

獲取 / 放棄雙櫃台莊家執照申請之解釋說明
**Explanatory Notes for Application for Acquisition /
Surrender of Dual-Counter Market Maker ("DCMM") Permit(s)**

一般資料

General Information

1. 申請人須注意，若所呈交之申請未有附上解釋說明內所列明的所須表格及文件，香港交易及結算有限公司（「香港交易所」）將不作處理，有關的申請將退回申請人。
Applicants should note that Hong Kong Exchanges and Clearing Limited ("HKEX") will not process an application that is not accompanied by all the required forms and documents stated in these notes and will return the application to the applicant.
2. 有關申請人安裝新一套莊家專用交易設備以進行莊家活動，請致電 2840-3626 與香港交易所的參與者一般查詢熱線聯絡。
For applicants' subscription of new market making trading device for conducting the market making activities, please contact HKEX – Participant General Enquiry Hotline at 2840-3626.
3. 申請表格可於香港交易所網址 www.hkex.com.hk 下載。
Application forms are available at the web-site of HKEX at www.hkex.com.hk.

申請獲取雙櫃台莊家執照之所須文件

Documents Required for Application for DCMM Permit(s)

申請人須提交：

Applicant shall provide:

1. 表格 22（獲取 / 放棄雙櫃台莊家執照申請）；
Form 22 (Application for Acquisition / Surrender of DCMM Permit(s));
2. Internal Report（請參閱附上之 Internal Report 指引）；及
Internal Report (Please read the attached Guidelines for Internal Report); and
3. 證明其聯號為一受監管者、其信貸評級為 A-或以上（標準普爾），或 A3 或以上（穆迪）或其繳足股本不少於港幣 50,000,000 元及股東權益不少於港幣 100,000,000 元（只適用於將莊家盤登記於其聯號賬戶的申請人）。

申請人為註冊的證券莊家並已在表格 22 第 2 節中聲明 (i) 採用與雙櫃台莊家許可證相同的莊家盤記帳方式和 (ii) 符合上述資格，會被視為已提供證明文件。

Documentary evidence showing that the DCMM's affiliate is a regulated entity, has a credit rating of A- or above (S&P Global) or A3 or above (Moody's) or has a paid-up share capital and shareholders' funds of not less than HK\$50,000,000 and HK\$100,000,000 respectively (only applicable to Applicants who will book their market making positions to their affiliates¹).

申請放棄雙櫃台莊家執照之所須文件

Documents Required for Surrender of DCMM Permit(s)

1. 表格 22（獲取 / 放棄雙櫃台莊家執照申請）。
Form 22 (Application for Acquisition / Surrender of DCMM Permit(s)).

¹ Item 3 will not be required if the applicant has completed and signed a Form 22 declaring that:

- (a) it is a registered Securities Market Maker;
- (b) its DCMM positions will be booked in the same manner as in market making activities under the Securities Market Maker permit; and
- (c) the affiliate for whose account DCMM positions are entered into by the applicant as Securities Market Maker shall have fulfilled the eligibility requirements set out in this item 3.

THE STOCK EXCHANGE OF HONG KONG LIMITED

(A wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited)

Guidelines for Internal Report

Introduction

In applying for a DCMM permit and having DCMM orders for its own account or for an affiliate's account, an Exchange Participant ("applicant") of The Stock Exchange of Hong Kong Limited (the "Exchange" or "SEHK") is required to:

- (i) submit an internal report ("Report") which covers at least the information set out in Part 1 or Part 2^(note), where applicable, giving information on the risk management policy, the core operations and risk management controls of the applicant (and, where applicable, its affiliate) and describing the systems, controls and internal procedures adopted or to be adopted in regard to the applicant's (and if applicable, its affiliate's) DCMM activities on the Exchange; and
- (ii) include in the Report information on the applicant's (and if applicable, its affiliate's) readiness to conduct DCMM activities for securities traded and settled in RMB, where applicable.

