



## **EURONEXT NOTICE N8-01**

### **Additional clarification on order filtering requirements for the Euronext Securities Markets**

**Subject: Additional clarification to Members of the Euronext Securities Markets of order filtering requirements pursuant to Euronext Rule Book I, rule 8106 and N4-01 Euronext Cash Market Trading Manual, article 2.11.3, N4-01 bis Trading Manual for the Universal Trading Platform, article 2.9.3 and N4-02 Euronext Warrants and Certificates Trading Manual, article 2.11.3**

**Department: Legal, Regulation, Compliance and European Affairs (“LRCEA”)**

**Issue Date: 23 June 2009**  
**Effective Date: 1 July 2009**

This Notice, issued jointly by the Euronext Market Undertakings, provides clarification to Members of the Euronext Securities Markets of the order filtering requirements set out in the Rules and the Trading Manuals. It shall enter into force on 1 July 2009 in respect of the securities markets operated by Euronext Amsterdam, Euronext Brussels, Euronext Lisbon and Euronext Paris.

Capitalised terms used in this Notice shall have the same meaning as set forth in Book I, Chapter 1 of the Euronext Rule Book.

## **1 Order filtering requirements for the Euronext Securities Markets**

In accordance with *Euronext Rule Book I, rule 8106 and N4-01 Euronext Cash Market Trading Manual, article 2.11.3, N4-01 bis Trading Manual for the Universal Trading Platform, article 2.9.3 and N4-02 Euronext Warrants and Certificates Trading Manual, article 2.11.3*, a Member of Euronext Securities Markets must set up and maintain an appropriate system of internal controls, which shall include pre- and post-trade risk management controls, which are appropriate to the nature, scale and complexity of the Member's business.

*Rule 8106/3 and 4 state:*

*8106/3* A Member's internal controls shall include pre- and post-trade risk management controls, which are appropriate to the nature, scale and complexity of the Member's business on the Relevant Euronext Market Undertaking. For the avoidance of doubt this means that, inter alia, a Member shall ensure that it has appropriate arrangements in place:

- (i) to vet orders prior to their submission to the Central Order Book, irrespective of whether such orders have been submitted manually or electronically (including via an Automated Order Routing System or Sponsored Access); and
- (ii) to monitor the positional and financial risks inherent in the business it conducts.

*8106/4* In respect of arrangements put in place by a Member pursuant to Rule 8106/3, the Member must be able to demonstrate to Euronext that the following monitoring requirements have been incorporated in the Member's risk control systems:

- (i) position limits;
- (ii) user definitions (i.e. the ability to define the individual user(s));
- (iii) product definitions (i.e. the ability to restrict access to particular Admitted Financial Instruments or groups of Admitted Financial Instruments);
- (iv) maximum order size per user; and
- (v) either automatic order rejection when a limit is exceeded or the order being held subject to manual override by an appropriately authorised risk manager.

*N4-01 Euronext Cash Market Trading Manual, article 2.11.3, N4-01 bis Trading Manual for the Universal Trading Platform, article 2.9.3 and N4-02 Euronext Warrants and Certificates Trading Manual, article 2.11.3 states:*

### **2.9.3/2.11.3 Filtering orders**

Order filtering control – which can be realised in co-ordination with a Clearing Member or a custodian if this is necessary - must include at least one warning/confirmation function based on the level of risk accepted by Member. This function must make it possible to identify:

- Orders that have not been adequately margined. Depending on the type of settlement concerned, this will mean that:

- The initial margin required has not been provided, or
- The Client's account has insufficient cash reserves or a lack of the Securities that are the object of the Transaction.
- Orders that exceed a maximum level of accumulated commitments (unsettled positions), for a given account or Client, set according to the credit standing of the said Client or a risk ceiling established internally by the Member.

The process of the risk control must be applied separately for every Security. In this respect, it must be possible for the Member to ensure that the consolidation of several individual orders for the same Security, transmitted on behalf of the same Client, does not result in a breach of the relevant risk threshold.

The Member is responsible for the validation of prices and volumes of each order. Certain types of orders (see below) must be systematically validated or, failing this, rejected before being presented to the market:

- Orders that are clearly disproportionate in comparison to the liquidity of the Security, evaluated on the basis of the market's normal absorption capacity for the Security;
- Orders with a price which differs significantly from prevailing market prices or which is obviously likely to trigger an excessive price swing or a trading halt (notably freeze procedure) or a collar.

