CME Group
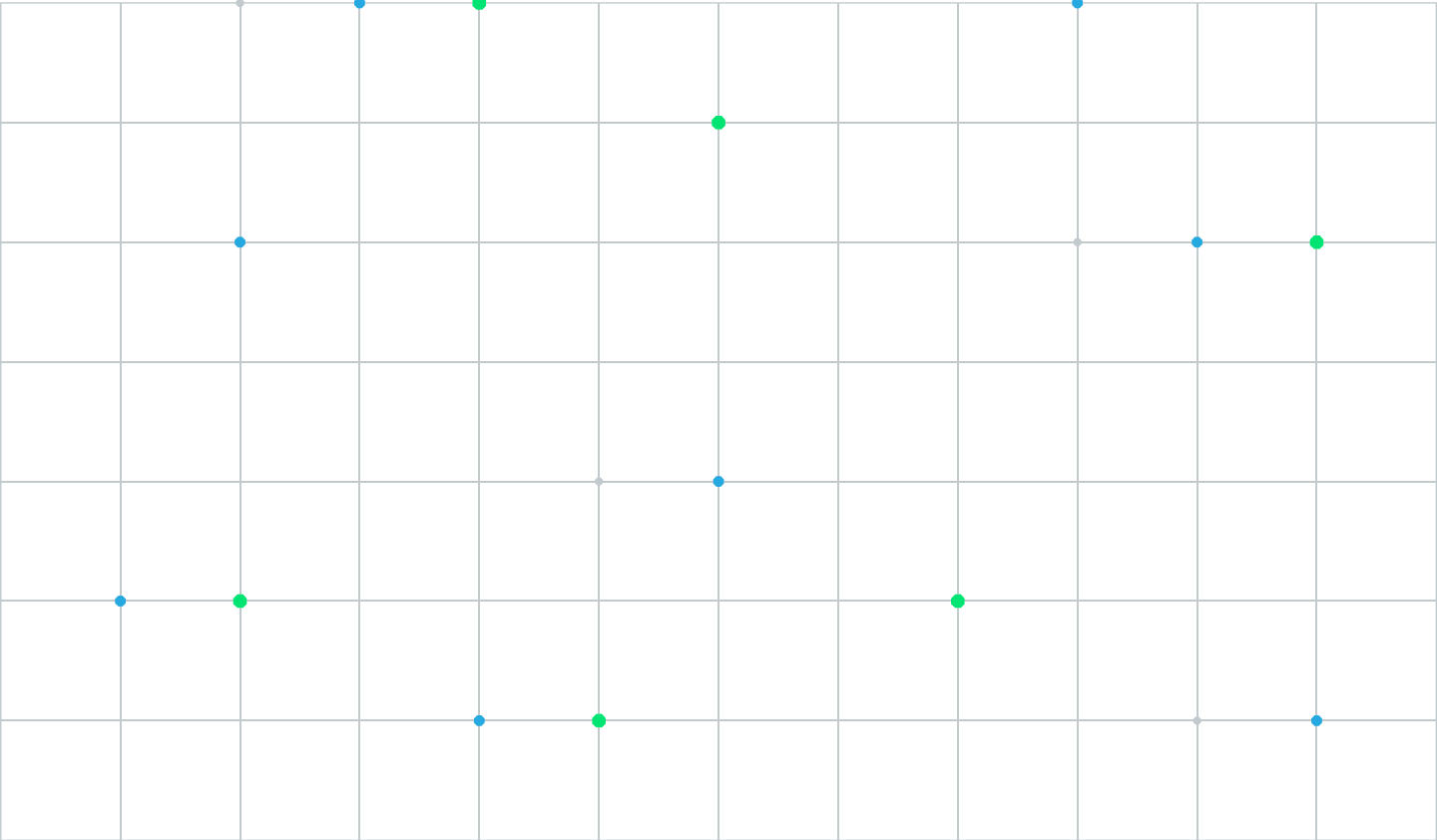
NEX MTF Venue
Market Regulations Policy

Monitoring customer adherence to MTF Rulebook conditions, escalation procedures and sanctions

Contents

1. Introduction

MiFID II Article 18 requires MTF operators to set out conditions for members in rulebooks and then Article 31 requires them to monitor adherence and report significant infringements to the national competent authority.

This document sets out NEX Markets approach to monitoring customer adherence to rules and breach escalation for its Multi-lateral Trading Facilities: BrokerTec EU MTF, EBS MTF and the dualregistered NEX SEF-MTF.