Note: Part 2 (Simplified Report) shall apply to applicant who has completed and signed a Form 22 declaring that (a) it is a registered Securities Market Maker; (b) its DCMM activities will be booked in the same manner as its market making activities under the Securities Market Maker permit; and (c) the affiliate for whose account DCMM activities are entered into by the applicant as the Securities Market Maker shall have fulfilled the eligibility requirements set out in this Form EN 22.

Part 1: Areas to be covered in the Report

1. Overview of the applicant's (and if applicable, its affiliate's) DCMM business

Brief descriptions of set up of the business, its core operation systems and key personnel, including:

- business structure and set up for the DCMM activities (providing details of the affiliate, where applicable);
- core operations of front and back offices for the DCMM activities;
- a description of the background, experience, role and responsibility of key personnel; and
- trading strategy and policy.

2. Financial standing

The applicant and the affiliate, where applicable, should have and employ adequate resources and procedures, which are needed for the proper performance of the DCMM activities. The applicant should provide the following information:

- financial information of the applicant and the affiliate, where applicable;
- controls and procedures to ensure compliance with the financial requirements of the Exchange; and
- controls and procedures to meet the settlement obligations towards the clearing house.

3. Risk management

The framework of risk management policy and procedures of the applicant and the affiliate, where applicable, on the DCMM activities, specifically including the following:

- policy and procedures for setting trading strategy, trading and position limits, and risk parameter for pricing and risk monitoring;
- list of risk management reports reviewed by the management and risk management personnel and frequency of such review;
- risk management measures to quantify the exposure of the applicant and the affiliate (using an acceptable methodology to mark-to-market and to identify concentrations), where applicable;
- controls and procedures in ensuring the implementation of the risk management policy and procedures of the applicant and the affiliate, where applicable; and
- controls ensuring the affiliate comply with the “*Requirements for a DCMM Affiliate*” set out in the “*Alternatives For the Treatments of DCMM Positions*” on an ongoing basis (see “*The DCMM Stamp Duty Exemption Programme*” attached).

4. Records

The applicant should keep and maintain sufficient trading records of the DCMM activities. The Report should include descriptions of the following:

- list of accounts and reports to be kept and the frequency of the reports (keep separate accounts for the affiliate's DCMM Transactions, own DCMM Transactions and affiliate's trades and own trades which are not for the purpose of conducting DCMM activities); and
- controls in place to reconcile the executed trades and outstanding position to third party statements (such as reports from the clearing houses and the Exchange) from the reports generated by the pricing, risk monitoring and back office systems.

5. Computer and security

A description of the computer system to be used and internal security procedures, including:

- software to be used for the pricing, risk monitoring and back office processing;
- source of the software and applicant's experience in the software. If newly self-developed software is used, details of training provided to the staff and testing of the software;
- history of major failure of the software, if appropriate; and
- the internal security procedures in place, including controls to restrict access to the computer system by password and User ID to prevent unauthorized amendment to the data and software.

6. Readiness for conducting DCMM activities for securities traded and settled in RMB

The applicant should review its readiness for conducting DCMM activities for securities traded and settled in RMB. The applicant should provide the following information:

- confirmation of the applicant's readiness for trading and/or clearing in SEHK-listed RMB denominated securities by reference to the [Checklist to facilitate Participants' review of readiness for Listed Renminbi \("RMB"\) Securities Business](#) issued by the Securities and Futures Commission on 17 March 2011; and
- arrangements and/or controls to source sufficient RMB to meet the settlement obligation towards Hong Kong Securities Clearing Company Limited ("HKSCC")¹.

Part 2: Simplified Report applicable to applicants who are registered Securities Market Makers

1. Controls and procedures for DCMM activities:

The applicant should confirm whether the equivalent business structure, core operations, key personnel, trading strategy, risk management policy, systems, controls and internal procedures that are prescribed in points 1 to 5 under Part 1 above with respect to its existing Securities Market Making activities will be adopted to its proposed DCMM activities. The applicant should provide the relevant information in details where any alternative arrangements are intended to be adopted.

