

Market Infrastructure Rulebook (MIR)

*In this attachment underlining indicates new text and striking through indicates deleted text.



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3.3.2 In order to ensure that business conducted by means of its facilities is conducted in an orderly manner (and so as to afford proper protection to investors), a Recognised Investment Exchange's Business Rules and procedures are to:

- (a) be consistent with the Rules Code of Market Conduct;
- (b) prohibit abusive trading practices or the deliberate reporting or publication of false information about trades;
- (c) prohibit or prevent:
 - (i) trades in which a party is improperly indemnified against losses;
 - (ii) trades intended to create a false appearance of trading activity ("wash trades");
 - (iii) cross trades executed for improper purposes;
 - (iv) improperly prearranged or pre-negotiated trades;
 - (v) trades intended to assist or conceal any potentially identifiable trading abuse ("accommodation trades"); and
 - (vi) trades which one party does not intend to close out or settle.

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Position Limits

3.3.7 A Recognised Investment Exchange must, in respect of a Commodity Derivative, or other relevant Derivative that is physically settled:

- (a) implement position limits for the purposes of mitigating the risk of Market Abuse in the market on which:
 - (i) the Derivative is admitted to trading; and
 - (ii) the underlying asset(s) of the Derivative is traded;

Guidance

A Recognised Investment Exchange should consider the impact on its Derivative market from changes in the underlying market, and set its position limits accordingly. Considerations of the physical market characteristics may also be relevant, including deliverable supply, delivery locations, substitutes, etc.

- (b) ensure that its position limits are not exceeded by any Member or other participant trading in the Derivative, including through the acquisition of additional positions;

- (c) require that its Members and other participants report their positions on a regular basis and upon the occurrence of certain relevant events;
- (d) include provisions in its Business Rules which impose appropriate obligations on Members and other participants, to ensure their compliance with its position limit obligations;
- (e) immediately notify the Regulator when a position limit threshold is exceeded, detailing:
 - (i) the reason why such a large position is being held;
 - (ii) how the holding of the position furthers the participant's or Member's trading strategy; and
 - (iii) whether the position is being used for hedging and details of the relevant contracts being hedged against (where applicable);
- (f) upon request by the Regulator, make available the information collected by the Recognised Investment Exchange for the purposes of monitoring and enforcing the position limit obligations of its Members and other participants; and
- (g) have in place appropriate internal governance arrangements to ensure its position limits are effective in mitigating relevant risks, including the risks relating to Market Abuse.
- (h) have in place appropriate quantitative and qualitative trigger levels to support (a)-(g) above.

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3.7.4 Information that is made public should conform to a consistent and structured format based on industry standards. Recognised Investment Exchanges can choose the structure that they use.

Guidance

1. When determining whether appropriate arrangements have been made to make relevant information available to Persons engaged in dealing in Financial Instruments admitted to trading on the Recognised Investment Exchange, a Recognised Body should have regard to:
 - (a) the extent to which Members and Clients for whom they act are able to obtain information about those Financial Instruments, either through accepted channels for dissemination of information or through other regularly and widely accessible communication media, to make a reasonably informed judgment about the value and the risks associated with those Financial Instruments in a timely fashion;

- (b) what restrictions, if any, there are on the dissemination of relevant information to the Recognised Investment Exchange's Members and Clients for whom they act; and
- (c) whether relevant information is or can be kept to restricted groups of Persons in such a way as to facilitate or encourage dealing in contravention of the Rules Code of Market Conduct.

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3.9.1 Admission to trading

In order to admit Financial Instruments to trading, a Recognised Investment Exchange must satisfy the following requirements, save and except for Recognised Investment Exchanges which only admit to trading Derivatives, in which case only (a), (b), (c)(ii), (d), (f), (g) and (ij) apply:

- (a) A Recognised Investment Exchange's Business Rules must be clear and transparent in relation to the admission of Financial Instruments to trading on any market operated by it.

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4.1.2 The Rules in this chapter are intended to be consistent with the CPSS-IOSCO Principles for Financial Market Infrastructures. All Recognised Clearing Houses should comply with such principles.

Guidance

4.1.3 Requirements applicable that may be of specific interest to a Recognised Clearing House that is providing Central Counterparty Services are set out in the following Rules:

- (a) Rule 4.6 (Stress testing of capital);
- (b) Rule 4.7.14 to 4.7.21 (Credit risk);
- (c) Rule 4.10 (Collateral and margin); and
- (d) Rule 4.12 (Segregation and portability).

