

New Member and Trading Rules for Oslo Børs, Oslo Axess and Oslo ABM

1 Introduction

This document, which is an appendix to Oslo Børs Circular No. 2/2010, provides a presentation of Oslo Børs' new Member and Trading Rules (the Rulebook), prepared in connection with Oslo Børs' implementation of TradElect as trading system for equities and fixed interest securities.¹

The draft Rulebook replaces in its entirety the Norex Member Rules (NMR), and shall come into force simultaneously with the launch of TradElect planned for 15 February 2010. The provisions regarding mandatory clearing of certain equity instruments will however enter into force from the moment an approved central counterparty commences clearing, planned for 30 April 2010.

The Rulebook applies equally to Oslo Børs and the regulated market Oslo Axess and comprises a complete set of rules on membership conditions and trading rules in relation to both trading in equities and fixed interest securities as further described below.

A separate Rulebook has been adopted for trading on the unregulated bond market Oslo ABM.² The content and structure of the Oslo ABM Rulebook is aligned with the Oslo Børs rulebook, and the issues set out in this document will apply correspondingly to Oslo ABM. However, in line with the present Oslo ABM trading rules, the new Rulebook contains certain additional provisions regarding inside information etc. since the relevant statutory rules are not applicable to trading on unregulated markets.

The Rulebook is in relation to layout and content based on the Rules of the London Stock Exchange, however the Exchange has sought to make the amendments required in order to accommodate the rules to Norwegian trading practices and legislation.

The Rulebook is prepared in an English version only.

In general, the Rulebook contains relevant legal provisions (the rights and obligations that the Exchange and the member firms are subject to) while descriptions of trading functionality available in TradElect can be found in supplementary documentation. Accordingly, 'Market Model – Oslo Børs Fixed Income' and 'Market Model - Oslo Børs Equities' will be attached as appendices to the Rulebook. These documents set out the more specific trading conditions and characteristics of the two respective markets. The market model documents will continuously be updated in order to ensure that they fully and accurately describe the operation of tradable instruments in the various sectors and

¹ Oslo Børs Member and Trading Rules.

² Oslo ABM Member and Trading Rules.

segments of the Exchange's markets. The latest updated version of the market model documents will at any given time be published on our website.

Further, the Rulebook is supplemented by the membership agreement between the member firm and Oslo Børs. When signing the membership agreement, the member firms undertake to comply with the Rulebook. The membership agreement will also set out the governing law and legal venue and identify the type of membership granted, see section 2.2. below.

Oslo Børs will also consider producing explanatory documents (tabulars etc) to the rules, e.g. related to trade reporting obligations and deferred publication.

Please note that the OTC publication service for securities not listed on Oslo Børs or Oslo Axess presented in our current trade reporting guidelines will not be available after the implementation of TradElect.

A draft version of the Rulebook was distributed to interested parties for consultation 30 September 2009 (and for Oslo ABM on 5 November 2009) (the Consultation). Oslo Børs received responses from the following parties (the Respondents):

- Bank of America Merrill Lynch
- DnB NOR Markets
- Norwegian Securities Dealers Association
- SEB Enskilda
- VPS ASA

Based *inter alia* on the comments received, Oslo Børs has made a number of amendments of minor and major importance in the final version of the Rulebook. In order to make the rules more user friendly, a detailed table of contents has been added, and the Core Rules chapter has been restructured. The number of several of the provisions has therefore been amended. The rule series 4000 has been reserved for possible new rules regarding Market Makers.

For an overview of the amendments made, please refer to the track-changes version of the Rulebook attached to Oslo Børs' Circular No 2/2010. Major amendments are highlighted in the more detailed presentation of the Rulebook provided below.

2 Core Rules

2.1 Member identification

Each individual employee of a member firm (exchange trader) must no longer participate in a mandatory trading seminar or be authorised by Oslo Børs. This is in line with the Rules of the London Stock Exchange. The Exchange will however arrange trading seminars on which employees of member firms may participate on a voluntary basis.

However, the requirement that the identity of each individual trader shall be disclosed will continue to be in place. Disclosure of the trader identification is as a main rule done technically (the transfer of user information from the front office systems of the member firm to the Exchange's trading system). If the member firm can not arrange for such technical disclosure of identification it is proposed that the Exchange shall have the

power to demand that the member firm immediately discloses the identity of the employee who is responsible for the placing of an order or execution of a trade, cf. Rule 1112.

