



1 January to 31 March 2020

Quarterly report from Market Surveillance

This report includes the period from 1 January to 31 March 2020

Updates from Market Surveillance

- Due to changes in weather conditions and the Nordic hydro balance the Nordic system price dropped by approx. 83% from the end of Q4-2019 to the end of Q1-2020. Simultaneously the ENOAFUTBLMAPR-20 dropped from 34.6 EUR to 5.70 EUR (83%) from Dec 29 to Mar 31. During the last month of Q1-2020 the effects of the covid-19 pandemic had an increasing influence on European energy markets.

During this period of high volatility, increased trading volumes and large position changes, we have had an extraordinary focus on daily settlements and position monitoring. Yet Market Surveillance has not observed breaches of the Market Conduct rules. We are pleased to see that market players not abuse opportunities that can arise in times with high volatility.

- As of 1 January 2020 Market Surveillance has become actively involved in the admission process of new members applying for membership at Nasdaq Oslo. The new responsibility of Market Surveillance is to provide comprehensive assessment of any prospect member with respect to the membership requirements listed in Section 4 of the Trading Rules¹.

General information on investigations

For all incidents and relevant events Market Surveillance investigate we look at the incident both isolated and in a greater perspective. In general we assess the following components:

- Activity of relevant market participant(s) before and after incident
- Activity of relevant market participant(s) in other correlated products before and after incident
- Changes in price formation before and after incident
- Activity of other market participants
- Market participant(s) position in relevant contracts
- Previous activity and knowledge about market participant(s)

¹ <https://www.nasdaq.com/docs/191020-Trading-Rules-General-Terms.pdf>

Investigation summary

Through analysis, automated alerts and tips from market participants Market Surveillance has investigated and reported relevant cases to authorities as presented in Figure 1 below.

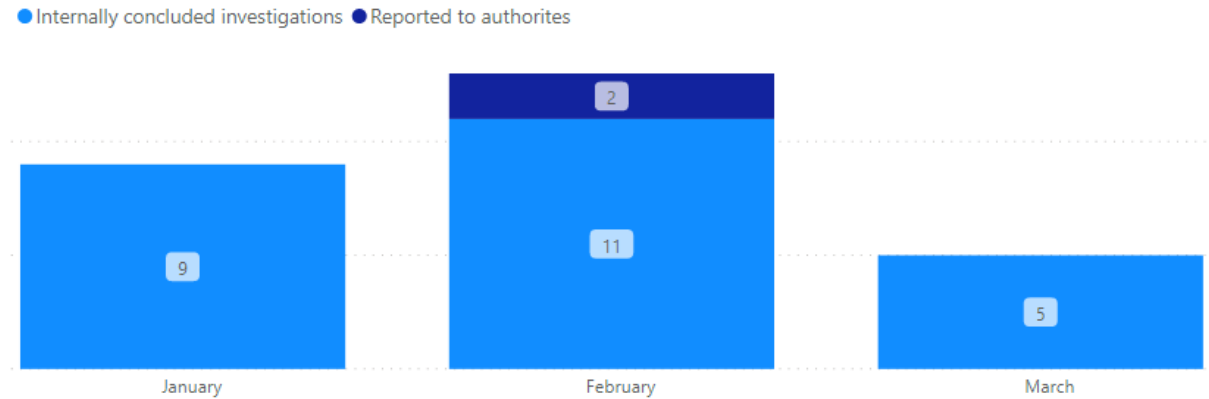


Figure 1 - Investigations per month in Q1-2020

Concluded investigations

- On 23 January Market Surveillance was informed by the Market Place that a market participant called in to trade on a bid entered within the last second of market opening. However, the counterparty did not accept to trade after market closing. After investigating the circumstances around the incident Market Surveillance could not find any breach of the market conduct rules.
- On 10 February Market Surveillance received an email from a market participant reacting to closing prices in the yearly contracts ENOFUTBLYR-23 and ENOFUTBLYR-24. The market participant claimed the prices were set at too low level given the correlated front year moved in the opposite direction. Market Surveillance investigated the trading activity in the contracts at market closing, but concluded that there was no breach of the market conduct rules.
- On 20 February and 13 March Market Surveillance was informed by the Market Place that a market participant called them regarding another market participant consequently entering 1 MW bid/offer orders 1 cent above/below prevailing best bid/offer. These orders were mostly available to the market for a short period of time. Market Surveillance monitored this activity closely and concluded there was no breach of the market conduct rules. However Market Surveillance will maintain a focus on this behaviour, to ensure it does not create uncertainties in the price formation.
- On 10 March Market Surveillance initiated an investigation due to a market participant displaying ambiguous behaviour. It was concluded that there was no breach of the market conduct rules. Yet, Market Surveillance advises all market participants trading on differing strategies to take due diligence as to avoid market manipulation through negligent behaviour.

