



NEX SEF 2017-R-11 Exhibit B

## MARKET REGULATION ADVISORY NOTICE

<b>From</b>	<i>NEX SEF Limited ("NEX SEF")</i>
<b>To</b>	<i>All Participants</i>
<b>Subject</b>	<i>Pre-Trade and Post-Trade Controls</i>
<b>Rule References</b>	<i>104, 310</i>
<b>Effective Date</b>	<i>January 1, 2018</i>
<b>Notice Date</b>	<i>December 15, 2017</i>
<b>Notice Number</b>	<i>2018-001</i>

# NEX SEF PRE-TRADE AND POST-TRADE CONTROLS

1 January 2018

Version 3.1

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# 1. INTRODUCTION

MiFID II sets out requirements for multilateral trading facility (“MTF”) operators and members, such as NEX SEF Limited (“NEX SEF” or the “Facility”) and its Participants, aimed at ensuring the orderly functioning of markets in normal, volatile and even disorderly conditions through Article 48 and associated Regulatory Technical Standards (RTS). Capitalised terms used but not defined herein have the meaning given to them in the NEX SEF Rulebook.

NEX SEF is dual-registered as a swap execution facility (“SEF”) and a MTF and permits both manual and algorithmic trading on the Facility.

Market Segment	MIC	Product(s)	Trading Model
EBS Market	EBSM	NDF	CLOB
EBS Institutional	EBSI	Fwd/Swap NDF	Hybrid

As per RTS 7, NEX SEF governs the use of its electronic order submission systems, both on NEX SEF user interfaces and via Application Protocol Interface (“API”). The key elements of this control environment are:

- Pre-trade controls on price, value of orders and message transmission rates via API
- Post-trade controls on on unexecuted order to transaction ratios

This document describes the NEX SEF control suite in operation for the Facility.

## 2. EBSM PRE-TRADE CONTROLS

EBS Market is NEX SEF's Trading Platform that offers anonymous, transparent, reliable price discovery and execution in Non-Deliverable Forwards ("NDFs") across a range of Asian and Latin American currencies.

### 2.1. PRICE CONTROLS

#### 2.1.1. PRICE CHECK AI

Ai Participants have several price check validations which are on ("Y") by default, however, can be turned off ("N") by the Participants via the logon response message. Hardcoded parameters such as X-Pips are hardcoded and cannot be controlled by the Participant.

Control	Optional (Y/N)
Large DifferenceCheck	Y
PriceCheck	Y
WideSpreadCheck	Y
X-pips	N

- **LargeDifferenceCheck:** The Ai server will reject a bid/offer price that varies (higher or lower) from the current Dealable Best Bid/Offer by more than the large difference pips for the currency pair. The default setting is "Y". The Large Difference value is set and hard coded by the Facility per pair.
- **PriceCheck:** If "Y" when submitting a bid/offer, a check is performed to determine if the price is inverted. If "Y", orders with inverted prices are rejected (bid is greater than offer and vice versa). If "N", and the order deviates from the market price by more than the X-Pips amount, the order is rejected. The default setting is "Y". The X-Pips value is set per pair and hard coded by the Facility.
- **WideSpreadCheck:** If "Y", the Ai server ensures that a bid price less than the current Dealable Best Offer by more than the wide spread pips is rejected, and an offer that exceeds the current dealable Best Bid by more than the wide spread pips is rejected. If "N", no restriction is in effect and the order is accepted. The default setting is "Y". The Wide Spread value is set and hard coded by the Facility per pair.
- **X-Pips:** Prevents the Participant from submitting a Bid/Offer greater than the X-pips value through the other side best. The X-Pips value is stated per pair and hardcoded by the Facility and is not controlled by the Participant. This parameter systematically prevents a GTC order being submitted that breaches the coded values.

#### 2.1.2. PRICE CHECK MANUAL

Manual Participants have several price check validations / warnings, some of which are enabled by the Participants. Hardcoded parameters such as X-Pips are hardcoded and cannot be controlled by

the Participant.

Control	Optional (Y/N)
Large Difference	N
Check Rate	N
Wide Spread	Y
Bid > Deable Offer	Y
X-pips	N

- **Large Difference:** The GUI will provide a warning warning on the order request panel stating ‘Large Difference’ if the Participant attempts to enter an order which varies from the current Deable Best Bid/Offer. The Participant can enter this order by clicking or pressing the ‘SEND’ button a second time following the warning.
- **Check Rate:** The GUI will provide a warning when the market rate and the Bid/Offer pips entered by the Participant varies by more than the Check Rate pips. The Check Rate value is set per pair and hard coded by the Facility. The Participant can enter this order by clicking or pressing the ‘SEND’ button a second time following the warning.
- **Wide Spread:** The GUI will provide a warning when:
  - (Bid Side) The difference between the NEX SEF Market Bid and the submitted Bid price is greater than the Wide Spread pips.
  - (Offer Side) The difference between the NEX SEF Market Offer and the submitted Offer price is greater than the Wide Spread pips.

The Wide Spread value is set per pair and hard coded by the Facility. The Participant can enter this order by clicking or pressing the ‘SEND’ button a second time following the warning.

## 2.2. VALUE CONTROLS

### 2.2.1. ORDER SIZE LIMITS

NEX SEF validates order submissions prior to their release to the matching engine.