2.2 Membership Oslo Børs, Oslo Axess, Oslo ABM

It is introduced one common membership requirement for trading at Oslo Børs and Oslo Axess. Consequently, the granting of membership at Oslo Børs automatically entails membership at Oslo Axess. It does not seem to be a separate need for membership at Oslo Axess.

Investment firms and other regulated entities, as further defined in the rules, may apply for four types of membership; Equity membership, fixed interest membership, full membership covering trading in both equities and fixed interest securities or limited membership.

The current practice with separate membership for Oslo ABM will however be continued.

2.3 Resignation of membership

Resignation of membership by a member firm is regulated by Rule 1030-1031.

In the Consultation draft Rulebook, the Exchange was provided with a discretionary power to postpone the resignation of a member firm's membership. Some Respondents questioned the need for such powers. Based on the feedback received, the Exchange has replaced the draft rules with a provision setting out that former member firms may be sanctioned for rule breaches conducted before the membership was terminated, cf Rule 1026. In addition, a former member firm will be bound by the rules as set out in Rule 1025.

2.4 Voice recording and record of documentation

In the Consultation, the Exchange proposed an obligation for all member firms to use voice recording equipment with respect to trading activities and to store the recordings for at least three years. The obligation is in compliance with Norwegian legislation, but caused concern among foreign member firms. Based on the responses received, the rules have been amended so that member firms will only be required to comply with voice recording obligations imposed in their country of registration, cf. Rule 1090.

The Rulebook expressly imposes a duty on the member firms to retain records of all Exchange trades entered into by the member firm which are subject to the rules, cf Rule 1070. The records shall be retained for a period of five years, cf. Section 9-11 seventh subsection of the Securities Trading Act and Article 25 (2) of MiFID.

2.5 Information requirements and the duty of confidentiality

Some of the Respondents pointed out that Oslo Børs' power to request information from member firms set out in the draft Rule 1210 was too extensive. For the sake of good order, Oslo Børs has clarified that the rules only grant Oslo Børs with equivalent powers as founded in law, cf. Section 26 seventh subsection of the Exchange Act, cf. Rule 1110 in the final version of the Rulebook. The Exchange's powers to interview individual employees of member firms caused concern among several Respondents and have been deleted.

We further emphasise that Oslo Børs' right to disclose information received from member firms applies only to the extent such disclosure will not imply a breach of Oslo Børs statutory duty of confidentiality, cf. Section 14 of the Exchange Act and Rule 1114.

New rules setting out a duty of confidentiality for the Exchange and the member firms have been added, cf. Rule 1105 and 1106. The rules are based on the corresponding rules in NMR together with the relevant provisions of the Exchange Act and the Securities Trading Act respectively.

2.6 Payment to Oslo Børs

The member firm's payment obligations to the Exchange are set out in rule 1200. For the sake of good order it is emphasised that the provision in rule 1300.3 ("other sums notified by the Exchange") is assumed only to cover claims for payments which the Exchange may demand in accordance with the rules, such as for example violation charges (overtredelsesgebyr) and daily fines (løpende mulkt).

Rule 1202 provides the Exchange with a power to require a direct debit mandate from member firms. The provision is in line with the Rules of the London Stock Exchange but caused concern among Respondents. The Exchange will only consider using the power in cases where this is necessary in order to obtain timely payment.

2.7 Suspension

The rules on suspension are set out in Rule 1500 to 1501. The rules are assumed to be in line with Section 25 of the Exchange Act.

In the consultation draft, Oslo Børs proposed to introduce a prohibition against *on Exchange* trading in suspended instruments. The Respondents were expressly invited to provide their comments at this point. Several respondents have objected to this proposal, stating that such rule may place member firms in a difficult position between its obligations under the Rulebook on the one hand and the principle of best execution for customers on the other. This applies particularly when suspended instruments are traded on other trading venues. On this background, the respondents argued that the present regime, where suspended instruments are only prohibited from trading *on the order book* should be continued. After thorough review, Oslo Børs has determined to amend the final version of the rules in accordance with the views brought forward by the Respondents. It is however emphasised that under the new rules, *on Exchange* trades outside the order book in suspended instruments must be reported to the Exchange within the standard trade report deadlines, cf. Rule 3020.

2.8 Reg S traded securities

Some parts of the draft rules are not presently relevant for the members of Oslo Børs, but could be so in the relatively near future and are therefore proposed included in the rules already at this stage. This mainly applies to special regulations of Reg S traded securities.

