



# Trading Manual

Zagreb, February 2015

*DISCLAIMER:*

*Please note that this is a convenience translation of the Trading Manual which serves for information purposes only.*

*The original Croatian text is binding in all respects.*

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## 1. Introduction

Pursuant to Article 318(1) of the Rules of the Zagreb Stock Exchange, Inc. (hereinafter: Exchange), this manual regulates the following:

- Trading hours and duration of individual trading sessions
- Liquidity criteria for share classification in continuous trading and auctions
- Mechanisms to protect trading
- Volatility interruption and soft limits
- Hard limits
- Account type and investor account designation entry
- Block trades

## 2. Trading hours and duration of individual trading sessions

Further to Article 166(3) and Article 174(2) of the Rules, the Exchange defines trading hours and the manner of trading as well as the duration of individual trade sessions.

### 2.1. Order book trading

Order book trading may take place in continuous trading or via auctions. The Exchange conducts a classification of shares for continuous trading and others to be traded via auctions on the basis of the liquidity criteria set forth in Chapter 3 of this Manual every 3 (three) months.

#### 2.1.1. Continuous trading

Continuous trading takes place on each trading day of the Zagreb Stock Exchange, Inc. (hereinafter: Exchange) between 9:00 a.m. and 4:30 p.m., except if otherwise stipulated by an Exchange resolution. In exceptional cases, should a volatility interruption be initiated in respect of a particular instrument, trading time for that instrument will be extended until the end of the volatility interruption. Continuous trading consists of the pre-opening session and the main trading session.

The pre-opening session takes place between 09:00 and 09:15 a.m., plus a variable ending which may take 5 (five) minutes at most. The pre-opening session is followed by the main trading session, which lasts until 4:30 p.m.

#### 2.1.2. Auction

Auction trading takes place between 11:00 a.m. and 1:00 p.m. on each trading day, plus a variable ending which may take 5 (five) minutes at most. In exceptional cases, should a volatility interruption be initiated in respect of a particular instrument, trading time for that instrument will be extended until the end of the volatility interruption.

## **2.2. Off-order book trading**

Off-order book trading may involve block trades or public auctions.

### 2.2.1. Block trades

Block trades may be concluded between 9:30 a.m. and 4:30 p.m. on each trading day.

### 2.2.2. Public auctions

The day of a public auction is to be determined by an advertisement of the principal. During the public auction, member firms representing potential buyers may enter their buy orders, specifically:

1. for an auction with a fixed ending: between 11:00 a.m. and 12:00 p.m.;
2. for an auction with a variable ending; from 11:00 a.m. until the auction closes, where the auction will be set to close between 12:00 p.m. and 12:15 p.m. autonomously by the trading system, using a random number generator.

### **3. Liquidity criteria for share classification in continuous trading and auctions**

Further to Article 183(3) and Article 185(2) of the Rules, the Exchange sets forth the numerical criteria for a classification of shares to be traded via auctions and the numerical criteria for a fast transition to continuous trading.

Order book continuous trading always involves the shares listed on the Official or on the Prime market, as well as the shares in respect of which there is a specialist contract concluded between the Exchange and a member firm and the shares included in the CROBEX® or another Exchange index.

Order book auctions may involve trading in shares only.

#### **3.1. Newly listed shares**

For the purposes of this Manual, the first admission to trading of a share on a regulated market shall be considered to take place at a time when one of the following conditions applies:

- (a) the share has not previously been admitted to trading on a regulated market;
- (b) the share has previously been admitted to trading on a regulated market but the share is removed from trading on every regulated market which has so admitted it.

Any shares being listed on the regulated market for the first time or included in trading on the MTF – Alter are subject to continuous trading.

Any shares being included in trading on the MTF – Fortis and MTF – X are traded via auctions. After trading via auctions initially, on the first subsequent periodic review of liquidity criteria the shares may transition to continuous trading, provided that they meet the liquidity criteria.

#### **3.2. Periodic review of liquidity criteria**

Any shares with at least one transaction a day or an average daily turnover of at least HRK 35,000.00 over a period of three months are traded in continuous trading.

Any shares with less than one transaction a day and an average daily turnover of less than HRK 35,000.00 over a period of three months are considered less liquid and are subject to trading via auctions.

On the first Friday of each quarter, the Exchange will publish on its website a list of shares to be traded via auctions. Auction trading in such shares will begin on the following trading day.

#### **3.3. Fast transition to continuous trading**

Any shares with an average daily turnover of at least HRK 500,000.00 in the course of a trading week, and at least one transaction a day and at least 15 transactions a week, will transition from auction to continuous trading.

