



Exchange rules – part V.

**RULES FOR
MARKET MAKERS
AND
LIQUIDITY PROVIDERS**

Xetra® Prague

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PART I

Rules for Market Makers

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, based on the relevant decision of CEO, has been authorized to act as a Market Maker for certain issue of investment securities (hereinafter referred to as "securities") and has made contract with PSE for acting as the Market Maker (hereinafter referred to as the "Contract").

2) PSE differentiates two basic Market Maker categories:

a) 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.

b) 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 Contract between the Market Maker and PSE can be made, provided that CEO of PSE has authorized the member to act as a Market Maker.

4) 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)

5) PSE is authorized to set evaluation criteria for Market Makers' performance.

6) PSE administers Register of Market Makers.

Naformátováno: Seznam s odrážkami, Doleva, Odsazení: První řádek: 0 cm

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 agreement 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 agreement.
- 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:
 - a) minimum number of investment instruments in the quote/orders;
 - b) maximum allowable spread of supply and demand prices in the quote/orders;
 - c) period for renewal of the quote/orders if a deal is closed;
 - d) 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 (hereinafter 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 Granting of the Authorization

- 1) The granting of the authorization to 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 authorization is granted 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:
 - a) value of its equity drops below the set limit /Article 2, paragraph(2), item a),
 - b) Market Maker 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 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

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 Maximum Spread and Minimum Size

Daily observation period	Maximum spread	Minimum size
Trading procedure – Continuous trading		
<p>90% of the continuous phase</p> <p style="text-align: center;">+</p> <p>to participate in the Closing auction (call + price determination phase) with orders (both demand and supply side) meeting at least the minimum size and max. spread conditions</p>	<p>Regular quarterly Adjustment:</p> <p><u>LQ1 (most liquid PX index securities)</u> 1% CZK equivalent</p> <p><u>LQ2 (rest of PX index securities)</u> 3% or 5% CZK equivalent</p> <p><u>LQ3 (Securities not included in the PX index)</u> set individually on a case by case basis by PSE</p> <p><u>LQ4 (Securities with liquidity or volatility issues)</u> set individually on a case by case basis by PSE</p>	<p>Regular quarterly adjustment: based on the closing price of the last trading day of a quarter. Rounded to 50 units and has to be at least 50 units:</p> <p>LQ1: 1.000.000 CZK (max. 5.000 pieces)</p> <p>LQ2: 750.000 CZK or 250.000 CZK (max. 3.000 pcs or 1.000 pcs)</p> <p>LQ3: set individually on a case by case basis by PSE</p> <p>LQ4: set individually on a case by case basis by PSE</p>

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).

Market Spread (mean value) + X (vola) + Y (cap. FF) + Z (unwinding period)	
Market Spread (mean value)	<u>Median of all achieved market spreads for the last 3 trading months</u>
X (vola)	<u>Class value for ½ year volatility</u> as a benchmark for risk
Y (cap. FF)	<u>Class value for capitalized free float</u> (market capitalization * FF factor) as a benchmark for the relevance of the marketplace and the interest signaled by institutional investors
Z (unwinding period)	<u>Class value for unwinding period</u> as a benchmark for tradability

Daily observation period	Maximum spread	Minimum size
Free Market and trading with the support of a Patron		
	Regular quarterly adjustment:	Regular quarterly adjustment:
set individually on a case by case basis by PSE	LQ 5: securities traded on the Free Market and securities traded with the support of a Patron set individually on a case by case basis by PSE	LQ5: set individually on a case by case basis by PSE

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 with a minimum of 0.1 CZK.

New maximum spread and minimum size values become effective on the tenth trading day of January, April, July and October.

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. PSE may also ask affected Market Makers or Patrons to cast vote. In such case PSE will perform the intended change of market making obligations only if at least ¾ of all affected Market Makers or Patrons vote for the change.

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, ie spread, standard number of pcs for quotes and liquidity classes.

Article 8 Surveillance of Market Makers

8.1 Evaluation of Market Makers' activity

Market Makers are continuously monitored by PSE as to whether or not they fulfill their obligations as stated in Article 7.

Notices regarding the performance of obligations during the trading day may be obtained by telephone from PSE.

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.

In special cases, PSE may refrain from retroactively invoicing the transaction fees

8.2 Suspension of Market Maker obligations („Fast Market Regulation“)

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

8.3 Suspension of Market Making Activities due to Technical Reasons

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 or fax 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.

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.

8.4 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 (ie, 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 1A c)
- 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 Liquidity Provider (hereinafter referred to as the "application") is made up of two parts.

A) Part One – Liquidity Provider information

- a) company name, seat and registration/ID number of PSE member, by which the application was filled (hereinafter referred to as the "applicant"),
- b) document proving the actual amount of equity (not issued earlier than one month ago),
- c) names and surnames of persons who will act on behalf of the Liquidity Provider,
- d) declaration on the granting of the derivative license (in case of trading leverage products only),

B) Part Two – Issues information (list of structured products)

- a) ISINs and names of issues,
- b) Minimum size of quote (in pieces),
- c) Maximum spread for quote.

2) In the case of an extension of authorization to the additional structured products, the applicant shall submit Part Two only.

3) 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 (1A), item b),
- 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 trading following the conditions of minimum quote size and maximum spread stipulated in Part Two of the application. 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) a non-exchange day is declared in the country where the structured product is primarily traded
 - b) 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.
- 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 side 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 will be continuously monitored by PSE as to whether or not they fulfill their obligations as stated in Article 14.
- (2) PSE has the right to request explanation of all actions the respective Liquidity Provider may take and that are associated with this activity.

Article 16

Exceptional circumstances

The basic MiFID II Market Maker is under no obligation under Article 7 for any of the following exceptional circumstances:

(a) 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;

(b) war, industrial action, civil unrest or cyber sabotage;

(c) 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:

(i) the performance of the trading venue's system being significantly affected by delays and interruptions;

(ii) multiple erroneous orders or transactions;

(iii) the capacity of a trading venue to provide services becoming insufficient;

(d) where the investment firm's ability to maintain prudent risk management practices is prevented by any of the following:

(i) technological issues, including problems with a data feed or other system that is essential to carry out a market making strategy;

(ii) risk management issues in relation to regulatory capital, margining and access to clearing;

(iii) the inability to hedge a position due to a short selling ban;

(e) for non-equity instruments, during the suspension period referred to in Article 9(4) of Regulation (EU) No 600/2014 of the European Parliament.

Article 17

Rules for Exceptional circumstances

- 1) PSE shall make public the occurrence of the exceptional circumstances referred to in points (a), (b), (c) and (e) of Article 16 and, as soon as technically possible, the resumption of their normal trading after the exceptional circumstances have ceased to exist.
- 2) 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.
- 3) PSE shall not extend the declaration of exceptional circumstances beyond market close unless this is necessary in the circumstances referred to in points (b), (c) and (e) of Article 16.

Article 18

Effectiveness

This Exchange Rule was approved per rollam by the Exchange Chamber and takes effectiveness from October 1, 2018.