

Appendix 4:

Guidelines for the Market Making for Chinese Depositary Receipts under the Stock Connect Scheme between Shanghai Stock Exchange and London Stock Exchange

(Draft for Comment)

Chapter I General Provisions

Article 1 [Purpose and Basis]

This *Guidelines* is formulated in accordance with the *Provisions on the Supervision and Administration of Depositary Receipts under the Stock Connect Scheme between Shanghai Stock Exchange and London Stock Exchange (for trial implementation)* and the *Interim Measures for the Listing and Trading of Depositary Receipts under the Stock Connect Scheme between Shanghai Stock Exchange and London Stock Exchange (“Interim Measures”)* to enhance the market liquidity and pricing efficiency of Chinese depositary receipts under the stock connect scheme between the Shanghai Stock Exchange (the “SSE”) and London Stock Exchange (“CDR”), regulate the market making for CDR, and protect the lawful rights and interests of investors.

Article 2 [Scope of Application]

This *Guidelines* is applicable to the market making for CDR and the management of qualifications of market makers. Matters not covered by this *Guidelines* shall be governed by other applicable rules of the SSE.

Article 3 [Definition of Market Making Business]

In this *Guidelines*, market making for CDR (and variations thereof) refers to the provision, in accordance with this *Guidelines* and the market maker agreement, of continuous two-way quotes and other liquidity services for the CDR listed and traded on the SSE, by members recognized by the SSE as being qualified to act as market makers for CDR (“**market makers**”).

Article 4 [Basic Requirements]

In connection with its market making for CDR, a market maker shall strictly comply with applicable laws, administration regulations, departmental rules, and regulatory documents, the applicable rules of the SSE, and the provisions of its market maker agreement, and shall not take advantage of its market making business to conduct illegal or rule-breaking activities such as insider trading or market manipulation or to seek other illegitimate gains.

Chapter II Admittance and Exit of Market Makers

Article 5 [Market Making Application Requirement]

A member of the SSE may apply to the SSE to become a market maker if:

- (1) it is licensed to engage in proprietary trading of securities;
- (2) it has been classified as a BBB securities company or above in the most recent 2 years;
- (3) it has 3 or more years of experience in international securities business;
- (4) it has sufficient proprietary capital to participate in the market making for CDR;
- (5) it has a complete implementation plan and a sound management system for the market making business;
- (6) it has the professionals and IT systems necessary for the market making business;
- (7) it has not been subject to an administrative penalty over its proprietary business in the past one year; and
- (8) it meets other requirements so prescribed by the SSE.

Article 6 [Market Making Application Materials]

A member who intends to become a market maker for CDR shall submit to the SSE:

- (1) application form for the market making for CDR;
- (2) photocopy of its duplicate business license, and certification of its qualification for proprietary trading of securities;
- (3) implementation plan and management system for the market making business;
- (4) audited balance sheet, profit appropriation statement, and cash flow statement for the most recent year;
- (5) documents certifying its 3 or more years of experience in international securities business;
- (6) description of its departments, positions, and personnel for the market making business;
- (7) statement on the readiness of its IT systems for the market making business;
- (8) declaration that it has not been subject to any administrative penalty over proprietary business in the past one year; and

(9) other materials so prescribed by the SSE.

The member shall ensure that its application documents are authentic, accurate and complete.

Article 7 [Acceptance and Review of Market Making Applications]

The SSE will accept an application that has all the required materials, review such application materials, and conduct IT system test, on-site inspection, and any other examination on the member. The SSE will reject an application if the member evidently does not meet the application requirements or has submitted incomplete application materials.

The SSE will grant market making status to any applicant passing the examination process within 10 trading days of the completion of examination.

The SSE may determine the number of market makers to be admitted in view of the state of the business of the stock connect scheme and market needs. Where the number of members who have passed the examination exceeds the proposed admittance number, the SSE will organize a comprehensive evaluation to select the market makers for CDR from among such members, and then announce its selection to the market.

Article 8 [Market Making Application for Specific CDRs]

A member who has obtained market making status shall apply to the SSE for providing market making services for one or more specific CDRs. Any member intending to provide market making services for a specific CDR shall submit to the SSE the market making application form for such CDR and other application documents required by the SSE.

The SSE will determine and announce the list of market makers for each CDR to the market based on the market making applications received for such CDR.

Each CDR shall have no less than 3 market makers. The SSE may designate a market maker for any CDR for which less than 3 market makers have submitted an application or the market has needs for beyond 3 or more market makers.

Article 9 [Market Maker Agreements]

A market maker shall, within 5 trading days after the publication of the list of market makers for specific CDRs, sign and execute the market maker agreement with the SSE to specify the rights and obligations in relation to the market making business.

No market maker may engage in market making without signing a market maker agreement with the SSE.

Article 10 [Voluntary Application for Termination of Market Making]

Any market maker intending to voluntarily terminate its status as a market maker for CDR or the provision of market making services for a specific CDR shall send a written notice 15

trading days in advance to the SSE. The termination will take effect upon confirmation by the SSE and be announced to the market.

Any market maker that has voluntarily terminated its status as a market maker for CDR may not re-apply to become a market maker for CDR within 6 months; any market maker that has voluntarily terminated the provision of market making services for a specific CDR may not re-apply to make a market for such CDR within 6 months.

