

## NINETEENTH SCHEDULE

### DUAL COUNTER MARKET MAKER REGULATIONS (“REGULATIONS”)

#### INTRODUCTION

(1) In these Regulations:-

“affiliate” means (i) a company that is a subsidiary of a Dual Counter Market Maker or (ii) a company of which a Dual Counter Market Maker is a subsidiary or (iii) a company which shares a parent company with a Dual Counter Market Maker and that parent company owns at least 40 percent of both companies, which satisfies such conditions and/or requirements as may be prescribed by the Exchange from time to time and is approved by the Exchange as an affiliate of the Dual Counter Market Maker for whose account the Dual Counter Market Maker may enter into the System DCMM orders for Dual Counter Securities for which that Dual Counter Market Maker holds a current Dual Counter Market Maker permit;

“arbitrage order” means an order to sell (or buy) a Dual Counter Security in one counter in conjunction with another order to buy (or sell) the same Dual Counter Security in the other counter for arbitrage purpose;

“DCMM order” means an order validly entered into the System by an Exchange Participant acting in its capacity as a Dual Counter Market Maker, which shall be a market making order, a hedging order or an arbitrage order;

“fast market” means a period of time, as determined by the Exchange, during which Dual Counter Market Maker Obligations may be suspended;

“hedging order” means an order to sell (or buy) a Dual Counter Security in the primary counter for the purpose of hedging against the risk of long (or short) positions in a transaction arising from a market making order in that Dual Counter Security;

“market making order” means an order to sell or buy a Dual Counter Security in the secondary counter arising from the discharge of Dual Counter Market Maker Obligations as prescribed in or under the Appendix to this Schedule;

“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 Dual Counter Market Maker as may from time to time be specified by the Exchange;

“minimum participation rate” means the percentage of a period of time within a trading day as may from time to time be specified by the Exchange, during which (i) in the Continuous Trading Session, a Dual Counter Market Maker is required to input and maintain two-sided market making orders that are within the maximum spread and in no less than the minimum quote size; (ii) in the Pre-opening Session, a Dual Counter Market Maker is required to input and maintain two-sided market making orders that are in no less than the minimum quote size until the end of the random matching period, upon which the length of time for counting the minimum participation rate is determined by the Exchange from time to time as prescribed in

the Appendix to this Schedule; and (iii) in the Closing Auction Session, a Dual Counter Market Maker is required to input and maintain two-sided market making orders that are in no less than the minimum quote size until the end of the random closing period, upon which the length of time for counting the minimum participation rate is determined by the Exchange from time to time as prescribed in the Appendix to this Schedule;

“minimum quote size” means, in relation to two-sided market making orders, the aggregate quote value per side of the market making orders that are validly input by a Dual Counter Market Maker as may from time to time be specified by the Exchange.

#### **APPLICATION FOR DUAL COUNTER MARKET MAKER PERMIT**

- (2) An Exchange Participant may apply to the Exchange for permission to make a market in the secondary counter of a particular Dual Counter 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 Dual Counter 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 secondary market of a Dual Counter 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 Dual Counter Market Maker shall be final and conclusive.
- (5) The Exchange Participant which is applying for a Dual Counter Market Maker permit will be notified in writing by the Exchange of the grant of each Dual Counter Market Maker permit for each Dual Counter Security.

#### **FORM AND DURATION OF DUAL COUNTER MARKET MAKER PERMITS**

- (6) Dual Counter 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 Dual Counter Market Maker permit shall state a trading day on which it is to come into effect and the period and the Dual Counter 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 DUAL COUNTER MARKET MAKERS**

- (8) Each Dual Counter Market Maker shall enter market making orders of Dual Counter Securities for which it holds current Dual Counter Market Maker permits in respect of such Dual Counter Securities into the System, for its own account or for the account of any of its affiliates. Market making orders entered by a Dual Counter Market Maker shall be input into the System during the Pre-opening Session, the Continuous Trading Session or the Closing Auction Session.