- The minimum and maximum trade sizes are set per and hard coded by the Facility.
- Order value minimums are market specific and set-out in the Trading Protocols.

## 2.3. MESSAGE TRANSMISSION CONTROLS

### 2.3.1. ORDER THROTTLE

Ai

- NEX SEF on a per Ai session basis, enforces a throughput limit, defined as the number of new orders per rolling 5 seconds and the number of maximum active orders.

- If the Participant reaches this threshold then new order submissions will be rejected.
- Cancellation requests of existing orders will still be permitted.
- The current Ai servers allow up to 3 sessions per server.

#### Manual

- The GUI does not have a systematically enforced throughput limit.

## 2.4. MINIMUM QUOTE LIFE

### Ai

- A 'minimum quote life' ("MQL") is enforced for selected pairs and is applied at the Ai server.
- Both cancellation and order amend requests are subject to the ("MQL") value.
- If a client submits a cancellation for a quote pre the MQL expiry period, that order will be held at the Ai server until its expiry.
- The MQL values are specified on a per pair basis in the Trading Protocols.
- The MQL values can be customised per Ai session and thus per client.

## 2.5. COUNTERPARTY CONTROLS

### 2.5.1. SELF-MATCH PREVENTION

- Intra-floor dealing ("IFD") is a parameter available on a per floor code basis which is disabled prevents two Trader ID's under that floor code from trading with one another. If the value is enabled then this will be permitted.
- IFD can be permissioned by the NEX SEF Customer Support team.

### 2.5.2. COUNTERPARTY RESTRICTIONS

- The GUI will display a white price if the Best Bid/Offer available has been submitted by a Participant from the same floor code.
- Prices from counterparties which do not have a bilateral credit relationship with the Participant will not be shown on the GUI, unless that price is features as the NEX SEF Best Bid or Offer above the credit-screened prices.
- Participants are required to maintain their own credit counterparty matrices through the Trading Floor Administrator utility.

## 2.6. ACCESS SUSPENSION

- In situations where NEX SEF considers a Participant's activity to be contributing to disorderly markets, NEX SEF may suspend that Participant's access to NEX SEF.
- NEX SEF may also be instructed by its Competent Authority, the CFTC, the FCA, or another relevant regulator to suspend a Participant's access.

## 3. EBSM POST-TRADE CONTROLS

### 3.1. UNEXECUTED ORDER TO TRANSACTION RATIO

As per RTS9, NEX SEF calculates Unexecuted Order to Transaction Ratios specified in both volume terms and in number terms:

- **Volume terms:** (Total volume of orders/Total volume of transactions) - 1
- **Number terms:** (Total number of orders/Total number of transactions) - 1

As per the NEX SEF Rulebook and Trading Protocols, NEX SEF places limits on these ratios, which can be changed at our discretion over time and members will be notified by an additional Market Regulation Advisory Notice.

The ratios are calculated on an EOD basis and NEX SEF has automated monitoring in place to identify breaches, which result in a sanctions process.

### 3.2. OTHER FILL RATIOS

NEX SEF may calculate and monitor other fill ratios to promote the orderly functioning of its markets. These would also be communicated by Market Regulation Advisory Notice.

Currently NEX SEF operates NDF Quote Fill Thresholds calculated over a rolling four week interval as follows:

- Volume of Good Till Cancelled ("GTC") orders traded in USD millions / Number of GTC orders submitted

During any rolling 4 week calculation window, NEX SEF will inform participants if they are not meeting the fill ratio thresholds. Following this notification, the participant will be given a two week warning period to bring their fill ratios into compliance with the thresholds.

After the warning period, should the participant fail to meet the established fill ratio requirement for the currency pair, this would be deemed to be disruptive behaviour. Participants will be formally notified that their behaviour has been flagged as disruptive and instructed to desist trading within 24 hours via API in that currency pair for all timezones for a period of two weeks, after which they may resume trading.

## 4. EBSI PRE-TRADE CONTROLS

EBS Institutional is NEX SEF's high-performance FX workflow solution specifically catering to the unique challenges of asset managers.

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### 4.1. PRICE CONTROLS

#### 4.1.1. PRICE CHECK

- EBSI has no price limits

### 4.2. VALUE CONTROLS

#### 4.2.1. ORDER SIZE LIMITS

- EBSI has no order size minimums or maximums
- "Parent" order blocks can be in billions of base currency and "Child" orders for individual fund LEIs can be sub-\$1,000.

### 4.3. MESSAGE TRANSMISSION CONTROLS

#### 4.3.1. ORDER THROTTLE

- EBSI has no message throttles

### 4.4. COUNTERPARTY CONTROLS

#### 4.4.1. SELF-MATCH PREVENTION

- Interfloor matching is not permitted on EBSI

#### 4.4.2. COUNTERPARTY RESTRICTIONS

- EBSI LPs must be selected and mapped by LCs before a trade request can take place



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The ratios are calculated on an EOD basis and NEX SEF has automated monitoring in place to identify breaches, which result in a sanctions process.

### 5.2. OTHER FILL RATIOS

NEX SEF may calculate and monitor other fill ratios to promote the orderly functioning of its markets. These would also be communicated by Market Regulation Advisory Notice.