext Membership Department.

C.2 Derivatives Market Maker Scheme – Agreement

Investment firms engaged in algorithmic trading and pursuing market making strategies on any Euronext tradable instrument are required to enter into a *Market Making Agreement*.

Euronext also offers a Market Making Schemes for Derivatives, which will be updated to include Oslo products. For more information on the market maker model, please consult the document *Euronext Market Making Scheme for Derivatives Markets*.

All Euronext members acting as Market Makers must complete the online Registration Form. Once completed, members are eligible to apply for a Market Making Scheme for each specific product individually, except where indicated otherwise.

C.3 Liquidity Provider Agreement

The current Liquidity Provider Agreement for OBX Futures will be discontinued after the migration.

5 CONSULTATION PROCESS

Members and other stakeholders are invited to comment on the proposed changes by 15 June 2020 to:

Anders Holen

Head of Trading – Derivatives

Anders.Holen@oslobors.no

+47 22 34 17 62

Kjell Vidjeland

Head of Legal

Kjell.Vidjeland@oslobors.no

+47 22 34 17 27

