

FOURTEENTH SCHEDULE

SECURITIES MARKET MAKER REGULATIONS ("REGULATIONS")

INTRODUCTION

(1) In these Regulations:-

"affiliate" means (i) a company that is a subsidiary of a Securities Market Maker or (ii) a company of which a Securities Market Maker is a subsidiary or (iii) a company which shares a parent company with a Securities Market Maker and that parent company owns at least 40 percent of both companies;

"fast market" means a period of time, as determined by the Exchange, during which Securities Market Maker Obligations may be suspended;

"market making order" means an order validly entered into the System during the Continuous Trading Session by an Exchange Participant acting in the capacity as a Securities Market Maker;

"maximum spread" means, in relation to two-sided market making orders, the maximum difference allowed between the bid price and the ask price input by a Securities Market Maker as may from time to time be specified by the Exchange;

"Wide Spread" means, in respect of a Market Making Security:-

- (i) a situation where the bid ask spread is larger than a limit specified by the Exchange from time to time;
- (ii) a situation where there is only one-sided quotation; or
- (iii) a situation where there is no existing quotation on both the bid and the ask queues,

continuously for a period of time, as the Exchange may from time to time prescribe, during the Continuous Trading Session.

APPLICATION FOR SECURITIES MARKET MAKER PERMIT

- (2) An Exchange Participant may apply to the Exchange for permission to make a market in a particular Market Making Security, by completing the prescribed application form and returning it to the Exchange, in accordance with the instructions contained in the application form.
- (3) Before granting a Securities Market Maker permit, the Exchange shall require the applying Exchange Participant to demonstrate to the satisfaction of the Exchange that it is suitably qualified to make a market in the Market Making Security 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 and risk management policy and procedures of the applying Exchange Participant).

- (4) The decision of the Exchange in respect of the admission or rejection in relation to an application to become a Securities Market Maker shall be final and conclusive.
- (5) The Exchange Participant which is applying for a Securities Market Maker permit, will be notified in writing by the Exchange of the grant of each Securities Market Maker permit for each Market Making Security.

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.
- (d) A Securities Market Maker shall immediately notify the Exchange in writing upon becoming aware of any of the following matters:-
 - (i) any change in information relating to any of its Designated Specialists supplied to the Exchange at the time of application or from time to time;
 - (ii) any of its Designated Specialists being in breach of any rules or regulatory requirements of the regulatory authority it is subject to;
 - (iii) any disciplinary action taken by the regulatory authority against any of its Designated Specialists which it is subject to; or
 - (iv) any restrictive action being imposed on any of its Designated Specialists by the regulatory authority or any other bodies or authorities which it is subject to.
- (e) A Securities Market Maker shall give not less than three months' (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.
- (f) The Exchange may approve an application on such conditions as it thinks fit, and if it considers necessary, amend or cancel any condition to which the approval is then subject.
- (g) The Exchange shall have absolute discretion to withhold or withdraw approval or revoke

or suspend the registration of a Designated Specialist at any time and shall not be required to give any reason for its action. The decision of the Exchange shall be final and conclusive.

- (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.
- (i) Upon expiration or revocation of the Securities Market Maker permit, the registration of each Designated Specialist of a Securities Market Maker shall be revoked and the name and address of the Designated Specialist and of the Securities Market Maker removed from the Register of Designated Specialists.

FORM AND DURATION OF SECURITIES MARKET MAKER PERMITS

- (6) Securities Market Maker permits shall be non-exclusive, non-transferable and in such form as may from time to time be prescribed by the Exchange.
- (7) Each Securities Market Maker permit shall state a trading day on which it is to come into effect and the period and the Market Making Security for which it is granted. Unless otherwise stipulated by the Exchange, the minimum period for which each permit will be granted will be 1 year and may be renewed at the Exchange's discretion.

