

Bahrain Bourse B.S.C (C)

Market Making Guidelines in Bahrain Bourse

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Market Making Guidelines in Bahrain Bourse

1. Introduction

1.1 Purpose

These guidelines supplements Section 3.11 of the BHB Market rules. These guidelines do not supersede BHB Market Rules and should be read in conjunction with related provisions of BHB Market Rules. A Designated Market Maker shall operate within the regulatory framework as envisaged and laid out in BHB Market Rules and these guidelines. A Designated Market Maker undertaking market making activities in violation of BHB Market Rules and/or these guidelines shall be subject to disciplinary actions as stipulated in Section 9 of BHB Market Rules.

1.2 Glossary

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

“BHB”	Bahrain Bourse.
“CSD”	The Central Securities Depository.
“Day Order”	An order that is good for that day only
“Designated Market Maker”	A member registered with BHB to provide bid and ask quotes as a principal in a security on a regular and continuous basis at fair market value, which is referred in BHB Market Rules as a “ Designated Market Maker ”.
“Designated Market Maker Agreement”	A written agreement concluded between BHB and the Designated Market Maker prior to commencement of market making activities.
“Designated Market Maker Quote”	The Qualifying Orders entered by a Designated Market Maker (bid/ask).
“ Issuer”	Means any person making an issue of securities.
“Market Making Agreement”	A written agreement concluded between the Designated Market Maker and the Issuer for market making of a specified security.
“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 BHB Market Rules i.e. brokers, Designated Market Makers.
“Qualifying Order”	“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.
“Regular Trade”	A trade with a minimum value of BD1,500 or its equivalent in other currencies in the Regular Market.
“Securities”	<p>As specified in the CBB Volume 6 and the BHB Market Rules:</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>
“Specified Securities”	Securities, Futures Contracts or classes of securities or Futures Contracts that BHB prescribes for trading by a Designated Market Maker.

2. Operational Requirements

2.1 Market Making Operational Requirements

A Designated Market Maker must:

2.1.1. Undertake to make bid and offer quotation in the trading system of BHB with respect to a specified security.

2.1.2. Maintain bids and offers (quotes) in the trading system of BHB for at least **80%** of the total time of continuous trading hours on each trading day.

2.1.3. Fulfil his obligations in accordance with the BHB Market Rules, these guidelines, Designated Market Maker Agreement and Market Making Agreement.

2.1.4. Provide quotes for a specified security in accordance with the trading rules and procedures applied to that security.

2.2 Bid and Ask Spread

2.2.1. A Designated Market Maker shall provide the bid prices and ask prices quotes (Quotes) with a maximum bid/ask spread not exceeding 2.5%.

2.2.2. The maximum bid/ask spread referred to in Section 2.2.1 above, shall be calculated according to the following formula:

$$\text{Spread} = \left[\frac{\text{Ask} - \text{Bid}}{\text{Ask}} \right] * 100$$

2.3 Minimum Order Volume

A Designated Market Maker must:

2.3.1. Undertake to maintain quotes with a minimum order book volume (minimum number of security made available for bid and offer) equal to at least two Qualifying Orders.

2.3.2. Ensure that the two Qualifying Orders referred to in Section 2.3.1 meets the following conditions:

- i. At least one quote should be a single Qualifying order (one single order) equal to BD 5000 or its equivalent in other currencies or more and;
- ii. The other one may be a combination of multiple orders provided the aggregate value of such multiple orders is equal to BD 5000 or its equivalent in other currencies or more.

2.3.3. A Designated Market Maker may enter additional orders provided it meets the minimum order volume requirements as stipulated under 2.3.1 and 2.3.2 of these Guidelines.

2.4 Quoting Guidelines and Requirements

2.4.1. A Designated Market Maker is eligible to place qualifying quotes (bid/ask) during the pre-open session.

2.4.2. A Designated Market Maker is eligible 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.

2.4.3. A Designated Market Maker is eligible to quote only limit orders (buy limit order and/or sell limit order) as specified under BHB Market Rules Section 6.7.5.

2.4.4 A quote shall be a Day Order.

2.4.5 A Designated Market Maker shall not provide quotes for non-regular orders. Such orders as specified under Section 6.7.3 of BHB Market Rules shall constitute non-regular orders.

2.4.6 A Designated Market Maker may use the undisclosed feature provided, the visible order is at least equal to one Qualifying Order.

2.4.7 A Designated Market Maker shall enter both sides quotes (bid and ask) continuously.

2.4.8 Quotes shall be equal to or better than the best existing bid/ask as stipulated by BHB in Section 2.2 of these Guidelines.

