

## FREQUENTLY ASKED QUESTIONS (“FAQ”) – APPLICATION FOR MARKET MAKER PERMITS

(**Important Note:** This Frequently Asked Questions (“FAQ”) document is provided for general information purposes only and does not have any legal effect. The FAQs are intended to address some common questions raised by Exchange Participant(s) (“Applicant”) in relation to the requirements for registration as a market maker and to assist in understanding the relevant requirements. Users of this FAQ should read it in conjunction with the applicable rules, regulations, and guidance of the relevant Exchange, namely the Stock Exchange of Hong Kong Limited (“SEHK” or “Exchange”), as well as any applicable Explanatory Notes, laws, and regulations. In the event of any inconsistency, the relevant rules and regulations shall prevail.)

### (I) MARKET MAKING ARRANGEMENT AND RELEVANT ELIGIBILITY REQUIREMENTS

#### Q1. Can an Applicant apply to book its market making positions via an affiliate?

**A:** Subject to the applicable Explanatory Notes, an Applicant may book its market making positions via an affiliate (a “**Market Maker Affiliate**”) only in respect of certain market making programs, as provided for under the relevant Explanatory Notes, namely:

- Securities Market Maker (“**SMM**”) (*Explanatory Note EN10<sup>1</sup>*);
- Dual Counter Market Maker (“**DCMM**”) (*Explanatory Note EN22<sup>2</sup>*); and
- Options Market Maker (“**OMM**”) (*Explanatory Note EN18<sup>3</sup>*).

Applicants should note that the permissibility of the booking arrangements via a Market Maker Affiliate is program-specific and subject to compliance with the applicable eligibility criteria, documentary requirements and ongoing obligations set out in the relevant Explanatory Notes.

---

<sup>1</sup> [Explanatory Notes for Acquisition / Surrender of Securities Market Maker Permit\(s\)](#)

<sup>2</sup> [Explanatory Notes for Application for Acquisition / Surrender of Dual Counter Market Maker \(“DCMM”\) Permit\(s\)](#)

<sup>3</sup> [Explanatory Notes for Application for Acquisition / Surrender of Options Market Maker Permit\(s\)](#)

**Q2. What are the eligibility requirements for an entity to be qualified as a Market Maker Affiliate?**

**A:** To qualify as a Market Maker Affiliate for the purpose of booking market making positions, the affiliate must:

(a) be:

- a subsidiary of the Market Maker; or
- a holding company of the Market Maker; or
- a fellow subsidiary of the Market Maker, provided that the common parent company owns at least 40% of both entities; **and**

(b) satisfy **any one** of the eligibility requirements prescribed under the relevant Explanatory Notes for the applicable market making programs. A summary of eligibility requirements applicable to a Market Maker Affiliate is set out below for general reference:

**SMM and DCMM Programs**

<b>Eligibility Requirements</b>	
<b>Credit Rating</b>	Maintained A- or above (Standard & Poor's) or A3 or above (Moody's)
<b>Regulated Entity</b>	Regulated by an exchange, clearing house, independent authority or commission acceptable to the SEHK
<b>Paid-up Capital and Shareholders' Funds</b>	Maintained HKD 50,000,000 and HKD 100,000,000 respectively

**OMM Program**

<b>Eligibility Requirements</b>	
<b>Credit Rating</b>	Maintained A- or above (Standard & Poor's) or A3 or above (Moody's)
<b>Regulated Entity</b>	Regulated by an exchange, clearing house, independent authority or commission acceptable to the SEHK

<b>Paid-up Capital and Shareholders' Funds</b>	Maintained HKD 100,000,000 and HKD 200,000,000 respectively
--	---

The above summary is provided for general reference only. Applicants should refer to the Rules of the Exchange, Options Trading Rules of the SEHK and the relevant Explanatory Notes for the full and prevailing eligibility requirements applicable to the relevant market making program.

**Q3. Are there any restrictions on the number of affiliates that may be used to book market making positions?**

**A:** Where an Applicant books its market making positions in the name of a Market Maker Affiliate, **only one such affiliate** may be used at any one time, and all of the Applicant's market making positions must be booked in the name of that affiliate.

