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ADDITIONAL CLARIFICATION ON RISK MANAGEMENT FACILITIES

INTRODUCTION

1. The purpose of this Notice is to provide Members with details of what is expected of them in respect of risk management tools made available by Euronext.

DETAILS

2. Chapter 8 of the Euronext Rule Book (“Rules of Conduct”) imposes on Members obligations to maintain effective pre- and post-trade risk management arrangements. In addition, Rule 8106/7 notes the following:

8106/7 The Relevant Market Undertaking may make available to Members and Clearing Members facilities for pre- and post-trade risk management including arrangements which would allow a Clearing Member to suspend with immediate effect the access to the Euronext Trading Platform of a Member for which it clears or for a Member to suspend its own access. The conditions for the use of such facilities and arrangements shall be specified by Notice.

3. The risk management service (the “RM service”) made available by Euronext includes certain risk management tools together with a Suspend Function, commonly referred to as “Kill Switch” functionality, for use in exceptional circumstances (e.g. by a Clearing Member when a Member for whom he provides clearing services builds up positions which are excessively large in relation to

Terms beginning with a capital letter used in this Notice have the same meaning as defined in Book I, Chapter 1 of the Euronext Rule Book.

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available collateral). The RM service is provided to Members subject to certain conditions (as specified by Euronext) and the Member and his Clearing Member will need to enter into a binding Statement of Authority setting out their respective rights and obligations in respect of the use of the RM service. The Statement of Authority is available at <https://euronext.com/ptrm>.

4. Members should not assume that the use of the RM service in isolation will suffice to meet the conditions relating to risk management imposed by Chapter 8. Each Member who uses the RM service will need to assess what additional measures will need to be employed to meet such conditions, given the nature, scale and complexity of the Member's business on the Euronext Markets.
5. The Kill Switch is designed to provide Clearing Members with an electronic method to stop access to the Euronext Markets by Members for which they provide clearing services with immediate effect. Activating the Kill Switch would have the effect of cancelling all the Member's resting orders (including GTCs) currently in the order book as well as suspending its access to the Markets. This control is aimed at providing the Clearing Member with a fast and efficient way to halt trading activity when the non-clearing Member ("NCM") breaches its obligations vis-à-vis the Clearing Member, excluding the NCM from the trading environment until the Clearing Member explicitly reinstates it. The Euronext systems would automatically notify the NCM via the standard trading gateway that its orders had been pulled and the reason why this had been done.
6. Clearing Members should not regard the Kill Switch as a routine risk management procedure. Although in signing the Statement of Authority the NCM will have consented to the Clearing Member's access to, and use of, the Kill Switch, the Clearing Member must act in good faith and be able to demonstrate upon request by the Relevant Euronext Market Undertaking that the use of the Kill Switch functionality was reasonable and justifiable in any particular case.
7. Accordingly, Euronext expects Clearing Members who use the RM service to implement, as a minimum:
 - (a) arrangements to provide for the appropriate use of the Kill Switch; and
 - (b) suitable security measures such that only those persons who are so authorised are able to effect trading suspensions or deactivation of a suspension.
8. Clearing Members should ensure that the circumstances in which a NCM's suspension may be activated are clearly documented between the two parties; NCMs should ensure that relevant staff are aware of those circumstances.
9. The comments in paragraphs 5, 6 and 7 above will apply, *mutatis mutandi*, when the RM service allows a Member to use the Kill Switch internally on specific streams of its trading activity on Euronext Markets.

CONTACT

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