



RESOLUTION No. 456/2017 OF THE CEO  
OF THE BUDAPEST STOCK EXCHANGE

**ON THE DETAILED RULES AND REGULATIONS OF THE MARKET  
MAKING ACTIVITY AND THE MARKET MAKING AGREEMENT  
ON THE BETa Market OF THE BUDAPEST STOCK EXCHANGE**

(consolidated text integrating the amendments as per Resolution 68/2018, 279/2018, 425/2018 and 83/2019 of the CEO of the Budapest Stock Exchange Ltd.)

Effective as of 1 May 2019

# 1 The Purpose and Scope of this Regulation

## 1.1 Introduction

- 1.1.1 The Budapest Stock Exchange Ltd. as the market operator of BETa Market (hereinafter referred to as: **Exchange**) by the Act CXXXVIII of 2007 on Investment Firms and Commodity Dealers (hereinafter referred to as: **ISA**) has developed incentive schemes regarding the market making for specified instruments traded on the BETa Market (multilateral trading facility (MTF) named BETa Market operated by the Exchange) in certain circumstances and market making agreements in order to improve and ensure the secondary market liquidity and the predictable and continuous trading of the financial instruments traded on the spot and derivative regulated markets.
- 1.1.2 Traders providing market making activity under the Market Making Agreement (hereinafter referred to as: **Market Makers**) undertake to perform and maintain bids and asks orders or quotes in accordance with the Market Making Agreement and this Regulation, by increasing the liquidity of the order book and the market as well.
- 1.1.3 The basis of the rules included in this Regulation are as follows: the Act CXX of 2001 on the Capital Market (hereinafter referred to as: **CMA**) and the ISA which are the Hungarian implemented rules of the Directive 2014/65/EU of the European Parliament and of the Council on Markets in Financial Instruments (hereinafter referred to as: **MiFID II**), which amended Directive 2002/92/EC And Directive 2011/61/EU and the Commission Delegated Regulation (EU) 2017/578 on supplementing Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments with regard to regulatory technical standards specifying the requirements on market making agreements and schemes (hereinafter referred to as: **MiFID Regulation**).
- 1.1.4 This Regulation is an inseparable part of the Market Making Agreement concluded by and between the Trader and the Exchange and it serves as general terms and conditions.
- 1.1.5 The terms not defined in this document and indicated with capital letters shall bear the meaning specified in the Regulations of the Budapest Stock Exchange Ltd. on BETa Market Trading and the Operation of the BETa Market.

## 1.2 The Purpose of this Regulation

- 1.2.1 The purpose of this Regulation is to define the terms and conditions of the market making activity on the BETa Market of the Exchange (MIC: BETA), the obligation of the Traders regarding the conclusion of the Market Making Agreement, the specific circumstances of market making, the various incentives and their conditions which may be provided to the Market Makers in order to improve liquidity and the sanctions applicable if the Market Making Agreement is breached.
- 1.2.2 The Exchange is entitled to apply different rules regarding the market making activities, which are not regulated under the laws specified in Section 1.1.3.

## 1.3 The Scope of this Regulation

- 1.3.1 This Regulation is applicable solely to the market making activity pursued through BETa Market Trading Systems (hereinafter referred to as: **Market Making Activity**).
- 1.3.2 The scope of this Regulation applies to the Traders and the Exchange.

## 2 General terms and minimum conditions regarding the Market Making Activities

### 2.1 The minimum conditions of the Market Making Activity and the Market Making Agreement

- 2.1.1 The Trader pursues Market Making Activity, if it maintains
- limit price orders or quotes,
  - as two-way quotes,
  - with comparable order quantities both in bids and asks
  - which are simultaneous and binding,
  - in the BETa Market Trading Systems
  - at least during 50% of the daily trading hours which takes place in continuous trading<sup>1</sup> - excluding the opening and closing periods – calculated for each trading day on more than half of the trading days of the given month
  - in the public order book regarding at least one tradable financial instrument on the Exchange
  - by dealing on its own account (not client account) of the minimum size stipulated in Annex I. "The Parameters of Market Making" and with competitive price.
- 2.1.2 The market making orders or quotes (hereinafter referred to as: **Quotes**) shall be deemed to have competitive prices under Article 1 of the MiFID Regulation, if they are posted or maintained within the maximum spread determined by the Exchange in column Max. spread<sup>2</sup> (bp) – „S” of the Mandatory Market Making Agreement of Annex I.
- 2.1.3 The Quotes shall be deemed binding, if they consist of orders or quotes which are executable without any restrictions and when the whole order quantity is visible at any given moment after posting under the BETa Market Rules.
- 2.1.4 The Quotes shall be deemed simultaneous and two-way quotes if both the bid and the ask-price are disclosed in the order book at the same time.
- 2.1.5 The bid and ask orders shall be deemed to have comparable sizes, if their sizes do not differ from each other with more than 50%<sup>3</sup>.
- 2.1.6 Market Making Activity based on orders of clients is prohibited on BETa Market.

