

Instructions for Liquidity Providers



LJUBLJANSKA BORZA
LJUBLJANA *Stock Exchange*

Ljubljana, 27 November 2019

Instructions for Liquidity Providers dated 27 November 2019 were posted on the Ljubljana Stock Exchange's website on 27 November 2019 and enter into effect and use on 9 December 2019.



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Disclaimer

All effort has been made to ensure the accuracy of this translation, which is based on the Slovene original. Translations of this kind may nevertheless be subject to a certain degree of linguistic discord; in case of doubt or misunderstanding, the Slovenian text, being the official version, shall thus prevail.



The Ljubljana Stock Exchange Inc. ("Exchange") Management Board, composed of President Aleš Ipavec, MSc, and Member Nina Vičar, MSc, adopted at its meeting on 27 November 2019, on the basis of Article 34 of the Ljubljana Stock Exchange Inc. Articles of Association and Articles 85–87 of the clean copy of the Ljubljana Stock Exchange Inc. Rules from 27 November 2019, the following

INSTRUCTIONS FOR LIQUIDITY PROVIDERS

1. GENERAL PROVISIONS

Applicability of Instructions

Article 1

- (1) These Instructions apply to liquidity providers on the Exchange regulated market, in accordance with Articles 85–87 of the Rules, and stipulate:
1. the process of granting and termination of the liquidity provider status;
 2. the requirements and criteria for granting liquidity provider status;
 3. the conditions of termination and deprivation of the liquidity provider status;
 4. obligations of liquidity providers;
 5. trading parameters;
 6. benefits awarded to liquidity providers;
 7. types of, and manner of protecting confidential information.

Definitions

Article 2

- (1) Individual terms and expressions used in these Instructions have the following meaning:
1. the term Rules signifies the Ljubljana Stock Exchange, Inc., Ljubljana Rules;
 2. the term Instructions signifies the Instructions for Liquidity Providers;
 3. the term Instructions for the Index, Liquidity Criteria, Price List and other Statistical Data signifies the instructions regarding the index, liquidity criteria, price list and other statistical data, as issued by the LJSE Management Board;
 4. the term Instructions for Trading signifies the instructions regarding trading, as issued by the LJSE Management Board;
 5. the term quote signifies the two-way limited buy and sell order that the liquidity provider is obliged to enter;
 6. the term Price List is the Ljubljana Stock Exchange, Inc., Ljubljana Price List.
- (2) Individual terms, expressions and abbreviations defined by the Rules bear the same meanings in these Instructions as in the Rules.



2. GRANTING AND TERMINATION OF LIQUIDITY PROVIDER STATUS

Granting of Liquidity Provider Status

Article 3

- (1) In accordance with Article 85 of the Rules, the application for acquisition of the liquidity provider status is to be lodged with the LJSE on a special form, being a component part of these Instructions. In the application the member firm should specify:
 1. which securities the application refers to (1 or more);
 2. the expected date of taking the position of a liquidity provider;
 3. the expected period of holding the position of a liquidity provider (1 year or more);
 4. the criteria to be met while providing liquidity for the given securities;
 5. if the member firm and issuer of the security for which the former is applying to acquire the liquidity provider status have entered into an agreement, it must be noted in the application that such an agreement was entered into, or such information must be sent to the Exchange subsequently when an agreement is entered into at a later date.
 6. if the member firm performs or will perform other services for the issuer of the security for which the former is applying to acquire the liquidity provider status, the application form should be accompanied by a list of such services – aside from that of providing liquidity for its securities – provided to the issuer by the member.
- (2) In granting the liquidity provider status to member firms, the provisions of Chapter 12 of the Rules are applied *mutatis mutandis*. Should the issuer enter into an agreement with a member firm on providing liquidity for its securities, and should the respective security then be transferred from auction into continuous trading in accordance with subsections 2.1.2. or 2.3. of the Instructions for the Index, Liquidity Criteria, Price List and other Statistical Data, the member will be granted the liquidity provider status at least five (5) days prior to the first trading day when the new classification of securities into trading methods takes effect.
- (3) The LJSE Management Board issues the member firm with a resolution on the grant of the liquidity provider status. The condition for the position of a liquidity provider to become effective will be met once the liquidity provider and the LJSE have signed an agreement. Once the agreement has been signed and the resolution on the grant of the liquidity provider status has been adopted, the member firm will be granted for the status of a liquidity provider in the trading system.
- (4) The granting of the liquidity provider status is communicated to the issuer of the security for which the member firm has obtained the liquidity provider status, the Securities Market Agency, member firms and the public.

