

Bahrain Bourse B.S.C (C)

Market Making Rules and Guidelines in Bahrain Bourse

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Consultation

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Market Making Rules and Guidelines in Bahrain Bourse

1. Introduction

1.1 Purpose

These Rules and Guidelines are issued by Bahrain Bourse subject to BHB Market Rule, exemptions on any activity of Market Maker are detailed in this guideline, and no activity conducted by a Market Maker outside the rules of this guideline will be tolerated.

1.2 Overview

Market Making is typically used as a means to provide liquidity for thinly traded securities. The Market Maker is an Exchange member providing liquidity of one or more securities a guaranteed means by which investors may buy or sell such securities, by providing continuous quotations (essentially buy and sell orders) for those securities. These quotes are maintained in the order book and match against normal orders that are entered into the market.

1.3 Glossary

In implementing the provisions of the Market Maker Guideline, the following terms and expressions shall have the meanings assigned to them below unless the context requires otherwise:

“BHB”	Bahrain Bourse.
“Market Maker”	A member registered with BHB to provide buy and sell quotes as a principal in a security on a regular and continuous basis at fair market value, which is referred in BHB Market Rule as a “Designated Market Maker” .
“CSD”	The Central Securities Depository.
“Main Market”	The Main Market for any listed securities i.e. Regular market for equities.
“Market Rules”	The BHB Rules governing membership, trading, supervision and arbitration on BHB’s market. These Rules are applicable only to those institutions accepted as members or who are otherwise authorized to conduct transactions on BHB. Listed companies are not subject to these rules unless such company is also a member of BHB.
“Member”	An entity that has been approved as a Member of BHB in accordance with these Market Rules i.e. brokers, market makers.

<p>“Securities”</p>	<p>Shares or Bonds issued by shareholding companies, Government Debt Instruments and the following financial instruments:</p> <p>(a) Shares in companies and other securities equivalent to shares in companies or other entities, and Depositary Receipts in respect of shares;</p> <p>(b) Bonds or other forms of debt, including depositary receipts in respect of such securities;</p> <p>(c) Warrants;</p> <p>(d) Units, Rights or Interests (however described) of the participants in a collective investment scheme;</p> <p>(e) Options, Futures and any other Derivative Contracts relating to commodities that must be settled in cash or may be settled in cash at the option of one of the parties (otherwise than by reason of a default or other termination event);</p> <p>(f) Options, Futures and any other Derivative Contract relating to commodities that can be physically settled;</p> <p>(g) Units to Real Estate Investment Trusts (REITs);</p> <p>(h) Index tracking products including Islamic Indices and Exchange Traded Funds (ETF);</p> <p>(i) Any other financial instrument approved as a financial instrument by the CBB for the purpose of trading such instrument on an exchange;</p> <p>(j) Islamic securities, being those financial instruments that are Shari’a compliant</p> <p>(k) Mutual funds</p>
<p>“Qualifying order”</p>	<p>Qualifying order” is a Regular order, entered into the Trading System during a continuous trading session, of value BD5,000 or its equivalent in other currencies or more.</p>
<p>“Market Maker Quote”</p>	<p>The qualifying order entered by a market maker (Bid/Ask)</p>

2. Operation Requirements

2.1 Object of market making operations

The market maker undertakes to submit bids and offers (quotes) for a security subject to the market making agreement in the trading system of the Exchange on each trading day for at least **80%** of the total time of the Continuous Trading Hours. In addition, the market maker undertakes to submit bids and offers for a security subject to the trading rules and procedures applied to the security.

2.2 Bid and Ask Spread

The maximum bid/ask spread of a market maker's quote may not exceed 3% , the spread shall be calculated according to the following formula:

$$Spread = \left[\left(\frac{\text{Sell Order Price}}{\text{Buy Order Price}} \right) - 1 \right] * 100$$

2.3 Minimum Order volume

2.3.1 The minimum order volume of securities to be placed as a bid or offer referred to in the market making commitment is a number of securities worth at least one qualifying order.

2.3.2 The market Makers have the right to enter more than one quote with any quantity, provided at least one of them is a qualifying order.

2.4 Quoting Rules and Requirement:

1. Market Makers shall have the right to place qualifying quotes (bid/Ask) during the pre-open session.
2. Market makers shall have the right to update the price and the volume of the quotes thereof at any time during the trading session, as well as in the pre-open session.
3. A quote shall be entered into the System of a buy limit order and/or a sell limit order.
4. A quote shall be a day order.
5. No special terms orders are permitted to be entered by a Market Maker.
6. Marker makers may use the undisclosed feature provided that the visible order should be at least equal to one qualifying order.
7. the Market Maker should enter continuously both sides Quotes (Buy and Sell)

8. Quotes shall be equal to or better than the Best existing Bid/Ask as stipulated by BHB in section 2.2 in this guideline.
9. Market makers shall be obligated to enter a new quote within 5 (five) minutes as of the withdrawal of the previous quote or, respectively, as of the full execution of the said quote.
10. If Market Maker quote is partially filled, he shall be obliged to refill the volume within 5 (five) minutes in order to keep the minimum requirement of a qualifying order as per rule 2.3 in this guideline.
11. Market Makers may place orders on a security in the Main Market unless a prior approval is obtained from BHB to place orders on other related markets for such security.
12. Where there is a high volatility in the prices of a particular security for more than two days, BHB may on the request of a market maker, suspend the market maker's quoting obligations.

2.4 Exemption from the operation requirements

A market maker may, for a special reason, temporarily deviate from any operation requirements by a prior permission issued by Bahrain Bourse, provided that such possibility has been agreed upon in the market making agreement concluded between the market maker and the issuer.

