

Chapter 4 : Market Making

4.1 Market Maker Permit

An Options Trading Exchange Participant is a Market Maker for a particular option class if it holds an effective Market Maker Permit for that class.

A Regular Market Maker Permit will have an effective date and will generally be granted for a period of one year, unless otherwise agreed. A Primary Market Maker Permit will have an effective date and will be for a duration as set out in relevant appointment letter which may vary from one Primary Market Maker to another.

An Options Trading Exchange Participant can hold only one Market Maker Permit for each class. However, an Options Trading Exchange Participant can simultaneously hold more than one Market Maker Permit for different classes.

A Market Maker Permit is conferred on an Options Trading Exchange Participant. The Options Trading Exchange Participant having the Permit shall be responsible for assigning qualified traders to assume the responsibilities of making the market in compliance with the terms and conditions of the Permit.

4.2 Application Procedures for Market Maker Permit

An Options Trading Exchange Participant that wants to obtain a Regular Market Maker Permit should submit Form OP004 to the Exchange.

An Options Trading Exchange Participant that wants to obtain a Primary Market Maker Permit should submit Form OP004 and go through a bidding process as administered by the Exchange. The Exchange shall send out invitations to Options Trading Exchange Participants by means of a circular which shall set out details of the bidding process. The bidding process shall be closed and a limited number of Primary Market Maker Permits shall be allocated based on the obligation level commitment of the bidders and any other criteria that the Exchange thinks appropriate. The Exchange shall have sole and absolute discretion in deciding on Primary Market Maker appointments.

4.3 Renewal of Regular Market Maker Permit

Unless a Regular Market Maker notifies the Exchange in writing at least 30 days before the expiry day of the Regular Market Maker Permit that it is not to be renewed, the Regular Market Maker Permit will be automatically renewed on terms identical to those of the current Regular Market Maker Permit. The only difference is that the commencement date will be the day immediately following the expiry date of the current Regular Market Maker Permit, unless otherwise agreed upon.

This automatic renewal mechanism will be repeatedly applied on any renewed Regular Market Maker Permit, unless otherwise agreed..

For the avoidance of doubt, Primary Market Maker Permits are awarded for a limited period and shall not be automatically renewed. Options Trading Exchange Participants that wish to apply for new Primary Market Maker Permits shall follow the application procedures set out in 4.2.

4.4 Surrender of Market Maker Permit

A Regular Market Maker can surrender its Regular Market Maker Permit in writing by submitting Form OP004 to the Exchange at least 30 days before the expiry date of the permit. A Regular Market Maker should continue to fulfil its quoting obligations until the Exchange has confirmed with it the effective date of the surrender.

OPERATIONAL TRADING PROCEDURES

MARKET MAKING

Circumstances under which a Primary Market Maker can terminate its Primary Market Maker Permit are set out in the relevant appointment letter which may vary from one Primary Market Maker to another.

4.5 Revocation of Market Maker Permit

The Exchange can revoke a Regular Market Maker Permit at any time if the Regular Market Maker does not conform with its obligations, with the forfeiture of any accrued fee discounts.

Circumstances under which the Exchange can terminate or suspend a Primary Market Maker Permit are set out in the relevant appointment letter which may vary from one Primary Market Maker to another

4.6 Market Makers' Quotes

The quotes, other than zero-bid quotes, supplied by Market Makers are a pair of bid and ask price with quantities for a given option series, subject to the constraints as laid down in the Second Schedule of the *Options Trading Rules*. Once submitted, a quote behaves just like a pair of Rest-of-Day limit orders.

Quotes in the order book are not distinguished from limit orders.

4.7 Quote Requests

A trader can initiate a request in HKATS for Market Makers to quote for a particular series by using a Quote Request function, as described in the *HKATS User's Guide*. Options Trading Exchange Participants shall not abuse the Quote Request function. This would include the issuing of large quantities of quote requests for series which it has no intention of trading or for series which plainly have no value at all (normally far out-of-the-money series close to expiry). The Exchange may impose a fee of HK\$50.00 in respect of each and every quote request which in the opinion and absolute discretion of the Exchange is considered to be an abuse of the Quote Request function.

A quote request can be seen by all Options Trading Exchange Participants via the Market Messages Window of HKATS.

4.8 [Repealed]

4.9 [Repealed]

4.10 Surveillance of Market Makers

The Exchange will closely monitor Market Maker performance in accordance with the *Options Trading Rules*.

4.11 Market Maker Accounts

A Market Maker shall be given an account denoted as "M1" in its House Account in HKATS to record trades resulting from Market Making activities, which are subject to a discount in trading tariffs.

Such trades recorded in the Market Maker's "M1" account in HKATS will be transmitted to its corresponding Market Maker Account in DCASS. Positions in a Market Maker Account in DCASS are recorded on a net basis after the System Input Cutoff Time, meaning long and short positions on the same option series will be consolidated to become a net long or short position. Please refer to the *Operational Clearing Procedures* for details.

4.11A Separate Accounts for Designated Traders

A designated trader means a trader designated by a Market Maker to perform the market making obligations in the name and on behalf of that Market Maker in option class(es) specified by that Market Maker. In addition to the market making activities, trades in other option class(es) may be conducted by a designated trader for his own account.

In addition to the Market Maker Account mentioned above, a Market Maker may apply to SEOCH for using the enhanced accounting services of opening and keeping a separate Market Maker Account in DCASS for each of its designated traders. For the purpose of the calculation of margin requirement, positions recorded in each Market Maker Account for a designated trader in DCASS will be treated separately as a portfolio on its own and totally independent of the house positions of that Market Maker recorded in its other accounts.

A Market Maker that wishes to avail itself of the enhanced accounting services of SEOCH may apply to SEOCH in accordance with the *Operational Clearing Procedures* paragraph 1.7.

Upon the opening of a Market Maker Account for a designated trader in DCASS, all provisions of the Second Schedule of the *Options Trading Rules* shall apply to the named designated trader individually as if he was the Market Maker itself. The Market Maker shall be fully responsible for the conduct and performance of its designated traders. In particular, the Market Maker shall be liable for the discount claw-back in respect of each of its designated traders who has failed to meet the performance target as laid down in paragraph 7 of the Second Schedule of the *Options Trading Rules*.

4.12 Obligations of a Market Maker

The *Options Trading Rules* stipulate the obligations of a Market Maker. Further obligations of a Primary Market Maker are set out in the relevant appointment letter which may vary from one Primary Market Maker to another.

4.13 Obligations During “Unusual Market Conditions”

During Unusual Market Conditions, as defined in the *Options Trading Rules*, Market Makers have no obligation to quote.

For a persistent Unusual Market Condition, the Exchange may issue a broadcast message in the Market Messages Window of HKATS to the following effect:

“xxx UNUSUAL MARKET CONDITION : NO QUOTE OBLIGATION”

where xxx is the class code, to advise all Options Trading Exchange Participants that an Unusual Market Condition has developed. When the Unusual Market Condition is over, the Exchange may broadcast another message to the following effect:

“xxx UNUSUAL MARKET CONDITION OFF : QUOTES RESUME”.

However, for a brief Unusual Market Condition, the Exchange may not be able to announce such messages. In any case, the Exchange will after system closure release Market Makers from the obligations during Unusual Market Conditions recorded for the day, and adjust the Market Maker performance statistics accordingly.

Important

The Exchange has full discretion in determining whether or not an Unusual Market Condition exists.