



**Prague Stock  
Exchange**

# **Rules for Market Makers and Liquidity Providers**

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**Exchange rules – part V**

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## PART I. Rules for Market

### Article 1 – Subject of the Provisions

This Part of PSE Rules provides for principles of performing the function of a Market Maker in the trading procedure Continuous trading or Single auction on the Prague Stock Exchange (hereinafter referred to as "PSE") on the Xetra® Prague automated trading system (hereinafter referred to as "Xetra®").

### Article 2 – Market Maker

- (1) Market Maker is the PSE member which has made contract with PSE for acting as the Market Maker (hereinafter referred to as the "Contract") for certain issue of investment securities (hereinafter referred to as "securities")
- (2) PSE differentiates two basic Market Maker categories:
  - i) the exchange Market Maker  
The exchange Market Maker is the member, who fulfills requirements regarding quote presence set by PSE – 90% of continuous phase and participation in closing auction.
  - ii) the basic MiFID II Market Maker  
The basic MiFID II Market Maker is a member trading for the purpose of implementing a Market Making Strategy that has the obligation to conclude the Contract in the situation, when they maintain quotations for at least 50% of the Continuous Phase and meets the other conditions set by Commission Regulation delegated powers (EU) 2017/578 .  
  
Minimum number of pcs for quotation and spreads are the same for both basic Market Maker categories.
- (3) The PSE member is obliged to ensure that the Market Maker's duties are exclusively performed by persons specified in Article (4) paragraph 1. d)
- (4) PSE is authorized to set evaluation criteria for Market Makers' performance.
- (5) PSE administers Register of Market Makers.

### Article 3 – Patron

- (1) Patron is a special type of Market Maker. The purpose of the appointment of the issue Patron is to ensure the liquidity support for an investment instrument assigned to the Continuous trading or Single auction trading in the system with the support of a Patron.
- (2) The Patron may be a trading member who has concluded a valid contract with the Exchange to act as a Patron. The specific conditions for the Patron's activity and the liquidity support shall be governed by the contract.
- (3) About the inclusion of an investment instrument in the trading system with the support of a Patron, shall be decided by the Exchange.
- (4) Trading liquidity support shall mean:
  - minimum number of investment instruments in the quote/orders;



- maximum allowable spread of supply and demand prices in the quote/orders;
  - period for renewal of the quote/orders if a deal is closed;
  - minimum quantity, trading volumes or the time during which the Patron is obliged to maintain the quote/orders.
- (5) The Patron is entitled to change its quote/orders at any time.
- (6) The terms of the liquidity support shall be set by the Exchange individually, upon the Patron's proposal, with regards to the issue parameters. The Exchange shall publish such terms in the Exchange Bulletin and on its website.
- (7) Should a technical problem on the side of the Patron occur preventing data communication between the Patron and the Exchange, the Patron's obligations shall be suspended for technical reasons. The Patron shall be obliged to immediately notify the Manager of the exchange day accordingly. The Patron must confirm the telephone message without delay (in electronic form or by fax).
- (8) The Exchange monitors and assesses the Patron's activities on a continual basis.

## **Article 4 – Application for Authorization to Act as a Market Maker**

- (1) The application for authorization to act as a Market Maker (hereinafter referred to as the "application") has to include the following details:
- a) company name, seat and registration/ID number of PSE member, by which the application was filed (herein-after referred to as the "applicant"),
  - b) ISIN and name (title) of the security for which the applicant wishes to act as a Market Maker,
  - c) document proving the actual amount of equity (not issued earlier than one month ago),
  - d) names and surnames of persons who will act on behalf of the Market Maker,
  - e) PSE member's statement confirming that the person referred to in item d) is authorized to buy and sell securities on behalf of this PSE member,
  - f) information regarding the contractual and financial relations with the issuer for whose securities the applicant wishes to act as a Market Maker and which relate to securities trader's activities pursuant to a separate regulation.
- (2) Market Maker is obliged to immediately inform PSE in writing about any change in the data stated in application pursuant to paragraph (1).

## **Article 5 – The conclusion of the contract of Market Maker's Activities**

- (1) The conclusion of the contract with an applicant is decided by CEO of PSE (hereinafter "CEO"). The application is filed in writing and is addressed to CEO.
- (2) CEO will decide on the application within 30 calendar days from the day on which the application was delivered to him.



