



## MIFIDII: CHANGES TO TRADING IN FIXED INCOME DERIVATIVES

The information in this document relates to standardized Fixed Income derivatives contracts in Norwegian krone (NOK), Swedish krona (SEK) and Danish krone (DKK).

### Background

For many years, Nasdaq<sup>1</sup> has offered Futures and Forwards contracts to cater for various objectives of clients. In order to help our members and clients to comply with the ever-changing regulatory landscape, certain modifications to the product surroundings are deemed necessary. This document is intended to support the market in navigating the Nasdaq fixed income derivatives through MiFID II. This document will cover the following standardized fixed income derivatives contracts that are admitted for trading with Nasdaq Stockholm AB and cleared at Nasdaq Clearing AB:

- Contracts admitted for trading and clearing with Nasdaq:
  - STIBOR FRA Forwards (FRA) [SEK]
  - STIBOR Futures (3STIBFRA) [SEK]
  - Riksbank Future (RIBA) [SEK]
  - Swedish Mortgage Bond Future [SEK]
  - Swedish Government Bond Futures [SEK]
  - CIBOR Future (CIBOR) [DKK]
  - NIBOR Futures (3/6NIBFRA) [NOK]

All the above-mentioned contracts are admitted for trading according to the Exchange Rules of Nasdaq Derivatives Markets (the “**Exchange Rules**”). The contracts are reported for clearing with Nasdaq Clearing in accordance with the Clearing Rules of Nasdaq Derivatives Markets (the “**Clearing Rules**”).

There is no order book trading of these products, instead all trades are reported to the exchange as a ‘manual’ or ‘reported’ trades, or traded over the counter (“OTC”) and then reported for clearing.

- In addition, Nasdaq offers contracts admitted for clearing only:
  - Buy-sell-back/Sell-buy-back SEK Repo Contract [SEK]
  - One Year Mid-Curve STIBOR-Future Options [SEK]
  - SGB-Future Options [SEK]
  - STIBOR-Future Options [SEK]
  - STIBOR-FRA Forward Options [SEK]
  - Buy-sell-back/Sell-buy-back DKK Repo Contract [DKK]
  - NIBOR-FRA Forwards [NOK]
  - NIBOR-FRA Options [NOK]
  - NIBOR-Future Options [NOK]

Trades in the above-mentioned contracts are only reported for clearing with Nasdaq Clearing in accordance with the Clearing Rules. The clearing-only instruments are not covered further by this document.

<sup>1</sup> The products covered in this document are listed for trading and clearing on Nasdaq Stockholm AB and Nasdaq Clearing AB, respectively.

## Summary of upcoming changes

1. Introduction market model for Nasdaq fixed income derivatives. A trade in any Exchange listed contract (“admitted for trading”) can be agreed upon either as an OTC trade or as a manual trade (on Exchange, off order book).
2. Introduction of three new trade report types which will enable users to specify if the trade is to be reported to the Exchange or if it should be reported for clearing only. More details regarding the new trade report types are specified further down in this document.
3. Introduction of surveillance transactions that are made as manual exchange trades. This is done in order to harmonize the exchange traded fixed income derivatives at Nasdaq with other derivatives in the exchange rulebook.
4. Post trade publication: The turnover (PMI) reporting will be discontinued in its current form, as it is replaced by the applicable post-trade regulations in MiFIR. For exchange reported trades, it will be replaced by post-trade publication done by the Exchange. For OTC trades it will be replaced by APA reporting.