### 2.2 Mandatory Market Making Agreement

- 2.2.1 In order to predictably ensure and follow the liquidity of the market, in case a Trader is pursuing Market Making Activity regarding any financial instrument tradable on the BETa Market in compliance with Section 2.1, the Trader shall notify the Exchange without delay about the fact and conclude a market making agreement (hereinafter referred to as **Market Making Agreement**) with the Exchange according to which it is obliged to pursue its Market Making Activity.
- 2.2.2 The Trader is obliged to notify the Exchange on the Market Making Activity and to initiate the conclusion of the Market Making Agreement. The Exchange cannot be held liable in case the Trader does not comply with this obligation. In the event of the Exchange recognizes that a Trader is pursuing Market Making Activity without a Market Making Agreement, the Exchange will call upon the Trader to conclude the Market Making Agreement within 8 days from the

<sup>1</sup> Continuous Trading (Spot Market, Continuous Trading with Auctions Trading Model)

<sup>2</sup> Spread (bps) = the ratio of the difference between ask and bid price and the average of ask and bid price expressed in basis points (1 basis point (bp) = 0.01%)

<sup>3</sup> If X= bid quantity and Y=ask quantity, than  $0,5 \leq X/Y \leq 1,5$  or  $0,5 \leq Y/X \leq 1,5$  relation is true at any moment.

receipt of its notice or to suspend its Market Making Activity. If the Trader continuously fails to comply with its obligations specified in the notice, the Exchange reserves the right to apply sanctions defined in the BETA Market Rules.

- 2.2.3 The obligation relating to the conclusion of the Market Making Agreement under Section 2.2.1 shall be applied only to the Traders who are qualified as investment service providers (investment firm). However, in order to ensure the liquidity or upon request the Exchange reserves the right to grant opportunity to other participants of the trading to conclude other kind of market making agreements with the Exchange.
- 2.2.4 If the Market Maker fulfils solely the minimum requirements specified in the columns of Annex I of the Mandatory Market Making Agreement, the Exchange will not grant incentives regarding this activity, with the exception of Market Making during Stressed Market Conditions defined under Section 3.2, where the Exchange will refund transaction fees to each Market Maker complying with the minimal requirements set out in the columns of Annex I of the Mandatory Market Making Agreement – as specified and detailed in Section 4 – as an incentive of Market Making Activity pursued regarding the financial instruments indicated as liquid in Annex I.
- 2.2.5 The Exchange grants the incentives defined in Section 4 regarding the obligation of market making, if the special conditions of the Market Making Incentive Scheme under Section 3 are performed. The fact of the participation in the Market Making Incentive Scheme and the obligation relating to this shall be indicated in the Market Making Agreement.
- 2.2.6 The Market Maker shall promptly notify the Exchange, if it ceases its Market Making Activity under Section 2.1 regarding any financial instrument. If the Market Maker ceases its Market Making Activity in all financial instruments, the notice sent by the Market Maker will be considered as a termination notice of the Market Making Agreement. In this case the Market Making Agreement will be terminated on the day specified by the Market Maker, which will be the same as the date of the ceasing of the Market Making Activity. If the Market Making Activity was ceased to continue in some instruments, but not all of them, the parties shall amend the Market Making Agreement accordingly upon the notice.
- 2.2.7 If the Market Maker intends to pursue Market Making Activity in additional financial instruments that are not stipulated in the Market Making Agreement, the Market Maker shall notify the Exchange of this fact without delay and the parties shall amend the Market Making Agreement accordingly upon the notice.
- 2.2.8 The commencement date of the Market Making Activity regarding the respective financial instrument is the date when the Exchange receives the notice regardless the date of the aforementioned amendment of the Market Making Agreement.
- 2.2.9 The Exchange shall notify the Supervision of the conclusion and the termination of the Market Making Agreement.
- 2.2.10 The Exchange shall disclose on the Website the name of the Market Makers who concluded Market Making Agreements with the Exchange, the financial instruments under the Market Making Agreements and whether the Market Maker participates in the incentive scheme or not.
- 2.2.11 In its sole discretion, the Exchange is entitled to determine – by the decision of the CEO of the Exchange, with a 1 (one) month notice period – particular fees or to impose other sanctions (particularly, but not limited to reduced fee refund etc.) regarding the quantity of the orders or the transactions which exceed the simultaneous order or transaction limits defined by the Exchange.