- (3) CEO has the right to request from applicant any missing or supplementary information. In case like that, the period pursuant to paragraph (2) begins to expire from on the day on which the information requested is delivered to PSE. If the applicant fails to do so, the application will be deemed rejected.
- (4) The decision of the CEO must be sent to the applicant in a written form.
- (5) The decision on the granting of the authorization enters into effect upon its entry in the Register of Market Makers.
- (6) The contract is concluded for an indefinite period.

## **Article 6 – Suspension and Termination of Market Maker's Activities**

- (1) CEO is authorized to suspend Market Maker's operation or to withdraw its authorization if:
  - Market Maker has repeatedly failed to meet the duties set in the Contract
  - there are other reasons which may threaten continuity, stability and liquidity of the market, especially if forced administration (receivership) is applied.
- (2) Suspension or withdrawal of PSE membership automatically results in suspension or termination of activities for the respective Market Maker.
- (3) Market Maker's authorization may also be suspended at the Market Maker's request delivered to CEO. Unless a later moment for resignation has been stated by the Market Maker in the request, the authorization is suspended on the basis of such request effective the second exchange day following delivery of the request to CEO.
- (4) In exceptional cases, in cases of unequal access to information in particular, CEO has the right to suspend the given Market Maker's authorization, while he may do so with immediate effect and for indefinite period.
- (5) If the Market Maker's operation is suspended, the Market Maker is authorized to continue its activities in accordance with this authorization if allowed by decision of CEO.
- (6) Suspension or termination of Market Maker's activities is immediately announced in the Bulletin.

## **Article 7 – Obligations of Market Makers and Patrons**

Market Makers are under the obligation to place binding buy and sell prices (quotes) into Xetra® during a certain period in Continuous trading, which must comply with Market Makers' minimum size and maximum spread.

### **7.1 Liquidity classes**

- (7) The determination of the conditions regarding the maximum spread and the minimum size is based by allocating the securities to different liquidity classes:



LQ1 = most liquid securities included in the PX index

LQ2 = for securities included in the PX index, but not included in the LQ1

LQ3 = for securities not included in the PX index

LQ4 = for securities with temporary or long-term liquidity or volatility issues

LQ5 = for securities traded on the Free Market and securities traded with the support of a Patron

## 7.2 Parameters for Market Making

(1) For the exchange Market Maker

LQ	Daily observation period	Maximum spread	Minimum size
LQ1	to keep the quotes 90% of the continuous phase +	1%	1.000.000 CZK (max 5000 pcs)
LQ2		3 / 5%	750.000 / 250.000 CZK (max 3000 / 1000 pcs)
LQ3	to participate with quotes in the Closing Auction	set by PSE	set by PSE
LQ4		set by PSE	set by PSE

For the liquidity class LQ2 the calculation method given below is used to allocate the securities into group with maximum spread of 3% (min. size 750.000 CZK) or group with maximum spread of 5% (min. size 250.000 CZK).

### T+X+Y+Z

T = Median of all achieved market spreads for the last 3 trading months

X = Class value for ½ year volatility

Y = Class value for capitalized free float (market capitalization \* factor free float)

Z = Class value for unwinding period as a benchmark for tradability

(2) For the basic MiFID II Market Maker

- Daily observation period is set as 50 % of the continuous phase.
- No obligation for the Closing Auction
- Spread a minimum size are the same as for the exchange Market Maker.

(3) For Patron

LQ	Daily observation period	Maximum spread	Minimum size
LQ5	set by PSE	set by PSE	set by PSE

(4) A regular adjustment of market making obligations is carried out quarterly based on the last trading day of the last month of the quartal. Maximum spread values for market making are calculated in absolute CZK values and they are in accordance with tick size. Minimum spread value is 0.1 CZK.



- (5) New maximum spread and minimum size values become effective on the tenth trading day of January, April, July and October.
- (6) PSE may in justified cases change valid market making obligations (maximum spread, minimum quote size, daily observation period, liquidity class) outside the period of quarterly updates. Justified cases shall especially mean significant corporate events such as mergers and acquisitions, stock splits, spin-offs, etc., or incentive of any of the affected Market Makers or Patrons.
- (7) All parameters will be published and regularly updated on the website of PSE and in the Bulletin.