Cases reported to authorities

- On 7 February Market Surveillance received an email in which a market participant remarked large changes in duration of capacity reductions on interconnection between bidding zones DK1 and DE. The situation was worsened by synchronisation issues between Nord Pool's UMM platform, Nordic Unavailability Collection System (NUCS) and the ENTSOE-E Transparency Platform. This distortion, as the market participant said, could have led to sending misleading signals to the market and impaired trading in financial markets. Market Surveillance investigated the incident and reported the case to ACER and other relevant authorities as a possible breach of REMIT Article 4.
- On 18 February Market Surveillance observed an Unavailability Message with possible price effect. In said message the duration of an unplanned failure on the interconnection between bidding zones NO2 and DK1 changed from 29 days to be concluded within four hours. Market Surveillance reported the case to Norwegian Energy Regulatory Authority (RME) as a possible breach of REMIT Article 4.

Regulatory updates

ACER

- *5th Edition REMIT Guidance – Published 8 April 2020²*

ACER provides more detailed guidance concerning the definition of information and inside information under REMIT.

ESMA

- *ESMA Consultation on position limits in commodity derivatives – Published 5 Nov 2019*

Nasdaq submitted a reply to ESMA's public consultation paper on position limits and position management controls under MIFID II. All inputs to the consultation can be found at ESMA's homepage³. Nasdaq argued that the current position limit regime is creating barriers to competition between European exchanges listing liquid commodity derivatives with the same physical underlying, and that limiting the scope of commodity derivatives is urgently needed to allow exchanges in Europe to successfully compete globally. Further, Nasdaq argued that the regulation must seek to achieve its objective, and that it therefore must be sufficient to define contracts as critical only where the size of individual positions may affect the price or settlement condition of the respective financial instrument and where this financial instrument is relevant for the price formation in the underlying commodity.

Nasdaq also expressed that there has been a divergent implementation of position management controls across trading venues in Europe, giving a divergent regulation of trading venues and market participants. Nasdaq therefore expressed support ESMA's view that there would be value in providing further clarity on the expected scope and content of position management controls to support a more convergent implementation.

² Guidance on the application of Regulation (EU) No 1227/2011 of the European Parliament and of the Council of 25 October 2011 on wholesale energy market integrity and transparency, 5th Edition, <https://documents.acer-remit.eu/wp-content/uploads/5th-Edition-ACER-Guidance.pdf>

³ <https://www.esma.europa.eu/press-news/consultations/consultation-mifid-ii-review-report-position-limits-and-position-management>

Norwegian Energy Regulatory Authority (RME)

- *Guideline on Erroneous order in Day-Ahead Market – Published 5 February (Norwegian)*⁴

RME states that erroneous orders passed to the Day-Ahead auction could constitute a breach of the prohibition against market manipulation, defined in the NEM regulation.

- *Public consultation on 15 minutes balance settlement -- Published 14 April (Norwegian)*⁵

RME recommends Nordic cooperation, go-live is scheduled for Q2-2023

Reporting of block trades

The percentage of delays in reporting of block trades was 1.35% in the first quarter of 2020, this is down from 1.54% in the fourth quarter of 2019.

The percentage of erroneous reported block trades was 1.13% in the first quarter of 2020, this is up from 1.04% in the fourth quarter of 2019.

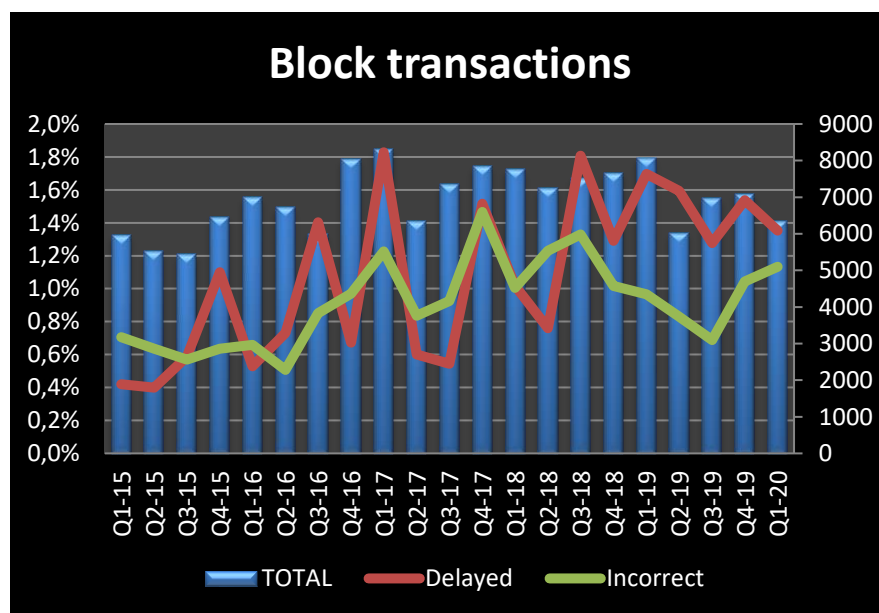


Figure 2 Statistics on block transactions

⁴ <https://www.nve.no/reguleringsmyndigheten/engrosmarkedet/aktuelle-saker-engrosmarkedet/feilordre-i-dogmarkedet-kan-innebaere-brudd-pa-forbudet-mot-markedsmanipulasjon/>

⁵ <https://www.nve.no/reguleringsmyndigheten/nytt-fra-rme/nyheter-reguleringsmyndigheten-for-energi/horing-modell-for-innforing-av-15-minutters-balanseavregning-samt-forslag-til-nye-funksjonskrav-og-krav-til-sikkerhet-for-ams/>