

Oslo Børs to Implement Order to Executed Order Ratio

On September 1st 2012 Oslo Børs will implement an Order to Executed Order ratio of 70 to 1. Excess orders, based on the member's monthly activity, will incur a charge of NOK 0.05 per order. The details of the ratio and the Oslo Børs procedure for calculating order activity and executed orders are detailed below in this document. Oslo Børs will contact members with activity in proximity to the ratio or above the ratio.

The cash equity order books are rapidly changing as trade execution and market making is increasingly becoming automated. Several regulated markets have implemented order to trade ratios, or are in the process of doing so. The rationale for these ratios are to reduce order activity not resulting in transactions because such reductions limit strain and upgrading needs for IT systems for trading venues, brokers and investors as well as bandwidth requirements.

The Order to Executed Order Ratio (OEOR)

Oslo Børs is in general positive to harmonization across markets when this does not create a reduction of market quality. We have decided to differ in our approach, to limit order activity. We see the need to strike a balance between how trading strategies are evolving and what might be considered unnecessary order activity by market participants.

Counting Order Activity

Orders are counted based on what might be considered to negatively impact the capacity of the trading infrastructure versus order activity that would be considered normal activity or improvement of the order book's liquidity. The overall purpose is to count all activity, but exclude activity seen to improve market quality and liquidity. As such we believe it might be most constructive to focus on activity not being counted in the ratio.

1. Orders that rest unchanged for more than one second from order entry.
 - Orders with a one second or more presence in the order book are marketable to most market participants, enabling reaction and initiation of a trade with the order.
2. Order amendments that improve price, volume or both.
 - Orders that rest less than one second before being modified to improve prices (Higher/Lower price for a Bid/Ask order), or increase the order size (Number of shares available at Bid/Ask) are not counted. Similarly if both price and volume of the order is improved, the order will not be counted.
3. Execute and Eliminate (ENE) and Fill or Kill (FOK) orders
 - These order types do not create capacity issues for other parts of the trading infrastructure except for Oslo Børs. As such we have decided that these orders will not be counted against the OEOR at present.
 - Please note that any amendment to an order triggers a new one second rest requirement for the order activity to not affect the OEOR. As such an order improvement followed by an immediate order cancellation will result in the order being counted in the OEOR.

- ENE and FOK are excluded at present because activity levels are seen as natural. Large change to the usage of these order types might trigger their inclusion in the OEOR.

The following order activity will be counted in the OEOR:

1. Orders reside less than one second, from order insert or the last amendment, before cancelation.
2. Order amendments that degrade price, volume or both on an order that has resided for less than one second in the trading system.

Counting Trades at other venues

The typical Order to Trade Ratio in European markets counts the number of trades (denominator of the ratio) without a connection to the original order. As an example; a limit order/ENE/FOK or market order may result in many trades depending on how other market participant's trade against the limit order, or the composition of the order book at the time of entry of an ENE/FOK or market order. In general many small orders that rest in the order book will result in many trades when a larger order is entered to execute against these.

Counting Executed Orders

The number of transactions is largely affected by the composition of the order book. As such we find it better to count the number of executed orders than the resulting trades of those orders.

1. Orders that result in one or many transactions are counted as one executed order. Amendments to an order can result in the order being treated as a new order. We follow the same treatment of this as for the calculation of trading fees.
 2. Executed orders, orders that have been involved in one or more trade, but with total executed value of less than NOK 500 will not be counted as an executed order.
- The NOK 500 threshold for counting an executed order in the OEOR is to reduce the incentive, current order to trade ratios give, to do small trades to improve their order to trade ratio without actual risk.