

Methodological framework regarding the monitoring the activity of the Liquidity Provider for the structured products

- applicable from June 15, 2020 -

I. General considerations

1. In applying Art. 16 index 26 para. (5) and (6), as well as of the Art. 37 para. (2) of the Title I of the BVB's Rulebook - Operator of regulated market, the following will be considered in establishing the methodological framework, without being limited to them:
 - a) the specific, size and impact of non-fulfilment of the quoting obligations
 - b) relevant observance/ monitoring period
 - c) frequency of the non-fulfilment of the quoting obligations.
2. In the process of clarification regarding the registration of a non-compliance situation, BVB can require the written explanations to the Liquidity Provider.
3. Monitoring will be carried out at the level of each structured product for which a Liquidity Provider has the obligation to ensure the quotes in each trading session within a calendar month, considering the following:
 - a) a calendar month is considered implicit as being the relevant observation period; BVB can consider also another period as being the relevant observation period, depending on other circumstances;
 - b) depending on the level of non-compliance registered, the application of the appropriate sanctioning measure will be considered.
4. In the process of correlating the non-compliance of the quoting obligations with the application of the sanctioning measures, the application of the principles specified at the point II of the current document will be considered.
5. If other relevant issues also arise, the parameters specified at the point II of the document can be reconsidered/ recalibrated.
6. To the extent that other relevant aspects / circumstances also arise, a punctual analysis and approach of these situations will be performed and another framework for a sanctioning measure can be established, compared to those provided at the point 4.
7. To complete the aspects that can contribute to an adequate framing of a situation of a non-compliance of the quoting obligations of the Liquidity Provider for application of the corresponding sanctioning measure, the following may be considered, without being limited to:
 - a) the current and potential impact in the market and importance/effects of the non-compliance with the quoting obligations
 - b) the reaction of the involved Liquidity Provider, as well as his current and previous market behaviour
 - c) size of the non-compliance of the quoting obligations
 - d) the specific elements of the respective products and of the underlying that can have impact (defining elements, market circumstances, the level of volatility from the market's underlying, etc.)
 - e) previous situations regarding the non-compliances of the quoting obligations of the respective Liquidity Provider
 - f) the severity level of the non-compliance with the quoting obligations (at the level of product, at the level of types of products, etc.)
 - g) degree of persistence of the Liquidity Provider in non-compliance with the assumed obligations
 - h) the measure in which non-compliance of the quoting obligations was in detriment of the investors and of other market participants
 - i) degree of impact on keeping an efficient level of the trading activity

8. In order to have the size of the activity of a Liquidity Provider at the level of all the related structured products, the information with regard to the degree of non-compliance of the quoting obligations for each product at the level of a calendar month can be utilised, according to the principles from the current document.

II. Monitoring principles and sanctioning measures

A. In case of occurrence of the following in the monitoring the Liquidity Provider activity for a structured product:

- a) if one of the following occurs, a *written notification* will be applied:
1. no quotes were provided during a trading session
 2. non-compliance to quoting obligations during two consecutive trading sessions
 3. the number of days of non-compliance to quoting obligations for a structured product is between [3, 5] trading sessions during a calendar month
- b) if one of the following occurs, a *written reminder (alert)* will be applied:
1. the number of days of non-compliance to quoting obligations for a structured product is between [6, 8] trading sessions during a calendar month
 2. the monthly quoting obligations performance of a Liquidity Provider (monthly net average percentage) is lower than the assumed daily minimum percentage – according to the methodology used for the dissemination on the BVB’s website
 3. the case from a) item 3 is encountered for two consecutive months
- c) if one of the following occurs, a *written warning* will be applied and the Liquidity Provider will be enrolled for that structured product in the *Special Watch List of Liquidity Providers activity, level 1 – basic infringement*
1. the number of days of non-compliance to quoting obligations for a structured product is greater than 8 trading sessions from a calendar month
 2. one of the situations from b) 1. and b) 2. is encountered for two consecutive months
 3. the situation from a) 3. is encountered for 3 consecutive months
- d) if one of the following situations occurs, a *written warning* will be applied and the respective Liquidity Provider will be enrolled for that structured product in the *Special Watch List of Liquidity Providers activity, level 0 – serious infringement*:
1. for two consecutive months, the number of days of non-compliance to quoting obligations for a structured product is greater than 8 trading sessions in a calendar month
 2. for three consecutive months one of the situations from b) 1. and b) 2. occurs

- e) any other situation that exceeds those indicated at the letter d) fall under the incidence of analysing the opportunity to apply the sanctions measures of higher severity that can lead to the *suspension of the Liquidity Provider status for the structured product /products envisaged*.

In extraordinary cases, of high severity, the following administrative-disciplinary sanction measures can be applied sequentially: *the cessation of Liquidity Provider status for the structured product or products in question, the withdrawal of the Liquidity Provider quality*.

B. Principles for defining, displaying and updating the Special Watch List of Liquidity Providers activity for structured products („Watch List” or „List”)

- a) *The special Watch List of Liquidity Providers activity for structured products („Watch List” or „List”)* will be published on the BVB’s website, in a separate section, containing at least the following information:
1. type of non-compliance (breach/ infringement):
 - a. level 1 - basic infringement – as in the letter A c)
 - b. level 0 – serious infringement – as in the letter A d)
 2. name of Liquidity Provider
 3. structured product (symbol/ISIN)
 4. date of non-compliance (dd/mm/yyyy)
- b) The addition of a Liquidity Provider for a certain structured product in the *List* will be conducted when a breach / infringement (illegal act under the stock exchange legal regime) was registered – either according to the letter A c) or according to the letter A d), considering also the following:
1. *date of breach/ infringement occurred* (dd/mm/yyyy) – is the date of the BVB’s decision to sanction the Liquidity Provider for the structured product in question
 2. *displaying the record regarding the breach/ infringement by the Liquidity Provider for the structured product in question* will be publicly disclosed in the *List* for six months starting with the *date of breach/ infringement occurred*, following that the record will be removed from the *List* after the expiry of this period
 - i. if the structured product expires in the period of the six months – the record with the Liquidity Provider in question will be kept in the *List* (with the particularity that it will be updated and marked distinctly)
 3. *update of the breach/ infringement registered* – will be performed if also in the following month a Liquidity Provider registers a non-compliance quoting situation for the same structured product – according to the letter A c) 2 or according to letter A d) 1 or 2
 - i. the updated date will be the date of *the last breach/ infringement* recorded by the Liquidity Provider for the same structured product envisaged
 - ii. so that the six months period to keep the respective registration in the *List* will be made by reference to this updated date