

Guidelines for Cancellation of Equity Trades

Introduction:

These cancellation guidelines (hereinafter also referred to as "Guideline") specify trade cancellation procedures of erroneous trades executed on the Equities Markets of NASDAQ OMX Vilnius, NASDAQ OMX Riga and NASDAQ OMX Tallinn (hereinafter collectively as "Baltic Exchanges" or individually "Exchange"). Further, the Guideline represents Baltic Exchanges' common effort to harmonize trade cancellation procedures and ensure similar interpretation of the relevant provisions of NASDAQ OMX Vilnius Membership and trading Rules, NASDAQ OMX Riga Member Rules and NASDAQ OMX Tallinn Member Rules (hereinafter also referred to as "Rules" or "Rules of respective Exchange") on cancellation of erroneous trades on the Equities Markets.

This Guideline therefore explains what Members can expect in connection with erroneous trades executed on Baltic Equities Markets and should be viewed as provisions, which specify and implement the Rules of respective Exchange. The purpose of the Guideline is to improve transparency of the Baltic Exchange's procedures and to ensure harmonization. However, each Exchange reserves the right to decide any matter on its full discretion, in accordance with the Rules of respective Exchange.

This Guideline is divided into the following four sections: the first section defines erroneous trades according to the relevant sections of the Rules; the second section defines the situations under which the Exchanges [usually] consider cancellation; the third section defines the cancellation procedure, e.g. how many levels of trades that can be expected to be cancelled, if the Exchange decides to cancel trades based on section 5.7.3 of the Rules; and the fourth section specifies Exchange reservations.

1. Erroneous trade

Section 5.7.3 of the Rules of respective Exchange, authorize Baltic Exchanges – if so required in the interests of market integrity or in other extraordinary situations - to cancel the trade that is the result of an indisputable error or unfortunate mistake caused by a technical or manual error at the Exchange(s), Member or Member's clients.

An erroneous trade is defined as an execution of an order that is clearly entered in error by a user in the trading system; e.g. a situation where the executed trade(s) deviates from the existing and recent price pattern to such extent that it is apparent that those trades were not meant to be executed.

An erroneous trade can occur when entering an order that is matched against an existing order(s) or when entering an order that another market participant thereafter trades against. An erroneous trade can also be a Manual Trade (*as defined in the Rules*) that has been entered into as a result of an indisputable error.

Cancellation as a consequence of section 5.7.3 means that trade(s) are being compulsory cancelled, which in turn means that the counterparties of the affected trade(s) have no obligation to settle the trade(s).

The Exchanges' right to remove trades from the post trade information, according to section 4.6.3 of the of NASDAQ OMX Vilnius Membership and trading Rules and NASDAQ OMX Tallinn Member Rules and section 4.6.4 of the NASDAQ OMX Riga Member Rules is not affected by this guideline.

2. Cancellation criteria

In determining whether a specific situation initiates forced cancellation the Surveillance will consider the following criteria:

1. The trade(s) shall be a consequence of an indisputable error e.g.
 - Wrong security, Switch of price / volume, extra digits
2. The trade(s) shall cause substantial change in the price picture
 - The trade shall be executed at a price which deviates substantially from the prevailing market price¹ of the instrument before the erroneous order was entered. The change in the price picture shall be sudden and of an extraordinary nature where the one side of the spread is moved substantially or is cleared altogether.
3. The trade is perceived as unreasonable, considering the current market conditions and the trading activities for related instruments.
4. The cancellation is warranted by prevailing market conditions, market activity, volatility, the traded value of the instrument or other similar circumstances.

Market participants are expected to have absorbed publicly available information. Failure of a market participant to acknowledge publicly available information will not be regarded as an indisputable error, except for in extreme circumstances.

3. Cancellation procedure

The Exchange procedures for cancellation of erroneous trades:

- If a Member executes a trade that it considers to be an erroneous , the Member shall contact the relevant Baltic Exchange immediately, and no later than 10 minutes after the execution of the trade.

- The Exchange shall start cancellation procedure only upon receiving a request from Member that has executed a trade that it considers to be an erroneous

- The Exchange considers whether to cancel the trade(s) or not and discloses an announcement in the trading system that the trade(s) in question are considered to be cancelled as soon as possible.

- When the Exchange initiates forced cancellation, the cancellation normally does not include the trades which are considered to be at the market price even though the cancellation criteria's are met. The following price deviations are indications of the price levels within which cancellations will normally not be done:

Shares and equivalent instruments:	
Penny shares (<1 EUR or equivalent of 1 EUR in national currency) ²	15%
First North Baltic securities	15%
Other securities	5%

¹ Please see Rules of respective Exchange, section 4.6.1

² Wider ranges will be used, on a discretionary basis, for securities traded at very low prices.

- If a security qualifies in more than one category, the higher percentage will be used. For securities other than those listed in the table, the table will serve as guidelines to the extent relevant and applicable.
- The above percentages are applied based on the last paid price before the erroneous order, for liquid securities. For less liquid securities, or in absence of a recent last paid price, another reference price may be used.

Trades that are executed after the erroneous order entry will be eligible for cancelled on the same basis as the initial erroneous trades. Trades in other securities, executed as a direct or indirect consequence of the erroneous trades, will only be cancelled if they individually meet the cancellation criteria.

An Exchange notice informing the market of the possible cancellation of trade(s) shall be published as soon as possible, and in most cases no later than 5-10 minutes after submission of a Member request. An additional announcement shall be published informing the market about the Exchange's decision on the matter.

Incidents that only involve very few trades and Members can be handled directly with the Member(s) in question, without publication of the above Exchange notice and announcement.

Trades that are not cancelled 60 minutes after the first erroneous trade can be considered as valid trades. The Exchange can prolong this time limit by publishing a new announcement within the 60 minute period, informing about the circumstances that led to the extension of the time limit.

4. Reservations

The Exchanges may cancel trades in all cases where it can be established that the trade has been executed as a result of an error according to Rules.

Any resale of shares will **not** be taken into consideration³.

If the counterparties come to an internal agreement on settling trades that have been cancelled according to Rules section 5.7.3, the parties must inform the Exchange in question and without undue delay report the trades manually using the relevant Manual Trade type.

In general Members are expected to implement appropriate systems and controls to prevent the registration of erroneous orders. Filters for deviating orders are a natural part of such systems and controls. Entering of erroneous orders may also result in disciplinary actions, if the event is judged to be a breach of the Rules of respective Exchange. Members are expected to cooperate and provide prompt assistance to the Exchange in all matters and stages of the cancellation procedure.

The Exchange will not be a part of disputes between parties involved in a trade that has been cancelled, but will consider the trade as having been compulsory cancelled.

³ A resale is defined as a transaction offsetting the buyers/sellers previous transaction.