2. Readiness for conducting DCMM activities for securities traded and settled in RMB

The applicant should review its readiness for conducting DCMM activities for securities traded and settled in RMB. The applicant should provide the following information:

- confirmation of the applicant's readiness for trading and/or clearing in SEHK-listed RMB denominated securities by reference to the [Checklist to facilitate Participants' review of readiness for Listed Renminbi \("RMB"\) Securities Business](#) issued by the Securities and Futures Commission on 17 March 2011; and
- arrangements and/or controls to source sufficient RMB to meet the settlement obligation towards HKSCC¹.

The above areas are by no means exhaustive. The applicant should include any additional procedures, which they consider necessary to address the risks to which the applicant and the affiliate's assets are exposed and the liabilities that might incur.

¹ Where the applicant is a not an HKSCC Clearing Participant, the applicant should also provide confirmation by its General Clearing Participant ("GCP") of the readiness of the GCP for clearing and settlement of listed RMB securities by reference to the Checklist.

THE STOCK EXCHANGE OF HONG KONG LIMITED
(A wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited)

**THE DCMM STAMP DUTY
EXEMPTION PROGRAMME**

TABLE OF CONTENTS

1.	INTRODUCTION	1
2.	ALTERNATIVES FOR THE TREATMENT OF DCMM POSITIONS	2
2.1	Requirements for a DCMM Affiliate	2
2.2	FRR Modifications Permitted for DCMM Positions	3
2.3	Internal Report	3
2.4	Applications	3
3.	OPERATION OF THE DCMM STAMP DUTY EXEMPTION PROGRAMME	4
3.1	Overview	4
3.2	Eligible DCMM Transactions	4
3.3	Reporting and Record Keeping	6
3.4	Monitoring	7
3.5	General Provisions	7
Attachment 1	Requirements for DCMMs applying to hold positions in an affiliate	9
Attachment 2	Order Input Requirements for DCMMs	11

1. INTRODUCTION

The Rules of the Exchange of The Stock Exchange of Hong Kong Limited (the “**Exchange**”) provide that a dual-counter market maker (“**DCMM**”) may claim stamp duty exemption in respect of its market making and liquidity providing activities (“**DCMM Activities**”) under the DCMM Stamp Duty Exemption Programme (the “**Programme**”) provided that it satisfies such criteria and complies with the requirements of the Programme.

This document, which sets out the details of the Programme, is made pursuant to the Rules of the Exchange. Specifically, Section 2 describes the alternative ways in which the positions with respect to DCMM Activities (“**DCMM Positions**”) may be treated in the books of an Exchange Participant (as defined in the Rules of the Exchange) so as to reduce the inefficiencies associated with the conventional financial reporting treatment of portfolio trading positions of the Exchange Participant.

Section 3 sets out the types of transactions which may be considered as “**Eligible DCMM Transactions**”, the conditions that must be satisfied in order for a transaction to qualify as an Eligible DCMM Transaction and the reporting, record keeping and other obligations of a DCMM.

The following aspects with respect to DCMM are covered in the Rules of the Exchange, the application form prescribed by the Exchange and the DCMM permit:

- Terms under which a DCMM permit is granted
- Performance obligations of a DCMM
- Exemptions to performance obligations
- General rules governing DCMM Activities

2. ALTERNATIVES FOR THE TREATMENT OF DCMM POSITIONS

The standard terms under which Exchange Participants are granted a DCMM permit require that all DCMM Positions be booked in the name of the Exchange firm itself, beneficially held by the firm and not on behalf of any other entity. It is also assumed that the treatment of DCMM Positions will be in accordance with existing Rules of the Exchange and the Financial Resources Rules (“FRR”).

However, the Exchange recognizes that there may be circumstances where the interests of the market would not be harmed by allowing alternatives.