## **2 Clarification of order filtering requirements**

With respect to all business conducted by Members of Euronext Securities Markets, Euronext further clarifies that as per *Rule 8106* and *N4-01 Euronext Cash Market Trading Manual, article 2.11.3*, *N4-01 bis Trading Manual for the Universal Trading Platform, article 2.9.3* and *N4-02 Euronext Warrants and Certificates Trading Manual, article 2.11.3*:

In respect of all Client business conducted by the Member:

- a. The Member is and remains fully responsible for all business conducted in its name, either initiated by itself or by its Clients, and the pre- and post-trade risk control thereof.
- b. Any pre-trade risk limits set by the Member per Client and per market, and any total position and maximum order size should be real enough and actively be controlled to ensure an adequate risk management.
- c. The Member should demonstrate to Euronext that it has not only the ability to vet orders before they are entered in the Central Order Book, but should also demonstrate that it is actually doing so. Among other things, these measures should prevent orders which might give rise to a disorderly market or degradation of any service by Euronext.

In respect of cases where the Client has a direct connection to the Trading Host, defined as Sponsored Access:

- d. The Sponsoring Member should set up and maintain adequate arrangements for each Sponsored Participant, including real-time monitoring of the Sponsored Participant's activities on Euronext Securities Markets, which will ensure that at all times the

Sponsoring Member is able to demonstrate to Euronext that it complies with the monitoring requirements set out in Rules 3301/3 and 8106/4 and the audit trail requirements set out in Rule 8301. Such arrangements should include a feed of order details consistent with Rule 8301, which are received by the Sponsoring Member as close to real-time as possible.

- e. The Sponsoring Member should have full control over the risk management system, which monitors and controls the order flow of the Sponsored Participant. Inter alia, the Sponsored Participant should not be able to access, modify or delete pre-defined risk parameters and the Sponsoring Member's risk management system cannot be located in the offices of the Sponsored Participant.
- f. The Sponsoring Member should set up and maintain an adequate procedure, which will ensure that the Sponsoring Member is not only able to suspend the Sponsored Participant's access to the Euronext Securities Markets through its own systems immediately and automatically, but that it will actually do so when either (i) the connection between the Sponsoring Member and the Sponsored Participant is interrupted; or (ii) it needs to suspend a Sponsored Participant's access and cancel his existing orders for risk management purposes.
- g. The Sponsoring Member should set up and maintain adequate procedures, which demonstrate to Euronext that the number of investigations carried out with regard to the risk control of a Sponsored Participant are appropriate to the nature, scale and complexity of the Sponsored Participant's business and will ensure that there is no unauthorised activity being undertaken by its Sponsored Participants.
- h. The Sponsoring Member should ensure that the documentation and arrangements in place between the Sponsoring Member and the Sponsored Participants make clear that the Sponsored Participant's orders go directly to the Euronext Trading Platform (albeit subject to pre-trade validation in accordance with Rule 8106) and not via the Sponsoring Member's systems.
- i. The Sponsoring Member should register for each Sponsored Participant a sufficient number of Responsible Persons, who will represent the Sponsoring Participant in respect of business conducted on the Euronext Securities Markets. Such Responsible Persons should be familiar with all Sponsored Participant's obligations and should ensure that the Sponsored Participant fulfils the requirements set in Rule 2202/2 and 2202/3 as if the Sponsored Participant was itself a Member.

For the avoidance of doubt, where the Sponsored Participant is itself a Member, the Sponsored Participant will remain subject to the Rule Book (and in particular the general duties of integrity, fair dealing and care and the obligation to co-operate with a Euronext Market Undertaking) however its business is executed. In addition, in respect of the Sponsored Participant's own client business, it is subject to, inter alia, the provisions of Chapter 8 regardless of the technical solutions utilised to execute such business.

More generally, Members are reminded that Rule 3301/2(a) requires Sponsoring Members to ensure that Sponsored Participants comply with the Rules applicable to trading on the

Euronext Securities Markets; such Rules would include, inter alia, the provisions of Rule 1.6, Rule 8.1 and Chapter 4 and the Trading Manuals.

### **3 On-site audits**

Members should be aware that Euronext's Market Integrity department will conduct on-site audits at the Members' premises in order to investigate the Members' compliance with the Rules.

### **4 Further information**

With a view to the fair, orderly and efficient operation of the Euronext Markets and the protection of the interests of participants on those markets, Euronext Securities Markets may further clarify its Rules, whenever it deems such clarification necessary or appropriate.

If you have any questions with regard to this Notice please contact your local Market Integrity department:

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