



RULES REGULATING MARKET MAKERS
Version 2.0

BSE Rules Regulating Market Makers Amendments	Version	Revision Date (NBFIRA Approval Date)
Initial Approval	1.0	18/09/2017
Amendment re impact of market making trades on closing prices	2.0	18/03/2020

1.0 Preamble and Commencement

These Rules have been framed in order to regulate Market Makers whose purpose on the Botswana Stock Exchange is to provide liquidity in listed securities by submitting both bids and offers for a designated security during the designated Market Making session.

These Rules apply to all entities conducting market making activities on the BSE currently and in future.

A registered Market Maker, whether or not registration to conduct market making activities had taken place before these Rules were prescribed, is, by virtue of its registration on the BSE, bound by these Rules, the Rules of the CSDB and any amendments thereto made from time to time.

These Rules shall come into force on approval by the both the BSE Main Committee and the Non-Bank Financial Institutions Regulatory Authority.

2.0 Definitions

In these Rules the following expressions shall, unless the context requires otherwise, have the meanings herein specified below:

- 2.1 "BSE or Exchange" means the Botswana Stock exchange;
- 2.2 "Designated Market Making Session" means the period, designated by the Exchange, within normal trading hours, during which the Market Maker shall have to submit both bids and offers;
- 2.3 "Designated Security" means any of the securities listed on the Exchange, which shall be in the list of securities eligible for market making, excluding those issued by the Bank of Botswana and Government of the Republic of Botswana. The list shall be published by the Exchange from time to time for this purpose;
- 2.4 "ETF" stands for Exchange Traded Funds;
- 2.5 "Market Maker" means an entity that quotes bid and offer prices continuously for Designated Securities that it holds in inventory and is prepared and able to buy or sell these securities at any time on its own account as per the Market Making Agreement and is licensed as such by NBFIRA.
- 2.6 "Market Making Agreement" means an agreement executed between the Market Maker and the Exchange to perform market making activities under these Rules;
- 2.7 "Maximum Spread" means the permitted difference between the offer or bid price and the reference price for each designated security as prescribed under these Rules.

3.0 Criteria for Registration of Market Makers

- 3.1 Any company registered in Botswana may apply to the BSE to be registered as a Market Maker for any designated security. With respect to Market Makers for ETFs, the appointment as a Market Maker of the designated security shall be made prior to the listing of that security.
- 3.2 Market Makers who are not members of the BSE must enter into service level agreements with members of the BSE for on market execution of their orders as per the Market Making Agreement.
- 3.3 Any person or institution which is classified as an insider, as defined in the Securities Act, of a particular listed company, shall not qualify to be admitted as a Market Maker for designated securities issued by the said listed company.
- 3.4 A Market Maker may be registered to make a market for a single designated security or multiple designated securities subject to meeting the criteria set out in these Rules.
- 3.5 A market maker must also apply and be admitted to be a CSDB participant and comply with CSDB Rules for transactions entered into as a result of their market making role.
- 3.6 A Market Maker shall be expected to remain registered as such until he exhausts the stock of securities he has agreed to inject into the market or the cash resources he has agreed to use to mop up liquidity in terms of the Market Making Agreement; or for a period of one year from the date of appointment which may be renewed. In the event the Market Maker has either exhausted the stock of securities or funds he has agreed to use for market making, he may continue to function as a Market Maker on the buy or sell side respectively for the balance of the duration of the Market Making Agreement.
- 3.7 There may be as many Market Makers at any time per any designated security as the Exchange shall determine from time to time.
- 3.8 The decision of the Exchange in respect of the acceptance or rejection of an applicant shall be final and conclusive. The permission by the Exchange to act as a Market Maker shall be non-transferable.
- 3.9 The Market Maker is obligated to abide by these Rules and any amendments made thereto from time to time.

3.10 Ability to inject and mop up liquidity

The role of a market maker is to inject liquidity if required and to mop up excess liquidity when required for the security they are making a market for. To be registered as a market maker for a given security, an applicant must;

- (a) Have written proof of an agreement with the issuer of the security and/or a major holder of the security, specifying the availability of a minimum quantity of securities to make a market with. The BSE, in consultation with the applicant shall determine this minimum quantity.
- (b) Have adequate cash resources to purchase a minimum number of designated securities. The level of adequacy of cash resources shall be determined by the BSE in consultation with the applicant.

Each market maker must notify the BSE in writing the source of financing and its terms. The BSE must be informed immediately of the intention of any party to terminate or change any such arrangement.