3. Other provisions

3.1 Suspension of trading

If the trading of the securities which are subjected to market making has been suspended in BHB, the market maker shall not trade in the security outside BHB during the suspension. The market making commitment shall not be in force during such suspension of trading.

3.2 Commitment Prior to the Termination of the market making agreement

The termination of the market making agreement by the market maker or the issuer shall be governed by an at least one (1) month notice period to BHB. Notwithstanding the termination, the market making commitment shall not cease until the end of the notice period. BHB may disclose the termination date.

3.3 Cash and Inventory balance

A balance must be put in place between the cash and the amount of shares in market maker inventory which should be observed cautiously to manage inventory risk and to insure the capability of continuity in providing quotes in all times and maintaining market making functions.

3.4 Segregation of Brokerage and Market Making activities.

A Chinese wall must be put in place between Brokerage activities and Market Making activities, the Market Makers shall not use their knowledge or capabilities to benefit their brokerage activities and shall maintain a separate securities account with the CSD for its market making activities

4. Registration of a Market Maker

4.1 Registration criteria

An applicant who intends to be a Market Maker for a specified security must be a Member of BHB and fulfill the following conditions:

- (A) Have a subsisting registration with the CSD;
- (B) Have and maintain the minimum paid up capital requirements as determined by BHB from time to time; and
- (C) Have in place, facilities and personnel adequate for the expeditious and orderly carrying out of its business of market making; and
- (D) Have in place, proper supervisory programme and a system of internal controls to ensure the following:
 - (i) Proper conduct of the business of market making;
 - (ii) Proper undertaking of risk management;
 - (iii) Proper management of conflict of interest; and
 - (iv) Compliance with these BHB Rules and these guideline.

4.2 Application Procedure

- An applicant is required to apply as a Market Maker in respect of each specified security that it intends to make market.

- The applicant must comply with application procedures and submit the relevant information and documents as determined by BHB.
- BHB may reject an application to register as a Market Maker provided that such applicant does not satisfies the applicable qualification criteria set forth in these Guidelines or BHB Market Rule.
- If an application for approval as a Market Maker is refused, no further application by the same Dealing Member shall be considered within a period of ninety (90) days after the date of refusal.
- An applicant will be notified in writing of the decision of BHB of its application.

4.2 Market maker agreement

The market maker shall conclude a market maker agreement with Bahrain Bourse as per BHB market rule prior to the commencement of the market making operations.

4.3 Market making agreement

4.3.1 The market maker shall conclude a written agreement with the issuer of the security (market making agreement). The agreement may include terms on market making additional to the terms of these Guidelines.

4.3.2 The market maker shall submit the market making agreement concluded with the issuer to Bahrain Bourse for its final approval prior to the commencement of market making.

4.3.3 The Issuer may appoint one market maker or more for one security.

4.3.4 In case of appointing more than one market maker, each one should follow the same quoting rules regardless of other market maker quotes.

4.4 Disclosure of information

The issuer shall disclose the main information of market making agreement such as date of commencement and termination (if specified) of an undertaking regarding the market making of a security

4.5 Market Making Representatives

A Market Maker must appoint at least 1 person as its market-making representative to receive and execute orders on its behalf. The person must be registered with BHB as a market making representative.

5. Rights and Continues Obligations

5.1 Market Maker Rights:

(1) A Market Maker may make a market in specified listed securities for 1 or more of the following:

- (a) its proprietary accounts;
- (b) proprietary accounts of its related corporations or Associated Corporations; and
- (c) its clients if it holds a capital markets services licence.

(2) An Associated Corporation means any corporate body formed in or out of the Kingdom of Bahrain in which the Market Maker and its related corporations hold directly or indirectly a beneficial interest of not less than 20% of the issued share capital.

5.2 Continues Obligations

The following conditions shall apply to a Market Maker throughout the term of its registration:

- (a) The Market Maker shall comply with the qualification criteria stated in these Rules;
- (b) The Market Maker shall notify BHB of the following in writing:
 - (i) Any change in capital that causes the Market Maker to fall below the minimum paid up capital requirements;
 - (ii) Any change that would disqualify it as a Market Maker based on these Rules;
 - (iii) Any change in the place of business of the Market Maker; and
 - (iv) Change in name of the Market Maker.
- (c) The Market Maker is bound by and shall comply with these rules and directives and such rules and directives as may be issued by BHB from time to time.

6. Suspension and Revocation of Market Maker Activity

6.1 Suspension

BHB may suspend or restrict the activities of a Market Maker for such period as BHB specifies if the Market Maker:

- (1) fails to continue to satisfy the registration criteria;
- (2) fails to comply with BHB's relevant rules and regulations;
- (3) fails to comply with the Rules or any Directives in its capacity as a Member (if applicable);
- (4) is suspended in its capacity as a Member (if applicable);
- (5) defaults on any trade in Specified Securities or any other securities or Futures Contracts;
- (6) in BHB's opinion, is in financial or operating difficulty;
- (7) is suspected of manipulating or distorting the market for a Specified Security or attempting to do so;
- (8) is the subject of a written complaint involving an allegation of fraud or dishonesty, whether in or out of the Kingdom of Bahrain;
- (9) is the subject of an investigation involving an allegation of fraud or dishonesty, whether in or out of the Kingdom of Bahrain; or
- (10) engages in conduct detrimental to the financial integrity, reputation or interests of BHB, or markets established or operated by BHB.

6.2 Revocation

A Market Maker's registration may be revoked:

- (1) if a Market Maker fails to comply with BHB Market Rule 3.11.2;
- (2) if it breaches any provision involving fraud or dishonesty, whether in or out of the Kingdom of Bahrain; or
- (3) if it is expelled as a Member as a result of disciplinary proceedings.

The Market Maker and its market making representative shall still be subject to these Market Rules in respect of any events which occurred prior to and after the revocation.