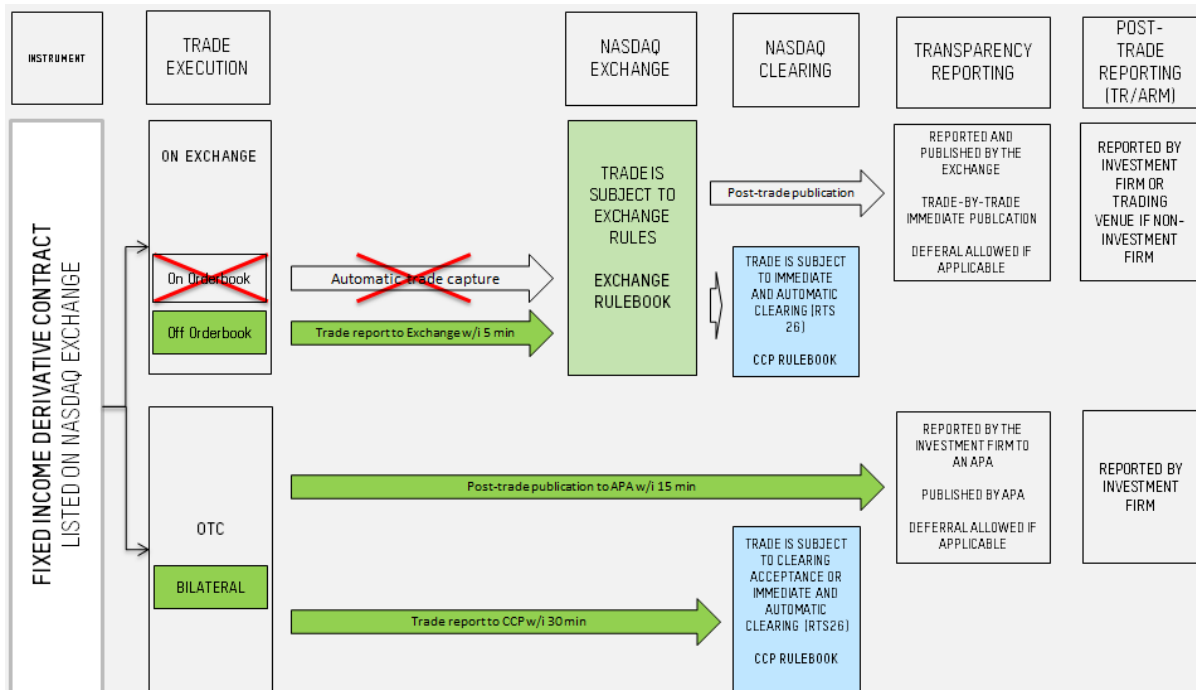
### 1. Introducing a new market model

The below illustration shows the market model for Exchange listed fixed income derivatives contracts.

Trades will either be registered as Manual Trades or OTC trades. On exchange trading (“Manual Trades”) can only be done off-order book. The differences between trading on exchange and OTC are displayed in the process chart below.

The fixed income derivatives products are expected to qualify for the illiquid waiver under MiFID II rules in which case the minimum block trade size will be one (1) contract. In case any contract is deemed to be liquid, the minimum number of contracts in respect of each derivatives sub-class that can be negotiated outside the order book as a block trade will be determined by the Exchange from time to time based on the regulatory LIS pre-trade threshold value.

For the period up until MiFID II comes into force on January 3<sup>rd</sup> 2018, the minimum block trade size for manual trades reported to the exchange is specified in appendix 12 of the exchange rulebook. It has been set to one (1) contract at the time of publication of this document.



## 2. Introduction of new trade report types

The *trade report type* is specified by the member at the time of trade entry into the exchange and clearing system Genium INET.

Historically there has been one trade report type available in the system, that has been used for all trades; “**NTFI**”.

The new trade report type “**EXFI**” has been made available in the production system alongside with “**NTFI**” and shall be used to mark trades that have been executed according to the Exchange Rules. When a trade is registered in Genium INET with the trade report type “**EXFI**”, it is registered both to the exchange Nasdaq Stockholm as well as to Nasdaq Clearing.

Following January 2018, two additional trade report types will be introduced alongside “**EXFI**” and “**NTFI**”.

There will thus in total be four trade report types available in the system, one for contracts traded in accordance with the Exchange Rules and and three for trades executed OTC (OTC trades):

- **NTFI**: To be used for OTC trades which shall not be disclosed through the Nasdaq APA and cleared at Nasdaq Clearing.
- **EXFI**: To be used for trades in accordance with the Exchange Rules and cleared at Nasdaq Clearing.
- **OTFI**: To be used for OTC trades which shall be disclosed through the Nasdaq APA and cleared at Nasdaq Clearing.
- **SI**: To be used for OTC trades which shall be disclosed through the Nasdaq APA, where the reporting party is a Systematic Internaliser, and cleared at Nasdaq Clearing (same trade report type is also used for equity derivatives).

