

Operational Trading Procedures for Options Trading Exchange Participants

**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.

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.

#### **4.12 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.

APPENDIX A: FEES & COSTS PAYABLE TO THE EXCHANGE

A3 Trading Expenses

For HK\$-denominated option classes

Fee Type	Charge Scale
<p>Trading Tariff</p> <p>a. Contract Premium &gt; Tick Size</p> <p>(I) For Tier 1 Stocks</p> <p>Non-Market Maker</p> <p>Regular Market Maker</p> <ol style="list-style-type: none"> <li>1. which has responded to 70 percent or more of quote requests in a month</li> <li>2. which has responded to less than 70 percent of quote requests in a month</li> <li>3. which has provided continuous quotes on the required number of option series for 70 percent or more of the trading hours in a month</li> <li>4. which has provided continuous quotes on the required number of option series for less than 70 percent of the trading hours in a month</li> </ol> <p>Primary Market Maker</p> <ol style="list-style-type: none"> <li>1. which has fulfilled all of its relevant Primary Market Maker Obligations with respect to both providing continuous quotes and responding to quote requests for that month as set out in its relevant appointment letter</li> <li>2. which has not fulfilled its relevant Primary Market Maker Obligations for that month as set out in its relevant appointment letter but has at least attained a performance level of a Regular Market Maker with respect to either providing continuous quotes or responding to quote requests for that month</li> <li>3. which has neither fulfilled its relevant Primary Market Maker Obligations for that month as set out in its relevant appointment letter nor attained a performance level of a Regular Market Maker</li> </ol> <p>(II) For Tier 2 Stocks</p> <p>Non-Market Maker</p> <p>Regular Market Maker</p> <ol style="list-style-type: none"> <li>1. which has responded to 70 percent or more of quote requests in a month</li> <li>2. which has responded to less than 70 percent of quote requests in a month</li> <li>3. which has provided continuous quotes on the required number of options series for 70 percent or more of the trading hours in a month</li> <li>4. which has provided continuous quotes on the required number of option series for less than 70 percent of the trading hours in a month</li> </ol>	<p>HK\$3 per contract side</p> <p>HK\$1.50 per contract side</p> <p>HK\$3 per contract side</p> <p>HK\$1.50 per contract side</p> <p>HK\$3 per contract side</p> <p>HK\$1.20 per contract side or such lesser amount as the Exchange may from time to time agree with the relevant Exchange Participant</p> <p>HK\$1.50 per contract side or such lesser amount as the Exchange may from time to time agree with the relevant Exchange Participant</p> <p>HK\$3 per contract side</p> <p>HK\$1 per contract side</p> <p>HK\$0.80 per contract side</p> <p>HK\$1 per contract side</p> <p>HK\$0.80 per contract side</p> <p>HK\$1 per contract side</p>

<p>Primary Market Maker</p> <ol style="list-style-type: none"> <li>1. which has fulfilled all of its relevant Primary Market Maker Obligations with respect to both providing continuous quotes and responding to quote requests for that month as set out in its relevant appointment letter</li> <li>2. which has not fulfilled its relevant Primary Market Maker Obligations for that month as set out in its relevant appointment letter but has at least attained a performance level of a Regular Market Maker with respect to either providing continuous quotes or responding to quote requests for that month</li> <li>3. which has neither fulfilled its relevant Primary Market Maker Obligations for that month as set out in its relevant appointment letter nor attained a performance level of a Regular Market Maker</li> </ol>	<p>HK\$0.60 per contract side or such lesser amount as the Exchange may from time to time agree with the relevant Exchange Participant</p> <p>HK\$0.80 per contract side or such lesser amount as the Exchange may from time to time agree with the relevant Exchange Participant</p> <p>HK\$1 per contract side</p>
<p>(III) For Tier 3 Stocks</p> <p>Non-Market Maker</p> <p>Regular Market Maker</p> <ol style="list-style-type: none"> <li>1. which has responded to 70 percent or more of quote requests in a month</li> <li>2. which has responded to less than 70 percent of quote requests in a month</li> <li>3. which has provided continuous quotes on the required number of options series for 70 percent or more of the trading hours in a month</li> <li>4. which has provided continuous quotes on the required number of option series for less than 70 percent of the trading hours in a month</li> </ol>	<p>HK\$0.50 per contract side</p> <p>HK\$0.40 per contract side</p> <p>HK\$0.50 per contract side</p> <p>HK\$0.40 per contract side</p> <p>HK\$0.50 per contract side</p>
<p>Primary Market Maker</p> <ol style="list-style-type: none"> <li>1. which has fulfilled all of its relevant Primary Market Maker Obligations with respect to both providing continuous quotes and responding to quote requests for that month as set out in its relevant appointment letter</li> <li>2. which has not fulfilled its relevant Primary Market Maker Obligations for that month as set out in its relevant appointment letter but has at least attained a performance level of a Regular Market Maker with respect to either providing continuous quotes or responding to quote requests for that month</li> <li>3. which has neither fulfilled its relevant Primary Market Maker Obligations for that month as set out in its relevant appointment letter nor attained a performance level of a Regular Market Maker</li> </ol>	<p>HK\$0.30 per contract side or such lesser amount as the Exchange may from time to time agree with the relevant Exchange Participant</p> <p>HK\$0.40 per contract side or such lesser amount as the Exchange may from time to time agree with the relevant Exchange Participant</p> <p>HK\$0.50 per contract side</p>
<p>b. Contract Premium = Tick Size (Cabinet Trade)</p>	<p>Nil</p>