There are two mutually exclusive alternatives to the standard arrangement. An Exchange Participant may choose one (but only one) of the following structures, subject to meeting certain criteria:

- (1) The DCMM Positions may be beneficially held by an affiliate of the Exchange Participant.
- (2) Certain modifications may be permitted to the way in which liquid capital is assessed under the FRR.

If the DCMM is not operating under the standard terms, it must declare which of these methods it will adopt. The Exchange will deal with the requirements separately.

2.1 Requirements for a DCMM Affiliate

If the Exchange Participant holds its DCMM Positions in the accounts of an affiliate, then there must be only one such affiliate and all the Exchange Participant's DCMM business at any one time must be in the name of that affiliate. It is not permitted that there be more than one DCMM affiliate per Exchange Participant.

All proprietary trading or trading done on behalf of an affiliate for the affiliate's own account which is not for the direct purpose of performing DCMM Activities must be recorded separately.

Any affiliate which is a client of the Exchange Participant for the purpose of performing DCMM Activities must meet at least one of the following criteria.

1A. Regulated Entity

The affiliate must be a regulated entity which is regulated by an exchange, clearing house, independent authority or commission acceptable to the Exchange.

The following provisions will apply to these arrangements, initially and on an ongoing basis:

- i. The Exchange must be able to verify with the appropriate regulatory body that the affiliate is not in breach of any of that body's rules or regulations;
- ii. Any breaches of those rules or relevant findings by the regulator must be reported to the Exchange Participant who will then report them to the Exchange;
- iii. Annual audited accounts and report submitted to the regulator (in English) for the affiliate will be given to the Exchange; and
- iv. The Exchange Participant will report immediately to the Exchange if the affiliate ceases to be subject to the oversight of the regulator.

Moreover, the Exchange Participant must ensure that the affiliate complies with all the obligations of a client as laid out in the Rules of the Exchange.

or

1B. Credit Rating

The affiliate must have and must maintain a current credit rating of A- or above (S&P Global) or A3 or above (Moody's).

or

1C. Paid-Up Capital and Shareholders' Funds

The paid-up capital of the affiliate must be at least equal to the equivalent of HK\$50 million and its shareholders' funds must be at least the equivalent of HK\$100 million at all times. Annual audited accounts must be presented together with re-confirmation by an external auditor, at least once between annual audits (viz. six months after the annual audit is completed), that the paid-up capital and the shareholders' funds exceed these levels. See Attachment 1 for details.

or

1D. Others

Other exemptions may be sought for special cases but it is not envisaged that exemptions will be granted other than in exceptional circumstances.

2.2 FRR Modifications Permitted for DCMM Positions

Those applicants which elect for performing DCMM Activities in the Exchange Participant's own account (i.e. not in the name of an affiliate) and which wish to apply for a modification to the calculation of liquid capital should notify the Exchange that they wish to apply to the Securities and Futures Commission ("**SFC**") for modifications under the FRR for their DCMM Positions.

Applicants for FRR modification will be required to comply with such conditions and timing requirements which may be imposed by the SFC on a case-by-case basis.

2.3 Internal Report

The Exchange Participant should also prepare a brief report giving information on the risk management policy of the company and describing the systems, controls and internal procedures that it intends to adopt or has adopted in regard to performing DCMM Activities on the Exchange. The purpose of this report is to give the Exchange and, where applicable, the SFC an overview of the operations so as to understand better the context in which DCMM Activities are carried out.

The report, to be submitted at the time of application, can be in a free format but at a minimum should provide an account of the risk management policy and the systems, internal controls and procedures which are established for executing the policy. There should also be an account of the organisation structure and details of the personnel who are responsible for risk management within the operation and, where applicable, within affiliated or associated companies who are involved in conducting the DCMM business.

Applicants who are registered Securities Market Makers may submit a simplified report under Part 2 of Guidelines for Internal Report if the relevant conditions are satisfied.