Further details on the trade report types:

Trade Report ID	EXFI	OTFI	SI	NTFI
<b>Description</b>	On Exchange Block, Fixed Income	OTC Disclosed, Fixed Income	Systematic Internaliser Disclosed, EQD & IRD	OTC Non Disclosed, IRD
<b>Asset Class</b>	IRD	IRD	EQD & IRD	IRD
<b>On/Off Exchange</b>	On	Off	Off	Off
<b>OMnet API Trade report Code</b>	TBD	TBD	TBD	TBD
<b>FIX trade report Code</b>	TBD	TBD	TBD	TBD
<b>Nasdaq APA Publication</b>	No	Yes	Yes	No
<b>Exchange Statistics</b>	Price, Quantity, Turnover	None	None	None

### System updates and Testing

The trade report types for transactions traded according to the Exchange Rules and for OTC transactions will be available in the production environments for Clearing Workstation and Trading Workstation, as well as through the OMNet API- and FIX protocols from January 2018.

The test systems will be updated with the new trade report types during fall 2017. It is important that all reporting parties test and add these trade report types to their internal systems before production launch in January 2018.

A Functional description of changes for Fixed Income Derivatives can be found on [this site](#) under “Fixed Income”.

### Trade reporting

Trades will be reported to the Exchange and the Clearing House in the same manner as today. The reporting party needs to specify directly in the reporting window if the trade was executed according to the Exchange Rules or not. See Appendix – Picture 2 for more details on how the trade report type can be registered in the Nasdaq user interfaces.

### Price quotations

The currently existing quotation instruments shall continue to be used for indicative quotes.

### 3. Introducing surveillance on exchange traded contracts

Nasdaq will introduce surveillance on the products in the list below:

- STIBOR FRA Forwards (FRA) [SEK]
- STIBOR Futures (3STIBFRA) [SEK]
- Riksbank Future (RIBA) [SEK]
- Swedish Mortgage Bond Future [SEK]
- Swedish Government Bond Futures [SEK]
- CIBOR Future (CIBOR) [DKK]
- NIBOR Futures (3/6NIBFRA) [NOK]

The surveillance on these products will be done on a trade-by trade basis where the price of the reported trade will be verified against the latest bid/ask spread from the indicative quotes that Nasdaq receive from market makers. Trades that are registered outside of the spread will be subject to the cancellation rules specified by the Exchange in its rules and regulations. As a reminder; executing brokers should be aware that a trade shall be reported to the exchange as soon as possible (within five minutes) according to the Exchange Rules. Note that give-ups and trade allocations are not included in the five-minute deadline.

#### **No surveillance on OTC trades**

If a clearing member or client trades any of the above mentioned products outside of the Exchange Rules and report those as OTC trades they will not be subject to surveillance. More details in the above chapter for *Trade report types*.

### 4. Post-trade publication of fixed income derivatives

The current setup for turnover reporting (PMI) end-of-day is to remain the same as today until January 2018. Such reporting takes place in accordance with Sections 6.6.18-21 of Nasdaq Nordic Member Rules, according to the principles specified in appendix picture 1.

After January 2018, the turnover reporting of fixed income derivatives will be replaced by post-trade publication done by the Exchange, or by the firms (through an APA) in case of OTC trades.

#### **Post trade publication of exchange traded derivatives post MiFID II**

The Exchange will publish trades on a trade-by-trade basis. Subject to regulatory approval, the Exchange allows waivers from the principle of immediate publication (“**deferred publication**”) of a reported transaction if the transaction qualifies over the from time to time specified minimum number of contracts based on the relevant regulatory post-trade threshold value.

If the agreed number of contracts in the transaction equals or exceeds the relevant level for deferred publication, the transaction is deferred and published at a later stage – on a trade by trade basis - provided that the Exchange Members choose deferred publication, please see picture 3 in Appendix.

If the Exchange Members does not choose deferred publication, the transaction is immediately published at the time of reporting. If the number of contracts is falls below the specified threshold for deferral for that contract, the transaction will be rejected.

#### **Post trade publication of OTC-traded derivatives**

Trades that have been agreed upon outside of the Exchange Rules will not be published by the Exchange. Such trades will rather be subject to publication by the firms (through an APA).

In order for members to publish their cleared OTC trades in an easy manner, Nasdaq will supply separate trade report types that can be used if the member wishes to publish through the Nasdaq APA service. More information regarding the different trade report types can be found under the above chapter for *Trade report types*.

## Other information

More information regarding MiFID II and Fixed Income:

<http://business.nasdaq.com/trade/rules-and-regulations/mifid-ii/trading-and-clearing/fixed-income/index.html>

MiFID II Q&A mailbox: [Fixedincome.mifid2@nasdaq.com](mailto:Fixedincome.mifid2@nasdaq.com)

For additional information, please see Nasdaq's common [Nordic rules](#).

