

## ***Liquidity Provision***

- 1. In response to a quote request, can an issuer (including its Liquidity Provider) provide a one-sided quote if the theoretical value of the bid price of a structured product is less than HK\$0.01?**

An issuer has continuing obligations to respond to investors' requests for quotes within committed service levels, including the provision of two-sided quotes to meet the maximum bid-ask spread requirement. As stated in the launch announcement and supplemental listing document, if the Liquidity Provider chooses to provide liquidity when the theoretical value of the Warrant is less than HK\$0.01, both bid and ask price quotes should be made available.

*MB Rule 15A.22(4)  
First released: May 2024*

- 2. If a quote request is received three minutes before the close of the morning trading session, is an issuer obligated to meet the five-minute minimum holding time?**

Yes. An issuer should provide quotes with a minimum holding time of five minutes in response to a quote request notwithstanding that such request is received shortly prior to the close of the morning session. Where the holding time is less than five minutes upon the close of the morning session, the Liquidity Provider should continue to provide quotes upon commencement of the afternoon session, such that the aggregate holding time is not less than five minutes to meet the minimum holding time standard set out in the Industry Principles on Liquidity Provision for Listed Structured Product (the "**Industry Principles**").

The obligation to maintain the five-minute minimum holding time lapses if any investor has proceeded with a trade with such quote during this period.

*MB Rule 15A.22(3)  
First released: May 2024*

- 3. Should an issuer provide active quotes all the time for its products?**

An issuer should strive to provide quotes all the time when the prescribed criteria for active quotes set out in the Industry Principles are met. However, it is recognized that an issuer may temporarily cease quoting for a short period of time to adjust quotes in response to market conditions or other operational needs. The Exchange will monitor the duration of time during which active quotes are provided by an issuer for each product and may require an issuer to explain if (i) it fails to provide active quotes for at least 90% of the Qualified Period (as defined in the Industry Principles) of a trading day; or (ii) any temporary cessation of active quotes exceeds 10 minutes in the Qualified Period. The Exchange may review and adjust the monitoring thresholds from time to time.

While an issuer should comply with these principles, the principles are not intended to be binding commitments nor should they give rise to enforceable obligations or duties. Occasional failure to comply with the Industry Principles will not in itself render an issuer or its liquidity agent liable to any sanction or enforcement action. However, compliance with the Industry Principles is relevant to the Exchange's assessment of an issuer's suitability to list structured products.

*MB Rule 15A.22(2-4)*

*First released: July 2012; last updated: May 2024*

#### **4. How should an issuer monitor liquidity provision performance?**

An issuer should adopt the following best practices in monitoring its liquidity provision performance:

- (a) implement internal systems and procedures to:
  - i. monitor whether actual performance meets committed obligations and the Industry Principles;
  - ii. record all quote requests and include them in monthly quote request report submitted to the Exchange; and
  - iii. monitor unusual price and volume movements of structured products;
- (b) keep records of actual liquidity provision performance and report the content of such records to the Exchange upon request;
- (c) provide a report to the Exchange on remedial measures and signed by its compliance officer when there are material non-conformances with liquidity provision obligations;
- (d) inform the Exchange immediately upon becoming aware of any events which affect its ability to provide liquidity and publish announcements to inform the market as soon as possible; and
- (e) record complaints made with respect to its structured products as required by its internal policies and the SFC's Code of Conduct for Persons Licensed by or Registered with the SFC. The complaint log should be readily available to the Exchange upon request.

*MB Rules 15A.11, 15A.22*

*First released: July 2012; last updated: May 2024*

#### **5. Is there any exemption from liquidity provision under the severe weather trading arrangements ('SWT')?**

No, there is no exemption. The quote request requirements and best practices on active quotes continue during SWT.

*MB Rule 15A.22*

*First released: September 2024*

#### **6. What are the common causes of liquidity provision interruption? Are there measures to avoid or minimise the impact?**

Most of the interruptions in liquidity provision were caused by technical failure (such as malfunctioning of hardware component or software bug) or human errors (such as update of system configuration or parameters). There were also incidents where the setting of system parameters was inadequate. Changes of procedures and practices without anticipating the effect on other systems or operations had also caused system disruption.

Based on past experience, liquidity provision disruption could have been avoided or its adverse effect could have been lessened had the following measures been adopted:

- (a) rigorous change control and deployment procedures across different platforms/systems;
- (b) robust impact assessment before making changes to existing procedures and practices;
- (c) thorough testing of the liquidity provision system after changes have been made to the liquidity provision system itself or other related systems that have an impact on the liquidity provision system;
- (d) immediate health checking (i.e. integrity or functionality testing) after implementing routine system/operational changes;
- (e) disallow implementation of system changes during trading hours;
- (f) enhance controls over third-party software;
- (g) set up adequate monitoring tools or alerts to detect potential failure or system instability;
- (h) implement adequate procedures and validation checks to minimize human errors or staff miscommunication when carrying out IT operational tasks;
- (i) allow sufficient buffer when setting system parameters (such as file size limit and memory capacity) to meet business needs or system requirements;
- (j) periodic review to ensure all components and related architecture is functional, updated and properly maintained;
- (k) establish effective internal escalation and decision making process when invoking contingency procedures;
- (l) enhance failover procedures to shorten recovery time; and
- (m) provide regular training and updated user manual to staff to familiarize them with functionality and operating procedures of the liquidity provision system.

The above preventive measures are not intended to be exhaustive. Issuers and Liquidity providers should take into account their own circumstances and operational requirements in devising their own measures.

*MB Rules 15A.11, 15A.22  
First released: Jan 2016; last updated: November 2024*

## **7. What are the expectations on issuers' contingency procedures in the event of a liquidity provision interruption?**

Upon occurrence of liquidity provision interruption, effective contingency procedures are crucial to minimize disruption time and maintain acceptable service levels. In this respect:

- (a) contingency plan should be reviewed and updated regularly as part of the organization's change management process to ensure new information is



documented and contingency measures are revised if required; and

- (b) regular drills should be conducted to familiarize staff with contingency procedures including rehearsals on invoking backup system, failover arrangements and fall back on manual quoting.

Issuers/Liquidity providers are expected to review and test at least annually or whenever significant changes occur to any element of the plan. However, the plan may be reviewed and tested more frequently depending on specific circumstances.

*MB Rules 15A.11, 15A.22*

*First released: Jan 2016; last updated: November 2024*

**8. What is the expected minimum service level during a liquidity provision interruption?**

While liquidity providers may not be able to provide active quotes during the period of liquidity provision interruption, they should use their best efforts to meet service commitments of quote requests as set out in the supplemental listing documents.

Liquidity providers should ensure that adequate resources including backup systems/equipment and manpower supporting manual quotes are in place to ensure uninterrupted liquidity providing services. Other broker numbers may be used to provide liquidity in the event that the original Liquidity Provider ('LP') broker numbers are unable to send quotes to the Exchange. Proper record should also be kept for quotes provided and trades transacted by the LP using non-LP broker numbers.

*MB Rules 15A.11, 15A.22*

*First released: Jan 2016; last updated: November 2024*

**9. What is the expected timeframe for issuers to publish an announcement on liquidity provision interruption?**

Issuers should inform the Exchange immediately upon becoming aware of any events which affect its ability to provide liquidity (quote requests and active quotes) and publish announcements to inform the market as soon as possible. It is expected the announcement on liquidity provision interruption be published within one hour after the service disruption.

*MB Rule 15A.22*

*First released: Jan 2016; last updated: November 2024*