MiFID II Regulatory Technical Standards (RTS 7) prescribe MTF trade controls, including those targeting algorithmic trading, and the venue may apply other controls and conditions that enable it to operate an orderly market and fulfil its own regulatory obligations. Article 31 also brings in market surveillance in relation to the Market Abuse Regulation, but this monitoring activity is covered elsewhere – see Compliance Monitoring Procedures Manual and BrokerTec EBS monitoring and surveillance escalation procedures.

The document is sub-divided into identifiable sections which reflect the various platforms, data sources and types of monitoring. Some data is provided ad hoc by Customer Services, Onboarding and through other breach referrals, whereas other data is the output of automated alerts and daily or other scheduled processes.

Given the ongoing development at the time of writing, areas where processes have not yet been formulated pending IT development, future deliverables or definition of steps required, will be updated upon implementation or when initially reviewed.

2. Rulebook Breaches

Conditions that could result in breach investigations and potential customer sanction.

2.1.   Customer Information

Participants are required to supply Legal Entity Identifier (LEI) and Authorised User information as required by the MTF to satisfy Trade Reporting (RTS 22) and Record Maintenance (RTS 24) obligations. If customers do not supply and maintain this data, including Natural Person ID and Algo names, or trigger EOD reconciliation errors on short to long-code mappings, then Onboarding or Customer Support may escalate to Compliance.

2.2.   Trade Errors, Cancel and Amendments

Participants may request a Trade Review – See MTF Venue Trade Error, Cancel and Amendments Policy – which can result in:

- No action

- Cancel or amendment mutually agreed between counterparties

- Venue enforced cancel or amendment if deemed at an "off-market" price

    All of these events are logged by Customer Support in Service Now. If a customer generates repeated Trade Reviews, or as a result of the annual algo customer Risk Assessment – see MTF Venue Algo Trading Risk Assessment Policy – then Customer Support may escalate to Compliance.

    Note: Directive Delegated Regulated (DDR III) states that market makers repeatedly claiming mistrades should be treated as a significant infringement.

2.3.   Pre-Trade Controls

As per RTS 7 requirements, both BrokerTec and EBS govern the use of their electronic order systems through pre-trade controls on price, value of orders and message transmission rates for API traders – see MTF Venue Pre-Trade Controls Policy.

Although the Pre-Trade controls are not subject to automated monitoring or a sanctions process, the limit and throttle events are logged and can be referenced as part of a Market Abuse or other type of investigation.

It is mandatory that algo trading customers test against these controls before release of a new algo or a significant change to an existing production algo – see MTF Member Conditions and Algo Due Diligence Policy. Whilst we have an onboarding step ahead of initial go-live to enforce mandatory testing (and self-certification on disorderly markets testing) and an annual recertification process, we rely on customers informing us of significant changes to existing production algos. It is possible that customers inform us of a breach of this re-testing requirement and in that event Customer Support will escalate to Compliance.

2.4. Post-Trade Controls

2.4.1. Unexecuted Order to Transaction Ratio
RTS 9 requires venues to calculate the ratio of unexecuted orders to transactions for each of their members on an at least daily basis and enforce maximums. The calculations are specified in both volume terms and in number terms.

BrokerTec publish current ratio maximums by market notice at https://support.nex.com. EBS publish current ratio maximums by market notice at https://www.nexmarkets.com/products-andservices/market-regulation/rulebooks/ebs. Both platforms have automated monitoring in place.

- Parameters are set and reviewed periodically by Management

- EOD ratios are calculated in a batch process and breaches are alerted to Customer Support by email

- Customer Support then escalate to Compliance and inform Sales

2.4.2. Other Fill Ratios

BrokerTec or EBS may calculate and monitor other fill ratios to promote the orderly functioning of its markets.

Currently EBS Market operates NDF Quote Fill Thresholds calculated over a rolling four-week interval.

2.5. Market Abuse Regulation

This is conducted by the Compliance Market Surveillance Team - See MTF Venue Market Surveillance Policy

2.6. Market Making Agreements

In accordance with Article 17, a member pursuing an algo trading "market making strategy" on BrokerTec or EBS Market is deemed to have accepted the terms of the Market Making Agreement (MMA) – see Market Making Agreement – BrokerTec Europe and Market Making Agreement – EBS.

The MMA sets out the qualification conditions:

- Posting firm, simultaneous two-way quotes of comparable size and at competitive prices in respect of each Instrument for at least 50% of daily trading hours each month during which continuous trading takes place

- Calculated for each Trading Day

- The obligation does not apply in any of the defined exceptional circumstances

We provide a daily report to Market Makers on their quotation obligations, in the format of an end of day report sent the following day on a best efforts basis. The report is compiled in an EOD batch process and posted to a secure folder in the Customer Support portal – See https://support.nex.com/Admin/UserList

Should a Market Maker fail to perform on an instrument for a day, Customer Support will also inform Sales. After month-end, a performance report is sent to Market Makers. If the month features failure days, then Customer Support escalate to Compliance and sanctions apply – see section 3.

