



Trading Manual

Zagreb, June 2017

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.

Contents:

- 1 Introduction 1**
- 2 Trading hours and duration of individual trading sessions 1**
 - 2.1 Continuous trading 1
 - 2.2 Auction..... 1
 - 2.3 Continuous Auction 2
 - 2.4 Block trades 2
 - 2.5 Reporting of OTC transactions 2
 - 2.6 The duration of the volatility interruption and extended volatility 2
- 3 Liquidity criteria for share classification in Continuous Trading and Auctions 2**
 - 3.1 Newly listed shares or shares included in trading on the CE Enter Market 3
 - 3.2 Periodic review of liquidity criteria..... 3
 - 3.3 Fast transition to trading procedure Continuous Trading 3
- 4 Volatility interruption 4**
 - 4.1 Liquidity criterion..... 4
 - 4.2 Limits 4
 - 4.2.1.1 Continuous trading procedure 4
 - 4.2.1.2 Auction trading procedure 5
 - 4.2.2 Debt securities 5
 - 4.3 Limit suspension 5
 - 4.4 Reference price 5
- 5 Hidden volume orders (eng. Iceberg orders) 6**
 - 5.1 Shares and ETF units 6
 - 5.2 Bonds and commercial bills 6
- 6 Short selling 6**
- 7 Account type and settlement account designation 7**
 - 7.1 Account type and settlement account designation entry 7
 - 7.2 Data correction 7
- 8 Block trades 8**
 - 8.1 Negotiated trades 8
 - 8.2 Minimum block trade size 8
- 9 Transitional and final provisions 8**

1 Introduction

According to Article 5(1) of the Rules of the Zagreb Stock Exchange Inc. (hereinafter: Rules), this manual regulates the following:

- Trading hours and duration of individual trading sessions
- Duration of the volatility interruption
- Liquidity criteria for share classification in continuous trading and auctions
- Price corridors for triggering volatility interruption
- Account type and investor account designation entry
- Block trade size

2 Trading hours and duration of individual trading sessions

According to Article 147(1), Article 150(3) and Article 185(2) of the Rules, the Exchange determines trading hours and the manner of trading as well as the duration of trading sessions in continuous trading and auctions.

2.1 Continuous trading

Table 1. The duration of different trading sessions in trading procedure Continuous Trading

Session	Duration
Pre-Trading	08:00 - 09:00
Main-Trading:	
Opening Auction	09:00 - 09:30 ¹
Continuous Trading	09:30 ² - 15:55
Closing Auction	15:55 - 16:00 ¹
Post-Trading	16:00 ² - 16:15

1---the earliest ending (due to the variable ending of Opening Auction, or Closing Auction, which may last up to 15 seconds. The variable ending is determined separately for each instrument using a random number generator)

2---earliest beginning

2.2 Auction

Table 2. The duration of different trading sessions in trading procedure Auction

Session	Duration
Pre-Trading	08:00 - 11:00
Main-Trading:- auction	11:00 - 13:00 ¹
Post-Trading	13:00 ² - 16:15

1---the earliest ending (due to the variable ending of Opening Auction, or Closing Auction, which may last up to 15 seconds. The variable ending is determined separately for each instrument using a random number generator)

2---earliest beginning

2.3 Continuous Auction

Table 3. The duration of different trading sessions in trading procedure Continuous Auction

Session	Duration
Pre-Trading	08:00 - 09:00
Main-Trading	09:00 - 16:00
Post-Trading	16:00 - 16:15

The maximum duration of the bidding phase is 30 seconds from the time when Market Maker places his offer.

2.4 Block trades

Block trades may be executed every trading day between 08:00 - 16:00.

2.5 Reporting of OTC transactions

Reporting of OTC transactions is possible every trading day between 8:30 - 16:00.

2.6 The duration of the volatility interruption and extended volatility

According to Article 195(3) of the Rules, the Exchange determines the duration of volatility interruption and extended volatility.

