



# Market Making Rules

August 2019

## Securities and Exchange (Zimbabwe Stock Exchange Market Making) Rules, 2019

IT is hereby notified that the Securities and Exchange Commission has, in terms of section 65(3) of the Securities and Exchange Act [*Chapter 24:25*], approved the following regulations:—

### **1. Title**

These rules may be cited as the Securities and Exchange (Zimbabwe Stock Exchange Market Making) Rules, 2019.

### **2. Preamble and Commencement**

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

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

### **3. Definitions**

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

- 3.1 “**CSD**” means Central Securities Depository;
- 3.2 “**Designated Security**” means any of the securities listed on the Exchange, which shall be in the list of securities eligible for market making. The list shall be published by the Exchange from time to time for this purpose;
- 3.3 “**Market Maker**” means *an entity that quotes bids and offers 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 registered as such by ZSE;
- 3.4 “**Market Making Agreement**” means an agreement executed between the Market Maker and the Exchange or Issuer to perform market making activities under these Rules;
- 3.5 “**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;

- 3.6 “ **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;
- 3.7 “**SECZ**” means the Securities and Exchange Commission of Zimbabwe;
- 3.8 “**ZSE or Exchange**” means the Zimbabwe Stock Exchange Limited;

#### **4. Registration Requirements for Market Makers**

4.1. In order to be registered as a Market Maker for a given security, an Applicant must;

- 4.1.1. Be an entity licensed by the Securities and Exchange Commission of Zimbabwe (SECZ);
- 4.1.2. If Applicant is not a holder of a securities (dealers) license as per the Statutory Instrument 100 of 2010, then they should submit proof of a Service Level Agreement for execution of transactions between the Applicant and a SECZ licensed securities (dealer);
- 4.1.3. Have adequate cash resources to purchase a minimum number of designated securities. The level of adequacy of cash resources shall be determined by the ZSE in consultation with the applicant;
- 4.1.4. In the case of financial institutions, have written consent obtained from the relevant regulator;
- 4.1.5. Pay a non-refundable application fee from time to time; and
- 4.1.6. Submit the most recent audited financial statements and latest management accounts to the ZSE.

4.2 Without limiting the generality of this provision ZSE shall use the following assessment criteria in considering an application for registration by an applicant;

- 4.2.1. Consistent history of compliance with applicable rules and regulations;
- 4.2.2. Strength of operational capabilities, especially technology and processes;
- 4.2.3. Acceptable supervisory programme and a system of internal controls to ensure the following;
- i) proper conduct of the business of market making;
  - ii) adequate Risk Management and internal controls;
  - iii) proper management of conflict of interest; and
  - iv) compliance with these rule.
- 4.2.4. Staff with sufficient understanding of the securities in which the Market Maker is intending to make a market;

- 4.2.5. Admission to be a CSD participant and compliance with CSD Rules for transactions entered into as a result of their market making role; and
- 4.2.6. Ability to inject and mop up liquidity as and when required.

## **5. Application procedure**

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

- 5.1. Application for appointment as a Market Maker as per **Appendix A**;
- 5.2. Undertaking to comply with these Rules and to adhere to Market Making Agreement as per **Appendix B**;
- 5.3. 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;

## **6. Pricing – The Maximum Spread**

- 6.1 The maximum spread will be determined by the ZSE in consultation with the Market Maker for each designated security and communicated to the market by the ZSE from time to time taking into account the unique characteristics of each security;
- 6.2 The maximum spread will be determined with reference to the last traded price. In the event there is no last traded price, the maximum spread shall be calculated with reference to the listing price of the designated security.