Termination of Liquidity Provider Status

Article 4

- (1) The liquidity provider status can only be granted for a limited period of time, whereby the position must be taken for at least one (1) year and for not more than two (2) years. The liquidity provider must notify the LJSE of the planned termination of liquidity provision at least six (6) weeks prior to it taking effect.
- (2) Notwithstanding par. 1 of this Article, the liquidity provider status can, in accordance with Article 87 of the Rules, be terminated or restricted in a shorter period in the following instances:



1. if the liquidity provider wishes to resign its status in full or just for a certain security, and lodges with the LJSE a written application containing external reasons for such a resignation (e.g. corporate actions of the issuer, modification of the minimum criteria on behalf of the LJSE, taking a position incompatible with liquidity provision, etc.), the status termination procedure will be initiated within five (5) days;
 2. if the LJSE Management Board terminate the liquidity provider status of a member firm for not meeting its obligations from Chapter 3 hereunder.
- (3) Should the liquidity provider decide to take a position incompatible with liquidity provision, or should it be banned from trading in the respective security, it must notify the LJSE thereof immediately. The liquidity provision position will be terminated immediately upon receipt of such a notice.
- (4) A liquidity provider can apply for its liquidity provider status to be renewed, but not later than fifteen (15) days prior to the status expiring. For the purpose of extending this status, the liquidity provider lodges with the Exchange the application for acquisition of the liquidity provider status.
- (5) A member firm whose liquidity provider status had expired in the manner described in indent 2 of par. 2 of this Article can re-apply for the status three (3) months following the termination of the respective status.
- (6) In accordance with Article 87 of the Rules, the application for termination of the official liquidity provider status is to be lodged on a special form that is a component part of these Instructions.
- (7) The provisions of Chapter 8.1.3. of the LJSE Rules are applied *mutatis mutandis* for the procedures of termination or withdrawal of the status.
- (8) Once the Management Board have adopted a resolution on termination or withdrawal of the liquidity provider status, status of a liquidity provider is denied in the trading system (deactivated).
- (9) The termination or withdrawal of the liquidity provider status is communicated to the issuer, the Securities Market Agency, member firms and the public.

3. OBLIGATIONS OF LIQUIDITY PROVIDERS

Minimum Criteria for Liquidity Providers

Article 5

1. Article 86 of the Rules binds liquidity providers to daily quote two-way limit buy and sell orders on the market (hereinafter: quote) and execute trades resulting from these orders, thereby being bound, in accordance with Article 7 hereunder, to ensure the following minimum criteria:
 1. maximum difference between the prices of the buy order and sell order (hereinafter: spread);
 2. minimum volume of the obligatory bid side and ask side (hereinafter: minimum quote size);
 3. minimum quote presence period on the order book.
2. The LJSE Management Board can change the values of the minimum criteria from Article 7 hereunder, whereby the new criteria must be publicly disclosed at least one (1) month prior to their taking effect.



Classification of Securities into Groups

Article 6

- (1) Usually once a year, along with revising whether securities meet liquidity criteria under the Instructions for the Index, Liquidity Criteria, Price List and other Statistical Data, the LJSE classifies listed securities into groups used as a basis for determining the minimum criteria and discounts for liquidity providers.
- (2) The classification into groups is based on average daily turnover (block trades excluded), as stipulated by the Instructions for the Index, Liquidity Criteria, Price List and other Statistical Data as is presented in the following table:

Group	Average daily turnover (block trades excluded)
S 1	min. EUR 70,000
S 2	min. EUR 10,000
S 3	less than EUR 10,000

- (3) The LJSE Management Board notifies all issuers and member firms on the new classification of securities not later than by the fifth (5th) day in the month. The new classification of securities into groups is to be publicly disclosed not later than five (5) days before it takes effect, on the LJSE website.

Values of Minimum Criteria for Liquidity Providers

Article 7

- (1) On each trading day, liquidity providers must ensure the minimum criteria as set out in the below table for the securities for which they provide liquidity for.