Table 4. The duration of volatility interruption and extended volatility for different categories of financial instrument

Financial instrument	Volatility interruption	Extended volatility
Shares	5 min + variable ending (max. 15 seconds)	Approximately 10 min or 5 min ¹
ETF's		
Bonds, rights and commercial papers		

¹ 10 minutes in case the extended volatility is triggered during the continuous trading, and 5 minutes if it is triggered in closing auction

3 Liquidity criteria for share classification in Continuous Trading and Auctions

Further to Article 192(3) of the Rules, the Exchange sets numerical criteria for classification of shares to be traded in continuous trading and auction, as well as numerical criteria for a fast transition to trading procedure 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 Market Maker 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 or shares included in trading on the CE Enter Market

For the purposes of this Manual, the first admission for 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 for trading on a regulated market;
- (b) the share has previously been admitted for trading on a regulated market but it 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 CE Enter–Alter are subject to trading procedure Continuous Trading.

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

Exceptionally, if shares are included in trading on CE Enter - Fortis and previously they were listed on the regulated market or included in trading on CE Enter – Fortis and they were subjected to continuous trading and there is no more than 1 (one) month from the resolution on the termination of trading, shares will be subject to trading procedure Continues Trading.

3.2 Periodic review of liquidity criteria

Any shares with at least 1 (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 Auction.

During the calculation of the average daily turnover and number of transactions from the calculation are excluded block and OTC trades.

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

3.3 Fast transition to trading procedure 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 trading procedure Auction to Continuous Trading.

During the calculation of the average daily turnover and number of transactions from the calculation are excluded block and OTC trades.

At the end of the trading week, after the close of trading, 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 Volatility interruption

The volatility interruption mechanism is used when trading with shares and ETF units.

In relation to Article 195(3) of the Rules, the Exchange sets dynamic and static limits in relation to volatility interruption mechanism activation based on liquidity criterion and/or market on which shares, or ETF units are listed.

4.1 Liquidity criterion

When defining the criteria for applying volatility interruption mechanism shares and ETF units which are traded in procedure Continuous Trading are divided into three classes according to the liquidity criteria taking into account the number of trading days and the average daily turnover in the last 6 (six) months.

During the calculation of the average daily turnover from the calculation are excluded block and OTC trades.

The liquidity classes are the following:

Class 1 –in respect to any shares and ETF units traded on 75% of trading days for an average daily turnover in excess of HRK 100,000.00;

Class 2 – in respect to any shares and ETF units traded on 50% of trading days for an average daily turnover in excess of HRK 50,000.00;

Class 3 – other shares and ETF units.

If any share or ETF unit meets the criterion of the required number of trading days without meeting the average turnover criterion, it will be allocated 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 or ETF unit into a higher or a lower class than that in which it would be allocated according to the mentioned criteria for a maximum period of 10 (ten) trading days. Such a decision is posted on the Exchange website.

4.2 Limits

4.2.1 Shares and ETF units

4.2.1.1 Continuous trading procedure

For the determination of price change limits, shares and ETF units, which are traded in procedure Continuous Trading, are divided into 3 (three) classes according to the liquidity criteria.

Table 5. Limits for individual liquidity classes of shares and ETF units in Continuous Trading procedure.

Liquidity class	Dynamic limit	Static limit	Limit for Extended volatility
1. class	5%	10%	20%
2. class	7,5%	15%	30%
3. class	10%	20%	40%

4.2.1.2 Auction trading procedure

Table 6.. Limits for individual liquidity classes in Auction trading procedure

Liquidity class	Dynamic limit	Static limit	Limit for Extended volatility
4. class	30%	30%	60%

4.2.2 Debt securities

Table 7. Limits for debt securities

	Dynamic limit	Static limit	Limit for Extended volatility
Government bonds	3%	6%	9%
Corporate bonds, rights and commercial bills	15%	30%	45%
Bonds of the Fund for compensation of expropriated property	10%	20%	40%

4.3 Limit suspension

When publishing ordinary and/or extraordinary information that can influence the price movement of a share or ETF unit, price change limits are suspended until the end of the trading day on which the issuer has published the information that can influence the price movement. Price change limits are active and used the next trading day according to the liquidity criterion.

4.4 Reference price

The reference price for dynamic limits is the price of the last transaction, whether it was formed through Auction or Continuous Trading procedure.

