

CONSULTATION ON PROPOSED AMENDMENTS TO THE NEX EXCHANGE TRADING RULES

INTRODUCTION

This notice explains the proposed changes to the NEX Exchange Trading Rules (the **Rules**) in preparation for the entry into force of the settlement discipline measures set out in Article 7 (Measures to address settlement fails) of Regulation (EU) No 909/2014 (the **CSD Regulation**) and Commission Delegated Regulation (EU) 2018/1229 (the **RTS on Settlement Discipline**).

The measures set out in Article 7 of the CSD Regulation and the RTS on Settlement Discipline will enter into force in September 2020. We are proposing to consult on the introduction of those measures in advance given the potential impact these rules may have on market participants. Until the effective date of Article 7 of the CSD Regulation and the RTS on Settlement Discipline in September 2020, the clearing and settlement rules of NEX Exchange will continue to allow NEX Exchange to exercise discretion to extend a settlement period prior to the mandatory buy-in process in appropriate circumstances.

Members are encouraged to review this notice together with the full text of the proposed changes, and to provide any feedback by close of business on 30 September 2019. We also welcome feedback from other market participants and interested parties. Feedback should be submitted by email to regulation@nexexchange.com.

A marked-up version of the Rules incorporating the proposed changes is available on our website at www.nexexchange.com/resources/consultations.

SUMMARY OF MATERIAL CHANGES

Chapter 6 (Clearing and Settlement) of the Rules sets out what happens when a member fails to comply with its obligation to settle a trade.

Currently, when a member fails to settle a trade, the other party to the trade may ask NEX Exchange for a 'settlement direction'. NEX Exchange will then direct the defaulting member to purchase securities to settle the trade, within a time period decided by NEX Exchange. If the defaulting member fails to comply with that direction and the market value of the securities at that time exceeds the price of the trade, NEX Exchange will order the defaulting member to pay the other member a 'cash settlement amount' equivalent to the difference between the market value and the trade price.

Under the proposed changes to Chapter 6:

- Any settlement direction will afford the defaulting member a fixed extension period to settle the trade. For Growth Market securities, the extension period will be 15 days after the intended settlement date.
- If the defaulting member fails to settle the trade within the extension period, a 'buy-in' process will be initiated.

- The buy-in process will involve the other party to the trade appointing a buy-in agent to purchase securities to settle the trade within a fixed timeframe. For Growth Market securities, the timeframe will be seven business days after the extension period.
- If the buy-in is successful, the defaulting member will be required to reimburse the other member for the costs of the buy-in. If the buy-in price exceeds the price of the original trade, the defaulting member will also be required to pay the other member the difference.
- If the buy-in is unsuccessful, the other party to the trade may choose to defer the timeframe for the buy-in. For Growth Market securities, the deferral period will be seven business days.
- If the buy-in does not succeed in the deferral period (or if the other party to trade declines to defer the timeframe for the buy-in) and the market value of the securities exceeds the price of the original trade, the defaulting member must pay the other party cash compensation equivalent to the difference between the market value and the trade price.

Under the current Rules, a member that fails to comply with its settlement obligations may be deemed to have committed an act of misconduct and subject to our disciplinary procedures. The proposed new measures will also provide that, in particular, where a member's 'settlement efficiency' (i.e., the proportion of trades it settles on the intended settlement date) falls 15% or more below the general rate of settlement efficiency on NEX Exchange, the member will be treated as consistently and systematically failing to deliver securities, and its membership may be suspended.