

CHAPTER 1

DEFINITIONS AND INTERPRETATION

Definitions

101. In these Options Trading Rules, unless the context otherwise requires:-

“Market Maker” means an Options Trading Exchange Participant which is registered as ~~such market maker~~ by the Exchange, as more particularly described in Chapter 6, the Second Schedule to these Options Trading Rules and the Operational Trading Procedures. For the purposes of these Options Trading Rules and Operational Trading Procedures, the term “Market Maker” shall include “Primary Market Maker” and “Regular Market Maker”;

“Primary Market Maker” means a Market Maker which is registered as a Primary Market Maker by the Exchange, as more particularly described in Chapter 6, the Second Schedule to these Options Trading Rules and the Operational Trading Procedures;

“Regular Market Maker” means a Market Maker which is not a Primary Market Maker;

CHAPTER 5

THE OPTIONS TRADING SYSTEM

Recording of Trades

513. One or more Options Contracts shall be executed at the time when an order in respect of an option series is matched by HKATS with another order in respect of that option series and the details of such matched orders are recorded in the Transaction Register of HKATS. Immediately upon such recording, Options Contracts shall unless otherwise determined by the Exchange be subject to a process of substitution and/or novation which gives rise to OCH Contracts and/or NCP Contracts as more particularly described in the Clearing Rules. Notwithstanding the foregoing, no Block Trade recorded in the Transaction Register of HKATS shall be registered with SEOCH or subject to the process of substitution and/or novation until SEOCH is satisfied that the recorded Block Trade is a valid Block Trade and all criteria applicable to the Block Trade have been satisfied. Unless an Options Trading Exchange Participant receives any oral or written notice from the Exchange or SEOCH that a Block Trade is not valid or not all criteria applicable to the Block Trade have been satisfied or that the Block Trade will not be registered with SEOCH for any reason, the Block Trade shall be deemed to be registered with SEOCH and subject to the process of substitution and/or novation in accordance with the Clearing Rules immediately upon the recording of such Block Trade in the Transaction Register of HKATS. The Exchange will endeavour to notify the Options Trading Exchange Participant of any issue concerning any criteria set forth in Regulation 2 of the Third Schedule to these Options Trading Rules within 30 minutes of the execution by the Options Trading Exchange Participant of the Block Trade.

CHAPTER 6 MARKET MAKERS

Applications for Market Maker Permits

601. An Options Trading Exchange Participant may apply to the Exchange for permission to make a market in Options Contracts in a particular option class, whether as a Primary Market Maker or a Regular Market Maker, by completing the prescribed application form and returning it to the Exchange, together with such application fee as may for the time being be prescribed by the Exchange, in accordance with the instructions contained in the application form.
602. Before granting a Market Maker permit, the Exchange may require the applying Options Trading Exchange Participant to demonstrate to the satisfaction of the Exchange that it is suitably qualified to make a market in the Options Contracts in respect of which the application is made (having regard to such matters as the Exchange may, in its absolute discretion, consider to be appropriate, including the financial standing, trading record, personnel, computer equipment and internal security procedures of the applying Options Trading Exchange Participant). Before registering a Market Maker as a Primary Market Maker, the Exchange will also require the Options Trading Exchange Participant to sign and agree to be bound by an appointment letter which sets forth, inter alia, the terms and conditions under which it is appointed as a Primary Market Maker and the market making obligations of the Options Trading Exchange Participant as a Primary Market Maker, which may vary from one Primary Market Maker to another. The Chief Executive has the sole discretion to determine the total number of Primary Market Maker permits that may be granted per option class from time to time.
603. The Exchange may reject any application made under Options Trading Rule 601.
604. The Options Trading Exchange Participant which is applying for a Market Maker permit and SEOCH will be notified in writing by the Exchange of the grant of each Market Maker permit.
605. A register of Market Makers, containing the name of each Options Trading Exchange Participant to whom a permit has been granted, the registration of the Market Maker as a Primary Market Maker where applicable, the commencement and expiry dates of each such permit and the option class in respect of which each such permit has been granted, will be maintained by the Exchange.

Form and Duration of Market Maker Permits

606. Market Maker permits shall be non-exclusive, non-transferable and in such form as may from time to time be prescribed by the Exchange.
607. Each Market Maker permit shall state a trading day on which it is to come into effect and the period for which it is granted. The duration of each Market Maker permit may vary from one permit to another. Unless otherwise approved stipulated by the Exchange Board, the minimum period for which each Regular Market Maker permit will be granted will be 1 year.

