

**Guidelines for cancellation of equity trades
based on Norex Member Rules
section 5.7.3**

Applicable to the following exchanges:

OMX Nordic Exchange Stockholm
OMX Nordic Exchange Helsinki
OMX Nordic Exchange Copenhagen
OMX Nordic Exchange Iceland
Oslo Stock Exchange

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Guideline for cancellation based on Norex Member Rules section 5.7.3

Introduction:

The Cancellation Guideline contains a specification of the Norex 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 to a common interpretation of the Norex Member Rules, regarding cancellation of erroneous trades on the equity market.

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

The Norex Exchanges use circuit breakers for some of its instruments and sub markets. A circuit breaker 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 circuit breaker, the need for manual interventions and trade cancellations is reduced. To the extent circuit breakers are applied, the Norex 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 Norex Member Rules. The second section defines the situations under which the Exchanges consider cancellation. The third section defines the cancellation procedure, e.g. how many levels of trades that can be expected to be cancelled, if the Exchange decides to cancel trades based on Norex Member Rules section 5.7.3. The fourth section specifies exchange reservations.

1. Erroneous Transactions

Norex Member Rules (NMR), Articles 5.7.3 (i), authorizes the Norex Exchanges – 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.

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

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.

The Exchanges' 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 forced cancellation, the 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. And 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 price¹ 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.

3. Cancellation procedure

The Exchange procedures for cancellation of erroneous transactions:

- The exchange considers whether to cancel the trade(s) or not and discloses an announcement in SAXESS that the trades in question are considered to be cancelled as soon as possible.
- If a member executes a Transaction that it considers to be an erroneous transaction, the member shall contact the NOREX exchange in question immediately, and no later than 10 minutes after the execution of the transaction.
- When the Exchange initiates 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 are met. Trades at the spread or close to spread (3rd level of the order book prior to the Erroneous Transaction) will normally not be cancelled unless there is an extraordinary reason. However, if trades that have taken place within the third level in the order book deviate significantly from current market value, for example by more than 10-15 percent from the previous market price, the Exchange may decide upon a price level for cancellation at their discretion. The Exchange discloses an announcement in Saxess regarding the decision on cancellation.

¹ Please see Norex Member Rules, 4.6.1

- If there is a circuit breaker 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 circuit breaker for example allows for 5% movements in a share price before the circuit breaker is triggered, trades will normally not be cancelled within that 5% interval. In extraordinary situations, the Exchange will still evaluate trade cancellations.
- Oslo Børs will, under normal circumstances, initialize a matching halt based on abnormal price movements (cf. Norex Member Rules, 4.7). If some of the cancellations criteria is relevant for the incident causing the halt then matching halt will be upheld until the situation evaluated and concluded. The matching halt will be lifted when a conclusion and a possible cancellation has taken place.

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

A stock exchange announcement informing the market of the possible cancellation of trades will be published as fast as possible, and in most cases no later than 5-8 minutes after the incident. An additional announcement will be published informing the market about the Exchanges decision on the matter.

Incidents that only involve very few trades and member firms can be handled directly with the member firm(s), without publishing announcements.

Trades that are not cancelled 60 minutes after the first stock exchange announcement has been published can be considered as valid trades. The exchange can prolong this time limit by publishing a new announcement within the 60 minute period, informing about the circumstances that led to the extension of the time limit.

4. Reservations

The Exchanges 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 Norex Member Rules section 5.7.3

In the event that the Exchange cannot get in contact with the member having initiated the erroneous transaction, the Norex exchange 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.²

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 Norex exchange and without undue delay report the trades manually using the relevant Manual Trade type.

In general the Exchanges recommend that members do whatever possible to avoid the registration of erroneous orders. Filters for deviating orders are a natural part of the

² A resale is defined as a transaction offsetting the buyers/sellers previous transaction.

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.

The Norex exchange 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.

The Norex Exchanges