2.4 Applications

Exchange Participants who wish to apply for exemptions in respect of affiliates under 2.1 should write in the first instance to:

Client Services Department
Hong Kong Exchanges and Clearing Limited
6/F, Two Exchange Square
8 Connaught Place, Central Hong Kong

3. OPERATION OF THE DCMM STAMP DUTY EXEMPTION PROGRAMME

3.1 Overview

Pursuant to Schedule 11 of the Stamp Duty Ordinance (Cap 117 of the laws of Hong Kong), stamp duty shall not be payable with respect to a sale or purchase of a dual-counter stock that is made by a person approved by or registered with the Exchange for performing (in accordance with the Rules of the Exchange) market making or liquidity providing activities in respect of a dual-counter stock.

For a sale or purchase of a dual-counter stock to be qualified for stamp duty exemption, it must be made by an Exchange Participant in its capacity as a DCMM and must constitute a transaction arising from the market making or liquidity providing activities of the DCMM in the dual-counter stock (an “**Eligible DCMM Transaction**”). The criteria for becoming a DCMM are set out in the Rules of the Exchange and the application form prescribed by the Exchange. This Section 3 sets out the types of transactions which may be considered as Eligible DCMM Transactions, the conditions that must be satisfied in order for a transaction to qualify as an Eligible DCMM Transaction and the reporting, record keeping and other obligations of a DCMM.

3.2 Eligible DCMM Transactions

3.2.1 The following types of transactions of a DCMM in a dual-counter stock will be considered as Eligible DCMM Transactions, subject to satisfying the conditions set out in Section 3.2.2:

- (A) **Market Making Transaction** - the sale or purchase of a dual-counter stock in *the secondary counter* arising from the discharge of its market making obligations as a DCMM to provide quotes to improve the liquidity or spread in the dual-counter stock as prescribed in or under the Rules of the Exchange;
- (B) **Hedging Transaction** - the sale (or purchase) of a dual-counter stock in *the primary counter* for the purpose of hedging against the risk from its long (or short) positions in a Market Making Transaction in the same dual-counter stock; and
- (C) **Arbitrage Transaction** - the sale (or purchase) of a dual-counter stock in one counter in conjunction with the purchase (or sale) of the same dual-counter stock in the other counter for arbitrage purpose.

3.2.2 In order for a sale or purchase transaction in a dual-counter stock to constitute an Eligible DCMM Transaction qualifying for stamp duty exemption, it must satisfy the following conditions (to the extent applicable):

- (A) the transaction is conducted by or through a DCMM holding a valid dual-counter market maker permit in the dual-counter stock for its own account or for the account of an affiliate.
- (B) the transaction is conducted by automatic order matching on the Exchange’s OTP-C system for securities trading under the designated broker number(s) by the DCMM:
 - (i) (in the case of a Market Making Transaction or Arbitrage Transaction) during the Pre-opening Session of the Exchange; or
 - (ii) (in the case of a Market Making Transaction, Hedging Transaction or Arbitrage Transaction) during the Continuous Trading Session or Closing Auction Session of the Exchange.
- (C) in the case of a Hedging Transaction, it is conducted directly pursuant to and on the same trading day as the hedging of a Market Making Transaction entered into by the DCMM in the same capacity (i.e. for its own account or for the account of an affiliate, as the case may be) and is not a pre-hedging transaction.

- (D) in the case of an Arbitrage Transaction, the sale (or purchase) of the dual-counter stock in one counter and the corresponding purchase (or sale) of the same dual-counter stock in the other counter for arbitrage purpose are conducted on the same trading day and within such time limit as may be prescribed by the Exchange from time to time.
- (E) on any trading day, the aggregate gross number of shares sold (or purchased) in the primary counter that can be claimed as Eligible DCMM Transactions for stamp duty exemption shall not exceed the aggregate gross number of shares purchased (or sold) in the secondary counter which are Eligible DCMM Transactions of the same dual-counter stock on the same trading day.

3.2.3 On any trading day, for the purpose of determining whether the transactions conducted by a DCMM shall constitute Eligible DCMM Transactions, only those transactions which satisfy the conditions set out in this Section 3.2 that are conducted by the DCMM on the same trading day would be taken into account.