4.1.3 [Deleted]

4.1.4 A Recognised Clearing House may also act as a Trade Repository if its Recognition Order includes a stipulation permitting it to do so. Acting as a Trade Repository will result in it being subject to the additional conduct requirements in Appendix 2 of GEN.

4.1.5 A Recognised Clearing House may also conduct activities in relation to Accepted Virtual Assets if its Recognition Order includes a stipulation permitting it to do so. If it does include such a stipulation, the additional rules on Virtual Assets in COBS chapter 17 will apply to that function, but that function only.

4.1.6 A Recognised Clearing House may also conduct activities in relation to Accepted Spot Commodities if its Recognition Order includes a stipulation permitting it to do so. If it does include such a stipulation, the additional rules on Spot Commodities in COBS chapter 22 will apply to that function, but that function only.

4.1.7 A Recognised Clearing House which provides central counterparty, clearing or settlement facilities must make transparent and non-discriminatory Clearing Rules based on objective criteria, governing access to those facilities. A Recognised Body may refuse access to these facilities on legitimate commercial grounds.

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4.5.3 A Recognised Clearing House which provides central counterparty, clearing or settlement facilities must make transparent and non-discriminatory Clearing Rules based on objective criteria, governing access to those facilities. A Recognised Body may refuse access to these facilities on legitimate commercial grounds. must have legally enforceable Default Rules which, in the event of a Member of the Recognised Clearing House being or appearing to be unable to meet his obligations in respect of one or more Market Contracts, enable it to suspend or terminate such Member's membership and cooperate, if necessary, by sharing information with relevant parties including Recognised Investment Exchanges.

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4.5.6 Default Rules ~~should~~ must be reviewed and tested ~~at least annually~~ periodically or following material changes to the rules and procedures to ensure that they are practical and effective.

Guidance

We would expect the periodic testing to be on an annual cycle or as otherwise agreed with the Regulator.

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4.6.1 A Recognised Clearing House ~~should~~ must adopt comprehensive and stringent measures to ensure that it has adequate total financial resources to effectively manage its credit risk and exposures.

4.6.2 A Recognised Clearing House ~~should~~ must determine the amount of the total financial resources available to it and regularly test the sufficiency of such amount, particularly in the event of a default or multiple defaults in extreme but plausible market conditions through rigorous stress testing.

Guidance

4.6.3 1. In conducting stress testing, a Recognised Clearing House should consider the effect of a wide range of relevant stress scenarios in terms of both defaulters' positions and possible price changes in liquidation periods. Scenarios should include relevant peak historic price volatilities, shifts in other market factors such as price determinants and yield curves, multiple defaults over various

time horizons, simultaneous pressures in funding and asset markets, and a spectrum of forward-looking stress scenarios in a variety of extreme but plausible market conditions.

4.6.4 2. A Recognised Clearing House which is involved in activities with a more-complex risk profile, or is systemically important in multiple jurisdictions, should maintain additional financial resources to cover a wide range of potential stress scenarios. These should include the default of the two of its market counterparties (including their affiliates) that would potentially cause the largest aggregate credit exposure for the Recognised Clearing House in extreme but plausible market conditions. In all other cases, a Recognised Clearing House should maintain additional financial resources sufficient to cover a wide range of potential stress scenarios, which include the default of the market counterparty (including its affiliates) that would potentially cause the largest aggregate credit exposure for the Recognised Clearing House in extreme but plausible market conditions.

4.6.3 [Deleted]

4.6.4 [Deleted]

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4.7.2 The risk management framework in Rule 4.7.1 must:

- (a) encompass a regular review of material risks to which the Recognised Clearing House is exposed and the risks posed to other market participants resulting from its operations; and
- (b) be subject to periodic review as appropriate to ensure that it is effective and operating as intended.

Guidance

4.7.3 1. The risk management framework should identify scenarios that may potentially prevent a Recognised Clearing House from being able to provide its critical operations and services as a going concern and assess the effectiveness of a full range of options for recovery or orderly wind-down.

4.7.4 2. A Recognised Clearing House should prepare appropriate plans for resumption of its operations in such scenarios and, where it is not possible to do so, for an orderly wind-down of the operations of the Recognised Clearing House premised on the results of such assessments. Such procedures should also include appropriate early notification to the Regulator and other regulators as appropriate.

4.7.5 3. A Recognised Clearing House should, to the extent possible, provide incentives and/or deterrents to Members and other market participants to manage and contain the risks they pose to the orderly and efficient operations of the Recognised Clearing House. Those For example, they may include financial penalties for Members and other participants that fail to

settle Investments in a timely manner or to repay intra-day credit by the end of the Business Day.

4.7.3 [Deleted]

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