Criterion		Value
Maximum spread		Article 7 (6)
Minimum quote size		Article 7 (8)
Minimum quote presence period	Continuous trading (excluding opening and closing auctions)	50%

- (2) The quote presence period is counted from the beginning to the close of trading, disregarding opening and closing auctions. Over the period of one month, the quote presence period equals the average of the liquidity provider's daily quote presence periods.
- (3) The time period for stressed market conditions from Article 8 of the Instructions is covered within the timeframe referred to in the second paragraph of this Article within which the quote presence period of the liquidity provider is counted.
- (4) The time period for extreme market conditions from Article 9 of the Instructions is not covered within the timeframe referred to in the second paragraph of this Article within which the quote presence period of the liquidity provider is counted.
- (5) Should a liquidity provider not meet the daily "minimum quote presence period" criterion, although meeting the monthly "minimum quote presence period" criterion, the liquidity provider will be seen as meeting the minimum criteria.



(6) The spread criterium is the following (for groups):

Group	Maximum spread
S 1	3%
S 2	4%
S 3	5%

(7) Spread is calculated using the formula: $((\text{ask price} / \text{bid price}) - 1) * 100$.

(8) The minimum quote size for a security subject to liquidity provision is determined on a quarterly basis as the number of lots. The predetermined value in EUR for an individual group is divided by the price of the security on the 15th trading day of the final month in a quarter (i.e. on the 15th trading day in March, June, September and December), the result being rounded to the nearest 10 units. Predetermined values in EUR for individual groups are the following:

Group	Value on the basis of which quote size in lots is determined
S 1	EUR 12,000
S 2	EUR 6,000
S 3	EUR 3,000

(9) The new minimum quote size for a security subject to liquidity provision applies from the onset of a new quarter (i.e. from the beginning of January, April, July and October).

(10) The LJSE communicates the new minimum quote size for a security subject to liquidity provision to the issuers of the respective securities, member firms and the public not later than five (5) days before it takes effect.

(11) A liquidity provider must provide minimum size on the ask and bid side (two-way quote).

Stressed Market Conditions
Article 8

(1) Stressed market conditions arise in the event of significant price volatility and trading volume for a security within a short time span.

(2) Significant price volatility within a short time span arises when trading resumes after an extended volatility interruption if:

- the indicative auction price deviates from the reference price by at least the interval triggering an extended volatility interruption;
- the indicative auction volume represents 5-times the average daily traded volume of a security in the last year.

(3) For stressed market conditions to arise, both conditions from par. 2 of this Article must be met.

(4) Stressed market conditions last 60 min after onset.



- (5) The Exchange communicates the onset of stressed market conditions to all liquidity providers providing liquidity for the respective security.

Extreme Market Conditions

Article 9

- (1) Extreme market conditions are, in particular:
- conditions of extreme price volatility that trigger volatility interruptions for the majority of securities traded in the market segment of the security subject to liquidity provision;
 - war, collective measures, riots or cyber sabotage;
 - disorderly trading conditions that disable the maintenance of fair, orderly and transparent trading, including:
 - a. operations of the trading system are critically affected by delays or interruptions;
 - b. several erroneous orders or trades;
 - c. the trading venue's capacity to provide services is no longer sufficient;
 - if the liquidity provider can no longer implement reasonable risk management practices for any of the following reasons:
 - a. technical difficulties, including data transmission problems or some other system essential for liquidity provision;
 - b. risk management difficulties related to regulatory capital, coverage and access to clearing;
 - c. inability to safeguard a position due to a ban on short selling;
 - in case of non-equity instruments, during the period of waivers from Article 9 (4) of Regulation (EU) No 600/2014 of the European Parliament and of the Council.
- (2) The Exchange communicates the onset and end of extreme market circumstances to liquidity providers, member firms and the public.

Minimum Criteria for New Securities

Article 10

- (1) A member firm can acquire the liquidity provider status as soon as a security is listed on a stock exchange market.
- (2) For a new listing on the stock exchange market, when the quantitative criterion for classification into groups, as specified in Article 6 hereunder, cannot be calculated yet, minimum criteria for group S3 apply to the respective security until the first regular review of liquidity criteria.

Minimum Criteria for Individual Types of Securities

Article 11

- (1) In cases when liquidity is provided for securities that serve as an underlying (for e.g. shares of open-end funds, investment certificates and other forms of serial securities traded in the regulated market) and for debt securities, the LJSE and liquidity provider can agree on different criteria, obligations and benefits for the liquidity provider.
- (2) The criteria, obligations and benefits are detailed in the contractual relationship between the LJSE and liquidity provider, and are published on the LJSE web site upon the grant of the liquidity provider status.