After the close of trading at the end of the trading week, the Exchange will post a notification on its website in case any shares have met the criteria for a fast transition to continuous trading. Continuous trading in such shares will begin on the following trading day after the notification has been posted on the Exchange website.

## **4. Mechanisms to protect trading**

In order to prevent erroneous order entry, the Exchange uses two mechanisms to protect trading; namely, hard limits and soft limits.

### **4.1. Reference price**

The reference price used for monitoring price movements in percentage terms is the previous trading day's closing price. The closing price is the average price weighted by the volume of all transactions in a financial instrument in order-book trading in the course of a trading day. If the financial instrument is not traded on a particular trading day, the closing price of the previous trading day will be taken as the closing price.

The reference price may be modified during the trading day as a result of the volatility interruption. The price achieved in the course of the volatility interruption will afterwards be the new reference price for monitoring price movements in percentage terms.

### **4.2. Volatility interruption and soft limits**

Further to Article 187(1) of the Rules, the Exchange sets the soft limits on the price movements of each share according to liquidity and/or criteria of the market on which it is listed.

The volatility interruption is used for that purpose in share and structured products trading.

#### 4.2.1. Shares

##### *4.2.1.1. Liquidity criterion*

In triggering volatility interruption and in setting soft limits, shares are divided into three classes according to the liquidity criterion, taking into account the number of trading days and the average daily turnover in the past 6 (six) months.

When calculating the average daily turnover, only the order book transaction are taken into account, excluding any block trades, OTC transactions and the transactions conducted via public auctions.

The liquidity classes with the respective soft limits are the following:

Class 1 – the soft limit in respect of any shares traded on 75% of trading days for an average daily turnover in excess of HRK 100,000.00 is 10%;

Class 2 – the soft limit in respect of any shares traded on 50% of trading days for an average daily turnover in excess of HRK 50,000.00 is 15%;

Class 3 – the soft limit in respect of other shares is 30%.

If any share meets the criterion of the required number of trading days without meeting the average turnover criterion, it will be relegated to the lower class than that in which it would be on the basis of the number of trading days.

In exceptional cases, the Exchange may decide to classify a particular share into a higher or a lower class than that in which it would be according to the said criteria for a maximum period of 10 (ten) trading days. Such a decision is posted on the Exchange website.

#### *4.2.1.2 No soft limit*

Soft limits will not apply in the following cases:

1. When a share is first listed on the regulated market or included in MTF trading, soft limits will not apply until the first transaction in that share. After the first transaction, the transaction price becomes the reference price and the soft limits according to the liquidity criterion will apply from then on unless decided otherwise.
2. On disclosure to the public of regular and/or extraordinary information which might cause volatility in the share price of the respective company, limits will not apply until the end of the trading day on which the company has disclosed such information to the public. The limits set for the share according to the liquidity criterion will apply on the next trading day.

#### 4.2.2. Structured products

The soft limit in respect of a structured product is calculated as a percentage of the reference price. It may be set by the issuer on listing or inclusion in MTF trading.

##### *4.2.2.1. No soft limit*

Soft limits will not apply in the following cases:

1. When a structured product is first listed on the regulated market or included in MTF trading, soft limits will not apply until the first transaction in that structured product. After the first transaction in the structured product, the transaction price becomes the reference price and the soft limits set by the issuer will apply from then on.
2. In certain cases, such as when the price of the underlying instrument approaches the barrier price of the structured product etc., the Exchange may, either autonomously or at the request of the market maker, abolish the hard limits set for a particular structured product.

### **4.3. Hard limits**

Hard limits are used in continuous trading of shares and structured products to reduce the possibility of an inadvertent error on entering orders in the trading system so as to protect market integrity and market participants. Therefore, it is impossible to enter in the trading system any orders at the prices which are over the permitted hard limits.

In case that a member firm tries to enter in the trading system a buy order at a price which exceeds the reference price by more than the predetermined (upper) limit, the trading system will prevent the entry of such a buy order.

In case that a member firm tries to enter in the trading system a sell order at a price which falls short of the reference price by more than the predetermined (lower) limit, the trading system will prevent the entry of such a sell order.

#### 4.3.1. Shares

The hard limit on the orders entered in respect of shares is calculated as a percentage of the reference price, and equals three times the soft limit for shares.

##### *4.3.1.1. No hard limit*

Hard limits will not apply in the following cases:

1. When a share is first listed on the regulated market or included in MTF trading, hard limits will not apply on order entry until the first transaction in that share. After the first transaction, the transaction price becomes the reference price and the hard limits set for the share according to the liquidity criterion will apply from then on unless decided otherwise.
2. On disclosure to the public of regular and/or extraordinary information which might cause volatility in the share price of the respective company, hard limits will not apply until the end of the trading day on which the company has disclosed such information to the public and in exceptional cases on the next trading day. Afterwards, the limits set for the share according to the liquidity criterion will apply.

