

***The Regulations***  
***on***  
***the Market-Making Operations in Tehran Stock Exchange***

**Introduction**

In the execution of article 34 of the Securities Market Law ratified in November 2005 by the Parliament (Islamic Consultative Assembly), the existing regulations have been drafted to establish the scope of obligations and the method of Market-Making Operations in the Tehran Stock Exchange.

**Definitions**

**Article 1:** The terms used in the existing regulations are defined as follows:

- **Securities Market Law:** means the Securities Market Law which was ratified by the Parliament (Islamic Consultative Assembly) in November 2005.
- **SEO (An Acronym):** means the Securities and Exchange Organization.
- **Stock Exchange** means Tehran Stock Exchange Company.
- **Market-Making:** means the market-maker's operations under the existing regulations aimed at regulating bids and offers, limiting the price range fluctuations and increasing liquidity of securities.
- **Broker:** means a broker who is a member of the "Stock Exchange".
- **Market-Maker:** means a legal entity defined in paragraph 15 of article 1 of the Securities Market Law that is involved in the market-making operations of the given securities under SEO's license.

- **Security:** means the listed security on the Stock Exchange on which "market-making" operations are handled in accordance with the rules herein.
- **Authorized Fluctuation Range:** means the maximum authorized price changes in the "Security" each day in proportion to the closing price of the previous trading day.
- **Quotation Range:** means the maximum spread between purchase order price and sale order price in each "Security" on the percentage basis that the "market-maker" enters this security on the Stock Exchange trading site. Such percentage is computed in proportion to the purchase order price.
- **Minimum Concentrated Order:** means a minimal number of the "Securities" whereby the "market-maker" shall have to retain in his purchase and sale orders on the Stock Exchange trading site.
- **Minimum Daily Transactions:** means a minimal number of the "Securities" whereby the "market-maker" shall have to trade in one trading day so that his obligations are deemed to have been fulfilled on that trading day as prescribed by the existing regulations.

### **Requirements and Procedures of Market-Making Licensing**

**Article 2:** Subject to the invitation by the "Stock Exchange" which is published on its official electronic website, the applicant of "market-making" license shall have to submit his application for the "security market-making". Such application shall be prepared in accordance with the attached form and contain the applicant's obligations as regards the "Quotation Range".

**Article 3:** The market-maker shall, for the purpose of handling market-making operations of each security, designate a separate trading post and a person in charge of transactions in accordance with the prevalent regulations. The market-maker shall also have to record all security transactions, receipts, payments, expenses and revenues related to market-making under the heading of separate accounts and report them to SEO and the Stock Exchange during quarterly periods.

**Article 4:** The "market-making" for each "Security" shall be separately licensed.

**Article 5:** The minimum registered capital and other requirements for the applicant to obtain the "market-making" license shall be established by the SEO's board of directors.

**Article 6:** The "market-maker" shall employ the participation of other parties in the form of an agreement so as to provide the funds or securities that he requires. Such agreement may include management fees and sharing in profit and loss.

**Article 7:** The "Stock Exchange" shall, within 15 days after the receipt of applicants' requests at the latest, communicate its comment on the market-making licensing to SEO. In case the "market-making" license is granted to the applicant, the date of starting and ending such activity shall be stated in the license so issued.

**Note:** "The market-making" license shall be granted for a one-year period and shall be renewable.

### **Functions and Powers of Market-Maker**

**Article 8:** The "market-maker" shall handle the "market-making" operations of a security under the "market-making" code. In order to transfer the security to the market-making code, the market-maker shall have to complete the form attached to the existing regulations endorsed by the security holder or holders and submit it to the Central Securities Depository Company so that the number of the securities determined in the given form can be transferred to the security market-making code by the said company.

**Article 9:** The "market-maker" shall have to post his purchase and sale orders on the trading site in compliance with the following terms:

- a) The prices offered in the orders shall be within the "Authorized Fluctuation Range".
- b) The difference between the lowest buying price in the purchase orders and the highest selling price in the sale orders shall mostly equal the "Quotation Range".
- c) The volume of purchase order and sale order shall be equal and each one shall be equivalent to or higher than "Minimum Concentrated Order".