3. Escalation

Process to escalate breaches and issues to Compliance through daily and periodic monitoring cycles, member sanctions and whether to inform the FCA

3.1.   Daily Escalation

3.1.1.   Monitoring Escalation
During the monitoring cycle, any issues identified will be escalated to Compliance for review and logging by end of day using the Incident Report Form.

When completed this must be sent to compliancequeries@nex.comfor review via email.

3.1.2.   Management Escalation
The Head of Core Compliance will review the Incident Report Forms. The items listed must be categorised as one of:

•   High Risk (Severity 1)

•   Medium High Risk (Severity 2)

•   Medium Low Risk

•   Low Risk.

Items deemed to be High or Medium High Risk (Severity 1 and 2), will be notified to the BrokerTec or EBS Regional Head (or its designated replacement) using the Compliance Severity 1 and 2 Incident Report.

Forms should be stored on the monitoring drive at the following location;
H:\Legal & Compliance\Compliance\Monitoring 2011\Incident Report Log

The Regional Head (or its designated replacement), on review of items submitted, may instigate the MI Escalation Procedures and notify the EMEA Risk Committee as appropriate.

3.1.3.   Incident Log
On receipt of an Incident Report, Compliance must update the Incident Log accordingly.

3.2.   Escalation to the FCA

Article 31 requires venues to inform its competent authority immediately of significant infringements of its rules or disorderly trading conditions or conduct that may indicate behaviour that is prohibited under Market Abuse Regulation (EU No 596/2014).

Compliance will assess a single of series of incidents to determine if it or they constitute a significant infringement. DDR III provides the following guide to what should result in disciplinary action against a member and also be taken into consideration in the assessment of whether to inform the FCA:

- The price discovery process is interfered with over a significant period of time;

- The capacities of the trading systems are reached or exceeded;

- Market makers/liquidity providers repeatedly claim mis-trades

Compliance must also inform the FCA if there is a major malfunction or breakdown of MTF systems:

- Breakdown or failure of controls designed to protect the trading venue against the risks of algorithmic trading.

- Any major malfunction or breakdown of the system for market access that results in participants losing their ability to enter, adjust or cancel their orders;

- Any major malfunction or breakdown of the system for the matching of transactions, that results in participants losing certainty over the status of completed transactions or live orders

- Any major malfunction or breakdown of the systems for the dissemination of pre- and post-trade transparency and other relevant data

3.3.   Member Sanctions

3.3.1.   General

Sanctions are set by Management and communicated in writing to members by Compliance. BrokerTec and EBS Rulebooks set-out the venue's right to suspend or terminate the participation of a MTF member (and/or its Authorised Users) if, at any time:

- The member itself, a CCP, a Clearing Member or the FCA request that the Participant be restricted, suspended or terminated;

- The member and/or any of its Authorised Users breaches these Rules or the Agreements;

- The member suffers an Insolvency Event;

- The member suffers a Default Event;

- The member is subject to relevant enforcement or other proceedings by the FCA or any other Regulatory Authority;

- The member ceases to meet the Eligibility Criteria; or

- In any other circumstances where Operator considers that restriction, suspension or termination is necessary to ensure or maintain orderly trading on NEX Markets MTFs.

3.3.2.   Fill Ratios

If a customer breaches the Unexecuted Order to Transaction ratio, then the steps specified in the relevant Sanctions policy will apply.

If a customer breaches the EBS Market NDF Quote Fill Thresholds, they are informed and given a two week grace period to adjust trading in that currency pair. If there is a continued breach after the two week warning period, this is deemed disruptive behaviour. Customers are then instructed to desist trading that currency pair

within 24 hours for two weeks and further breach would result in indefinite suspension.

3.3.3.   Market Making Agreements

As detailed in the MMA, Market Makers who fail to perform against their quoting obligations are sanctioned as follows:

- Month 1-3 Verbal warning

- Month 4 Written warning

- Month 5 Second written warning

- Month 6 Member's activity is restricted to Taker-only

If the Market Maker returns to performance but breaches again with 2 months, then the process count continues, else it resets. Restricted Market Makers may request to have its activity in those Instruments unrestricted by providing evidence of how it shall improve its ability to meet its obligations

3.4.   Compliance Monitoring Meeting

A fortnightly meeting takes place every other week whereby tasks and actions are discussed as well as what is currently being worked on at the time.

CME Group