The reference price for static limits is the price of the last transaction formed through an auction (Auction trading procedure, Opening auction, Closing auction or Volatility interruption). During a trading day, if there were no transactions formed through an auction, the reference price is the closing price of the previous trading day.

5 Hidden volume orders (*eng. Iceberg orders*)

Hidden volume orders are not supported in trading with structured products and rights

During an order entry with the hidden volume, the displayed volume (*peak size*) must amount to at least 5% of the overall volume in the order.

5.1 Shares and ETF units

On the first Friday of each quarter, the Exchange will determine the amount of displayed and overall volume in hidden volume orders for shares and ETF units. When determining the amount of displayed and overall volume in hidden volume order, shares and ETF units are divided into classes according to the amount of the closing price of the previous trading day of the month preceding the date of classification.

Closing price	Minimum overall volume	Minimum displayed volume (<i>peak size</i>)
Less than HRK 1	200.000	20.000
Greater or equal HRK 1, but less than HRK 5	80.000	8.000
Greater or equal HRK 5, but less than HRK 10	15.000	1.500
Greater or equal HRK 10, but less than HRK 20	10.000	1.000
Greater or equal HRK 20, but less than HRK 50	4.000	400
Greater or equal HRK 50, but less than HRK 100	1.500	150
Greater or equal HRK 100, but less than HRK 250	800	80
Greater or equal HRK 250, but less than HRK 500	300	30
Greater or equal HRK 500, but less than HRK 750	150	15
Greater or equal HRK 750, but less than HRK 1.000	100	10
Greater or equal HRK 1.000, but less than HRK 5.000	70	7
Greater or equal HRK 5.000, but less than HRK 10.000	20	2
Greater or equal HRK 10.000	10	1

5.2 Bonds and commercial bills

The overall volume for bonds and commercial bills, denominated in Euro (EUR), must amount to at least 10.000, and the displayed volume at least 1.000.

The overall volume for bonds and commercial bills, denominated in Kuna (HRK), must amount to at least 75.000, and the displayed volume at least 7.500.

6 Short selling

The member is obligated to deliver to the Exchange the notice of executed sell transactions with borrowed financial instruments or the notice of buying in relation to the repayment of the loan from Article 227 (2) of the Rules in the form of the Excel file which is available on the website of the Exchange.

The related notice is delivered to the Exchange not later than 15:00 o'clock of the next trading day via e-mail nadzor@zse.hr.

7 Account type and settlement account designation

Further to Article 182. and 183. of the Rules, The Exchange defines the manner in which a designation of the account type and settlement account designation in SKDD-CCP Smart Clear d.d. (hereinafter: SKDD-CCP) are to be entered in the order.

7.1 Account type and settlement account designation entry

During an order entry in the trading system, a member is obligated to choose the type of the account and write in the settlement account in SKDD-CCP as follows:

1. in case of placing an order on behalf of an investor who is not a segregated client, the member is obligated to choose the predefined account client type (A)
2. in case of placing an order on behalf of an investor who is a segregated client, the member is obligated to choose the predefined account client type (A) and write in the settlement account for the isolated client in the text field
3. in case of placing an order on one's own behalf, the member is obligated to choose the predefined account client type (P), which designation may only be used in case of proprietary trading
4. in case of placing a Market Maker offer, the member is obligated to choose the predefined account client type (D)

7.2 Data correction

The member firm is required to send a request for amending an erroneously entered investor account number and/or settlement account 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.

The request to amend the data is to be send to the Exchange e-mail nadzor@zse.hr.

The Exchange will amend the account number and/or settlement account designation in the transaction database at the request of the member firm.

8 Block trades

Further to Article 208(2) of the Rules, the Exchange sets the minimum size and other parameters of block trades in certain financial instruments.

8.1 Negotiated trades

Block trade is a transaction in a financial instrument listed on the regulated market or included in CE Enter Market 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.

8.2 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.

9 Transitional and final provisions

This Manual shall enter into force on the 07 July 2017.

On the entry into force of this Manual, the Trading Manual of 13 June 2016 shall cease to have effect.