## **2.3 Other Obligations of the Market Maker**

- 2.3.1 The Market Maker shall mark their Quotes – as stipulated in the Market Making Agreement – and clearly distinguish them from its other orders submitted to the trading system. Besides this,

Market Maker is obliged to flag its Quotes as prescribed in MiFID II “order record keeping” rules (liquidity provision flag).

- 2.3.2 The Market Maker shall keep records on Quotes and the transactions related to the Market Making activity which shall be clearly distinguished from its other trading activities. The records shall be made available to the Exchange upon request.
- 2.3.3 The Market Maker shall have internal monitoring and control systems and processes which ensure that the Market Making Activity is in compliance with the effective laws and exchange trading regulations.

## 2.4 Relief from Obligations in Exceptional Circumstances

- 2.4.1 The Market Maker has no obligation in connection with liquidity specified in the Market Making Agreement (maintaining the Quotes), if any of the following circumstances (hereinafter referred to as Exceptional **Circumstances**) occur:
- a. Extreme fluctuation of price (volatility): if 80% of the financial instruments traded on the BETa Market are in Extended Volatility Interruption Sub-Phase
  - b. war, industrial action, civil unrest or cyber sabotage;
  - c. disorderly trading conditions where the maintenance of fair, orderly and transparent execution of trades are compromised:
    - i. the trading system of the Exchange is being significantly affected by delays and interruptions
    - ii. multiple erroneous orders or transactions,
    - iii. the IT capacity of the Exchange is insufficient to provide services (overload);
  - d. the Market Maker’s ability to maintain prudent risk management practices is significantly limited due to any of the following circumstances:
    - i. technical problems (including dysfunctions of data feed or other systems that are 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. in case of non-equity instruments, during the suspension period referred to in Article 9(4) of Regulation (EU) No 600/2014 of the European Parliament and of the Council.
- 2.4.2 The Exchange notifies the market participants on the Exceptional Circumstances and the ceasing of them – if technically possible – through the trading system in the form of the Xetra News Message and under the circumstances stipulated in Subsection b, c, and e of Section 2.4.1 via CEO Resolution as well.
- 2.4.3 The Market Maker shall disclose on its website the nature and exact start of the circumstances specified in Subsection d of Section 2.4.1, with clearly indicating the affected financial instruments, furthermore the Market Maker shall promptly notify the Exchange (via the official contact email addresses stipulated in the Market Maker Agreement) as well. Market Maker shall do this at the end of above circumstances too unless the end time has been also published at the start of the event in question. If the Market Maker fails to comply with these obligations, the Exchange considers the particular period of time as normal trading circumstance.

## 2.5 Further exemptions and special cases

- 2.5.1 The Market Maker is not obliged to quote in the following cases besides the cases outlined in Section 2.4.1:
- a. when both of the (bid-ask) quotes or orders, calculated based on the agreed maximum price spread, exceed the Order Limit (Spot Market) specified by the Exchange

## 2.5.2 Simultaneous transaction (number) limits in the trading system

- a. In its sole discretion, if it is deemed necessary - with a 1 (one) month notice period in advance - the Exchange is entitled to limit the number of simultaneous transactions or Quotes regarding any Instrument or Instrument group which may be submitted by the Market Maker per second or in a single trading day. The Exchange shall notify the Market Maker of the limitations above. The provisions on the limitation of the number of the transactions and orders are set out in the annexes of the Market Making Agreements.
- b. Simultaneous transaction shall mean any system message triggered by the Market Maker and which was sent to the trading system, e.g. login, logout, inquiries, order and quote transactions (add/modify/delete an order, add/delete a quote).

# 3 Market Making Incentive Schemes

## 3.1 General Rules

- 3.1.1 The Exchange sets out the Market Making Incentive Scheme for both the Normal Trading Conditions and the Stressed Market Conditions. The criteria regarding the Market Making Incentive Schemes is provided in this regulation.
- 3.1.2 The Market Maker may pursue market making activity regarding certain financial instruments with stricter conditions than the conditions provided in Section 2.1 and Annex I (e.g. narrower price spread, higher minimum quantity, higher fulfillment rate, market making in Volatility Phase). The Exchange grants participation in the Market Making Incentive Scheme of the instrument concerned (if the Exchange grants such a possibility regarding the instrument concerned), in case the performance of the aforementioned commitment (Annex I, columns of the Market Making Incentive Scheme). This opportunity is provided in the Market Making Agreement.
- 3.1.3 In case of Normal Trading Conditions, the Exchange supports the fulfillment of the additional commitments regarding the financial instruments set out in Section 4 with Refunds and the Exchange may specify other benefits for the Market Makers.

