

**Rules of the Exchange**

**FOURTEENTH SCHEDULE**

**SECURITIES MARKET MAKER REGULATIONS  
("REGULATIONS")**

**APPLICATION FOR REGISTRATION OF DESIGNATED SPECIALIST**

- (5A) (a) A Securities Market Maker may apply to and register with the Exchange one or more of its corporate clients as its Designated Specialists. The application must be made in writing in the form prescribed by the Exchange from time to time. If the application is approved, the name of the Designated Specialist, each Market Making Security for which the Designated Specialist is registered and the name of the applying Securities Market Maker shall be entered into the Register of Designated Specialists kept by the Exchange.
- (b) No Securities Market Maker shall apply to register a corporate client to be its Designated Specialist for a Market Making Security if such corporate client is already registered as a Designated Specialist of another Securities Market Maker for the same Market Making Security.
- (c) A Securities Market Maker may apply to register one or more of its Designated Specialists for any Market Making Security specified in its current Securities Market Maker permit.
- (5B) (a) Before approving the application to register a Designated Specialist, the Exchange may give regard to such matters as the Exchange may, in its absolute discretion, consider to be appropriate and shall require the applying Securities Market Maker to demonstrate to the satisfaction of the Exchange that its corporate client which it is applying for registration as a Designated Specialist has satisfied at least one of the following conditions:
- (i) it is an entity licensed by or registered with the Commission for Type 1 or Type 2 regulated activity under the Ordinance, or licensed or registered for similar activity by an overseas authority having a memorandum of understanding with the Commission for the sharing of market surveillance information;
  - (ii) it is an entity which is a licensed bank regulated by an authority acceptable to the Exchange;
  - (iii) 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
  - (iv) it has maintained a paid-up capital of at least HK\$50,000,000 and shareholders' funds of at least HK\$100,000,000;

(v) [Repealed]

and the Designated Specialist shall also comply with such other conditions and/or other requirements as may be prescribed by the Exchange from time to time.

- (b) At the time of making an application under Regulation (5A)(a), a Securities Market Maker shall submit a declaration to the Exchange in a form prescribed by the Exchange from time to time stating that it has entered into a legally binding agreement with the corporate client which it is applying to be its Designated Specialist in which the corporate client has agreed with the Securities Market Maker to comply with, through the Securities Market Maker, the obligations set out in Regulations (9), (10) and (12) of this Schedule and the Securities Market Maker Obligations in or prescribed under the Appendix to this Schedule as approved by the Exchange from time to time as if it were the Securities Market Maker upon the corporate client being registered as a Designated Specialist. The Securities Market Maker shall immediately notify the Exchange in writing when the agreement referred to in this Regulation ceases to have any effect or the Securities Market Maker has reasons to believe that such an agreement shall become so. In these circumstances, the Exchange may revoke the registration of the Designated Specialist and remove its name and other related details from the Register of Designated Specialists.
- (c) A Securities Market Maker shall ensure that each of its Designated Specialists comply with the conditions set out in or prescribed under Regulation (5B)(a) at all times. A Securities Market Maker shall immediately notify the Exchange in writing when any of its Designated Specialists ceases to comply with the conditions prescribed in or under Regulation (5B)(a) and the Exchange shall revoke the registration of such Designated Specialist and remove its name and other related details from the Register of Designated Specialists.
- (e) A Securities Market Maker shall give 30 calendar days' (or such shorter period of time as the Exchange may allow) prior written notice to the Exchange if the Securities Market Maker wishes to have the name of any of its Designated Specialists removed from the Register of Designated Specialists. The Exchange shall, upon expiration of the said notice, revoke the registration of the said Designated Specialist and remove its name and other related details from the Register of Designated Specialists.
- (h) A Securities Market Maker shall procure each of its Designated Specialists to provide information to the Securities Market Maker or, at the Exchange's request, to the Exchange directly in relation to any investigation or inquiries which involve market making activities, including but not limited to the provision of accounts and reports or any other documents which the Exchange may request from time to time.

## **RIGHTS AND OBLIGATIONS OF SECURITIES MARKET MAKERS**

- (13) Each Securities Market Maker (as the case may be) may enter market making orders and conclude trades in the System for its own account, or for the account of any of its affiliates, or for the account of any of its Designated Specialists to improve the liquidity and spread in a Market Making Security for which it holds a current Securities Market Maker permit.

- (13A) All market making orders entered by a Securities Market Maker into the System shall be for its own account, or for the account of any of its affiliates, or for the account of any of its Designated Specialists and shall not be for the account of or for the benefit of any third party. A Securities Market Maker shall be fully responsible and liable for all market making orders entered into the System irrespective of whether it is for its own account, or for the account of any of its affiliates, or for the account of any of its Designated Specialists.