Rights and Obligations of Regular Market Makers

608. Each Regular Market Maker shall be entitled to enter quotes into the Options Trading System either upon receipt of quote requests or in accordance with the obligation to provide continuous quotes. Upon registration of a Market Maker permit, a Regular Market Maker shall notify the Exchange of its election to either respond to quote requests or provide continuous quotes. All Options Contracts resulting from an order comprised in a quote being matched by the Options Trading System must be allocated to its House Account designated as “M1” by HKATS. Subject to compliance with Options Trading Rule 518, each Regular Market Maker will be permitted to enter a number of quotes simultaneously into the Options Trading System.
609. Subject to Options Trading Rule 610, if a Regular Market Maker elects to respond to quote requests, it shall be obliged upon receipt of a quote request for an option series in an option class for which it holds a current Market Maker permit (i) to enter a quote into the Options Trading System at least for such minimum number of Options Contracts as prescribed by the Board; (ii) to hold the quote for such minimum period of time as prescribed by the Board; and (iii) to respond within such period of time after receipt of the relevant quote request as prescribed by the Board. Subject to Options Trading Rule 610, if a Regular Market Maker elects to provide continuous quotes, it shall be obliged to provide continuous quotes for the assigned option series in an option class for which it holds a current Market Maker permit for such minimum number of Options Contracts as prescribed by the Board. A bid and offer spread no greater than the maximum specified by the Board from time to time must also form part of each quote provided by the Regular Market Maker. All holders of Market Maker permits (other than Primary Market Makers) must comply with the regulations in the Second Schedule to these Options Trading Rules.
610. Regular Market Makers shall, in accordance with Options Trading Rule 609, respond to no less than a certain percentage of quote requests or provide continuous quotes for no less than a certain percentage of trading hours as may, in each case, from time to time be prescribed by the Board as more particularly described in the Second Schedule to these Options Trading Rules.
611. Each Regular Market Maker must be available to respond to quote requests or provide continuous quotes on all trading days during the period for which its permit is granted unless specifically exempted by the Exchange.
612. The Board may prescribe such regulations as set out in the Second Schedule to these Options Trading Rules in relation to market making activities of Regular Market Makers (including the prescription of criteria applicable to quotes as specified in Options Trading Rule 609) as it shall from time to time think fit. Every Regular Market Maker shall comply with any such regulations for the time being in effect.

Obligations of Primary Market Makers

- 612A. Each Primary Market Maker shall be obliged to enter quotes into the Options Trading System upon receipt of quote requests and to provide continuous quotes in accordance with the terms and conditions of its appointment letter. All Options Contracts resulting from an order comprised in a quote being matched by the Options Trading System must be allocated to its House Account designated as “M1” by HKATS. Subject to compliance with Options Trading Rule 518, each Primary Market Maker will be permitted to enter a number of quotes simultaneously into the Options Trading System.

612B. Subject to Options Trading Rule 612C, a Primary Market Maker shall be obliged as follows: (I) upon receipt of a quote request for an option series in an option class for which it is registered as a Primary Market Maker, to (i) enter a quote into the Options Trading System at least for such minimum number of Options Contracts; (ii) hold the quote for such minimum period of time; and (iii) respond within such period of time after receipt of the quote request, as may be specified in its appointment letter; and (II) to provide continuous quotes for the assigned option series in an option class for which it is registered as a Primary Market Maker for such minimum number of Options Contracts and with such maximum bid and offer spread as may be specified in its appointment letter.

612C. Primary Market Makers shall, in accordance with Options Trading Rule 612B, respond to no less than a certain percentage of quote requests and provide continuous quotes for no less than a certain percentage of trading hours as may, in each case, be specified in its appointment letter.

612D. Each Primary Market Maker must be available to respond to quote requests and provide continuous quotes on all trading days during the period for which its permit is granted unless specifically exempted by the Exchange.

612E. The Exchange may from time to time prescribe additional requirements, obligations, restrictions and conditions which must be complied with by a Primary Market Maker by giving written notice to it to amend its appointment letter.

Rights of Market Makers

613. Subject to compliance with Chapter 6 of these Options Trading Rules, each Market Maker shall be entitled to such fee discounts in relation to Options Contracts validly made and allocated to its House Account and designated as “M1” by HKATS, and in respect of which it holds a Market Maker permit, as shall from time to time be specified by the Board.

