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**CySEC Guide**

**for Part B of the Application for the Granting of CIF authorization (Form 144-03-01)**

An operator of an MTF should have a clearly labelled rulebook in place that will include its operating procedures and processes, as well as its membership rules. This Guide aims to assist applicants in the preparation of the MTF’s rulebook in accordance with Part B of the Form 144-03-01.

**Paragraph 2.1.1 *“Transparent and non-discretionary rules and procedures for fair and orderly trading and objective criteria for the efficient execution of orders.”***

The rules and procedures for fair and orderly trading and objective criteria for the efficient execution of orders should be included in the MTF’s rulebook. In order to meet the transparency requirement, the rulebook should be publicly available on the MTF operator’s website.

The contents of an MTF operator’s rulebook should demonstrate that they are complying with the requirements of the Law and the provisions of Part B of Form 144-01-03.

An indicative list of information to be included in a rulebook is set out below:

1. a general description of the proposed order book (how market participants can access the order book, how orders are received and matched, price formation, how trade/transaction reporting by participants is effected, how executed transactions are transmitted to a settlement system/clearing house and the technology behind all of the forgoing);
2. participant eligibility criteria;
3. participant obligations;
4. instrument eligibility criteria;
5. location and trading hours of the trading platform;
6. fair and orderly trading rules;
7. clearing and settlement arrangements;
8. market abuse prohibition rules;
9. post-trade obligations;
10. pre and post trade transparency information available and dissemination arrangements;
11. compliance, monitoring & sanctions;
12. definitions / glossary of terms;
13. co-operation with regulators; and
14. procedures for consultation, communication and implementation of rule changes.

It is also recommended that every member of the MTF during its registration should confirm that they have read, understood and will comply with the MTF rulebook.

In circumstances where the MTF operator also offers non-MTF transactional services the firm should ensure that its user agreements clearly distinguish between MTF and non-MTF business so that participants have clarity as to when a transaction is conducted on the MTF and the MTF’s rules apply.

As part of an MTF operator’s responsibility to allow for fair and orderly trading it is good practice for an MTF to ensure that its fees and incentive schemes relating to access to and execution on the MTF should be based on objective criteria. Fees and incentive schemes should not encourage trading for improper purposes and should not distort or reduce the effectiveness of the price formation process.

**Paragraph 2.1.2 “*Transparent rules regarding the criteria for determining the financial instruments that can be traded under its systems.”***

An MTF’s rulebook should contain transparent instrument eligibility criteria. Such criteria should offer clarity to participants as to the type and nature of financial instruments capable of admission to trading on the MTF. If possible, in addition to such criteria a full list of instruments should be provided, or there should be access to sufficient information in relation to such instruments that will enable participants to determine whether a particular instrument can be traded on the MTF e.g. via a system search facility.

**Paragraph 2.1.3 *“Transparent rules, based on objective criteria, governing access to the MTF facility and that the applicant has ensured that the rules comply with the conditions and requirements established under Section 106 (3) of the Law.”***

The rulebook will provide that the eligibility criteria of the MTF’s members or participants, who are CIFs, remaining IFs and other persons, ensure that such members or participants:

(a) are fit and proper;

(b) have a sufficient level of trading ability and competence;

(c) have, where applicable, adequate organisational arrangements;

(d) have sufficient resources for the role they are to perform, taking into account the different financial arrangements that the operator of the MTF may have established in order to guarantee the adequate settlement of transactions.”

A procedure should be included in the rulebook setting out the assessment process of a participant’s compliance with these requirements and the evidence that will be requested in order to certify that such requirements are met.

***Paragraph 2.1.6 “Effective arrangements and procedures, relevant to the MTF, for the regular monitoring of the compliance by its users with its rules.”***

***Paragraph 2.1.7 “Effective systems to monitor the transactions undertaken by its users under its systems in order to identify -***

* + - 1. ***breaches of its rules***
      2. ***disorderly trading conditions;***
      3. ***conduct that may involve market abuse; and***
      4. ***effective procedures to ensure that it can report such instances to CySEC.”***

Under Paragraph 2.1.6 an MTF operator must ensure it is able to monitor for and ensure compliance with all aspects of its rulebook e.g. participant eligibility criteria, trading and settlement rules and anti-market abuse rules. Therefore, the MTF’s compliance function should be able to demonstrate how, and by whom, these rules are monitored. Moreover, the rulebook should include the appropriate sanctions in order to ensure compliance that may include official warnings, suspension, termination, monetary sanctions and legal actions.

In order to satisfy paragraph 2.1.7 an MTF operator should have rules and market control arrangements which enable it to provide for and maintain fair and orderly trading. In this respect, an MTF operator should identify the range of potential disorderly market conditions that could occur on the MTF e.g. stale market data, system outages or other business interruption events, erroneous orders or trades etc. An MTF’s rules and market control arrangements should seek to address the identified potential disorderly conditions through both preventative provisions, such as system security or erroneous order entry rejection, and re-active market control provisions, such as suspension of trading (e.g. at instrument or participant level) or trade cancellation, where appropriate.

An MTF operator’s rulebook should contain a clear reference to the prohibition on market abuse and undertake regular assessments as to the types of market abuse that could occur on the MTF. An MTF should ensure it has appropriate monitoring and surveillance arrangements in place (systems, procedures and personnel) to monitor transactions undertaken by participants on the MTF in order to satisfy the reporting requirements set out in Paragraph 2.1.7.4. A relevant procedure in relation to any alleged violations of the rulebook should also be in place.

***Paragraph 2.1.9 “Effective arrangements to facilitate the efficient clearing and settlement of the transactions concluded under its systems” and***

***Paragraph 2.1.10 “Clear information to the potential users of the MTF of their respective responsibilities for the settlement of the transactions concluded under its systems.”***

The rulebook of an MTF operator should provide for the efficient settlement of transactions executed on the MTF. The MTF operator should also state whether it intends to enter into appropriate arrangements with a central counterparty or clearing house and a settlement system with a view to providing for the clearing or and settlement of some or all trades concluded by market participants under the MTF system. The applicant should also provide information in relation to the central counterparty or clearing house and settlement system, such as its name, country of origin, competent or supervisory Authority, as well as details of the arrangements it has in place to facilitate efficient settlement e.g. post-trade confirmations, established links to post-trade infrastructure providers.

The rulebook of an MTF should include the following:

1. Clearing and/or CCP arrangements;
2. An overview of rules and practices relating to clearing and settlement;
3. Arrangements for matching executed trades for settlement and ensuring that the parties are in agreement about trade details for settlement;

Where relevant, the following information should also be included:

1. An overview of arrangements for making deliveries and payments and, for collecting margin and holding collateral, in all relevant jurisdictions;
2. An overview of procedures to detect and deal with the failure of a member to settle in accordance with its rules;
3. An overview of arrangements for taking action to settle a trade if a member does not settle in accordance with its rules; and
4. An overview of arrangements for monitoring its members' settlement performance.