Explanatory Notes for Application for Registration / Removal of Designated Specialist

General Information

1. Applicant 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. Applicant applying for registration of Designated Specialist must have in place a dedicated market making OCG session for each Designated Specialist for conducting the market making activities. Applicant who wishes to subscribe a new OCG session shall contact HKEX – Participant General Enquiry Hotline at 2840-3626.


Documents Required for Application for Registration of Designated Specialist

Applicant shall provide:

1. Form 10A (Application for Registration / Removal of Designated Specialist);

2. Internal Report (Please read the attached Guidelines for Internal Report); and

3. Documentary evidence showing that the corporate client to be registered as a Designated Specialist has satisfied at least one of the following conditions:

- It is an entity licensed by or registered with the SFC for Type 1 or Type 2 regulated activities under the Securities and Futures Ordinance, or licensed or registered for similar activity by an overseas authority having a memorandum of understanding with the SFC for the sharing of market surveillance information;
- It is a licensed bank regulated by an authority acceptable to The Stock Exchange of Hong Kong Limited (“SEHK”);
- It is an entity which has maintained a current long-term credit rating of A- or above (Standard & Poor’s) or A3 or above (Moody’s); or
持有已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 元的機構。
it has maintained a paid-up capital of at least HK$50,000,000 and shareholders' funds of at least HK$100,000,000.

申請撤銷特許證券商註冊之所須文件
Documents Required for Removal of Designated Specialist

申請人須提交：
Applicant shall provide:-

1. 表格 10A（特許證券商註冊 / 撤銷註冊申請）。
   Form 10A (Application for Registration / Removal of Designated Specialist).
Guidelines for Internal Report

Introduction

In application for the registration of Designated Specialist, an Exchange Participant ("applicant") is required to:

(i) submit an internal report ("Report") giving information on the risk management policy and control of the applicant on its proposed Designated Specialist and describing the systems, controls and internal procedures that it intends to adopt or has adopted in regard to market making on the Exchange; and

(ii) include in the Report the information on the applicant’s readiness for conducting market making activities for securities traded and settled in RMB, where applicable.

Unless otherwise stated, terms used in these Guidelines shall have the same meanings as defined in the Rules of the Exchange of The Stock Exchange of Hong Kong Limited ("Rules of the Exchange").

Areas to be covered in the Report

1. Overview of the market making business

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

   - business structure and set up for the market making activities (providing details of the proposed Designated Specialist);
   - core operations of front and back offices for the market making activities;
   - a description of the background, experience, role and responsibility of key personnel and the name, contact telephone number and email address of each key personnel of the Designated Specialist under its registration who is responsible for overseeing market making activities; and
   - trading strategies and policies.

2. Financial standing

   The applicant should have and employ effectively the resources and procedures, which are needed for the proper performance of the market making activities. The applicant should provide the following information:

   - financial information of the applicant;
   - controls and procedures to ensure compliance with the financial requirements of the Exchange; and
   - controls and procedures to meet the settlement obligation towards the clearing houses.
3. Risk management

The framework of risk management policy and procedures of the applicant for the registration of Designated Specialist on the market making activities, specifically including the following:

- policy and procedures for setting trading and position limits for the Designated Specialist;
- list of risk management reports reviewed by the management and risk management personnel and frequency of such review;
- settlement arrangement between the applicant and the Designated Specialist and the consequence of the Designated Specialist's failure to meet its settlement obligation due to the applicant, including the actions which the applicant may be entitled to take;
- controls and procedures in ensuring the implementation of the risk management policy and procedures to monitor the Designated Specialist; and
- controls and procedures to monitor the compliance with Regulations (5B)(a) and (14F) of the Securities Market Maker Regulations ("Regulations") in the Fourteenth Schedule to the Exchange Rules.

In addition, the procedures to ensure that the Exchange is properly informed if the Designated Specialist fails to comply with the conditions set out in Regulation (5B)(a) or the Securities Market Maker’s obligations set out in the Regulations; or the applicant becomes aware of any of the matters noted in Regulation (5B)(d).

4. Records

The applicant should keep and maintain sufficient trading records of the market making activities. The Report should include description of the following:

- list of accounts and reports to be kept and the frequency of the reports (keep separate accounts for its own market maker trades and own trades which are not for the purpose of market making; and separate accounts for each Designated Specialist); 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 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 market making activities for securities traded and settled in RMB

The applicant should review its readiness for conducting the market making 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 the clearing houses*. 

The above areas are by no means exhaustive. The applicant should include any additional procedures, which they consider necessary to address the risks to the assets of the applicant or the Designated Specialist under its registration may be exposed or to which major liabilities may be suffered by them.

---

* Where the applicant is a Non Clearing Participant, the applicant should also provide confirmation by its General Clearing Participant (“GCP”) of the readiness of the GCP for clearing securities in RMB listed on the Exchange by reference to the Checklist.
Order Input Requirements for Securities Market Maker which has registered one or more Designated Specialist

1. Except for a down-tick short sell order, each market making order (buy or sell) must be identified by entering “MMM” as the first three characters of the “Text” / “Ref” field.

2. Order input formats

   (i) Securities Market Maker using a designated market making OCG/BSS for conducting market making activities by each of its Designated Specialists

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

<table>
<thead>
<tr>
<th>Orders</th>
<th>“Side”</th>
<th>“Order Restrictions”</th>
<th>First 3 characters in “Text” field</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1 = Buy</td>
<td>5 = Acting as Market Maker or Specialist in Security</td>
<td></td>
</tr>
<tr>
<td>(A) Short Sell</td>
<td>2 = Sell</td>
<td>5 = Sell Short</td>
<td></td>
</tr>
<tr>
<td>- Downtick Note</td>
<td>5</td>
<td>5</td>
<td>No specific input required</td>
</tr>
<tr>
<td>- Non-downtick</td>
<td>5</td>
<td>N/A</td>
<td>MMM</td>
</tr>
<tr>
<td>(B) Buy</td>
<td>1</td>
<td>N/A</td>
<td>MMM</td>
</tr>
<tr>
<td>(C) Long Sell</td>
<td>2</td>
<td>N/A</td>
<td>MMM</td>
</tr>
</tbody>
</table>

   (ii) Securities Market Maker using a designated market making OCG/NSTD for conducting market making activities by each of its Designated Specialists

   Below is a summary of the input formats:

<table>
<thead>
<tr>
<th>Orders</th>
<th>“SS” Indicator</th>
<th>First 3 digits in “Ref” field</th>
</tr>
</thead>
<tbody>
<tr>
<td>(A) Short Sell</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Downtick Note</td>
<td>M</td>
<td>No specific input required</td>
</tr>
<tr>
<td>- Non-downtick</td>
<td>Y</td>
<td>MMM</td>
</tr>
<tr>
<td>(B) Buy</td>
<td>N</td>
<td>MMM</td>
</tr>
<tr>
<td>(C) Long Sell</td>
<td>N</td>
<td>MMM</td>
</tr>
</tbody>
</table>

3. Securities Market Marker must comply with these input requirements and other regulations set out in the Fourteenth Schedule of the Rules of the Exchange.

Note:
Downtick short sell order means order at price below the best current ask price.