FIRST SCHEDULE : ITEM A3

UNIFORM OPTIONS BROKING AGREEMENT

To: [Name of Options Trading Exchange Participant]

[Address]

(licensed ~~or deemed to be licensed~~ by the Securities and Futures Commission (“SFC”) as a licensed corporation to carry on Type 1 regulated activity under the Securities and Futures Ordinance [and any other regulated activities] and an Options Trading Exchange Participant of The Stock Exchange of Hong Kong Limited (the “Exchange”).

We _____ (licensed ~~or deemed to be licensed~~ by the SFC as a licensed corporation to carry on Type 1 regulated activity [and any other regulated activities] and registered with Options Broker Exchange Participantship status by the Exchange) request you to operate a client account (the “Omnibus Account”) for us, in relation to the transaction of Exchange Traded Options Business for us in our capacity as an Options Broker Exchange Participant. Terms defined in the Exchange’s Options Trading Rules, and the Clearing Rules, have the same meaning in this Agreement. The Omnibus Account will be operated on the following terms and conditions:-

1 The Account

- 1.1 We acknowledge that the only Exchange Traded Options Business which may be effected through our Omnibus Account is the entering into/purchase*, exercise, settlement and discharge of options transactions on behalf of our clients. We will open an Options Broker Exchange Participant Account with you, pursuant to an Options Client Agreement if we wish to effect options transactions for our own account or the account of affiliates.
- 1.2 We confirm that the information provided in the Client Information Check List is complete and accurate. We will inform you of any changes to that information. You are authorized to conduct credit enquiries on us to verify the information provided.
- 1.3 You will keep information relating to our Omnibus Account confidential, but may provide any such information to the Exchange and the SFC to comply with their requirements or requests for information.
- 1.4 We hereby agree that, in relation to a transaction where you have received an enquiry from the Exchange and/or the SFC, the following provisions shall apply.
 - (a) Subject as provided below, we shall, immediately upon request by you, inform the Exchange and/or the SFC of the identity and contact details of the client for whose account the transaction was effected and of the person with the ultimate beneficial interest in the transaction. We shall also inform the Exchange and/or the SFC of any third party (if different from the client/the ultimate beneficiary) who originated the transaction.
 - (b) If we effected the transaction for an investment fund, collective investment scheme or discretionary account (the “fund”), we shall, immediately upon request by you, inform the Exchange and/or the SFC of the identity and contact details of the fund and, if applicable, the identity and contact details of the person who, on behalf of the fund, instructed us to effect the transaction.
 - (c) If we are aware that our client is acting as intermediary for its underlying clients, and we do not know the identity and contact details of the underlying client for whom the transaction was effected, we confirm that

- we have arrangements in place with our client which entitle us to obtain such information from our client immediately upon request or to require our client to provide such information immediately on request direct to the Exchange and/or the SFC and
- we will, on request from you in relation to a transaction, promptly request our client on whose instructions the transaction was effected, either (i) to provide such information to us (in which case we shall provide the information to the Exchange and/or the SFC as soon as received from our client) or (ii) promptly request our client to provide such information direct to the Exchange and/or the SFC.

* delete wherever appropriate

6 Risk Disclosure Statement

WE ACKNOWLEDGE THAT DUE TO THE VOLATILE NATURE OF SECURITIES MARKETS, THE WRITING AND PURCHASE OF OPTIONS OVER SECURITIES INVOLVES A HIGH DEGREE OF RISK.

WARNING TO OPTION HOLDERS

SOME OPTIONS MAY ONLY BE EXERCISED ON AN EXPIRY DAY (EUROPEAN-STYLE EXERCISE) AND OTHER OPTIONS MAY BE EXERCISED AT ANY TIME BEFORE EXPIRATION (AMERICAN-STYLE EXERCISE). WE UNDERSTAND THAT UPON EXERCISE SOME OPTIONS REQUIRE DELIVERY AND RECEIPT OF THE UNDERLYING SECURITY AND THAT OTHER OPTIONS REQUIRE A CASH PAYMENT.

AN OPTION IS A WASTING ASSET AND THERE IS A POSSIBILITY THAT AS AN OPTION HOLDER WE MAY SUFFER THE LOSS OF THE TOTAL PREMIUM PAID FOR THE OPTION. WE ACKNOWLEDGE THAT, AS AN OPTION HOLDER, IN ORDER TO REALISE A PROFIT IT WILL BE NECESSARY TO EITHER EXERCISE THE OPTION OR CLOSE THE LONG OPTION POSITION IN THE MARKET. UNDER SOME CIRCUMSTANCES IT MAY BE DIFFICULT TO TRADE THE OPTION DUE TO LACK OF LIQUIDITY IN THE MARKET. WE ACKNOWLEDGE THAT YOU HAVE NO OBLIGATION EITHER TO EXERCISE A VALUABLE OPTION IN THE ABSENCE OF OUR INSTRUCTION OR TO GIVE TO US PRIOR NOTICE OF THE EXPIRATION DATE OF THE OPTION.