Monitoring of Liquidity Providers
Article 12

- (1) The LJSE monitors whether the criteria for providing liquidity are being met once per month. Once a year, the LJSE publishes the classification of liquidity providers according to their successfully meeting the criteria for providing liquidity, on the LJSE web site.
- (2) The criteria for providing liquidity, as mentioned in par. 1 of this Article, are being monitored according to the group the respective security was classified into; the following criteria are measured:
 1. minimum quote size;
 2. average quote presence period;
 3. average spread.
- (3) In monitoring compliance with the liquidity provision criteria, the LJSE also takes into account the onset and duration of extreme market conditions from Article 9 hereunder.
- (4) In classifying liquidity providers, the LJSE evaluates each liquidity provider as to each of its securities. The valuation consists of a one-place code A or B, which describes the success of a liquidity provider in meeting the criteria during a one-year period. The LJSE thus observes the following criterium:

K*	Valuation
$K \geq 50\%$	A
$K < 50\%$	B

The average appropriate quote presence period in relation to the actual time traded.

- (5) The LJSE additionally classifies the liquidity providers with the same evaluation by observing the level of their meeting the relevant criterium.
- (6) The classification of individual liquidity providers together with the securities they provide liquidity for and its publication are done along with the classification of securities into groups, as described in Article 6 hereunder.
- (7) The liquidity provider is obliged to regularly monitor and audit its fulfilment of the liquidity provider's duties and to ensure the compliance of operations with these Instructions, other Exchange acts and legislation. The liquidity provider is obliged to keep records on the performance of liquidity provision containing all entered orders for liquidity provision. These records must be provided to the Exchange or Agency on demand.



4. TRADING IN THE TRADING SYSTEM

Trading Parameters for Liquidity Providers

Article 13

- (1) Liquidity providers enter quotes into the trading system by supplying bid and ask orders either simultaneously or separately, in accordance with Article 14 hereunder.
- (2) Obligatory quote attributes:
 1. code of member firm;
 2. code of trader;
 3. ticker symbol;
 4. buy volume;
 5. sell volume;
 6. buy price;
 7. sell price;
 8. liquidity provider's account code »D«;
 9. liquidity flag.
- (3) The trading system rejects any orders not complete with obligatory quote attributes as given in par. 2 of this Article. The trading system automatically assigns codes to member firms and traders, as well as quote references.
- (4) Quotes by liquidity providers can only be entered for the liquidity provision account type.

Management of Orders for Liquidity Providers

Article 14

- (1) A liquidity provider can enter quotes for the liquidity provision account in the form of individual buy and sell orders, whereby it must abide by the restrictions imposed by this Article.
- (2) In monitoring the performance of a liquidity provider at a given moment, the system considers the liquidity provider's momentary best quote for the liquidity provision account.
- (3) Should a liquidity provider's status terminate, the LJSE has the right to remove the liquidity provider's active orders for the liquidity provision account.
- (4) The use of the liquidity provision account does not interfere with the member firm's right to use their house account.

Trading Restrictions for Liquidity Providers

Article 15

- (1) Liquidity providers are obliged to, while holding the position in accordance with the Instructions, abide by trading restrictions as stipulated by par. 2, 3 and 4 of this Article.
- (2) When a liquidity provider provides liquidity for a certain issuer, it must prioritise orders by clients for which it acts as agent or manages securities, over the orders or trades transacted on the basis of a liquidity agreement.



5. BENEFITS OF LIQUIDITY PROVIDERS

Granting of Benefits to Liquidity Providers

Article 16

- (1) In accordance with the Price List, the LJSE Management Board grants a liquidity provider with a discount off the fees for trades concluded in a security via the trading system for the liquidity provision account, based on its results and the group into which the security has been placed.
- (2) The discounts granted to liquidity providers are the same for liquidity provision under normal circumstances and in the event of stressed market conditions from Article 8 hereunder.
- (3) The LJSE Management Board decides on the discounts once per month. Should, in the respective period, the liquidity provider not meet the set criteria from Article 7 hereunder, the discount is not approved.
- (4) If liquidity is being provided for a newly listed security, the discount for group S3 is granted until the respective security is placed into a designated group on the basis of a review of liquidity criteria.

