

Notice on Issuing the *Guidelines No. 2 for Depository Receipts under the Stock Connect Scheme of Shanghai Stock Exchange — Market Making for Chinese Depository Receipts*

No.39 [2022] of the Shanghai Stock Exchange

To All Market Participants,

To further regulate the market-making business of depository receipts of the Shanghai Stock Exchange, in accordance with the *Provisions on the Supervision and Administration of Depository Receipts under the Stock Connect Scheme between Domestic and Overseas Stock Exchanges* and the *Interim Measures for the Listing and Trading of Depository Receipts under the Stock Connect Scheme between Shanghai Stock Exchange and Overseas Stock Exchanges*, the Shanghai Stock Exchange has revised the *Guidelines for the Market Making for Chinese Depository Receipts under the Stock Connect Scheme between Shanghai Stock Exchange and London Stock Exchange* and renamed it the *Guidelines No. 2 for Depository Receipts under the Stock Connect Scheme of Shanghai Stock Exchange — Market Making for Chinese Depository Receipts*. This *Guidelines* is hereby issued and shall be implemented as of the date of issuance.

The *Guidelines for the Market Making for Chinese Depository Receipts under the Stock Connect Scheme between Shanghai Stock Exchange and London Stock Exchange* (No.90 [2018] of the Shanghai Stock Exchange) issued by the Shanghai Stock Exchange shall be repealed at the same time.

Annex:

Guidelines No. 2 for Depository Receipts under the Stock Connect Scheme of Shanghai Stock Exchange — Market Making for Chinese Depository Receipts

Shanghai Stock Exchange
March 25, 2022

Annex:

Guidelines No. 2 for Depository Receipts under the Stock Connect Scheme of Shanghai Stock Exchange—Market Making for Chinese Depository Receipts

Chapter I General Provisions

Article 1 This *Guidelines* is formulated in accordance with the *Provisions on the Supervision and Administration of Depository Receipts under the Stock Connect Scheme between Domestic and Overseas Stock Exchanges* (“**Provisions**”) and the *Interim Measures for the Listing and Trading of Depository Receipts under the Stock Connect Scheme between Shanghai Stock Exchange and Overseas Stock Exchanges* (“**Interim Measures**”) to enhance the market liquidity and pricing efficiency of Chinese depository receipts (“**CDRs**”) under the stock connect scheme between the Shanghai Stock Exchange (the “**Exchange**”) and overseas stock exchanges, regulate market making for CDRs, and protect the legitimate rights and interests of investors.

Article 2 This *Guidelines* is applicable to market making for CDRs. Matters not covered by this *Guidelines* shall be governed by other applicable rules of the Exchange.

Article 3 In this *Guidelines*, “market making for CDRs” (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 CDRs listed and traded on the Exchange, by members recognized by the Exchange as market makers for securities (“**market makers**”).

Article 4 A market maker shall strictly comply with applicable laws, administration regulations, departmental rules, normative documents, applicable rules of the Exchange, and the provisions of the market maker agreement in making a market for CDRs, and shall not take advantage of its market making business to engage in insider trading, market manipulation, or other illegal or rule-breaking activities or seek other improper benefits.

Chapter II Admittance and Exit of Market Makers

Article 5 A member of the Exchange may apply to the Exchange to become a market maker for CDRs if:

- (1) it is licensed to engage in market making for securities; and
- (2) it possesses three or more years of experience in international securities business.

Article 6 A member that intends to become a market maker for CDRs shall submit to the Exchange:

- (1) application form for the market making for CDRs;
- (2) photocopy of its duplicate business license, and certification of its qualification for market making for securities;
- (3) documents certifying it possesses three or more years of experience in international securities business;
- (4) other materials as prescribed by the Exchange.

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

Article 7 The Exchange will accept an application if it contains all the required materials, in which case it will review such materials and conduct IT system test, on-site inspection, and

any other reviews on the member. The Exchange will reject an application if the member evidently does not meet the application requirements or if its application materials are incomplete.