### **7.3 Changes in principals of the market making activities**

Possible changes to the principle of the market making activities, especially the mandatory % or presence, the obligation to participate in the auction or the fee policy, the Exchange is obliged to notify the market makers at least 30 days before the effect of this change through the Stock Exchange Bulletin. This time period does not concern concrete quotation parameters, i.e. spread, standard number of pcs for quotes and liquidity classes.

## **Article 8 – Surveillance of Market Makers**

### **8.1 Evaluation of Market Maker's activity**

- (1) Market Makers are continuously monitored by PSE as to whether or not they fulfill their obligations as stated in Article 7.2.
- (2) Notices regarding the performance of obligations during the trading day may be obtained by telephone from PSE.
- (3) If a Market Maker fails to fulfill its obligations within an observation month, PSE shall retroactively invoice and collect principal fees for all trades concluded through accounts of this member in the respective securities and respective month.

### **8.2 Suspension of Market Maker obligations**

#### **8.2.1 The rule „Fast Market Regulation“**

If the PX index deviates more than +/- 3% from its closing value of the previous day, the “Fast Market Regulation” will be effective. During the “Fast-Market-Regulation” obligations for Market Maker will not be taken into account for the specific trading day.

#### **8.2.2 Suspension due to Technical Reasons**

- (1) Should a technical problem on the side of a Market Maker occur during the Daily observation period of Continuous trading, preventing the Market Maker from performing their Market Maker functions, the evaluation of Market Making activities of this member shall be suspended for technical reasons. The Market Maker is obliged to communicate such an occurrence without



delay by telephone to the Exchange Day Manager, who in turn informs all other trading members through XETRA. The Market Maker must confirm the telephone message in electronic form to PSE without delay and subsequently submit evidence of the time when the member was not able to perform their function as a Market Maker by an official pronouncement of the member's internal audit/compliance officer.

- (2) PSE is entitled to verify the Market Maker's notification. Should PSE decide that the suspension of performing Market Maker's duties due to technical reasons was unjustified, the Market Maker shall be deemed to have breached their duties stipulated in this part of the document.

### **8.3 Market making activities during stressed market conditions**

- (1) Stressed market conditions mean the situation when significant short-term changes are identified for the given instrument.
  - a) the price change to the opening price is more than 10% and
  - b) the traded volume in pcs for the trading day is higher than ten times the average daily volume in pieces of the previous calendar year
- (2) Stressed market conditions mean also the resumption of trading after volatility interruption.
- (3) When stressed market conditions the market making activities remain but the spread (i.e. the maximum possible difference between the price of the purchase and the sale portion of the quotation) is extended to twice the original value. This change is valid until the end of the trading day.
- (4) PSE has the obligation to inform market about stressed market conditions.

## **PART II. Rules for Liquidity Providers**

### **Article 9 – Subject of the Provisions**

This Part of PSE Rules provides for principles of performing the function of a Liquidity Provider in the trading procedure Continuous auction for the PSE market on Xetra®.

### **Article 10 – Liquidity Provider**

- (1) Liquidity Provider is a PSE member which, based on the relevant decision of CEO, has been authorized to act as a Liquidity Provider for certain issue of investment certificates, warrants or structured bonds (hereinafter referred to as "structured products") and has contract with PSE for acting as the Liquidity Provider (hereinafter referred to as the "Contract").
- (2) PSE member is obliged to ensure that the Liquidity Provider's duties are exclusively performed by persons specified in Article 11, paragraph (1)d).
- (3) A minimum equity (capital) value of a Liquidity Provider may be required by PSE.
- (4) PSE administers Register of Liquidity Providers.



## Article 11 – Application for Authorization to Act as a Liquidity Provider

- (1) The application for authorization to act as a Market Maker (hereinafter referred to as the "application") has to include the following details:
  - a) company name, seat and registration/ID number of PSE member, by which the application was filled (hereinafter referred to as the "applicant"),
  - b) ISINs and names of issues,
  - c) document proving the actual amount of equity (not issued earlier than one month ago),
  - d) names and surnames of persons who will act on behalf of the Liquidity Provider,
  - e) declaration on the granting of the derivative license (in case of trading leverage products only),
- (2) Liquidity Provider is obliged to immediately inform PSE in writing about any change in the data stated in application pursuant to paragraph (1).

## Article 12 – The Granting of the Authorization

The granting of authorization to an applicant is decided by CEO and is provided in the same way as granting of authorization for Market Makers - according to the Article 5.