#### 4.3.2. Structured products

The hard limit in respect of a structured product is calculated as a percentage of the reference price. It may be set by the issuer on listing or inclusion in MTF trading.

##### *4.3.2.1. No hard limit*

Hard limits will not apply in the following cases:

1. When a structured product is first listed on the regulated market or included in MTF trading, hard limits will not apply on order entry until the first transaction in that structured product. After the first transaction in the structured product, the transaction price becomes the reference price and the hard limits set by the issuer will apply from then on.



2. In certain cases, such as when the price of the underlying instrument approaches the barrier price of the structured product etc., the Exchange may, either autonomously or at the request of the market maker, abolish the hard limits set for a particular structured product.

## **5. Account type and investor account designation**

Further to Article 205(2) of the Rules, The Exchange defines the manner in which a designation of the account type and of the investor account are to be entered in the order.

### **5.1. Account type and investor account designation entry**

A member firm may enter an order in the trading system only if the principal, on whose instruction the member firm acts in doing so, has an investor account. On entering orders in the trading system, the member firm is required to enter the account type designation and the account number as follows:

1. in case of placing an order on behalf of an individual investor, the member firm is required to enter "C" and the investor account number;
2. in case of placing an order on one's own behalf, the member firm is required to enter "H" and the principal account number of the member firm, and which designation may only be used in case of proprietary trading;
3. in case of placing a portfolio order,
  - a) if the order relates to several investors, the member firm is required to enter "P" and 13 (thirteen) zeros instead of the account number;
  - b) if the order relates to an individual investor, the member firm is required to enter "C" and the investor account number;
4. in case of placing a collective order on behalf of several investors, the member firm is required to enter "S" and 13 (thirteen) zeros instead of the account number;
5. in case of placing a sell order which refers to borrowed financial instruments, as well as in case of placing buy orders to return the instruments, the member firm is required to enter "K" and the investor account number, or the principal account number of the member firm.

If an individual investor in the cases referred to above has several accounts, the member firm is required to enter the account number in the following order of priority:

1. principal investor account;
  2. custody account;
  3. custodian or depositary bank account number;
- up to the point applicable to the respective case.

If the principal is an agent acting on behalf of an individual investor, the member firm will do as described above but will enter, instead of the account number of the individual investor, the principal account number of the agent. Any orders entered with an incorrectly formed investor account number or without it will not be accepted in the trading system.

Due to the importance of the orderly and accurate account designation and account number entry, one of the measures to protect market integrity in accordance with Exchange Rules may be imposed on a member firm which enters an erroneous designation and/or account number or fails to enter a designation and/or an account number.

## **5.2. Data correction**

In case of an erroneous entry of the investor account number and/or account type designation, the Exchange will amend the account number and/or account type designation in the transaction database at the request of the member firm. The member firm is required to send a request for amending an erroneously entered investor account number and/or account type designation as soon as it sees the error. Along with the request, it is required to submit a copy of the printout from the order book against which the order was entered in the trading system.

## **6. Order types in certain trading modes**

Further to Article 204 of the Rules, the Exchange defines the types of orders which may be placed in individual segments of the regulated market or on the MTF, and in certain order book trading modes.

Market orders may not be placed in the pre-opening session, in the course of volatility interruption and in auction trading.

## **7. Block trades**

Further to Article 234(2) of the Rules, the Exchange sets the minimum size and other parameters of block trades in certain financial instruments.

### **7.1. Negotiated transactions**

Block trade is a transaction in a financial instrument listed on the regulated market or included in MTF trading which involves one or more member firms, which is pre-arranged privately and conducted via the Exchange trading system. In conducting such transactions, the Exchange member undertakes one of the following:

- a) proprietary trading with another member firm which acts for the account of a client;

- b) trading with another member firm, where both execute own orders in proprietary trading;
- c) acting for the account of both a buyer and a seller;
- d) acting for the account of the buyer while another firm acts for the account of the seller;
- e) proprietary trading while executing a client order.

#### **7.2. Minimum block trade size**

The minimum size of block trade in bonds is HRK 3,000,000.00.

The minimum size of block trades in shares is HRK 2,000,000.00.

### **8. Transitional and final provisions**

This Manual shall enter into force on the 7<sup>th</sup> (seventh) day from the day of its publication on the Exchange website.

On the entry into force of this Manual, the Trading Manual of 18 December 2014 shall cease to have effect.