3.2.4 Notwithstanding any other provisions in this Section 3, none of the following transactions of a DCMM shall be considered as an Eligible DCMM Transaction:

- (A) a transaction conducted by the DCMM as principal or on a proprietary basis which is not in the ordinary course of acting as a DCMM.
- (B) an agency transaction conducted by the DCMM in the ordinary course of its securities dealing business.
- (C) a sale (or purchase) transaction (or part thereof) in the primary counter of a dual-counter stock which is in excess of the aggregate gross number of shares purchased (or sold) in the secondary counter of the same dual-counter stock as referred to in 3.2.2(E) above. Please refer to the following for illustration purposes:

A DCMM's transactions in dual-counter stock A on T day:

	Primary counter	Secondary counter
Aggregate sale transactions	1,000,000 shares	500,000 shares
Aggregate purchase transactions	500,000 shares	800,000 shares

In this example, the aggregate gross number of shares sold by a DCMM in the primary counter equals 1,000,000 shares, which exceeds the aggregate number of 800,000 shares purchased by the DCMM in the secondary counter. The excess of 200,000 shares from the transactions in the primary counter shall therefore not be eligible for stamp duty exemption.

- (D) a transaction conducted in the primary counter of a dual-counter stock without corresponding transaction in the secondary counter of the same dual-counter stock on the same trading day, notwithstanding there were transactions in the secondary counter on the preceding trading day. Please refer to the following for illustration purposes:

A DCMM's transactions in dual-counter stock A on T day:

	Primary counter	Secondary counter
Aggregate sale transactions	300,000 shares	500,000 shares
Aggregate purchase transactions	500,000 shares	800,000 shares

A DCMM's transactions in dual-counter stock A on T+1:

	Primary counter	Secondary counter
Aggregate sale transactions	500,000 shares	Nil
Aggregate purchase transactions	Nil	Nil

In this example, the sale of 500,000 shares in the primary counter on T+1 will not be eligible for stamp duty exemption since there were no purchase transactions in the secondary counter on the same day (i.e. the rule in 3.2.4(C) above is triggered). Furthermore, notwithstanding the fact that there is a shortfall of 500,000 shares in the DCMM's aggregate sale transactions in the primary counter on T day as compared to its aggregate purchase transactions on the same day (i.e. 800,000 minus 300,000 shares), the DCMM will not be entitled to count the sale of any of the 500,000 shares in the primary counter on T+1 as Eligible DCMM Transactions in respect of such shortfall.

- (E) a transaction in the primary counter of a dual-counter stock which is not a bona fide hedge against the DCMM's Position from its Market Making Transactions in the secondary counter of the same dual-counter stock.

3.2.5 In the event that a DCMM has registered any affiliate for a dual-counter stock, the Eligible DCMM Transactions of the DCMM or the affiliate (as the case may be) shall be considered separately for the purposes of this Programme, and any reference to "DCMM" in this document shall be construed accordingly.

3.3 Reporting and Record Keeping

3.3.1 Reporting of Eligible DCMM Transactions

With respect to the Eligible DCMM Transactions conducted on each trading day, a DCMM shall, for its own account or for the account of its affiliate, (A) submit an activity report to the Exchange in accordance with the requirements under the Operation Procedures for Stamp Duty Collection of the Rules of the Exchange and (B) complete a Form SD-1 to set out the amount of the stamp duty exemption claimed from the Eligible DCMM Transactions. The completed Form SD-1 shall be uploaded to ECP by 11:00 a.m. on the second trading day after the Eligible DCMM Transactions are conducted (i.e. T+2).

If a transaction is no longer qualified as an Eligible DCMM Transaction, the DCMM shall, for its own account or for the account of its affiliate, promptly notify the Exchange by submitting a revised Form SD-1.