## **7. Obligations of Market Makers**

The Market Maker shall have the following responsibilities;

- 7.1. Maintain a fair and orderly market in their securities of responsibility;
- 7.2. Ensure that trading for the Market Maker's own account is reasonable and consistent with just and equitable principles of trading, and is not detrimental to the integrity of ZSE or the market;
- 7.3. 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;

7.4.Keep its market making activities separate from other trading activities. For this purpose, the Market Maker shall:

- i. Open a separate CSD account for market making activities;
- ii. Maintain separate ledger account(s)/records;

7.5.Pay transaction fees, annual 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;

7.6.Provide ZSE with the names of all Designated Traders and their security assignments, and forthwith advise ZSE of any change to such information;

7.7.Notify the ZSE in writing the source of financing and its terms; and

7.8.Immediately notify the ZSE of the intention of any party to terminate or change any such arrangement envisaged in Clause 7.7.

## **8. Reporting of trades by a Market Maker**

Executed trades with a Market Maker shall not impact closing prices but will be separately reported to the market on the ZSE Daily Market Report.

## **9. Disciplinary Action against Market Makers**

9.1 The ZSE shall set up and maintain systems for monitoring compliance by Market Makers with these rules and other relevant legislative instruments;

9.2 The ZSE shall have power to investigate, censure and or impose a fine on a Market Maker who breaches these rules.

## **10. General Operational Guidelines**

10.1 A Market Maker shall be required to disclose all conflict of interest and provide written policies on how such conflict will be managed;

10.2 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;

10.3 There may be as many Market Makers at any time per any designated security as the Exchange shall determine from time to time;

10.4 The registration by the Exchange to act as a Market Maker shall be non-transferable;

- 10.5 If an application for approval as a Market Maker is rejected, no further application by the same applicant shall be considered within a period of ninety (90) days after the date of refusal;
- 10.6 The Market Maker is obligated to abide by these Rules and any amendments made thereto from time to time;
- 10.7 A Market Maker who intends of exchanging or transferring one or more specified securities to another market maker in exchange for Consideration shall submit a proposal in writing to ZSE for review and determination;
- 10.8 ZSE shall publish and regularly update the list of Market Makers and relevant information relating to their activities;
- 10.9 A Market Maker must disclose details of all its other businesses, if any;
- 10.10 A Market Maker must disclose name(s), address(es), qualification(s), experience and contact detail(s) of its employee(s) who shall be responsible for conducting the market making activities;

## **11. Termination of Market Making Registration**

- 11.1 A Market Maker may terminate its registration only after a minimum written notice period of three months along with the reasons for resignation and specifying the effective date of resignation;
- 11.2 The ZSE may suspend or terminate a Market Maker or restrict its market making activities, upon the occurrence of any or all of the following events:
  - i. The Market Maker has been wound up whether on a voluntary basis or otherwise;
  - ii. The market maker has been placed under provisional or final sequestration or its petition for surrender has been accepted in terms of the Insolvency Act Chapter 6:04;
  - iii. The Market Maker fails to fulfil any of the requirements;
  - iv. The Market Maker is convicted of any offence in or outside Zimbabwe or had disciplinary action taken against it and its officers for breaches involving dishonesty or fraud; or
  - v. The Market Maker repeatedly breaches its obligations.

## **12. Waiving of the Rules Regulating Market Makers**

- 12.1 Where there are wide price movements in a particular security, the ZSE may on the request of a market maker, suspend or vary the market maker's obligations;
- 12.2 The ZSE reserves the right to waive any of these rules if it is of the opinion that such waiver is warranted.

**Appendix A**  
**Form of Application**

The Chief Executive Officer  
Zimbabwe Stock Exchange Limited  
44 Ridgeway North  
Highlands  
Harare

Zimbabwe

RE: APPLICATION FOR REGISTRATION AS MARKET MAKER

We hereby apply for the registration as a Market Maker on the Zimbabwe Stock Exchange Limited (“ZSE”) in accordance with the rules governing Market Makers on the ZSE. 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 ZSE 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 Zimbabwe Stock Exchange Limited

("ZSE"), 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 Zimbabwe Stock Exchange Limited 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 Zimbabwe Stock Exchange Limited;

Yours faithfully,

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Chief Executive Officer/Authorized Person

Common seal of Company