3.11 Other criteria

In order to register an applicant as a market maker, the BSE shall also consider whether the applicant;

- (a) Has a consistent history of compliance with rules and regulations in its area of operation;
- (b) Has strong operational capabilities, especially technology and processes;
- (c) Has in place adequate Risk Management processes and internal controls. A written analysis of the risk management and internal controls with respect to the Market Making activities, signed by the Chief Financial Officer of the applicant, must be submitted to the BSE;
- (d) Has staff with sufficient understanding of the securities in which the Market Maker is intending to make a market;

3.12 Documents to be submitted for application

To apply for registration, the applicant shall submit to the Exchange the following:

- (a) Application for appointment as a Market Maker as per **Appendix A**;

- (b) Undertaking to comply with these Rules and to adhere to Market Making Agreement as per **Appendix B**;
- (c) The most recent audited financial statements and latest management accounts;
- (d) Details of all other businesses of the applicant, if any, e.g. broking, investment banking, financial consultancy service, money market participation etc.;
- (e) Name(s), address(es), qualification(s), experience and contact detail(s) of the applicant's employee(s) who shall be responsible for conducting the market making activities;
- (f) In the case of financial institutions and Banks, written consent obtained from the relevant regulator;
- (g) A nonrefundable application fee of BWP10, 000.
- (h) In the case of applicants wishing to make a market for an ETF, the applicant must provide a Consent Letter to the Exchange from the ETF manager certifying that they intend to appoint the Applicant as market maker for the ETF.
- (i) A disclosure in writing of any current and/or historical business relationship with the issuer of the designated security in which it desires to act as Market Maker particularly if the applicant generates or has generated business from the issuer of the designated security directly or indirectly through investment advisory, underwriting or any other material business transaction;
- (j) If the applicant also conducts a brokerage business, a written undertaking by the Directors of the applicant indicating that all steps have been taken to ensure separation of the market making and brokerage activities with a view to preventing occurrence of insider trading or the perception thereof.

4.0 Pricing – The Maximum Spread

The maximum spread will be determined by the BSE in consultation with the Market Maker for each designated security and communicated to the market by the BSE from time to time taking into account the unique characteristics of each security.

5.0 Obligations of Market Makers

- 5.1 A market maker must maintain executable orders on both the buy and sell side, for each designated security it is registered to make the market for, at all the agreed times until the agreed limit is reached.
- 5.2 As shall be determined by the BSE from time to time, and communicated to the concerned Market Maker, a market maker

may be obligated to sell to retail investors only but may buy from both retail and institutional investors.

5.3 The Market Maker shall keep its market making activities separate from other trading activities. For this purpose, the Market Maker shall:

- (a) Open a separate CSDB account for market making activities;
- (b) Maintain separate ledger account(s)/records;

5.4 The Market Maker shall pay transaction fees and other levies as specified by the Exchange from time to time. The Exchange may at its absolute discretion, subject to satisfactory performance of the Market Maker as well as compliance with the Rules, allow such Market Maker reasonable discount(s) or waiver of transaction fees.

6.0 Reporting of trades with a Market Maker

Trading with a Market Maker shall be through a Member Broker and carried out as per the criteria set out in the BSE ATS Equity Trading Rules.

7.0 Sanctions against Market Makers

7.1 In the event the BSE suspects that a Market Maker may be in breach of its responsibilities under the Market Making Agreement, the BSE shall conduct a preliminary investigation to establish if there is any transgression.

7.2 The BSE may suspend the Market Maker depending on the nature of the transgression under investigation.

7.3 On conclusion that the Market Maker is in breach of its responsibilities, the BSE shall report such findings to the BSE Admissions and Disciplinary Committee for a determination.

7.4 The BSE Admissions and Disciplinary Committee may impose any one or more of the following penalties;

- (a) a written warning to the Market Maker;
- (b) a fine not exceeding P250, 000;
- (c) termination of the Market Maker's registration.

7.5 If at any time disciplinary action and/or sanctions are imposed on a Market Maker by their industry Regulator, the BSE shall suspend

the Market Maker's registration status pending review of the reasons for the regulator's sanctions.

8.0 Termination of Market Making Agreement by the Market Maker

A Market Maker may resign only after a minimum of three months of commencement of its term by providing the Exchange at least two months' prior written notice along with the reasons for resignation and specifying the effective date of resignation.

In case of an ETF, the ETF Manager shall ensure that another Market Maker is appointed prior to the resignation of the incumbent.

9.0 Waiving of the Rules Regulating Market Makers

The BSE Board of Directors reserves the right to waive any of the rules if it is of the opinion that such waiver is warranted.

Appendix A Form of Application

The Chief Executive Officer
Botswana Stock exchange
GABORONE
Botswana

RE: APPLICATION FOR REGISTRATION AS MARKET MAKER

We hereby apply for the registration as a Market Maker on the Botswana Stock Exchange in accordance with the Rules Governing Market Makers on the Botswana Stock Exchange. Our brief particulars are hereunder:

1. Complete company name (no abbreviations)
2. Company registration number
3. License/registration details as provided by the applicable regulator
4. Registered office address and contact details, in case the location at which market making activities will be undertaken is different, please provide complete address and contact details of such location
5. The name(s) and symbol(s) of the designated securities for which market making activities will be carried out.

We declare that the information given in this form is true to the best of our knowledge and belief and that if any change occurs in the information given in this application and the accompanying documents, we shall report the same to the Exchange on the same day on which the change occurs.

Name and Signature of Authorized Person

Appendix B Form of Unconditional Undertaking

In pursuance to the Rules Governing Market Makers on the Botswana Stock Exchange, we _____ having our registered office at _____ hereby undertake and bind ourselves as hereunder:-

1. That we undertake to comply with the requirements under the Rules Governing Market Makers on the Botswana Stock Exchange as amended from time to time; and
2. That we undertake to adhere to the Market Making Agreement which is to be entered into with the Botswana Stock Exchange;

Yours faithfully,

Chief Executive Officer/Authorized person

Common seal of Company