**Note:** If owing to the conduct of transaction, the volume of purchase or sale order becomes lower than the Minimum Concentrated Order or the equality between these two is eliminated, the market-maker shall, within two minutes at the latest, have to make the volume of such orders equal and equivalent to or higher than the "Minimum Concentrated Order".

**Article 10:** During the course of market-making, the minimum securities inventory under the market-making code in each ten-day time span shall not be lower than the "Minimum Daily Transactions".

### **Functions and Powers of the Stock Exchange in Market-Making-Related Affairs**

**Article 11:** The "Stock Exchange" shall, in due course of time, invite the applicants on its official electronic site so as to submit their applications for the market-making of the given securities. The requirements for market-making shall be provided in the invitations which may include "Authorized Fluctuation Range", "Minimum Concentrated Order", "Minimum Daily Transactions", minimum acceptable period for market-making of each security and the manner of submitting market-making applications.

**Note 1:** The list of the given securities and the foregoing requirements shall have to be approved earlier by SEO.

**Note 2:** As of the starting day of market-making, the new price fluctuation range shall be substituted for the former price fluctuation range.

**Note 3:** The price fluctuation range on the reopening day of symbol shall be subject to the relevant standards. Additionally, the base volume in calculating the closing price of the symbols with market-making agreements shall not apply.

**Article 12:** The "Stock Exchange" shall monitor the manner of job performance by the "market-maker" as well as the obtaining and retaining of his qualifications.

**Article 13:** The Stock Exchange shall have to prepare the list of the securities with market-maker and also the securities whose market-making license has been cancelled or terminated along with the "market-maker's" name and start and finish dates of market-making operations and publish such list on its official electronic site. The changes in this list shall be updated on a daily basis.

**Requirements to Exempt the "Market-Maker" from Discharge of "Market-Making" Functions**

**Article 14:** Where the volume of the "market-maker's" transactions on the security in a single trading day is equal to or higher than the "Minimum Daily Transactions", the market-maker's Obligations are deemed to have been fulfilled on that trading day.

**Article 15:** The "market-maker" shall not be obligated to perform his market-making functions in the following circumstances:

- a) If the trading symbol of the "given security" is halted.
- b) If the security price changes in one direction more than three times (trebled) of the authorized fluctuation range during five consecutive trading sessions and, at the same time, the bid and offer of the security have not reached a balance.

**Note:** The period of the "market-maker's" exemption shall be determined by the Stock Exchange subject to paragraph (b).

**Article 16:** In the event that the rules for security trading change and, in particular, where the authorized fluctuation range is more restricted, the market-maker may, within 10 days, submit his application to the Stock Exchange for cancellation of market-making license. In such case, the market-maker shall, from the start of trading session after submission of his application until the final decision is taken by the Stock Exchange, stay clear from his obligations. The Stock Exchange shall have to report the matter to SEO and further post it on its official electronic site for the information of the general public.

## **Market-Maker's Privileges**

**Article 17:** The Stock Exchange shall provide a separate trading post for the market-maker for the purpose of market-making operations without receiving any expenses whatsoever. The trading in other securities from the trading post allocated to market-making shall not be permitted.

## **Investigating the Violations**

**Article 18:** In case that the market-maker violates the provisions of the existing regulations or does not fulfill the obligations undertaken for market-making operations, the matter shall be brought up for investigation by the authority concerned. The investigative authority shall, upon proof of any violation, appropriately pass one or more of the following verdicts:

- a) A written caution without entering it in the records (dossier);
- b) A written caution by entering it in the records (dossier);
- c) Payment of all or a part of the fees and costs of the trading post from which the market-maker has been exempted during his market-making operations.
- d) Suspension of market-making operations by the market-maker in respect of the given securities for a maximum period of two years;
- e) Cancellation of the market-making license of the market-maker in respect of the given securities;
- f) Prohibition of the market-maker from obtaining the market-making license for a maximum period of two years;

**Note 1:** SEO and the Stock Exchange may, until closure of the proceedings, halt the market-making operations of the market-maker.

**Note 2:** The imposition of punishments referred to in this article shall not prevent inflicting the penalties prescribed for infringement of other laws and regulations.

**Article 19:** If the brokerage license of a broker is cancelled his market-making license shall also be revoked.

### **Other Provisions**

**Article 20:** The securities purchase and sale orders of the market-maker shall, in the priority of order execution with other customers, be equal.