**Q4. Are there any ongoing reporting requirements where market making positions are booked in the name of a Market Maker Affiliate?**

**A:** Where market making positions are booked in the name of a Market Maker Affiliate, the Applicant is required, **on an ongoing basis**, to submit the following prescribed documents in respect of its Market Maker Affiliate to the SEHK, as applicable and in accordance with the relevant Explanatory Notes:

<b>Eligibility Requirement</b>	<b>SMM/ DCMM</b>	<b>OMM</b>
<b>Credit Rating</b>	Documentary proof of the latest credit rating to be submitted within six months following the year end date.	
<b>Regulated Entity</b>	A copy of the annual audited accounts and report (in English), which has been submitted to the relevant regulator, to be provided within six months following the year end date.	
<b>Paid-up Capital and Shareholders' Funds</b>	(1) Half-yearly management accounts to be submitted within two months following the period end date <b>(Note 1)</b> ; and	(1) Half-yearly management accounts to be submitted within two months following the period end date <b>(Note 1)</b> ;

	<p>(2) Audited accounts to be submitted not later than four months following the year end date.</p>	<p>(2) Annual audited accounts to be submitted not later than four months following the year end date; and</p> <p>(3) Monthly financial statements to demonstrate compliance with the Working Capital requirement specified under Rule 614F of the Options Trading Rules (<b>Note 2</b>).</p>
--	---	---

**Note 1:** The requirements to management accounts shall be as prescribed in the relevant Explanatory Notes.

**Note 2:** The reporting template and submission timeline for monthly financial statements shall be as prescribed under the Explanatory Note 18 and Rule 614F of the Options Trading Rules.

The above summary is provided for general reference only. Applicants should refer to the Rules of the Exchange, the Options Trading Rules of the SEHK, and the relevant Explanatory Notes for the full requirements applicable to the relevant market making programs.

**Q5. What documentary evidence is acceptable to demonstrate the satisfaction of paid-up capital and shareholders' funds requirement for the Market Maker Affiliate?**

**A:** Audited financial statements, prepared in accordance with internationally recognised accounting standards and audited by an external auditor, are acceptable as documentary evidence to demonstrate satisfaction with the paid-up capital and shareholders' funds requirements.

Alternatively, the management accounts prepared by the Applicant and certified by an external auditor, in accordance with the "Terms of reference for the External Review of Management Accounts and Certification of Paid-up Capital and Shareholders' Funds" as prescribed in the relevant Explanatory Notes, are also acceptable.

**(II) GUIDELINES FOR INTERNAL REPORT**

**Q6. What factors may affect the overall review timeline for the Internal Report?**

**A:** The overall duration of the application review is primarily driven by:

- The quality, clarity, and completeness of the initial and subsequent submissions; and
- The Applicant's responsiveness to follow-up questions raised by the Exchange during the review process.

Where submissions are incomplete, insufficient, unspecific or do not adequately address the Exchange's enquiries, additional rounds of clarification may be required which may result in an extension of the overall review timeline. Similarly, tardiness in responding to the Exchange's requests for information may delay the review process.

**Q7. What are the common issues observed in Internal Reports and what should Applicants observe when submitting an Internal Report?**

**A:** Common issues identified by the Exchange when reviewing Internal Reports include, but are not limited to, the following:

1. Omission of contents and descriptions for required documentation as specified in the Guidelines for Internal Report under the relevant Explanatory Notes at the time of initial submission.
2. Descriptions that are overly generic and do not adequately reflect the Applicant's actual operational arrangements for proposed market making activities.
3. Controls or policies referenced without supporting evidence or illustrations to demonstrate that such controls/policies are implemented.
4. Insufficient clarity and detail regarding risk limits, monitoring frequency, escalation mechanisms, or governance setup for market making activities.
5. Inconsistencies between the stated booking model, trading activities, and the control framework presented.