For RMB-denominated option classes

Fee Type	Charge Scale
Trading Tariff	
a. Contract Premium > Tick Size	
(I) For Tier 1 Stocks	
Non-Market Maker	RMB2.50 per contract side
Regular Market Maker	
1. which has responded to 70 percent or more of quote requests in a month	RMB1.30 per contract side
2. which has responded to less than 70 percent of quote requests in a month	RMB2.50 per contract side
3. which has provided continuous quotes on the required number of option series for 70 percent or more of the trading hours in a month	RMB1.30 per contract side
4. which has provided continuous quotes on the required number of option series for less than 70 percent of the trading hours in a month	RMB2.50 per contract side
Primary Market Maker	
1. which has fulfilled all of its relevant Primary Market Maker Obligations with respect to both providing continuous quotes and responding to quote requests for that month as set out in its relevant appointment letter	RMB1.00 per contract side or such lesser amount as the Exchange may from time to time agree with the relevant Exchange Participant
2. which has not fulfilled its relevant Primary Market Maker Obligations for that month as set out in its relevant appointment letter but has at least attained a performance level of a Regular Market Maker with respect to either providing continuous quotes or responding to quote requests for that month	RMB1.30 per contract side or such lesser amount as the Exchange may from time to time agree with the relevant Exchange Participant
3. which has neither fulfilled its relevant Primary Market Maker Obligations for that month as set out in its relevant appointment letter nor attained a performance level of a Regular Market Maker	RMB2.50 per contract side
(II) For Tier 2 Stocks	
Non-Market Maker	RMB0.90 per contract side
Regular Market Maker	
1. which has responded to 70 percent or more of quote requests in a month	RMB0.70 per contract side
2. which has responded to less than 70 percent of quote requests in a month	RMB0.90 per contract side
3. which has provided continuous quotes on the required number of options series for 70 percent or more of the trading hours in a month	RMB0.70 per contract side
4. which has provided continuous quotes on the required number of option series for less than 70 percent of the trading hours in a month	RMB0.90 per contract side