2.4.9 A Designated Market Maker shall enter a new quote within 5 (five) minutes as of the withdrawal of the previous quote, as of the full execution of the said quote.

2.4.10 If a Designated Market Maker quote is partially filled, the Designated Market Maker is obligated to refill the volume within 5 (five) minutes in order to meet the minimum order volume requirements as per Section 2.3 of these Guidelines.

2.4.11 A Designated Market Maker is eligible to offer quotes in Regular Market only unless prior approval is obtained from BHB to place quotes on other related markets for such Specified Security (such as Special Order Market or any other new markets linked to the equities market). Section 6.1.1(1) of BHB Market Rules specifies various types of markets including Regular Market and Special Order Market.

2.4.12 Where there is high volatility in the prices of a particular specified security for more than two days, BHB may at the request of a Designated Market Maker, suspend the Designated Market Maker's quoting obligations, provided the Designated Market Maker is able to successfully execute at least one transaction worth one Qualifying Order.

2.4.13. Whenever a specified security trades at maximum price range or minimum price range, the Designated Market Maker, after notifying BHB, may suspend his quoting obligations, provided the Designated Market Maker has successfully executed at least one Regular Trade at the minimum or maximum price range.

2.5 Exemption from Operational Requirements

2.5.1. A Designated Market Maker may be temporarily exempted from operational requirements referred to under Section 2 of these Guidelines provided such an exemption is approved by BHB.

2.5.2. A Designated Market Maker is required to explain the reasons for not being able to comply with the provisions of operational requirements as stipulated under Section 2 of these guidelines and seek BHB's prior approval for temporary exemption from operational requirements.

2.5.3. Temporary exemption from operational requirements, referred to under Section 2.5.1 of these Guidelines, is subject to such terms and conditions as agreed upon in the Designated Market Maker Agreement concluded between the Designated Market Maker and BHB.

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 Designated Market Maker shall not trade in the security outside BHB during the suspension period. The market making commitment shall not be in force during such suspension period.

3.2 Commitment Prior to the Termination of the Market Making Agreement

3.2.1. The termination of the Market Making Agreement shall be subject to BHB approval, the Designated Market Maker and/or the issuer shall be governed by at least one (1) month notice period from the date of BHB approval.

3.2.2. If the issuer fails to comply with the Market Making Agreement, the Designated Market Maker should notify BHB and request for suspension for his quoting obligations. During the interim period, the Designated Market Maker shall continue to undertake market making obligation and comply with provisions of the Market Making Agreement until BHB decides on the request of suspension of market making obligations.\

3.2.3. Notwithstanding the termination, the market making commitment shall not cease until the end of the notice period. BHB shall disclose the termination date.

3.3 Cash and Inventory balance

3.3.1. A Designated Market Maker;

- i. Shall have a mechanism to ensure availability of cash and specified securities balance in its account (inventory);
- ii. Is responsible for continuous monitoring of cash and specified securities balance held in its account;
- iii. Shall manage inventory risk and ensure continuity of market making activity at all times.

3.4 Segregation of Brokerage and Market Making activities

3.4.1. A Designated Market Maker must maintain adequate segregation between its brokerage activity and market making activity.

3.4.2. The segregation of brokerage activity and market making activity must ensure avoidance of any conflict of interest and/or possible misuse of information for benefit of market making or brokerage activities.

3.4.3. A Designated Market Maker must maintain a separate securities account with the CSD for its market making activities.

4. Registration of a Designated Market Maker

4.1 Registration criteria

In addition to registration criteria stipulated in BHB Market Rules Section 3.11.2, an applicant who intends to be a Designated Market Maker for a specified security must be licensed by the CBB and be a member of the BHB and meet the following:

4.1.1. Have a subsisting registration with the CSD;

4.1.2. Have and maintain the minimum paid up capital requirements as determined by BHB from time to time.

4.2 Application Procedure

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

4.2.2. The applicant must comply with application procedures and submit the relevant information and documents as determined by BHB.

4.2.3 An application for a Designated Market Maker shall contain the following information. The BHB may require an applicant to furnish such additional information or documents as deemed necessary.