- (9) Subject to Regulation (10), each Dual Counter Market Maker shall be obliged, in respect of a Dual Counter Security for which it holds a current Dual Counter Market Maker permit, to:-
- (i) enter two-sided market making orders into the System in no less than the minimum quote size and each within the maximum spread during the Continuous Trading Session;
  - (ii) enter two-sided market making orders, which shall be at-auction limit orders, into the System in no less than the minimum quote size during the Pre-opening Session and the Closing Auction Session; and
  - (iii) maintain such orders for a minimum period of time as specified by the Exchange from time to time.
- (10) A Dual Counter Market Maker shall input and maintain market making orders of a Dual Counter Security in accordance with Regulation (9) above, and meet the minimum participation rate over such time period as may from time to time be stipulated by the Exchange.
- (11) In assessing the participation rate of a Dual Counter Market Maker 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 general conditions of the market, either as a whole or of a specific security.
- (12) Each Dual Counter Market Maker must be available to input and maintain market making orders on all trading days during the period for which its permits are granted unless specifically exempted by the Exchange.
- (13) (a) Each Dual Counter Market Maker may enter market making orders and conclude trades in the System for its own account or for the account of any of its affiliates to improve the liquidity and spread in the secondary counter of the Dual Counter Security for which it holds a current Dual Counter Market Maker permit.
- (b) The Dual Counter Market Maker may, for the purpose of hedging against the risk of short or long market making positions arising from trades in Regulation (13)(a) above, enter hedging orders in the primary counter of the same Dual Counter Security and conclude trades in the System for its own account or for the account of any of its affiliates. Hedging orders entered by a Dual Counter Market Maker may be input into the System during the Continuous Trading Session or the Closing Auction Session.
- (c) The Dual Counter Market Maker may, for arbitrage purpose, enter arbitrage orders and conclude trades in the System for its own account or for the account of any of its affiliates. Arbitrage orders entered by a Dual Counter Market Maker may be input into the System during the Pre-opening Session, the Continuous Trading Session or the Closing Auction Session.
- (14) All DCMM orders entered by a Dual Counter Market Maker into the System shall be for its own account or for the account of any of its affiliates and shall not be for the account of or for the benefit of any third party. A Dual Counter Market Maker shall be fully responsible and liable for all DCMM orders entered into the System irrespective of whether it is for its own account or for the account of any of its affiliates.

- (15) Some of the Dual Counter Market Maker Obligations are set out in the Appendix to this Schedule.

#### **MARKET MAKING CENTRAL GATEWAY SESSION**

- (16) A Dual Counter Market Maker upon payment of a fee to be determined by the Board from time to time shall be entitled to have its BSS connected to a Market Making Central Gateway session for access to the System. The number of Market Making Central Gateway sessions that a Dual Counter 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.
- (17) A Dual Counter 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.
- (18) (a) 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 Dual Counter Market Maker for entering DCMM orders into the System.
- (b) A Dual Counter Market Maker shall use a Market Making Central Gateway session for entering DCMM 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 Dual Counter 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**

- (19) Any market making obligations may be suspended by the Exchange for such period, as it shall think fit: -
- (i) if the market for any Dual Counter Security in respect of which Dual Counter Market Maker permits have been granted is not, in the Exchange's opinion, orderly;
  - (ii) if the trading of any Dual Counter Security in respect of which Dual Counter Market Maker permits have been granted is not, in the Exchange's opinion, orderly;
  - (iii) if the Dual Counter Security in respect of which Dual Counter Market Maker permits have been granted is suspended from trading;
  - (iv) when a fast market is determined by the Exchange; or
  - (v) in any circumstances as may be determined by the Exchange.
- (20) Any Dual Counter Market Maker permit (where applicable) may be suspended or revoked by the Exchange in its absolute discretion at any time without giving any reason or notice.

Without prejudice to this general power of suspension and revocation, a Dual Counter Market Maker permit will be suspended or revoked:-

- (i) if the Dual Counter Market Maker fails to comply with Regulations (9) to (15) (inclusive) after having received a warning from the Exchange; or
- (ii) if the Dual Counter Market Maker has, in the opinion of the Exchange, manipulated or distorted the market for one or more Dual Counter Securities or attempted to do so or abused its rights as a Dual Counter Market Maker; or
- (iii) if the Dual Counter Market Maker is suspended, expelled or, for any other reason, ceases to be an Exchange Participant,

and the Dual Counter Market Maker shall still be subject to these Regulations in respect of any events which occurred prior to and after the suspension or revocation.