If you need individual updates to your system setup, please contact

- Nasdaq Technical Support: [technicalsupport@nasdaq.com](mailto:technicalsupport@nasdaq.com) Phone +46 8 405 67 50
- Nasdaq Trading Operations: [tradingoperations@nasdaq.com](mailto:tradingoperations@nasdaq.com) Phone +46 8 405 78 90

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## Please note

Members contemplating to trade with, for or on behalf of US clients in instruments listed on Nasdaq Stockholm AB should carefully consider any applicable regulatory requirements and should in particular take into account applicable restrictions in respect of US persons. We refer to Section 1.1.13 of the Exchange Rules and Section 1.1.13 of the Clearing Rules. Importantly, Nasdaq Stockholm AB is not registered as a Foreign Board of Trade (FBOT) and does not benefit from a no-action relief. This means the contracts cannot be offered to US persons through direct access. Contracts listed on Nasdaq Stockholm AB can only be offered to US persons through intermediated access, either by having the intermediation through an EU/EEA member that is a so-called CFTC Part 30.10 firm, or through a CFTC-registered US FCM that then opens up an omnibus account with one of the EU/EEA members of Nasdaq Clearing AB. No US person can have direct access to the Contracts and again must trade through an appropriate CFTC-regulated intermediary. Please note the initial order from the US person can also be given to a CFTC-registered introducing broker or to a non-US firm that has obtained relief from such registration under Part 30.5 of the CFTC Rules. All contracts entered into by US persons must be cleared through either a CFTC-registered FCM or a Part 30.10 firm.

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## Glossary of Terms

Term	Definition
IRD	Interest Rate Derivatives
TBD	To Be Decided

## Appendix

**Picture 1: Current PMI Reporting**

For all trading activities at the market maker market and indicative price markets during the same exchange day, members shall – for each Instrument – report the following information:

- The weighted average traded yield or price
- The highest traded yield or price
- The lowest traded yield or price
- The total nominal value of all manual trades during the day

If a trade occurs between two members, the buying member shall report the trade. If the trade occurs between a member and a non-member, the member shall report the trade, regardless who is the buyer or seller.

The turnover reporting is aggregated per instrument and is to be reported no later than 9:00 am CET on the day following the transaction day.

**Picture 2: Examples of current trade report window, including trade report type (highlighted in red)**

Trading Workstation:

**Enter Trade Report**

ID: SGB2YH7      Legs:  Single  Multi-leg  
 Yield: 0,050      Cond: **NTFI NORMAL TRADE R**  
 Qty: 700000000      Side: CROSSED

Buy Customer: Customer: SE, Client: DK, Cust. Info: , Pgs: Default, Gup Acc: , Ord. Cap: , Free Text: , Agr Time: , Non-std: ,  Deferred Publication

Sell Customer: Customer: SE, Client: DK, Cust. Info: , Pgs: Default, Gup Acc: , Ord. Cap: , Free Text: , Agr Time: , Non-std: ,  Deferred Publication

Trade reported successfully.

Clearing Workstation:

Trade Reporting - CO\_4.1.0210\_6\_r111839 @ PROD\_1.GP.NASDAQ.COM - Genium CO

Series	Series long name	Price	Buy	Sell	O/N/D	Free text	Counterparty	Time of Agreement	Deferred	Trade Report
SGB2YH7		-0,600	100	0	D				<b>NTFI</b>	

Buttons: Load, Send, Close

**Picture 3: Deferral of trade report**

Trading Workstation:

**Enter Trade Report**

ID: R1BAH8      Legs:  Single  Multi-leg  
 Yield: -0,480      Cond: NTFI NORMAL TRADE F  
 Qty: 5000000      Side: CROSSED

Buy Customer: Customer: , Client: , Cust. Info: , Pos: Default, Gup Acc: , Ord. Cap: , Free Text: , Agr Time: , Non-std: ,  **(Deferred Publication)**

Sell Customer: Customer: , Client: , Cust. Info: , Pos: Default, Gup Acc: , Ord. Cap: , Free Text: , Agr Time: , Non-std: ,  Deferred Publication

Clearing Workstation:

Trade Reporting - CO\_4.1.0210\_6\_r111839 @ PROD\_1.GP.NASDAQ.COM - Genium CO

Series	Series long name	Price	Buy	Sell	O/N/D	Free text	Counterparty	Time of Agreement	Deferred	Trade Report
SGB2YH7		-0,600	100	0	D				<b>Yes</b>	NTFI

Buttons: Load, Send, Close