3.3.2 Record Keeping

In addition to its obligations under the Rules of the Exchange, a DCMM is required to maintain all books and records in respect of its DCMM business (including, where applicable, transactions which are permitted to be booked to its affiliate). Without prejudice to the above, a DCMM shall keep the full records of the daily trading record of the orders (including any cancelled orders) and executed trades with respect to all Eligible DCMM Transactions on which stamp duty exemption are claimed in the Form SD-1 submitted by the DCMM to the Exchange.

A DCMM shall keep segregated account(s) and records for Eligible DCMM Transactions separate from its non-DCMM business.

Such records must be made available for inspection whenever on demand by the Exchange or the Stamp Office. In addition, the Exchange may require a DCMM to provide evidence to demonstrate its claimed transactions in respect of a dual-counter stock comply with the applicable conditions and requirements prescribed for the Eligible DCMM Transactions.

3.4 Monitoring

In addition to its obligations under the Rules of the Exchange, a DCMM shall also comply with the reporting and record keeping requirements as stipulated in Section 3.3 above.

Without prejudice to its rights and powers under the Rules of the Exchange, the Exchange may notify the Collector of Stamp Revenue for any alleged or suspected non-compliance of the eligibility criteria under this Section 3. Any underpayment of stamp duty and the contingent penalties shall be dealt and settled by the relevant DCMM with the Collector of Stamp Revenue.

The Exchange will put in place the following monitoring system to review the amount of stamp duty exemption claimed by a DCMM (for its own account or for the account of its affiliate):

Assessment criteria	Remark
(A) whether the aggregate gross number of shares sold (or purchased) in a primary counter exceeds the aggregate gross number of shares purchased (or sold) in the secondary counter with respect to any dual-counter stock under the designated broker number(s) on the same trading day	If it occurs, the Exchange will send a notification to require the relevant DCMM to submit a revised Form SD-1.
(B) In respect of any 3-month period, whether the aggregate value of stamp duty exemption claimed in the Form SD-1 for that period exceeds the stamp duty exemption with respect to all Eligible DCMM Transactions on a gross basis in the activity form submitted by a DCMM in accordance with the requirements under the Rules of the Exchange (without netting sale and purchase transactions together)	The DCMM will be required to provide justifications for any discrepancy and the Exchange may notify the Collector of Stamp Revenue for any alleged or suspected non-compliance of the eligibility criteria under this Section 3.

3.5 General Provisions

At any time, a DCMM may be called upon to justify to the Exchange's satisfaction that a particular Eligible DCMM Transaction on which stamp duty exemption is claimed by the DCMM in any Form SD-1 filed by the DCMM was bona fide and was directly pursuant to the activities as prescribed in Section 3.2.1 above for the purposes of the Programme, even if it appears to comply with the eligibility criteria described in this Section 3.

It is important to note that compliance with the eligibility criteria described in this Section 3 does not necessarily qualify a transaction as an eligible transaction under stamp duty exemption. Only those Eligible DCMM Transactions that are bona fide and directly pursuant to the activities as prescribed in Section 3.2.1 may be entitled to stamp duty exemption. Besides the Stamp Office, the Exchange may in its discretion determine whether an Eligible DCMM Transaction claimed by a DCMM is bona fide and/or was directly pursuant to the activities as prescribed in Section 3.2.1 for the purposes of the Programme.

Any designated Exchange staff or such persons appointed by the Exchange may from time to time inspect the books, records and documents maintained by a DCMM in relation to its DCMM business. The DCMM shall grant or allow such designated Exchange staff or appointed persons immediate access to its premises, books, records and documents necessary for his or their inspection with or without prior notice.

A DCMM may be requested to conduct an independent review as directed by the Exchange to confirm that Eligible DCMM Transactions claimed by the DCMM are bona fide and directly pursuant to perform the activities as prescribed in Section 3.2.1 for the purposes of the Programme. Any expenses incidental to or consequential upon an independent review or an inspection shall be borne by the DCMM.