- (21) Upon suspension, withdrawal, revocation or surrender of the Dual Counter Market Maker permit of a Dual Counter Market Maker, the Exchange shall terminate the access of any Market Making Central Gateway sessions designated to it to the System.
- (22) The Exchange has absolute discretion at any time to suspend, withdraw or revoke a Dual Counter 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 Dual Counter 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 Dual Counter Market Maker has not been suspended, withdrawn or revoked.
- (23) An Exchange Participant may surrender at any time its Dual Counter Market Maker permit for any Dual Counter 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.
- (24) The Exchange may, at its sole discretion, reject a new application for a Dual Counter Market Maker permit by any Exchange Participant which has previously surrendered, or failed to renew, a Dual Counter Market Maker permit or which has had a Dual Counter Market Maker permit revoked.

## **DUAL COUNTER MARKET MAKER SHORT SELLING**

- (25) Notwithstanding anything to the contrary contained in these Rules, Dual Counter Market Maker Short Selling by a Dual Counter Market Maker shall be conducted in accordance with these Regulations and in compliance at all times with the Ordinance.

- (26) A Dual Counter Market Maker Short Selling transaction shall only be concluded in a Dual Counter Security which is automatically struck through the System.
- (27) A Dual Counter Market Maker Short Selling order may be input into the System for the Dual Counter Market Maker's account or for the account of any of its affiliates during the Pre-opening Session, the Continuous Trading Session or the Closing Auction Session. In respect of a Dual Counter Market Maker Short Selling order, a Dual Counter 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 Dual Counter Market Maker Short Selling order.
- (28) For the avoidance of doubt, Dual Counter Market Maker Short Selling shall be limited to transactions in Dual Counter Securities which are also Designated Securities.
- (29) The Chief Executive may restrict or prohibit a Dual Counter Market Maker from Dual Counter 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 Dual Counter 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.
- (30) A Dual Counter Market Maker Short Selling order could be made on the Exchange 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).
- (31) The Exchange may from time to time exempt any orders, trades and Dual Counter Market Maker from all or any of the provisions of these Regulations.

## APPENDIX TO NINETEENTH SCHEDULE

### DUAL COUNTER 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 Dual Counter Securities. Such different Obligations will be notified to Exchange Participants. Unless otherwise notified to Exchange Participants, the Obligations with respect to each of the Dual Counter Securities may be prescribed by the Exchange at the following levels or within the following ranges:

	Ranges within which the Obligations may be prescribed
The maximum spread of two-sided market making orders entered by a Dual Counter Market Maker into the System during the Continuous Trading Session	0.25 to 3.00 percent or where the nominal price of the security is under such price as the Exchange may from time to time specify, 1 spread
The minimum quote size of market making orders that a Dual Counter Market Maker submits during the Pre-opening Session, the Continuous Trading Session or the Closing Auction Session in accordance with Regulation (9)	RMB50,000 to 1,000,000
The minimum period of time for which a Dual Counter Market Maker shall maintain a pair of two-sided market making orders after initially entering it into the System during (1) the Continuous Trading Session, (2) the Pre-opening Session until the end of the random matching period and (3) the Closing Auction Session until the end of the random closing period	0 to 120 seconds
The minimum participation rate of a Dual Counter Market Maker during the Pre-opening Session, the Continuous Trading Session and the Closing Auction Session in one trading day	50 to 90 percent
The length of time for counting the minimum participation rate for two-sided	0 to 900 seconds

market making orders that are in no less than the minimum quote size and are maintained in no less than the minimum period of time until the end of the random matching period of the Pre-opening Session	
The length of time for counting the minimum participation rate for two-sided market making orders that are in no less than the minimum quote size and are maintained in no less than the minimum period of time until the end of the random closing period of the Closing Auction Session	0 to 360 seconds

3. In the event that a Dual Counter Market Maker fails to meet the minimum participation rate in a Dual Counter Security in a trading day in accordance with the Nineteenth Schedule for five or more days in a month for two consecutive months, its Dual Counter Market Maker permit for that Dual Counter Security may be suspended or revoked at the Exchange's discretion.
4. 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.