Article 11 [Revocation of Market Maker Status by the SSE]

The SSE has the power to revoke the status of a market maker for CDR and announce the same to the market if such market maker:

- (1) no longer meets the requirements set forth in Article 5 of this *Guidelines*;
- (2) fails to meet the requirements of the monthly comprehensive assessment of market makers;
- (3) fails to meet the requirements of the annual comprehensive assessment of market makers;
- (4) no longer provides market making services for any CDR;
- (5) is subject to a self-regulatory measure, disciplinary sanction, administrative regulatory measure, or administrative penalty in the past year over market making business; or
- (6) falls under any other circumstances so prescribed by the SSE or the market maker agreement.

Any market maker whose status is revoked may not re-apply for market making for CDR within one year.

Chapter III Rights and Obligations of Market Makers

Article 12 [Basis for Market Making Business]

A market maker shall engage in market making business in accordance with the market rules of the SSE and the provisions of the market maker agreement.

Article 13 [Dedicated Securities Account for Market Making and Cross-Border Conversion]

To engage in market making business, a market maker shall use a dedicated securities account for market making and cross-border conversion (“dedicated account”) and file such account with the SSE for record. No market maker may use its dedicated account for any business other than market making and cross-border conversion for CDR.

Any market maker intending to change its dedicated account shall file such change with the SSE 15 trading days in advance and effect such change only upon the SSE's confirmation.

Article 14 [Market Making Capital]

A market maker shall use its proprietary capital to engage in market making business.

Article 15 [Market Making Obligation Indicators]

Market making indicators for CDR include but are not limited to:

- (1) maximum bid-ask spread;
- (2) minimum quote quantity;
- (3) quotation participation rate; and
- (4) other indicators.

When engaging in market making business, a market maker shall comply with the specific requirements of its market maker agreement regarding the market making obligation indicators specified in the preceding paragraph.

The SSE may adjust the market making obligation indicators based on market conditions or the request of the relevant market maker.

Article 16 [Provision of Research Services]

A market maker shall encourage its research team to publish securities research reports for the CDRs for which it makes a market as well as their underlying shares.

Article 17 [Exemption from Market Making Obligations]

The SSE may exempt a market maker from the corresponding market making obligations based on market conditions or the request of the market maker, if:

- (1) the trading price of any CDR for which it makes a market hits the upper or lower price limit, in which case the market maker may provide only one-way quotes for such CDR;
- (2) the market maker can no longer fulfill its market making obligations due to such reasons as *force majeure*, unforeseen incident, or technical failure, in which case the SSE may exempt it from the corresponding market making obligations based on market conditions or its request;
- (3) the market maker cannot fulfill its market making obligations due to system upgrade or other reasons, in which case the SSE may exempt it from the corresponding market making

obligations upon its request; or

(4) there is any other circumstance where the SSE deems that the market maker shall suspend or be exempted from the performance of its market making obligations.

A market maker shall immediately resume the performance of its market making obligations once the above circumstances cease to exist.

Article 18 [Determination of Compliance]

Extensive, continuous, and frequent submission and execution of orders by a market maker for fulfillment of its market making obligations according to the requirements of this *Guidelines* and the provisions of its market maker agreement do not constitute irregular trading activities, provided that its activities neither evidently deviate from what is reasonable or standard for the market making business nor undermine the normal course of trading.

Article 19 [Assessment of Market Making Obligations]

The SSE will periodically assess the market making activities of market makers based on their market making obligation indicators, market making performance, and compliance with regulatory rules, and will announce the results of such assessment to the market.

In the event of significant volatility or any other extraordinary circumstances in the market, the SSE may decide to not perform such assessment within a specified period, in which case it will announce the decision to the market.

The SSE may lower the assessment results of any market maker who violates this *Guidelines*, other rules of the SSE, or the provisions of its market maker agreement.

Article 20 [Effect of Assessment]

The SSE may, based on the results of monthly assessment of market makers on its market making performance for specific CDRs, grant appropriate reduction, exemption, or incentives for transaction fees to market makers who have actively fulfilled market making obligations, and, based on the results of monthly and annual comprehensive assessment of market makers, disqualify those who fail to meet the requirements of the SSE.

Chapter IV Supervision and Administration

Article 21 [Related Rules]

A market maker shall have in place qualified IT systems as well as risk management and internal control rules to ensure relevant risks are measurable and controllable.

A market maker shall establish a mechanism for periodic stress test, and submit stress test reports to the SSE on a quarterly basis.

Article 22 [Prevention of Conflict of Interest]

A market maker shall develop risk prevention and business segregation rules to prevent conflict of interest, and shall not take advantage of its market making business to seek illegitimate gains or harm the lawful rights and interest of investors.

Article 23 [Non-Periodic Inspection]

The SSE may conduct on-site or off-site inspections on market makers based on their market making performance and its supervisory needs. Market makers shall actively cooperate with such inspections by truthfully providing relevant materials and descriptions.

Article 24 [Market Self-Regulation]

If a market maker violates this *Guidelines*, the SSE may impose the corresponding regulatory measures or disciplinary sanctions against it in accordance with the *Interim Measures* and other applicable rules, report the violation to the China Securities Regulatory Commission, record it in the integrity record, and, in case of a serious violation, request a formal investigation thereof.

Chapter V Ancillary Provisions

Article 25

The SSE reserves the right to interpret this *Guidelines*.

Article 26

This *Guidelines* shall be implemented as of the date of issuance.