

CHAPTER XIA

MARKET MAKERS

Introduction

- 11A01. The Chief Executive may, on application by an Exchange Participant and in his absolute discretion, grant approval for the Exchange Participant to be a Market Maker in any Market(s) in order that such Exchange Participant may be eligible for Market Maker Incentives.
- 11A02. The Chief Executive may from time to time prescribe requirements, obligations, restrictions and conditions which must be complied with by Market Makers in order to receive Market Maker Incentives. In addition, the Procedures may provide for different categories of Market Makers and prescribe different requirements, obligations, restrictions, conditions and incentives for specific categories of Market Makers.

Application for Market Maker Permits

- 11A03. An Exchange Participant may apply to the Exchange for permission to make a market in a particular Market(s) by itself or by way of a market making arrangement, by lodging with the Chief Executive an application in such prescribed form and containing such information as may be required by the Chief Executive.
- 11A04. An Exchange Participant whose application has been approved will be granted a Market Maker permit in respect of each category of Market Maker and each Market for which it is permitted to make a market. In considering whether a Market Maker permit should be granted, the Chief Executive may give regard to such matters as he may, in his absolute discretion, consider to be appropriate and the Exchange Participant shall demonstrate to the satisfaction of the Chief Executive that it is suitably qualified to make a market for a particular category of Market Maker in the Market(s) in respect of which the application is made (having regard to such matters as the financial standing, trading record, personnel, computer equipment and internal security procedures and risk management policy and procedures of the Exchange Participant and, where applicable, whether its market making arrangements fulfill such requirements as may be prescribed by the Chief Executive).
- 11A05. The decision of the Chief Executive in respect of the approval or rejection in whole or in part of an application to become a Market Maker in any particular Market Maker category or any particular Market(s) shall be final and conclusive.

11A06. A register of Market Makers, containing the name of each Exchange Participant to whom a Market Maker permit has been granted, the category of Market Maker under which the Exchange Participant is registered, the commencement and expiry dates of each such permit and the Market in respect of which each such permit has been granted, will be maintained by the Exchange.

Form and Duration of Market Maker Permits

11A07. Market Maker permits shall be non-exclusive, non-transferable and in such form as may from time to time be prescribed by the Exchange.

11A08. Each Market Maker permit shall state a day on which it is to come into effect and the period for which it is granted for the Market specified. Unless otherwise stipulated by the Chief Executive, the minimum period for which each Market Maker permit will be granted will be one year and unless the Market Maker has notified the Exchange of its intention not to renew the Market Maker permit at least 30 days prior to expiry, the Market Maker permit will be automatically renewed from year to year on terms identical to those of the current Market Maker permit.

Ongoing Obligations of Market Makers

11A09. Each Market Maker shall immediately notify the Exchange in writing of any change in information supplied to the Exchange in its application for, or thereafter in connection with, any of its Market Maker permits, including any change in its market making arrangements.

11A10. Where a Market Maker has been granted a Market Maker permit under Rule 11A04 to make a market in a particular Market by itself and/or by way of a market making arrangement and the Market Maker wishes to enter into any new market making arrangement or, if it is not already doing so, make a market in the Market by itself, it shall lodge with the Chief Executive an application in such prescribed form and containing such information as may be required by the Chief Executive and shall demonstrate to the Exchange that it or its proposed market making arrangement meets such requirements as may be prescribed by the Chief Executive. The Chief Executive may in his absolute discretion approve or reject such application, having regard to such matters as he considers to be appropriate.

11A11. Each Market Maker shall be responsible for all market making activities conducted under its Market Maker permits, including the settlement and clearing of all trades executed under any of its market making arrangements. The corporate entity under any market making arrangement with the Market Maker shall be considered as a Client of the Market Maker for the purposes of the Rules, Regulations and Procedures and the Market Maker shall

comply with all obligations under the Rules, Regulations and Procedures in respect of such corporate entity being a Client of the Market Maker, including but not limited to the provisions of Chapter VI of these Rules.

- 11A12. Each Market Maker shall fulfill such market making requirements as may from time to time be prescribed by the Exchange in respect of each category of Market Maker and each Market for which the Market Maker has been granted a Market Maker permit. Unless otherwise determined by the Chief Executive, a Market Maker which in any calendar month fails to meet the market making requirements prescribed by the Exchange for determining its eligibility to Market Maker Incentives for certain transactions of the Market Maker in any specified Market(s) will not be entitled to such Market Maker Incentives for that month and the Market Maker shall be charged Exchange Fees at the full rate specified in the relevant Contract Specifications for such transactions.

Suspension or Modification of Market Making Requirements of Market Makers

- 11A13. In respect of a Market in which a Market Maker is registered as such, where the Chief Executive determines that an Unusual Market Condition has occurred in that Market or any other market which may adversely impact on the Market Maker's ability to effectively hedge its positions, the Chief Executive may, in his discretion temporarily suspend or modify some or all of the market making requirements of the Market Maker.
- 11A14. The Chief Executive may in his discretion determine when to declare an Unusual Market Condition and shall make an announcement on HKATS to that effect. An Unusual Market Condition shall exist until the Chief Executive determines otherwise.
- 11A15. Subsequent to declaring the existence of an Unusual Market Condition, the Chief Executive, upon being satisfied that the conditions giving rise to the original declaration of such Unusual Market Condition no longer exist, shall make an announcement on HKATS stating that fact and specifying the time at which the normal market making requirements of Market Makers shall resume.

Suspension, Revocation and Surrender

- 11A16. Any Market Maker permit and any market making arrangement or other approval granted thereunder may be revoked by the Chief Executive in his absolute discretion at any time without giving reason or notice. Without prejudice to this general power of revocation, a Market Maker permit and any market making arrangement or other approval granted thereunder may be revoked if a Market Maker:-

- (a) fails to meet the applicable market making requirements prescribed by the Exchange for such period of time as may be specified by the Chief Executive;
- (b) has, in the opinion of the Chief Executive, manipulated or distorted the market for one or more Markets or attempted to do so or abused its status as a Market Maker;
- (c) commits an event of default under the Clearing House Rules or if its Exchange Participantship is suspended or revoked or if it ceases to be an Exchange Participant for any reason; or
- (d) no longer satisfies the criteria and requirements based on which, or the conditions subject to which the Market Maker permit or any market making arrangement or other approval thereunder was granted,

and the Market Maker shall remain subject to these Rules, Regulations and Procedures and the Clearing House Rules in respect of any events which occurred prior to and after the revocation.

- 11A17. A Market Maker may at any time surrender its Market Maker permit in respect of a particular category of Market Maker and each Market by giving to the Exchange 30 days' (or such shorter period of time as the Exchange may allow) prior written notice to that effect using such form as may be prescribed by the Exchange. Until the Exchange has confirmed with the Market Maker the effective date of surrender of the Market Maker permit, the Market Maker shall continue to fulfill its market making obligations under that Market Maker permit.
- 11A18. Upon suspension, expiry, revocation or surrender of a Market Maker permit or the termination for any reason of any market making arrangement or the revocation of any other approval granted thereunder, any authorisation to access HKATS previously granted to the Exchange Participant for the purpose of performing market making activities under the Market Maker permit or the market making arrangement may also be revoked by the Chief Executive.
- 11A19. The Chief Executive may, at his sole discretion, reject a new application for a Market Maker permit by any Exchange Participant which has previously surrendered, or has notified the Exchange of its intention not to renew, a Market Maker permit or which has had a Market Maker permit revoked or suspended.