## 3.2 Market Making Incentive Scheme for Stressed Market Conditions

- 3.2.1 The Exchange hereby specifies the Stressed Market Conditions which replace the Normal Trading Conditions regarding<sup>4</sup> liquid securities in compliance with Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012 (MiFIR), as follows.
  - 3.2.1.1. Liquid equities

A condition shall be considered as a Stressed Market Condition for 60 minutes following the Extended Volatility Interruption of the respective liquid equity, if the price reached within the Extended Volatility Interruption is four times higher than the dynamic price spread, or the aggregated amount of the transactions volume is five times higher than the average daily volume in the preceding calendar year regarding the respective financial instrument.
  - 3.2.2 The Exchange notifies the market participants on the Stressed Market Conditions and on the recovery of Normal Trading Conditions via Xetra News Messages.

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<sup>4</sup> Based on definitions set forth in Subsection 17 of Section 1 of Article 2 and on the delegated acts of the Commission according to Article 1 and 3 of Regulation (EU) No 600/2014 (MiFIR)

3.2.3 During Stressed Market Conditions, maximum price spread („S”), minimum quantity („Q”) and the Performance (minimum presence) set out in Annex I, shall be amended as follows:

	<b>Stressed Market Condition</b>
Maximum price spread	$S*2$
Minimum quantity	$Q/2$
Performance (minimum presence)	50%

## 4 Refund

### 4.1 General Rules

- 4.1.1 The Exchange provides refund from the transaction fees (hereinafter referred to as: **Refund**) to market participants taking part in Market Making Incentive Scheme, furthermore in case of Stressed Market Conditions referred to in Section 3.2 regarding the financial instruments defined therein. The Exchange provides the Refund to all Market Makers fulfilling the respective requirements.
- 4.1.2 The Market Maker is not entitled to the Refund if the account of the Market Maker dedicated to the Market Making is affected by both sides of the transaction.
- 4.1.3 The Exchange calculates the performance regarding the financial instrument concerned separately for Normal Market Conditions and for Stressed Market Conditions with respect to periods of Exceptional Circumstances set out in Section 2.4, and specifies the amount of the Refund separately for each period.
- 4.1.4 The Exchange shall calculate the amount of the Refund and the fulfilment of the requirements until the 10th business day of each month following the month in question and shall notify the Market Maker thereof.

### 4.2 Equities and ETFs

- 4.2.1 The Market Maker is entitled to the Refund for the transactions made by appropriate Quotes or Orders of it regarding equities and ETFs set out in Annex I.
- 4.2.2 In its Market Making Incentive Scheme the Exchange defines Category “A” and Category “B” as set out in Annex I.
- 4.2.3 The amount of the Refund is 100% in the case of Category “A” and 75% in the case of Category “B” of the transaction fee incurring on the side of the Market Maker.



## 5 Miscellaneous

### 5.1 Monitoring of the performance of the Market Maker and sanctions

- 5.1.1 The Exchange shall constantly monitor the compliance with the provisions of the Market Making Agreement and shall send a report about it to the Market Maker each month.
- 5.1.2 If the Market Maker fails to comply with the (minimum level) provisions set out in Section 2.1, the Exchange will terminate the Market Making Agreement with immediate effect.
- 5.1.3 If the Market Maker participating in the Market Making Incentive Scheme fails to comply with the (stricter) provision set out in Section 3 and 4 during 3 consecutive months, the Exchange is entitled to suspend Market Maker's right to participate in the Market Making Incentive Scheme for a period of 6 months.