RIGHTS AND OBLIGATIONS OF SECURITIES MARKET MAKERS

- (8) Each Securities Market Maker shall enter market making orders for Market Making Securities, for which it holds a current Securities Market Maker permit into 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. Market making orders shall only be input into the System during the Continuous Trading Session.
- (9) Subject to Regulation (10), each Securities Market Maker (as the case may be) shall be obliged, upon occurrence of Wide Spread in a Market Making Security for which it holds a current Securities Market Maker permit, to:-
 - (i) enter two-sided market making orders into the System in no less than the minimum quantity, as specified by the Exchange from time to time, and within the maximum spread;
 - (ii) enter such market making orders into the System within such period after occurrence of Wide Spread as specified by the Exchange from time to time; and
 - (iii) maintain such orders for a minimum period of time as specified by the Exchange from time to time.
- (10) A Securities Market Maker shall respond, in accordance with Regulation (9) above, to occurrences of Wide Spread and meet the minimum response rate over such time period as may, from time to time be stipulated by the Exchange if the occurrence of Wide Spread over that time period is no less than the minimum number specified by the Exchange from time to time.

- (11) In assessing the response rate of a Securities Market Maker to Wide Spread for the purpose of Regulation (10) above, the Exchange may, in its absolute discretion, take into account all the relevant circumstances including but not limited to the number of occurrence of Wide Spread during the stipulated time period and the general conditions of the market, either as a whole or of a specific security.
- (12) Each Securities Market Maker (as the case may be) must be available to respond to Wide Spread on all trading days during the period for which its permit is granted unless specifically exempted by the Exchange.
- (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.
- (14) Some of the Securities Market Maker Obligations are set out in the Appendix to this Schedule.

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.
- (14D) A Securities Market Maker shall be fully responsible and liable for all acts or omissions of each of its Designated Specialists and for breach, infringement or non-compliance of these Rules and the Regulations.
- (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.

MARKET MAKING CENTRAL GATEWAY SESSION

- (15) (a) [Repealed]
- (b) A Securities Market Maker upon payment of a fee to be determined by the Board from time to time shall be entitled to have its BSS or NSTD connected to a Market Making Central Gateway session for access to the System. The number of Market Making Central Gateway sessions that a Securities Market Maker may be designated at any one time shall be determined by the Board from time to time. Unless otherwise determined by the Board, the Market Making Central Gateway session shall be subject to the Rules relating to "Central Gateway session" referred to in Rule 365(1) insofar as they are applicable.
- (15A) [Repealed]
- (16) [Repealed]
- (16A) A Securities Market Maker shall be responsible and liable for the granting, monitoring and supervision of access to any Market Making Central Gateway sessions designated to it.
- (17) [Repealed]
- (17A) A Market Making Central Gateway session shall be assigned with a standard Central Gateway throttle or multiples of a standard Central Gateway throttle (as the case may be) as determined by the Board from time to time for use by the Securities Market Maker for entering market making orders and/or other orders as the Board may from time to time determine into the System.
- (17B) A Securities Market Maker shall use a Market Making Central Gateway session for entering market making orders into the System in such manner as the Board may from time to time determine. The Board may from time to time determine orders or activities a Securities Market Maker may enter or carry out using a Market Making Central Gateway session subject to such conditions and in such manner as the Board may from time to time determine.

SUSPENSION, REVOCATION AND SURRENDER

- (18) Any market making obligations may be suspended by the Exchange for such period, as it

shall think fit: -

- (i) if the market for any Market Making Security in respect of which the Securities Market Maker permits have been granted is not, in the Exchange's opinion, orderly;
- (ii) if the trading of any Market Making Security and/or its underlying securities in respect of which Securities Market Maker permits have been granted is not, in the Exchange's opinion, orderly;
- (iii) [Repealed]
- (iv) if the Market Making Security in respect of which the Securities Market Maker permits have been granted are suspended from trading;
- (v) [Repealed]
- (vi) when a fast market is determined by the Exchange; or
- (vii) in any circumstances as may be determined by the Exchange.

(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 his or 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.

(19A) Upon suspension, withdrawal, revocation or surrender of the Securities Market Maker permit of a Securities Market Maker, the Exchange shall terminate the access of any Market Making Central Gateway sessions designated to it to the System.