- a. Business Overview: Brief description of set up of the market making activity, its operations system and key personnel, including:
 - i. business structure and set up of the market making activity;
 - ii. description of the operations of the front office and back office for market making activity;
 - iii. description of the background, experience, role and responsibilities of key personnel to be involved in market making activity;
- b. Financial Information: applicant is required to provide the following information;
 - i. Financial information of the applicant;
 - ii. Controls and procedures to ensure compliance with the financial requirements of the BHB; and
 - iii. Controls and procedures to meet the settlement obligations.
- c. Risk Management: The framework of risk management policy and procedure to be implement for market making activity including;
 - i. Policy and procedure including but not limited to trading strategy, trading and position limit, and risk monitoring;
 - ii. Controls and procedures in ensuring the implementation of the risk management policy and procedures.
- d. Record Keeping: Policy and procedure to maintain trading records of market making activities.
- e. System and Control: A description of the computer system to be used and internal security procedure, including;
 - i. software to be used for pricing, risk monitoring and back office processing
 - ii. source of the software and applicant's experience in the software

- iii. history of major failures of the software, if any; and
 - iv. the internal security procedure in place.
- f. Business Continuity Plan: Description of Business Continuity Plan setting out the procedure to restore fair, orderly and transparent operations in the event of any disruption to its market making activity.

4.2.4. BHB may reject an application for Designated Market Maker provided such an applicant fails to meet the applicable qualification criteria set forth in these Guidelines or BHB Market Rules.

4.2.5. If an application for appointment of Designated Market Maker is rejected by BHB, no new application by the same applicant, within a period of ninety (90) calendar days after the date of refusal, shall be considered by BHB.

4.2.6. An applicant will be notified in writing of the decision of BHB of its application.

4.2.7. The applicant should receive the BHB approval within 30 business days, provided that all relevant documents are submitted and all terms and conditions are met.

4.3 Designated Market Maker Agreement

Prior to commencement of market making activity, a Designated Market Maker shall conclude the Designated Market Maker Agreement with Bahrain Bourse as per BHB Market Rules and these guidelines.

4.4 Market Making Agreement

4.4.1. Prior to commencement of market making activity in a Specified Security, a Designated Market Maker shall conclude the Market Making Agreement with the issuer of the Specified Security. The Market Making Agreement must not contravene provisions of BHB Market Rules and these guidelines. Market Making Agreement may include additional terms and conditions as mutually agreed upon between the Designated Market Maker and the Issuer.

4.4.2. The Designated Market Maker must submit the Market Making Agreement, entered between the Issuer and Designated Market Maker, to Bahrain Bourse for its final approval prior to the commencement of market making in the Specified Security.

4.4.3. BHB shall review the Market Making Agreement within 15 business days and duly advise the Designated Market Maker and the Issuer in writing.

4.4.4. The Issuer may appoint one or more Designated Market Maker for a Specified Security.

4.4.5. In case of appointing more than one Designated Market Maker, each one of the Designated Market Maker shall follow the same quoting rules regardless of other Designated Market Maker quotes.

4.4.6. A Designated Market Maker may sign agreements with multiple issuers.

4.5 Disclosure of Information

The issuer shall disclose information regarding Market Making Agreement such as date of commencement and termination (if specified).

4.6 Market Making Representatives

As stipulated in BHB Market Rules Section 3.11.7, a Designated 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 Obligations

In addition to rights and obligations of Designated Market Maker stipulated in BHB Market Rules Section 3.11, a Designated Market Maker shall also meet the following:

5.1 Designated Market Maker Rights

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

- i. its proprietary accounts;
- ii. proprietary accounts of its related corporations or associated corporations; and
- iii. its clients if it holds a capital markets services license.

5.2 Additional Obligations

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

5.2.1 A Designated Market Maker shall comply with the operational requirements as stipulated under Section 2 of these Guidelines;

5.2.2 A Designated Market Maker shall maintain paid up capital and total net worth requirements as determined by BHB from time to time;

5.2.3 A Designated Market Maker shall have in place adequate supervisory measures and a system of internal control 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 BHB Market Rules and these guidelines

5.2.4 A Designated Market Maker shall seek prior written approval of BHB in any of the following cases:

- i. Any change in capital that may lead to fall in capital adequacy requirements below the threshold requirements stipulated in Section 9 of these guidelines;
- ii. Any change that would disqualify a Designated Market Maker based on BHB Market Rules and these Guideline;
- iii. Any change in the place of business of the Designated Market Maker; and
- iv. Change in name of the Designated Market Maker.

5.2.5 The Designated Market Maker is bound by and shall comply with these Guidelines and directives and such Guidelines and directives as may be issued by BHB from time to time.

5.2.6 The Designated Market Maker shall announce to the market upon assignment of market making activity for a specific security.

5.2.7 The Designated Market Maker is required to disclose to its clients the existence of the market making agreement entered into between the Designated Market Maker and BHB, and a written consent is obtained from the client stating his awareness of the market making arrangement between the Designated Market Maker and BHB and that he has fully understood the potential risk and conflict of interest associated with such activities.