To enhance submission quality and facilitate a more efficient review process, Applicants are encouraged to:

1. Ensure that the Internal Report is consistent and accurately reflects the Applicant's actual practices and arrangements (i.e. controls that have been implemented or are committed to be implemented for market making activities), rather than referring to tentative or undecided measures (e.g. "may be implemented" or "to be assessed").
2. Clearly set out roles, responsibilities, processes, and monitoring frequency (i.e. who is responsible for what, how controls are performed and how often), rather than relying on generic descriptions (e.g., "review regularly" or "oversight by senior management or internal staff").
3. Provide illustrative supporting materials such as internal policies and procedures, sample reports and workflows, where controls are described.
4. Address the relevant eligibility criteria explicitly rather than relying on implicit references.

A clear, complete, and well-substantiated Internal Report will help minimise follow-up enquiries and support a more efficient and constructive review process.

**Q8. What documents are generally required in addition to the Internal Report for the purpose of application review?**

**A:** In addition to the Internal Report, Applicants are generally required to submit supporting documentary evidence to substantiate the descriptions and representations set out therein. Applicants are **strongly encouraged** to prepare such supporting documents and to submit them together with the Internal Report at the time of initial submission to facilitate the review process. The supporting documents generally required include, but are not limited to, the following:

- A corporate structure chart illustrating the ownership and group structure of the Applicant
- An organisational chart setting out the governance framework and segregation of duties within the organisation
- A list of risk management reports reviewed by management for oversight purposes, together with sample reports
- Evidence of controls (e.g. system screenshots or sample reports) illustrating the monitoring of risk exposures, pre-trade controls and post-trade surveillance monitoring

- Internal policies and procedures governing the formulation of trading strategies, implementation and the setting of risk limits
- The Applicant's latest Financial Resources Return (FRR) and audited financial statements, evidencing its financial soundness
- Business Continuity Plan (BCP) to address potential disruptions arising from the loss of key personnel, system failures, or unavailability of office premises, so as to ensure the continued fulfilment of market-making obligations
- For SMM and DCMM applications involving RMB market making activities, the confirmation of readiness for trading and/or clearing in SEHK-listed RMB-denominated securities, with reference to the checklist issued by the Securities and Futures Commission

The above list is not exhaustive. Depending on the nature and circumstances of the application, the Exchange may, where it considers necessary, request additional information or documentary evidence from the Applicant in order to properly assess the application.

**Q9. How much detail is an Applicant required to provide when explaining its market making model and trading strategies?**

**A:** Applicants are expected to provide a clear and high-level explanation of their market making model and trading strategies, sufficient to enable the Exchange to understand and assess whether the proposed activities are consistent with the objectives and requirements of the market making programs. By way of example, such explanation may include:

- Key features of the market making strategy include whether the proposed activities are intended to be delta-neutral or otherwise, and the general approach to position management, such as holding overnight positions or maintaining zero positions, where applicable; and
- The principal means by which returns are expected to be generated from the market making business (e.g. bid-ask spread or other sources).

Applicants **are not expected to disclose** proprietary trading algorithms, detailed trading parameters or other commercially sensitive information. The level of detail provided should be focused on demonstrating that the Applicant's proposed market making model are sound and consistent with the applicable rules and Explanatory Notes.

**Q10. For OMM program, how much detail is an Applicant required to provide when explaining its hedging and jobbing business controls?**

**A:** Applicants are required to provide appropriate descriptions of the controls and arrangements in place to ensure compliance with the applicable rules and the Eligibility Criteria for Jobbing Business as set out in Explanatory Note 18.

Such description should cover the Applicant's hedging approach and the manner in which the relevant requirements, as stated in Explanatory Note 18, are complied with. This includes, but is not limited to, the controls implemented to segregate trades, positions and risk exposures arising from options market making activities from the Applicant's own proprietary trading activities, so as to ensure that appropriate measures are in place and that its jobbing business claims are directly pursuant to transactions arising from the Applicant's options market making activities.

Applicants **are not expected to disclose** proprietary trading algorithms, detailed trading parameters, or other commercially sensitive information. The information provided should be sufficient to demonstrate that the Applicant has in place effective controls to support compliance with the relevant rules and Explanatory Notes.