(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 not less than three months' (or such shorter period of time as the Exchange may allow) written notice to that effect to the Exchange.
- (21) The Exchange may, at its sole discretion, reject a new application for a Securities Market Maker permit by any Exchange Participant which has previously surrendered, or failed to renew, a Securities Market Maker permit or which has had a Securities Market Maker permit revoked.

SECURITIES MARKET MAKER SHORT SELLING

- (22) Notwithstanding anything to the contrary contained in these Rules, Securities Market Maker Short Selling by a Securities Market Maker or a Securities Market Maker for its Designated Specialists shall be conducted in accordance with these Regulations and in compliance at all times with the Ordinance.
- (23) A Securities Market Maker Short Selling transaction shall only be concluded in a Market Making Security which is automatically struck through the System.
- (24) A Securities Market Maker Short Selling order shall only be input into the System during the Continuous Trading Session. In respect of a Securities Market Maker Short Selling order, a Securities Market Maker shall when inputting the order into the System, indicate in such manner as the Exchange shall from time to time determine, that the order is a Securities Market Maker Short Selling order.
- (25) The Chief Executive may restrict or prohibit a Securities Market Maker from Securities Market Maker Short Selling provided he has first obtained the approval of the Chairman of the Board, which may be given either orally or in writing. Notice of such restriction or prohibition, whether oral or written, shall take effect immediately upon communication to or service on the Securities Market Maker from the time specified in the notice and shall remain effective and in force until revoked, removed or modified by the Chief Executive.
- (26) A Securities Market Maker Short Selling could be made on the Exchange below the best current ask price.
- (27) The Exchange may from time to time exempt any orders, trades and Securities Market Maker from all or any of the provisions of these Regulations.

APPENDIX TO FOURTEENTH SCHEDULE

SECURITIES MARKET MAKER OBLIGATIONS (“Obligations”)

1. Without prejudice to the other powers of the Exchange in relation to the Obligations, the Obligations as specified below may be subject to revision as determined by the Chief Executive, in consultation with the Chairman of the Exchange and the Chief Executive Officer of the Commission. Any such determination made to revise the Obligations will be notified to Exchange Participants.
2. The Exchange has absolute discretion to prescribe from time to time different Obligations with respect to different Market Making Securities. Such different Obligations will be notified to the Exchange Participants. Unless otherwise notified to the Exchange Participants, the Obligations with respect to each of the Market Making Securities may be prescribed by the Exchange within the following ranges:

	Ranges within which the Obligations may be prescribed
The maximum spread of two-sided market making orders entered by a Securities Market Maker into the System	1 to 40 spreads
The minimum quantity of market making orders that a Securities Market Maker submits in accordance with Regulation (9)	5 to 30 board lots
The limit of the bid ask spread for situation (i) under the definition of “Wide Spread” in Regulation (1)	1 to 45 spreads
The minimum period of time for which the situation described under either (i), (ii) or (iii) in the definition of “Wide Spread” in Regulation (1) must have occurred continuously in order to constitute a Wide Spread	0 to 3 minutes
The period of time within which a Securities Market Maker shall enter market making orders into the System upon an occurrence of Wide Spread	0 to 90 seconds
The minimum period of time for which a Securities Market Maker shall maintain a market making order after initially entering it into the System	0 to 3 minutes
The minimum response rate of Wide Spread by a Securities Market Maker in one month	50 to 100 percent

The minimum number of occurrence of Wide Spread in a month for the minimum response rate to apply	0 to 200
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3. [Repealed]
4. [Repealed]
5. [Repealed]
6. [Repealed]
7. In the event that 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, its Securities Market Maker permit for that Market Making Security may be revoked at the Exchange's discretion.
- 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.
8. The Exchange may, in its absolute discretion, determine at any time that there is a fast market or there is no longer a fast market. A fast market may be determined by the Exchange in circumstances including, but not limited to, where the nominal price of the security is highly volatile over a short period of time.