WARNING TO OPTION WRITERS

AS A WRITER OF AN OPTION WE MAY BE REQUIRED TO PAY ADDITIONAL MARGIN AT ANY TIME. WE ACKNOWLEDGE THAT AS AN OPTION WRITER, UNLIKE AN OPTION HOLDER, WE MAY BE LIABLE FOR UNLIMITED LOSSES BASED ON THE RISE OR FALL OF THE PRICE OF THE UNDERLYING SECURITY AND OUR GAINS ARE LIMITED TO THE OPTION PREMIUM.

ADDITIONALLY, WRITERS OF AMERICAN-STYLE CALL (PUT) OPTIONS MAY BE REQUIRED AT ANY TIME BEFORE EXPIRY TO DELIVER (PAY FOR) THE UNDERLYING SECURITIES TO THE FULL VALUE OF THE STRIKE PRICE MULTIPLIED BY THE NUMBER OF UNDERLYING SECURITIES. WE RECOGNIZE THAT THIS OBLIGATION MAY BE WHOLLY DISPROPORTIONATE TO THE VALUE OF PREMIUM RECEIVED AT THE TIME THE OPTIONS WERE WRITTEN AND MAY BE REQUIRED AT SHORT NOTICE.

**SECOND SCHEDULE
MARKET MAKER OBLIGATIONS**

1. The mMarket mMaker obligations of Regular Market Makers are specified below but may be subject to revision as determined by the Chief Executive, in consultation with the Chairman of the Exchange and the Chief Executive Officer of the Commission. Any such determination made to revise these mMarket mMaker oObligations will be notified to Options Trading Exchange Participants via HKATS, e-mail, HKE_x website or such other means as the Exchange considers appropriate. The market making obligations of Primary Market Makers are specified in the respective appointment letters appointing them as Primary Market Makers (“Primary Market Maker Obligations”). The market making obligations specified in this Schedule are not applicable to Primary Market Makers and accordingly, references to “Market Maker” and “Market Makers” in this Schedule shall be construed as references to “Regular Market Maker” and “Regular Market Makers” respectively only.

3. The maximum bid/offer spread is as follows:

Option Series	Option Class	
	Liquidity Level 1	Liquidity Level 2
Spot month with 3 <u>Business Days</u> or less to expiry	20% of the bid price of the quote or 3 times the best bid/offer spread of the underlying securities, whichever is the lower.	20% of the bid price of the quote or 4 times the best bid/offer spread of the underlying securities, whichever is the lower.
Spot month with 4 <u>Business Days</u> or more to expiry and the two next <u>3</u> calendar expiry months	10% of the bid price of the quote or 3 times the best bid/offer spread of the underlying securities, whichever is the lower.	10% of the bid price of the quote or 4 times the best bid/offer spread of the underlying securities, whichever is the lower.
The next 2 calendar quarter expiry months	20% of the bid price of the quote or 4 times the best bid/offer spread of the underlying securities, whichever is the lower.	20% of the bid price of the quote or 6 times the best bid/offer spread of the underlying securities, whichever is the lower.
The 3rd calendar quarter expiry month and any other longer-dated expiry month as the Exchange deems necessary	20% of the bid price of the quote or 8 times the best bid/offer spread of the underlying securities, whichever is the lower.	20% of the bid price of the quote or 12 times the best bid/offer spread of the underlying securities, whichever is the lower.

Notwithstanding the above, a Market Maker will not be obliged to quote a spread narrower than the best bid/offer of the underlying security (at the time of issuing the quote) plus 5 minimum price fluctuations (if the numerical value of the nominal price of such underlying security is below 100) or plus 10 minimum price fluctuations (if the numerical value of the nominal price of the underlying security is equal to or above 100), and a Market Maker will not be obliged to quote for the bid side in response to a quote request for a far out-of-the-money Contract which has a value near zero. A Market Maker shall remain obliged to quote for the sell side by issuing a sell limit order with a limit price no greater than 10 minimum price fluctuations within the required response time and for the minimum required quantity and duration.

10. A Market Maker, in responding to a quote request or providing continuous quotes, is not required to bid if the offer is at or below 10 minimum price fluctuations.