6. PROTECTION OF CONFIDENTIAL INFORMATION

Protection of Confidential Information

Article 17

- (1) The label "confidential" is attributed to the information and documents of the LJSE or a liquidity provider the content of which is such that, if revealed to unauthorised third parties, it could pose a threat to or possibility of harmful consequences for the LJSE or a liquidity provider.
- (2) The LJSE and liquidity provider use confidential information and documents in the course of their regular business activities, also communicating their content to their employees, while they shall not reveal them to unauthorised third parties without the consent of the opposite party.
- (3) The label "confidential" is to be attributed predominantly to those information and documents of the LJSE or liquidity provider that have not been acquired with the intention of public disclosure on the LJSE web site.



7. TRANSITIONAL AND FINAL PROVISIONS

Adoption of the Instructions

Article 18

These Instructions and amendments thereof are adopted by the LJSE Management Board and apply from the fifteenth (15th) day, changes in values of minimal criteria from Article 15 of Instructions at least one (1) month following their publication on the LJSE website, unless the LJSE specify a shorter time period in a particular case due to serious reasons.

Effective Date of Instructions

Article 19

- (1) These Instructions shall be published on the Exchange website and enter into effect and use on 9 December 2019.
- (2) After these Instructions take effect, the Instructions for Liquidity Providers dated 1 July 2019 shall terminate.

Ljubljana, 22 November 2019

Ljubljana Stock Exchange Inc. Management Board

mag. Nina Vičar,
Member of Management Board

mag. Aleš Ipavec
President of Management Board

Attachments (Forms)

1. Attachment 1: Application for Liquidity Provider Status (Form 01/VL)
2. Attachment 2: Application for Termination of Liquidity Provider Status (Form 02/VL)



Attachment 1: Application for Grant of Liquidity Provider Status (Form 01/VL)

Applicant: _____

Date lodged: _____ Date received: _____
(completed by Exchange)

**APPLICATION
FOR LIQUIDITY PROVIDER STATUS
AT LJUBLJANA STOCK EXCHANGE INC.**

The following member firm is hereby applying to become a liquidity provider, in accordance with the Ljubljana Stock Exchange Inc. Rules:

1. Applicant firm: _____

2. Registered office address: _____

3. LEI: _____

4. Firm Management Board: _____

5. Desired date of status grant: _____

6. Term of liquidity provider position: _____

7. Securities subject to the liquidity provider status (1 or more):

	Security code (symbol)	Security issuer firm
1.		
2.		
3.		
4.		

8. Criteria to be met during liquidity provision:

9. Documentation:

The applicant is enclosing the following documentation:



1. copy of the agreement entered into between liquidity provider and issuer of the security for which the liquidity provider status is being applied for, insofar as it exists;
2. list of services the member firm will be offering the issuer, aside from providing liquidity.

10. Liquidity provider's commitment:

By signing this application, the applicant hereby commits to, in the event of being granted the liquidity provider status on the basis of a resolution adopted by the Exchange Management Board, to abide by and enforce all provisions of the Rules, as well as general bylaws issued on their basis, and any changes and supplements thereof.

Agent of applicant:
(name of agent)

.....
(signature of agent and seal of applicant)



Attachment 2: Application for Termination of Liquidity Provider Status (Form 02/VL)

Applicant: _____

Date lodged: _____ Date received: _____
(completed by Exchange)

**APPLICATION
FOR TERMINATION OF LIQUIDITY PROVIDER STATUS
AT LJUBLJANA STOCK EXCHANGE, INC.**

The following member firm is hereby applying to become a liquidity provider, in accordance with the Ljubljana Stock Exchange Inc. Rules:

1. Applicant firm: _____

2. Firm registered address: _____

3. Firm Management Board: _____

4. Requested date of termination: _____

5. Securities subject to termination of liquidity provider status:

	Security code (symbol)	Security issuer firm
1.		
2.		
3.		
4.		

6. Reasons for resigning liquidity provider status:

7. Other relevant information (provided by member firm insofar as relevant in given situation):

- a. expected date of last trading day: _____
- b. expiration date for contracts entered into with Ljubljana Stock Exchange _____

Agent of applicant:
(name of agent)

.....
(signature of agent and seal of issuer)