## Article 13 – Suspension and Termination of Liquidity Provider Activities

- (1) CEO is authorized to suspend Liquidity Provider's operation or to withdraw its authorization if:
  - a) value of its equity drops below the limit set in Article 11, paragraph (1), c),
  - b) Liquidity Provider has repeatedly failed to meet the duties set in the Contract
  - c) there are other reasons which may threaten continuity, stability and liquidity of the market, especially if forced administration (receivership) is applied.
- (2) Suspension or withdrawal of PSE membership automatically results in suspension or termination of activities for the respective Liquidity Provider.
- (3) If the Liquidity Provider's activities are suspended, the Liquidity Provider is authorized to continue their activities in accordance with their authorization if so allowed by a decision of the CEO of PSE.
- (4) The suspension or termination of the Liquidity Provider's activities is immediately announced via the system and in the Bulletin.
- (5) The Liquidity Provider's activities should be terminated due to the reasons listed above, the Liquidity Provider shall identify a new Liquidity Provider for the structured product admitted for trading.



## Article 14 – Obligations of Liquidity Providers

- (1) Liquidity Provider is obliged to continuously keep quotes (standard or matching) during the Continuous Auction. Liquidity Provider shall enter the first quote immediately after it is possible to determine the value of the underlying asset.
- (2) The Liquidity Provider is obliged to enter a Price-without-turnover quote before the end of the trading day.
- (3) In the case of foreign structured products the Liquidity Provider is not required to fulfill obligations set in paragraph 1) and 2) if
  - a non-exchange day is declared in the country where the structured product is primarily traded;
  - it is not possible to establish the price of the underlying asset on the domestic exchange.
- (4) Other rules for insertion, modification and cancellation of quotes are specified in the relevant Exchange Rules, Part IV. – Continuous Auction.
- (5) Xetra Prague allows to insert quotes with zero number of pieces (“Price-Without-Turnover” quote). In this case the Liquidity Provider determines the price corridor only.
- (6) In the case when the structured product is sold out, the Liquidity Provider is obliged to keep a matching quote with a minimum size quantity on the bid size of the quote and zero quantity on the ask side of the actual quote.
- (7) In the case when the structured product reached the knock-out price, the Liquidity Provider is obliged to immediately inform PSE. The trading with the structured product is suspended immediately.

## Article 15 – Surveillance of Liquidity Providers Activities

- (1) Liquidity Providers is continuously monitored by PSE.
- (2) PSE has the right to request explanation of all actions the respective Liquidity Provider may take and that are associated with this activity.

## PART III. Final Provisions

### Article 16 – Exceptional circumstances

- (1) As exceptional circumstances are considered:
  - a situation of extreme volatility triggering volatility mechanisms for the majority of financial instruments or underlyings of financial instruments traded on a trading segment within the trading venue in relation to which the obligation to sign a market making agreement applies;
  - war, industrial action, civil unrest or cyber sabotage;
  - disorderly trading conditions where the maintenance of fair, orderly and transparent execution of trades is compromised, and evidence of any of the following is provided:



- a) the performance of the trading system being significantly affected by delays and interruptions;
    - b) multiple erroneous orders or transactions;
    - c) the capacity of a trading venue to provide services becoming insufficient.
  - where the investment firm's ability to maintain prudent risk management practices is prevented by any of the following:
    - a) technological issues, including problems with a data feed or other system that is essential to carry out a market making strategy;
    - b) risk management issues in relation to regulatory capital, margining and access to clearing;
    - c) the inability to hedge a position due to a short selling ban;
  - for non-equity instruments, during the suspension period referred to in Article 9(4) of Regulation (EU) No 600/2014 of the European Parliament.
- (2) The basic MiFID II Market Maker is under no obligation under Article 7 for any of the exceptional circumstances.
- (3) PSE shall make public the occurrence of the exceptional circumstances referred to Article 16 via PSE web, phone and e-mail. As soon as technically possible, PSE inform about the resumption of the normal trading after the exceptional circumstances have ceased to exist.
- (4) PSE shall set out clear procedures to resume normal trading after the exceptional circumstance have ceased to exist, including the timing of such resumption, and shall make those procedures publicly available via PSE web, phone and e-mail.
- (5) PSE shall not extend the declaration of exceptional circumstances beyond market close unless this is necessary.

## Article 17 – Effectiveness

This Exchange Rule was approved per rollam by the Exchange Chamber and takes effectiveness from December 2, 2019