

Options Trading Rules

SECOND SCHEDULE

MARKET MAKER OBLIGATIONS

1. The market making obligations of Regular Market Makers are specified below but 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 these market making obligations will be notified to Options Trading Exchange Participants via HKATS, e-mail, HKEX website or such other means as the Exchange considers appropriate. The market making obligations of Primary Market Makers are specified in the respective appointment letters appointing them as Primary Market Makers (“Primary Market Maker Obligations”). The market making obligations specified in this Schedule are not applicable to Primary Market Makers and accordingly, references to “Market Maker” and “Market Makers” in this Schedule shall be construed as references to “Regular Market Maker” and “Regular Market Makers” respectively only.
2. A Market Maker’s obligations, in respect of each trading day, shall commence five minutes after market opens or when the bid/offer spread in the underlying security is at the minimum allowed under the Exchange Rules, whichever occurs earlier.
3. The maximum bid/offer spread is as follows:

Option Series	Option Class		
	Liquidity Level 1	Liquidity Level 2	<u>Liquidity Level 3</u>
Spot month with 3 Business Days or less to expiry	20% of the bid price of the quote or 3 times the best bid/offer spread of the underlying securities, whichever is the lower.	20% of the bid price of the quote or 4 times the best bid/offer spread of the underlying securities, whichever is the lower.	<u>30% of the bid price of the quote or 7 times the best bid/offer spread of the underlying securities, whichever is the lower.</u>
Spot month with 4 Business Days or more to expiry and the next 3 calendar expiry months	10% of the bid price of the quote or 3 times the best bid/offer spread of the underlying securities, whichever is the lower.	10% of the bid price of the quote or 4 times the best bid/offer spread of the underlying securities, whichever is the lower.	<u>20% of the bid price of the quote or 7 times the best bid/offer spread of the underlying securities, whichever is the lower.</u>
The next 2 calendar quarter expiry months	20% of the bid price of the quote or 4 times the best bid/offer spread of the underlying securities, whichever is the lower.	20% of the bid price of the quote or 6 times the best bid/offer spread of the underlying securities, whichever is the lower.	<u>30% of the bid price of the quote or 10 times the best bid/offer spread of the underlying securities, whichever is the lower.</u>

The 3rd calendar quarter expiry month and any other longer-dated expiry month as the Exchange deems necessary	20% of the bid price of the quote or 8 times the best bid/offer spread of the underlying securities, whichever is the lower.	20% of the bid price of the quote or 12 times the best bid/offer spread of the underlying securities, whichever is the lower.	<u>30% of the bid price of the quote or 20 times the best bid/offer spread of the underlying securities, whichever is the lower.</u>
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Notwithstanding the above,

- (a) in respect of an option class the underlying security of which is not an Exchange Traded Fund, a Market Maker that provides quotes in any such option classes with a minimum price fluctuation of HK\$0.01 or RMB0.01 will not be obliged to quote a spread narrower than the best bid/offer of the underlying security (at the time of issuing the quote) plus 5 minimum price fluctuations (if the numerical value of the nominal price of such underlying security is below 100) or plus 10 minimum price fluctuations (if the numerical value of the nominal price of such the underlying security is equal to or above 100);
- (b) in respect of an option class the underlying of which is an Exchange Traded Fund, (i) a Market Maker that provides quotes in any such option class with a minimum price fluctuation of HK\$0.01 or RMB0.01 will not be obliged to quote a spread narrower than the best bid/offer of the underlying security (at the time of issuing the quote) plus 7 minimum price fluctuations (if the numerical value of the nominal price of such underlying security is below 100) or plus 15 minimum price fluctuations (if the numerical value of the nominal price of such underlying security is equal to or above 100); and (ii) in determining the maximum bid/offer spread as set out in the table above, the Exchange may adjust the number of times of bid/offer spread specified in the table by such factor as it may consider appropriate; and
- (c) and a Market Maker that provides quotes in respect of any option classes with a minimum price fluctuation of HK\$0.001 or RMB0.001, a Market Maker that provides quotes in such option class will not be obliged to quote a spread narrower than HK\$0.03 or RMB0.03.

In addition, a Market Maker will not be obliged to quote for the bid side in response to a quote request for a far out-of-the-money Contract which has a value near zero. A Market Maker shall remain obliged to quote for the sell side by issuing a sell limit order with a limit price no greater than 10 minimum price fluctuations for option classes with a minimum price fluctuation of HK\$0.01 or RMB0.01 and no greater than 30 minimum price fluctuations for option classes with a minimum price fluctuation of HK\$0.001 or RMB0.001 within the required response time and for the minimum required quantity and duration.

For the purpose of this Rule 3, the categorization of ~~underlying stocks~~ option classes into Liquidity Level 1, ~~or~~ Level 2 or Level 3 will be prescribed by the Exchange at its absolute discretion from time to time.

The above maximum bid/offer spreads may be increased or decreased by the Chief Executive in consultation with the Chairman of the Exchange to reflect fluctuations in the corresponding size of

the spread in the underlying stock. Any such modification shall be notified to Options Trading Exchange Participants via HKATS, e-mail, HKEX website or such other means as the Exchange considers appropriate.

4. Any quote that a Market Maker submits shall have a minimum quantity of 30 contracts ~~and 15 contracts~~ for option classes categorised as Liquidity Level 1 and a minimum quantity of 15 contracts for option classes categorised as ~~and~~ Liquidity Level 2 or 3 ~~option classes respectively~~.
5. A Market Maker in responding to a quote request shall respond within 20 seconds of receipt of the quote request. In addition, a Market Maker in responding to quote requests shall hold a quote for at least 20 seconds after initially entering it into the Options Trading System, unless there is a change in the nominal price of the underlying security during that period.
6. A Market Maker in providing continuous quotes shall not be assigned less than 50 option series in an option class as may be determined by the Exchange from time to time. For each assigned option series, a Market Maker in providing continuous quotes shall provide quotes for not less than 50 percent of the trading hours of an option class in a month.
7. Market Makers will be entitled to a reduced trading tariff as set forth in Appendix A to the Operational Trading Procedures upon meeting the market making obligation requirements on a monthly basis.
8. In the event that a Market Maker fails to respond to at least 50 percent of quote requests per option class or fails to provide continuous quotes on the assigned option series for at least 50 percent of the trading hours of the option series in accordance with this Second Schedule to the Options Trading Rules in two consecutive months, its Market Maker permit for that option class shall be revoked unless it can show to the satisfaction of the Exchange that it has reasonable grounds for failing to satisfy its Market Maker obligations during that period.
9. In assessing the rate of a Market Maker in responding to quote requests and the rate of a Market Maker in providing continuous quotes for the purpose of Rule 8, the Exchange may, in its absolute discretion, take into account all the relevant circumstances including but not limited to the general conditions of the cash market and/or the options market, either as a whole or of a specific option class.
10. A Market Maker, in responding to a quote request or providing continuous quotes, is not required to bid if the offer is at or below 10 minimum price fluctuations.
11. The Exchange may, in its absolute discretion, declare an Unusual Market Condition at any time by making such announcement through the Options Trading System. The declaration that there is no longer an Unusual Market Condition will also be made by such announcement. An Unusual Market Condition may be declared in circumstances including, but not limited to, where there is unusual trading activity or volume in any option class(es) or where conditions which deviate from the normal operation of any option class(es) are determined by the Chief Executive to exist.