The Exchange will decide whether the applicant has passed the review process within 10 trading days of completing its review, and notify the applicant of its decision.

The Exchange may determine the number of market makers to be admitted in view of the state of the stock connect scheme and market needs. Where more members have passed the review process than the proposed number to be admitted, the Exchange will organize a comprehensive evaluation to select the market makers for CDRs from among such members, and then announce its selection to the market.

Article 8 A market maker shall apply to the Exchange for providing market making services for one or more specific CDRs. Any market maker intending to provide market making services for a specific CDR shall submit to the Exchange the market making application form for such CDR and other application documents required by the Exchange.

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

Each CDR shall have no less than three market makers. The Exchange may designate additional market makers for any CDR for which less than three market makers have submitted an application or the market has needs for beyond three or more market makers.

Article 9 A market maker shall, within five trading days after the publication of the list of market makers for specific CDRs, sign and execute a market maker agreement with the Exchange to specify its rights and obligations in relation to the market making service.

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

Article 10 Any market maker intending to voluntarily terminate its status as a market maker for CDRs at the Exchange or the provision of market making services for a specific CDR shall send a written notice 15 trading days in advance to the Exchange. The termination will take effect upon confirmation by the Exchange and be announced to the market.

Any market maker that has voluntarily terminated its status as a market maker for CDRs at the Exchange may not re-apply to become a market maker for CDRs within six 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 six months.

Article 11 The Exchange has the right to revoke the status of a market maker for CDRs 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) falls under any circumstance prescribed by the Exchange with respect to the results of its monthly comprehensive assessment;
- (3) falls under any circumstance prescribed by the Exchange with respect to the results of its annual comprehensive assessment;
- (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 one year over CDR market making business; or
- (6) falls under any other circumstances so prescribed by the Exchange or the market maker agreement.

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

Chapter III Rights and Obligations of Market Makers

Article 12 A market maker shall engage in market making business in accordance with the market rules of the Exchange and the provisions of the market maker agreement.

Article 13 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 register such account with the Exchange for record. No market maker may use its dedicated account for any business other than the market making and cross-border conversion for CDRs.

Any market maker intending to change its dedicated account shall report such change to the Exchange at least 15 trading days in advance and effect such change only upon the Exchange’s confirmation.

Article 14 Market making obligations indicators for CDRs 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 Exchange may adjust the market making obligation indicators based on market conditions or the request of the relevant market maker.

Article 15 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 16 The Exchange 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 Exchange 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 it shall submit a request to the Exchange at least one trading day in advance and the Exchange may, based on this request, exempt it from the corresponding market making obligations; or
- (4) there is any other circumstance where the Exchange 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 17 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 does not constitute abnormal trading activities, unless such activities evidently deviate from what is reasonable or standard for the market making business or disrupt the normal course of trading.

Article 18 The Exchange 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 Exchange may decide not to perform such assessment within a specified period, in which case it will announce the decision to the market.

The Exchange may downgrade the assessment results of any market maker that violates this *Guidelines*, other rules of the Exchange, or the provisions of its market maker agreement.

Article 19 The Exchange may, based on the results of monthly assessment of market makers on their market making performance for specific CDRs, grant appropriate reduction, exemption, or incentives for transaction fees to market makers that have actively fulfilled market making obligations, and, based on the results of monthly and annual comprehensive assessment of market makers, disqualify those that falls under any circumstance so prescribed by the Exchange.

Chapter IV Market Self-Regulation

Article 20 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 organize periodic stress tests and submit stress test reports to the Exchange on a quarterly basis.

Article 21 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 improper benefits or harm the lawful rights and interests of investors.

Article 22 The Exchange 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 and truthfully provide relevant materials and statements.

Article 23 If a market maker violates this *Guidelines*, the Exchange may impose the corresponding self-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, and record it in the integrity record, and, in the case of a serious violation, request a formal investigation thereof.

Chapter V Ancillary Provisions

Article 24 This *Guidelines* is subject to the interpretation of the Exchange.

Article 25 This *Guidelines* shall be implemented as of the date of issuance.