Any transaction which, in the opinion of the Exchange, is found not to be bona fide and/or not directly pursuant to the activities as prescribed in Section 3.2.1 for the purposes of the Programme will be deemed to have failed to satisfy the eligibility criteria. The Exchange will report any such transactions to the Collector of Stamp Revenue without prior notice being given to the DCMM concerned.

The Collector of Stamp Revenue may, in its absolute discretion, determine that such transactions as identified by the Exchange as failing to qualify as Eligible DCMM Transactions shall be subject to the requirements under section 19 of the Stamp Duty Ordinance and take appropriate actions against the DCMM accordingly.

If, in the opinion of the Exchange, any DCMM has abused the stamp duty exemption scheme or has attempted to do so, the Exchange may revoke or suspend its market maker permit(s) in its absolute discretion at any time without giving any reason or notice. In addition, the Exchange may take disciplinary action against the DCMM pursuant to the Rules of the Exchange.

ATTACHMENT 1

Requirements for DCMMs applying to hold positions in an affiliate

Certification of Paid-Up Capital and Shareholders' Funds of an Affiliate

For an affiliate holding DCMM Positions under the criteria that its paid-up capital and shareholders' funds must be not less than the equivalent of HK\$50 million and HK\$100 million respectively at all times, it must submit to the Exchange the following documents:

- (a) its annual audited accounts not later than four months following the year end date; and
- (b) its half-yearly management accounts which must at least contain the balance sheet, profit and loss accounts and the full notes to the accounts. The management accounts should be certified by the external auditors in accordance with the "*Terms of Reference*" below and should be submitted within 2 months following the period end date.

* * *

Terms of Reference for the External Review of Management Accounts and Certification of Paid-up Capital and Shareholders' Funds

The report should be based on the management accounts of the company as at 6 months after the year end date. The report shall be presented to the Exchange within two months of the reporting date.

- (1) To certify that the management accounts as at the reporting date are correctly compiled from the books and records.
- (2) To review the bank reconciliations for all bank balances as at the reporting date to ensure that large and unusual reconciling items can be satisfactorily explained.
- (3) To review the subsequent settlement of receivables (including clients, brokers, group companies and others) to ensure the fairness of the provision for bad and doubtful debts, if any.
- (4) To verify the existence, ownership and valuation of securities and other assets held by the company at the reporting date.
- (5) To ensure that the management accounts disclose the following information related to any unrecorded liabilities and contingent liabilities which may not have been reflected in the management accounts as at the reporting date.
 - (a) the nature of the unrecorded liabilities or contingent liabilities; and
 - (b) an estimate of the financial effect.
- (6) To ensure that the management accounts disclose any change of accounting policies and deviation from generally accepted accounting principles which are judged material or critical in determining profit or loss for the period and in stating the financial position and changes therein.
- (7) To confirm that all material adjusting post balance sheet events have been included in the management accounts.
- (8) To ensure that the management accounts disclose the following information related to any material non-adjusting post balance sheet event:
 - (a) the nature of the event; and

- (b) an estimate of the financial effect.
- (9) To ensure that the management accounts disclose any off balance sheet exposure.
- (10) To obtain all the information and explanations which to the best of the auditor's knowledge and belief were necessary for the purposes of the review.

ATTACHMENT 2

Order Input Requirements for DCMMs

1. Order input formats

DCMMs using OCG-C/BSS

Below is a summary of the order message requirements for different fields:

Orders	“Side” 1 = Buy 2 = Sell 5 = Sell Short	“Order Restrictions” 5 = Acting as Market Maker	First 3 characters in “Text” field
(A) Short Sell			
- Downtick ^{Note}	5	5	No specific input required
- Non- downtick	5	N/A	No specific input required
(B) Buy	1	N/A	No specific input required
(C) Long Sell	2	N/A	No specific input required

2. DCMMs must comply with these input requirements and other regulations set out in the Nineteenth Schedule of the Rules of the Exchange.

Note: Downtick short sell order means an order at a price below the POS reference price (during the Pre-opening Session), the best current ask price (during the Continuous Trading Session) or the CAS reference price (during the Closing Auction Session).