<p>Primary Market Maker</p> <ol style="list-style-type: none"> <li>1. which has fulfilled all of its relevant Primary Market Maker Obligations with respect to both providing continuous quotes and responding to quote requests for that month as set out in its relevant appointment letter</li> <li>2. which has not fulfilled its relevant Primary Market Maker Obligations for that month as set out in its relevant appointment letter but has at least attained a performance level of a Regular Market Maker with respect to either providing continuous quotes or responding to quote requests for that month</li> <li>3. which has neither fulfilled its relevant Primary Market Maker Obligations for that month as set out in its relevant appointment letter nor attained a performance level of a Regular Market Maker</li> </ol>	<p>RMB0.50 per contract side or such lesser amount as the Exchange may from time to time agree with the relevant Exchange Participant</p> <p>RMB0.70 per contract side or such lesser amount as the Exchange may from time to time agree with the relevant Exchange Participant</p> <p>RMB0.90 per contract side</p>
<p>(III) For Tier 3 Stocks</p> <p>Non-Market Maker</p> <p>Regular Market Maker</p> <ol style="list-style-type: none"> <li>1. which has responded to 70 percent or more of quote requests in a month</li> <li>2. which has responded to less than 70 percent of quote requests in a month</li> <li>3. which has provided continuous quotes on the required number of options series for 70 percent or more of the trading hours in a month</li> <li>4. which has provided continuous quotes on the required number of option series for less than 70 percent of the trading hours in a month</li> </ol>	<p>RMB0.45 per contract side</p> <p>RMB0.35 per contract side</p> <p>RMB0.45 per contract side</p> <p>RMB0.35 per contract side</p> <p>RMB0.45 per contract side</p>
<p>Primary Market Maker</p> <ol style="list-style-type: none"> <li>1. which has fulfilled all of its relevant Primary Market Maker Obligations with respect to both providing continuous quotes and responding to quote requests for that month as set out in its relevant appointment letter</li> <li>2. which has not fulfilled its relevant Primary Market Maker Obligations for that month as set out in its relevant appointment letter but has at least attained a performance level of a Regular Market Maker with respect to either providing continuous quotes or responding to quote requests for that month</li> <li>3. which has neither fulfilled its relevant Primary Market Maker Obligations for that month as set out in its relevant appointment letter nor attained a performance level of a Regular Market Maker</li> </ol>	<p>RMB0.25 per contract side or such lesser amount as the Exchange may from time to time agree with the relevant Exchange Participant</p> <p>RMB0.35 per contract side or such lesser amount as the Exchange may from time to time agree with the relevant Exchange Participant</p> <p>RMB0.45 per contract side</p>
<p>b. Contract Premium = Tick Size (Cabinet Trade)</p>	<p>Nil</p>

## APPENDIX B: OPTIONS CONTRACT SPECIFICATIONS

### B4 Expiry Months

The contract expiry months will be:

- the spot month (i.e. the month in which the next expiring date occurs);
- any of the next three calendar months; and
- any of the next three calendar quarter months ( i.e. quarter months are March, June, September and December).

The Exchange may, in consultation with the Commission, introduce any other longer-dated expiry month in selected stock option classes as it deems necessary.

The increase in the number of expiry months will be announced prior to the effective day of trading.

### B7 Tick Size

The tick size, or minimum price fluctuation, of the stock option premium is one minimum price fluctuation for all premium level. The tick size for HK\$-denominated stock options shall be either HK\$0.01 or HK\$0.001. The tick size for RMB-denominated stock options shall be either RMB0.01 or RMB0.001. The Exchange will announce the applicable tick size for each option class by means of a circular.

### B11 Tier Levels

All option classes are classified into three tiers. Different trading tariffs are applicable to Tier 1, Tier 2 and Tier 3 option classes as specified in Appendix A. Unless otherwise expressly specified by the Exchange, the tier level of an option class is determined by the nominal value\* of the total number of shares of the underlying stock in respect of an option contract fixed before introduction of the option class. An option class with a nominal value above HK\$25,000 (or an equivalent amount) will be classified as Tier 1, an option class with a nominal value of HK\$25,000 (or an equivalent amount) or below but above HK\$10,000 (or an equivalent amount) will be classified as Tier 2 and an option class with a nominal value of HK\$10,000 (or an equivalent amount) or less will be classified as Tier 3.

The Exchange has absolute discretion to determine the tier level and will review the tier level either on a regular basis or as and when there are capital adjustments to the underlying stock of the option class.

Any determination of a tier level for a new option class will be notified to Options Trading Exchange Participants via HKATS, email or such other means as the Exchange considers appropriate.

\* The nominal value will be determined according to the closing price of the underlying stock one trading day before the consultation with the Commission. When the underlying stock has no prior trading on the Exchange, the offer price per share of the public offering of the underlying stock (exclusive of brokerage, Transaction Levy and Investor Compensation Levy) will be used and in the event that the offer price is not available, the lowest offer price of the indicative offer price range stated in the prospectus will be used.