**RIGHTS AND OBLIGATIONS OF SECURITIES MARKET MAKERS WITH DESIGNATED SPECIALISTS**

- (14A) A Securities Market Maker which intends to register any Designated Specialist for a specified Market Making Security shall indicate to the Exchange in such manner as the Exchange may from time to time determine if it will also perform market making activities for that specified security by itself together with the Designated Specialist, in which case the Securities Market Maker shall, notwithstanding the registration of any Designated Specialist, be obliged to comply with the obligations set out in Regulations (9), (10) and (12) and the Securities Market Maker Obligations in or prescribed under the Appendix as approved by the Exchange from time to time.
- (14B) A Securities Market Maker which has registered one or more Designated Specialist for a specified Market Making Security shall enter market making orders for the account of itself, where applicable, and each such Designated Specialist in respect of that specified security and shall maintain separate accounts for itself and each such Designated Specialist.
- (14C) A Securities Market Maker must have in place the necessary systems and procedures to maintain sufficient risk management control on itself and its Designated Specialists.
- (14E) A Securities Market Maker shall enter market making orders into the System and conclude trades and perform market making activities by itself and/or with its Designated Specialists in such manner as prescribed by the Exchange from time to time.
- (14F) A Securities Market Maker shall ensure that each of its Designated Specialists shall at all times comply with the obligations set out in Regulations (9), (10) and (12) and the Securities Market Maker Obligations in or prescribed under the Appendix as approved by the Exchange from time to time.
- (14G) Without prejudice to the general power of the Exchange to revoke or suspend the registration of a Designated Specialist under Regulation (5B)(g), the registration of the Designated Specialist may be revoked and its name and other related details removed from the Register of Designated Specialists (i) if the Securities Market Maker fails to comply with Regulation (14F) or (ii) if the Designated Specialist has, in the opinion of the Exchange, manipulated or distorted the market for one or more Market Making Securities or attempted to do so or abused its capacity as a Designated Specialist of the Securities Market Maker.

**SUSPENSION, REVOCATION AND SURRENDER**

- (19) Any Securities Market Maker permit (where applicable) may be revoked by the Exchange in its absolute discretion at any time without giving any reason or notice. Without prejudice to this general power of revocation, a Securities Market Maker permit will be revoked:-

- (i) if the Securities Market Maker fails to comply with Regulations (9) to (14G) (inclusive) after having received a warning from the Exchange; or
- (ii) if the Securities Market Maker has, in the opinion of the Exchange, manipulated or distorted the market for one or more Market Making Securities or attempted to do so or abused its rights as a Securities Market Maker; or
- (iii) if the Securities Market Maker is suspended, expelled or, for any other reason, ceases to be an Exchange Participant,

and the Securities Market Maker (as the case may be) shall still be subject to these Regulations in respect of any events which occurred prior to and after the revocation.

- (19B) The Exchange has absolute discretion at any time to suspend, withdraw or revoke a Securities Market Maker's access to the System through any Market Making Central Gateway session on such terms and for such period as the Board shall think fit without giving any reason or notice and the decision of the Board shall be final and conclusive. Without prejudice to the aforesaid general power, the Exchange shall have the right to suspend, withdraw or revoke a Securities Market Maker's access in such capacity of any Market Making Central Gateway session to the System on such terms and for such period as the Board shall think fit if it fails to comply with these Regulations or if it has been suspended, expelled or for any reason ceases to be an Exchange Participant. The decision of the Board shall be final and conclusive. For the avoidance of doubt, the Exchange Participant shall remain liable for its failure to comply with these Regulations and for any monies due and payable under these Regulations as if its access in the capacity as a Securities Market Maker has not been suspended, withdrawn or revoked.
- (20) An Exchange Participant may surrender at any time its Securities Market Maker permit for any Market Making Security by giving 30 calendar days' (or such shorter period of time as the Exchange may allow) written notice to that effect to the Exchange.

**APPENDIX TO FOURTEENTH SCHEDULE**

**SECURITIES MARKET MAKER OBLIGATIONS (“Obligations”)**

- 7A. In the event that a Designated Specialist of a Securities Market Maker fails to meet the minimum response rate of Wide Spread in a Market Making Security in a month in accordance with the Fourteenth Schedule for two consecutive months and the occurrence of Wide Spread in that security in each of those two months is no less than the minimum number specified by the Exchange from time to time, the registration of the Designated Specialist may be revoked at the Exchange’s discretion and its name and other details removed from the Register of Designated Specialists.