2.9 Market data and Intellectual Property Rights etc.

Compared to the consultation draft, Oslo Børs has included new rules regarding market data and intellectual property rights, cf. the rules beginning with 1700. The new rules have been prepared in accordance with the corresponding provisions in the NMR.

Oslo Børs has also added certain provisions regarding technical requirements, cf. Rule 1400-1402. These rules are also based on the equivalent rules in NMR.

2.10 Liability Clause

Rule 1800 sets out the liability clause applicable to the Exchange and the member firms. The liability clause is based on the liability clause contained in NMR, with only some minor editorial amendments and amendments to cover central counterparty clearing.

Some Respondents argued that the Exchange's liability should be clarified. Oslo Børs has determined not to make material amendments in the existing liability clause now but will consider the need for clarifications at a later stage.

2.11 Amendments in the rules

In accordance with the consultation draft, the rules contain simplified amendment procedures compared to those applicable under NMR, cf. Rule 1900. The procedures correspond to the procedures set out in our issuer rules (Continuing Obligations etc.).

Some respondents pointed out that only amendments in statutory legislation or court judgements should entitle the Exchange to change the rules with immediate effect. It can however not be ruled out that immediate amendments may be required also in other cases, inter alia in cases where the rules contain provisions that are obviously incorrect.

3 Order Book Trading Rules

The order book trading rules mainly reflect the trading functionality available in TradElect. Please refer to the market model documents for further description.

Based on feedback from the Respondents, the Exchange has made certain simplifications with regard to the order routing and member authorised connection guidelines.

4 Off Order Book Trading Rules: Transaction Reporting obligations

4.1 On Exchange trading and OTC trading

Several respondents pointed out that the draft rules were unclear as to whether or not OTC trading in instruments admitted to trading on Oslo Børs and Oslo Axess were subject to mandatory trade reporting to the Exchange. Oslo Børs has clarified the rules at this point, cf. Rule 3000. The basic principles are described as follows:

Trading outside the order book in *equities* admitted to trading may be conducted on Exchange or OTC. If the parties agree that the trade should be on Exchange, they are required to report the trade as a manual trade in accordance with the Off Order Book Trading Rules. Such on Exchange trades are regulated by these rules. OTC trades,

however, are not subject to these rules. The parties may nevertheless report an OTC trade to Oslo Børs as a manual trade.

Trading outside the order book in *fixed interest securities* admitted to trading is always to be considered as on Exchange and accordingly subject to the trade reporting requirements and other provisions of these rules.

For further details regarding the trade reporting obligations, please refer to the market model documents.

5 Settlement and Clearing Rules

5.1 Settlement Rules

The exchange settlement rules are set out in Rule 5000-5231. The rules are of a general nature, and refer to the more specific provisions in the rules of the relevant central securities depository (CSD). As set out in Rule 1020.1 of the Core Rules, all member firms must have a current and valid membership in a CSD where the instruments traded are settled or an agreement with a settlement agent with such membership providing for settlement of the member firm's on Exchange trades.

5.2 Clearing through a Central Counterparty

5.2.1 Introduction

As previously announced, Oslo Børs will introduce mandatory central counterparty clearing for all trades dealt in shares, equity certificates and exchange traded funds (ETFs) on Oslo Børs, and for all trades in shares on Oslo Axess, provided the trades are effected automatically on the Exchange's order book.

The financial instruments which at any given time are subject to mandatory clearing are in the Rulebook referred to as "central counterparty securities".

When trades are cleared through a central counterparty, counterparty risk is eliminated. The introduction of central counterparty clearing is therefore considered to be beneficial for our members, their customers and the Norwegian capital market in general. The introduction of a central counterparty will also simplify the settlement procedure and make it more cost-efficient for our members.

As previously announced, Oslo Børs has appointed Oslo Clearing ASA (Oslo Clearing) as central counterparty for trading in central counterparty securities and Oslo Børs' Settlement and Clearing rules have been drafted in coordination with Oslo Clearing. We assume however that other European central counterparties may wish to offer their services in the Norwegian market shortly and our aim has therefore been to prepare rules which also may cover solutions set up by other central counterparties approved by Oslo Børs. We emphasise that it may be necessary to make certain adjustments in the clearing rules in connection with the approval of one or more alternative CCPs.

Oslo Børs will in relation to Oslo Clearing and other central counterparties act in accordance with the principles set out in the European Code of Conduct for Clearing and Settlement dated 7 November 2006 including the Access and Interoperability Guidelines dated 28 June 2007.