**Article 21:** If there is more than one market-maker for a security, the market-makers of such security shall not match the price of their orders with each other. Any matching in this regard shall be tantamount to price manipulation.

**Article 22:** The existing regulations comprising 22 articles, 8 notes and two appendices were approved on July 13, 2008 by the board of directors of the Securities and Exchange Organization.

**Appendix 1: Application for Market-Making License**

**Tehran Stock Exchange Company**

With compliments,

This company ..... registered under No. .... with the Companies Registration Authority in the City of ....., hereinafter referred to as the "Company", bearing the signatures of the holders of authorized signature at the foot of this form, is applying for issuance of the market-making license by the Tehran Stock Exchange Company with the following specifications:

Security type	Title of security in the Stock Exchange	Issuer	Symbol in the Stock Exchange

The issuance of the marketing license will obligate the company to perform its market-making functions with respect to the given security in compliance with the Securities Market Law and the Regulations on Market-Making Operations (hereinafter Market-Making Regulations) in Tehran Stock Exchange approved on/in ..... by the board of directors of the Securities and Exchange Organization. The obligations undertaken by the company as per the market-making regulations with respect to quotation range, minimum concentrated order, minimum daily transactions and market-making period for the given security are as follows:

1. Quotation range: ..... maximum ..... percent;
2. Minimum concentrated order: Number of ..... securities;
3. Minimum daily transactions: Number of ..... securities;
4. Market-making period: From the issuance date of market-making license for the period of .....month(s).

The company's obligations as described above shall be conditional on the following stipulations:

- 1- The authorized fluctuation range of the given security price is to be increased per day to a minimum of ..... percent.
- 2- The advantages specified in the Market-Making Regulations shall be owned by the Company.
- 3- .....

I have further obtained the preliminary agreement of the security holder (holders) to transfer the number of ..... securities owned by him (them) to the market-making code as described below:

No.	Security holder (natural/legal)	National Card No./ File No.	Place of birth certificate issuance/place registered	Number of securities transferable to market-making code	Percentage
1					
2					
3					
Total					

Note: It is not obligatory to complete this table.

In case of granting the market-making license and prior to commencement of operations, the written consent of the above-named holder (holders) shall be submitted on the basis of the related form.

The company agrees that in case the market-making regulations are, in whole or in part, violated in any manner whatsoever by any of the company staff members or departments, the offender shall be treated in accordance with the said regulations and other approved rules for the market capital elements.

All terms used in this form shall have the same meanings as used in article 1 of the market-making regulations.

No.	Name and surname of holders of authorized signatures	Position	Signature
1			
2			

Company seal

**Appendix 2: Holders' Agreement Form for Securities Transfer to Market-Making Code**

I (we), the undersigned, holder (holders), of the security with the following specifications:

Security type	Issuer	Security name in Tehran Stock Exchange	Security Symbol in Tehran Stock Exchange

hereby agree to transfer the given security as described below from my (our) shareholding code to the specific market-making code for the purpose of market-making operations:

No.	Type of person (natural/legal)	Holder's name	National No./ Reg. No.	Place of birth certificate issuance/place registered	Trading code in the Tehran Stock Exchange	Number of transferable securities to Market-Making Code	Percentage

Upon transfer of securities, as described above, to the specific market-making code ..... Company registered under No. ....with the Companies Registration Authority in the City of ....., acting as the Security market-maker, shall have the right to sell the given securities in the Tehran Stock Exchange and, shall also be entitled to purchase the given securities in the Tehran Stock Exchange and allocate them to the said code and resell such securities. My (our) relationships with the said market-maker has been defined in a separate agreement. But the securities ownership available in the above-named market-making code and all rights and benefits appertaining thereunto (based on the percentages stated in the table above), belong to me (us) and, if this license is not renewed, the market-maker, upon termination of the market-making activities which will continue up to..... at the latest, shall not be authorized to carry out any tradings with the specific market-making code and the securities available in the market-making code shall be transferred to the owner's shareholding code (based on the ratios of each one of the holders which have been entered in the last column of the above table in percentages, to the shareholding code of each holder) (in apportioning the securities among holders, the sub-security lower than 0.5% is to be rounded to zero and higher than that rounded to one security).

Name(s) of holder(s)

Signature