### 5.2 Review and modification of this regulation

- 5.2.1 The Exchange specifies and discloses the parameters of the Market Making (at least the Minimum Quantity<sup>5</sup>) during the ordinary review until 31<sup>st</sup> of March of each calendar year, and it simultaneously notifies the Market Makers thereof. The parameters of market making specified during the ordinary review shall be applicable from the first trading day of May of each calendar year.
- 5.2.2 The Market Maker is entitled to initiate the amendment of the Minimum Quantity parameter in the Market Making Incentive Scheme regarding the respective equity besides the ordinary review if the price of the given financial instrument changed significantly following the last determination of the Minimum Quantity by the Exchange.
- 5.2.3 Besides the ordinary review, the Exchange is entitled to amend this regulation – with the exception of the rules of the Market Making Incentive Scheme – with immediate effect at any time. Amended provisions enter into force upon publication.
- 5.2.4 The Exchange shall publish the amendment of Market Making Incentive Scheme at least one month prior to effective date.
- 5.2.5 The CEO of the Exchange is entitled to amend this regulation by a resolution and shall notify the Traders thereof pursuant to The General Terms of Service of the Budapest Stock Exchange Ltd.

Richárd Végh  
Chairman and CEO

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<sup>5</sup> Quantity equals to EUR 5.000 in the case of Mandatory Market Making Agreement and EUR 20.000 in the case of Market Making Incentive Scheme, rounded to 10

## Annex I – Parameters of Market Making

Equity										
ISIN	Instrument	Mandatory Market Making			Market Making Incentive Scheme (Category A)			Market Making Incentive Scheme (Category B)		
		Max. spread (bps) - "S"	Min. quantity (pcs) - "Q"	Performance - "C"	Max. spread (bps) - "S"	Min. quantity (pcs) - "Q"	Performance - "C"	Max. spread (bps) - "S"	Min. quantity (pcs) - "Q"	Performance - "C"
DE000A1EWWW0	ADIDAS	300	20	50%	50	90	70%	100	90	70%
DE0008404005	ALLIANZ	300	30	50%	50	100	70%	100	100	70%
DE000BASF111	BASF	300	80	50%	50	310	70%	100	310	70%
DE000BAY0017	BAYER	300	90	50%	50	350	70%	100	350	70%
DE0005190003	BMW	300	70	50%	50	290	70%	100	290	70%
DE000CBK1001	COMMERZBANK	300	730	50%	50	2940	70%	100	2940	70%
DE0007100000	DAIMLER	300	100	50%	50	400	70%	100	400	70%
DE0005557508	DEUTSCHE TELEKOM	300	320	50%	50	1270	70%	100	1270	70%
DE0005140008	DEUTSCHEBANK	300	690	50%	50	2780	70%	100	2780	70%
DE000ENAG999	EON	300	500	50%	50	2000	70%	100	2000	70%
DE0006048432	HENKEL (pref)	300	60	50%	50	230	70%	100	230	70%
DE0006231004	INFINEON	300	260	50%	50	1060	70%	100	1060	70%
IE00BZ12WP82	LINDE PLC	300	30	50%	50	130	70%	100	130	70%
DE0008232125	LUFTHANSA	300	260	50%	50	1030	70%	100	1030	70%
DE0008430026	MÜNCHENER RÜCKVERSICHERUNG	300	20	50%	50	100	70%	100	100	70%
DE0007164600	SAP	300	50	50%	50	200	70%	100	200	70%
DE0007236101	SIEMENS	300	50	50%	50	210	70%	100	210	70%
DE0007500001	THYSSENKRUPP	300	410	50%	50	1640	70%	100	1640	70%
DE0007664039	VOLKSWAGEN (pref)	300	40	50%	50	140	70%	100	140	70%

ETF										
ISIN	Instrument	Mandatory Market Making			Market Making Incentive Scheme (Category A)			Market Making Incentive Scheme (Category B)		
		Max. spread (bps) - "S"	Min. quantity (pcs) - "Q"	Performance - "C"	Max. spread (bps) - "S"	Min. quantity (pcs) - "Q"	Performance - "C"	Max. spread (bps) - "S"	Min. quantity (pcs) - "Q"	Performance - "C"
DE0005933931	ISHARES CORE DAX	300	50	50%	50	210	70%	100	210	70%
DE0005933956	ISHARES CORE S&P 500	300	20	50%	50	80	70%	100	80	70%
IE00B5BMR087	ISHARES EURO STOXX	300	150	50%	50	610	70%	100	610	70%
DE000A0F5UF5	ISHARES NASDAQ-100	300	80	50%	50	320	70%	100	320	70%
LU0292106753	X EURO STOXX 50 SHORT SWAP	300	360	50%	50	1440	70%	100	1440	70%
LU0322251520	X S&P INVERSE DAILY SWAP	300	380	50%	50	1540	70%	100	1540	70%
LU0292106241	X SHORTDAX DAILY SWAP	300	220	50%	50	880	70%	100	880	70%