5.2.2 Requirement for member firms to establish clearing arrangements

All *full member firms* and *equity member firms*³ of the Exchange are obliged to have a valid clearing arrangement in place with a central counterparty appointed by the Exchange, either as a clearing member⁴ or as a Non Clearing Member for which a General Clearing Member has submitted a clearing declaration to a central counterparty. The same applies to *limited member firms* authorised to trade in central counterparty securities.

5.2.3 General Clearing Members without membership at Oslo Børs

According to Rule 1005, entities which have been accepted as General Clearing Members by an appointed central counterparty, may clear trades for member firms without being a member firm of the Exchange, provided that such General Clearing Member has given the Exchange a declaration stating that it shall be bound by the applicable Settlement and Clearing Rules. Accordingly, such General Clearing Members shall not be required to have a membership with Oslo Børs, pay any fees to Oslo Børs or be bound by any other rules of the Rulebook.

5.2.4 From matched trade to cleared transaction

Oslo Børs will distribute information regarding all trades in central counterparty securities automatically matched in the order book to Oslo Clearing or other appointed central counterparties in which the member firms involved in the trade have their clearing arrangements.

Oslo Clearing is under a duty to act as a central counterparty in all trades received from the Exchange, provided that both parties to the trade have a valid clearing arrangement, the trade is in central counterparty securities and the trade includes sufficient information to be registered in the clearing system such as price, ISIN and parties to the trade. Other central counterparties will assume an equivalent obligation to clear towards the member firms.

In the unlikely event that the trade is rejected by the central counterparty for clearing because sufficient information is missing and it is not possible to correct within the time limits set by the central counterparty, the trade will be bilateral between the buyer and the seller on the order book.

5.2.5 Termination of clearing arrangements

5.2.5.1 Termination by the member firm

All clearing members clearing central counterparty securities traded on the Exchange and all Non Clearing Members are under a duty to notify the Exchange prior to terminating its clearing arrangement. A valid clearing arrangement is a condition precedent for being a

³ The obligation to have a valid clearing arrangement in place does not apply to a fixed interest member firm.

⁴ Either as General Clearing Member which can clear their own principal and agency trades and Non Clearing Members' trades or as Direct Clearing Members which can clear their own principal and agency trades.

full member firm and an *equity member firm* at the Exchange⁵. Accordingly, in such situations the Exchange will immediately inform the relevant central counterparty about the termination of the clearing arrangement, in order to ensure that the member firms affected are suspended from trading and clearing from the moment the member firms no longer have a valid clearing arrangement in place.

5.2.5.2 The central counterparty's suspension of clearing members

An important question is what happens if a member firm's clearing arrangement is terminated or suspended, as a consequence of breach from the member firm or as a consequence of breach or termination/suspension from its General Clearing Member.

In operational procedures laid down pursuant to the clearing agreement between Oslo Børs and the central counterparty, the central counterparty will be obliged to immediately notify Oslo Børs in such situations.

Oslo Børs will upon such notice from a central counterparty immediately suspend the affected member firms from on Exchange order book trading, i.e. suspend the defaulting member firm and if relevant all member firms clearing through a suspended General Clearing Member.

If Oslo Børs receives notification of default from a central counterparty outside the trading day, the required suspensions will be effected before trading commences the following trading day.

Oslo Børs will also, when a member firm is suspended, inform the market of the Exchange's decision to suspend.

Further, the rules provide that member firms are obliged, from the moment they do not have a valid clearing arrangement in place, not to submit new orders or execute trades in the trading system.

Should for any reason, for example due to technical errors, orders be placed or executed by a member firm suspended from clearing, the Exchange will ensure that such orders will be removed and/or trades will be cancelled,

If Oslo Børs finds that the above measures are not sufficient in a particular default situation in order to maintain the effective functioning of the market, Oslo Børs has the power to switch to automatic execution with bilateral trading or alternatively suspend automatic execution completely until the required suspensions have been effected and other required actions have been taken. The Exchange has the same power in the unfortunate situation where a central counterparty ceases registering central counterparty trades, cf. Rules 5230 - 5231. These rules are accompanied by detailed guidelines on how Oslo Børs will handle the situation where the central counterparty ceases registration of trades.

⁵ cf. Rule 1020.6 in the Rulebook. The same applies to limited member firms authorised to trade in central counterparty securities.

6 Compliance

The compliance procedures have been drafted in accordance with the corresponding provisions of our current rules and relevant provisions of the Exchange Act and the Exchange Regulations.