

## 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 by the Exchange, the minimum period for which each Regular Market Maker permit will be granted will be 1 year.

### **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.

614. The records maintained by the Exchange of all Options Contracts validly made by Market Makers, and which are eligible for fee discounts pursuant to Options Trading Rule 613, shall be conclusive.

### **Identification of Jobbing Transactions**

614A. No Market Maker shall identify to the Exchange a transaction as a Market Maker jobbing transaction which does not satisfy the criteria or directives prescribed by the Collector of Stamp Revenue and agreed to by the Exchange from time to time and notified to the Market Maker.

614B. In addition to any disciplinary action the Exchange may take against a Market Maker pursuant to the Exchange Rules for failing to comply with Options Trading Rule 614A, the Exchange shall immediately report to the Collector of Stamp Revenue, without prior notice being given to the Market Maker concerned, when it has reasonable ground

to believe that a transaction not satisfying the criteria or directives prescribed by the Collector of Stamp Revenue and agreed to by the Exchange from time to time has been identified as a Market Maker jobbing transaction by a Market Maker.

### **Records of Hedging Activities**

614C Each Market Maker shall keep as part of its records and make available to the Exchange for inspection whenever requested by the Exchange the following particulars regarding the portfolio it carries for the sole purpose of hedging an options contract entered into by that Market Maker:-

- (1) the description of each component of the portfolio whether the component be a security, futures contract or any other type of instrument;
- (2) the balance, whether long or short, of each component at the beginning and at the close of each trading day;
- (3) particulars of each Option Hedging Transaction conducted by the Market Maker or any of its Options Hedging Participants registered with the Exchange under Options Trading Rule 614D; and
- (4) any other particulars as the Exchange may prescribe from time to time.

614D. A Market Maker wishing to conduct Options Hedging Short Selling shall notify the Exchange of its intention. A Market Maker may also apply to the Exchange to register one or more Exchange Participants as its Options Hedging Participants which will conduct on its behalf Options Hedging Transactions.

### **Risk Monitoring on an affiliate of a Market Maker holding such Market Maker's positions (a "Market Maker Affiliate")**

614E. Rules 614F, 614G and 614H apply to an affiliate who is qualified and registered as a Market Maker Affiliate with the Exchange by way of satisfying the paid-up capital and shareholders' funds requirements as prescribed by the Exchange from time to time.

614F. A Market Maker shall procure its Market Maker Affiliate to (i) submit to the Exchange, through the Market Maker, a monthly financial statement, setting out the Market Maker Affiliate's working capital as at the end of the calendar month by subtracting its current liabilities from its current assets (the "Working Capital"), within three weeks after the end of the relevant calendar month; and (ii) maintain a certain level of Working Capital on a daily basis, which shall be at least equal to (a) one-half of the Net Risk Margin ("NRM"); or (b) one-seventh of the Total Margin Requirement ("TMR"), whichever is higher, where

NRM = the sum of the Risk Margin (determined on a net basis and after offsetting any Mark-to-Market margin credit, where applicable) for the market maker account and the house account of the Options Exchange Participant.

TMR = the sum of the Total Margin Requirement for the market maker account and the house account of the Options Exchange Participant.

For the purpose of this Rule 614F, “Risk Margin” and “Total Margin Requirement” have the same meaning as set out in the Operational Clearing Procedures for Options Trading Exchange Participants of SEOCH.

614G. On breaching the Working Capital requirement, the Market Maker shall report to the Exchange as soon as practicable and in any event no later than 4pm on the next Business Day. If the Market Maker repeatedly fails to notify the Exchange, the Exchange may, in its sole and absolute discretion, revoke the permit granted to the Market Maker. The Market Maker shall also forthwith procure the Market Maker Affiliate to reduce its positions or increase its Working Capital within 10 Business Days.

614H. If the Market Maker Affiliate fails to remedy the breach of the Working Capital requirement, the Exchange may close out such open positions on the Market Maker's behalf or may request the Clearing House to effect such closing out on the Market Maker's behalf. The Exchange may also, in its sole and absolute discretion, revoke the permit granted to the Market Maker. None of the Exchange, the Clearing House or a recognized exchange controller which is the controller of the Exchange and the Clearing House shall be liable for any loss suffered by any person or persons in respect of such closing out. The Market Maker shall indemnify and hold the Exchange, the Clearing House, and a recognized exchange controller which is the controller of the Exchange and the Clearing House harmless in respect of any costs or other expenses arising by reason of such closing out.

#### **Suspension, Revocation and Surrender**

615. Any market making obligations may be suspended by the Board for such period as it shall think fit:-

- (1) if the market for any Options Contracts in respect of which Market Maker permits have been granted is not, in its opinion, orderly;
- (2) if the securities underlying any Options Contracts in respect of which Market Maker permits have been granted are suspended from trading;
- (3) in any of the circumstances set out in Options Trading Rule 902; or
- (4) in the event that the Exchange declares an Unusual Market Condition.

616. Any Market Maker permit may be revoked by the Board in its absolute discretion at any time without giving any reason or notice. Without prejudice to this general power of revocation, a Market Maker permit will be revoked:-

- (1) if a Market Maker fails to comply with Options Trading Rules 609 to 612 (inclusive) after having received a warning from the Exchange;
- (2) if a Market Maker has, in the opinion of the Exchange, manipulated or distorted the market for one or more option series or attempted to do so or abused his status as a Market Maker; or
- (3) if an event of default occurs in relation to the Options Trading Exchange Participant which holds the permit or if the Options Trading Exchange

Participant is suspended, expelled or, for any other reason, ceases to be an Options Trading Exchange Participant,

and the Market Maker shall still be subject to these Options Trading Rules and the Clearing Rules in respect of any events which occurred prior to and after the revocation.

617. A Market Maker permit may at any time be surrendered by the Options Trading Exchange Participant to whom it has been granted by that Options Trading Exchange Participant giving 30 days' (or such shorter period of time as the Exchange may allow) written notice to that effect to the Exchange, to SEOCH and to the SEOCH Participant which clears for that Market Maker.

618. The Board may require any Options Trading Exchange Participant:-

- (1) which surrenders a Market Maker permit; or
- (2) in respect of which a Market Maker permit is revoked; or
- (3) which, at the expiry of the Market Maker permit, has failed to comply with Options Trading Rules 609 to 612 (inclusive) in relation to such permit,

to pay on demand to the Exchange an amount equal to all fee discounts received by such Options Trading Exchange Participant in respect of the surrendered or revoked permit and that Options Trading Exchange Participant shall not be entitled to any fee discounts which have accrued in relation to such permit.

619. The Exchange may, at its sole discretion, reject a new application for a Market Maker permit by any Options Trading Exchange Participant which has previously surrendered, or failed to renew, a Market Maker permit or which has had a Market Maker permit revoked.