5.2.8 The Designated Market Maker shall ensure that all relevant trading records and other information related to market making activity is kept for a minimum of 10 years.

6. Cessation of Market Making Activity in a Specified Security

6.6.1 A Designated Market Maker who intends to cease market making activity in a Specified Security shall give a written notice to BHB regarding its intention to cease market making activity in a Specified Security.

6.6.2 The BHB shall, within 20 business days from the date of submission of the written notice, decide on the request for cessation of market making in the Specified Security. During the notice period (20 business days), a Designated Market Maker, shall continue to undertake market making activity in the Specified Security.

6.6.3 The BHB shall announce to the market the date of cessation of market making activity (termination date) in the Specified Security. The termination date (last date of market making in the Specified Security) shall be at least 30 business days from the date of BHB approval for cessation of market making activity in the Specified Security.

6.6.4 For avoidance of doubt, a Designated Market Maker shall continue to undertake market making activity in the Specified Security and comply with the Designated Market Maker Agreement, Market Making Agreement, BHB Market Rules and these guidelines for the entire period starting from the date of notice for cessation of market making activity for the Specified Security until the termination date (last date of market making in the Specified Security).

7. Suspension and Revocation of Designated Market Maker Activity

7.1 Suspension

The BHB may suspend or restrict the market making activities if the Designated Market Maker is in breach of his obligations or upon the happening of all or any of the events stipulated in Section 3.11.8 of BHB Market Rules.

7.2 Revocation

The BHB reserves the right to revoke the registration of Designated Market Maker if the BHB reasonably believes that the Designated Market Maker is in breach of Section 3.11.9 of BHB Market Rules

8. Resignation

8.1 Procedures

If a Designated Market Maker intends to de-register, it must:

8.1.1 . Give BHB at least 30 calendar days' written notice, stating the proposed date of resignation. BHB may vary or waive the notice period. If the resignation is accepted, BHB shall notify all Members of the effective date of termination of Market Making Agreement;

8.1.2 Satisfy BHB that it has taken, or will take, steps for the orderly winding down of its business with BHB; and

8.1.3 . Satisfy BHB that it has fulfilled or is able to fulfill its obligations to BHB and its obligations to its clients.

8.1.4 For avoidance of doubt, a Designated Market Maker must comply with BHB Market Rules and these Market Making Guidelines, and any Directives as may be imposed by BHB until the date of termination of Market Making Agreement.

8.1.5 The Designated Market Maker shall not undertake any new Market Making Agreement after the submission of the written notice.

8.2 Acceptance of Resignation by BHB

BHB need not accept the resignation of a Designated Market Maker if it is:

8.2.1 . conducting an investigation under the Rules, investigating a complaint, or has initiated disciplinary proceedings against the Member; or

8.2.2 not satisfied that the Designated Market Maker has fulfilled or is able to fulfill its obligations to BHB or its obligations to its clients as BHB may specify.

8.3 Deletion from Register of Members

If BHB accepts a Designated Market Maker's resignation, the Designated Market Maker's name will be deleted from the Register of Designated Market Maker upon the effective date of resignation.

9. Disciplinary Actions

A Designated Market Maker who contravenes any of the provisions of the CBB Law, Rules and Regulations, CBB Rulebook Volume 6, BHB Market Rules and these Market Making Guidelines shall be liable for penalties and/or disciplinary actions as stipulated in Section 9 of BHB Market rules. The Designated Market Maker must also comply with "Prohibition of Market Abuse and Manipulation" of the CBB Rulebook Volume 6

10. Capital Adequacy Requirements

A Designated Market Maker shall comply with the following capital adequacy requirements at all times:

10.1 The total net worth of a Designated Market Maker shall be a minimum of 120% of its paid-up capital at all times.

10.2 BHB may review such minimum requirement from time to time.

10.3 BHB may waive under circumstances the above-mentioned capital adequacy requirement.

10.4 The minimum paid-up capital of the Designated Market Maker should be BD 250,000.

10.5 The Net worth shall be computed in the following manner based on the books of accounts maintained by the Designated Market Maker in accordance with these Rules:

10.5.1 Computation of Net worth:

- 1 Capital + Free Reserves
- 2 Less Non-allowable assets:
 - I. Land and buildings
 - II. Value of Pledged Securities
 - III. Doubtful Debts and Advances
 - IV. Loans and advances to associates
 - V. Prepaid expenses, losses
 - VI. Intangible Assets
- 3 Net worth (1-2)