

Annex 4-1:

The Guidelines for the Market Making for Chinese Depositary Receipts under the Stock Connect Scheme between Shenzhen Stock Exchange and Overseas Stock Exchange (Draft Proposal for Public Consultation)

Chapter I General Provisions

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

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

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 SZSE, by members recognized by the SZSE as being qualified to act as market makers for securities (“**market makers**”).

Article 4 In connection with its market making for CDRs, a market maker shall strictly comply with applicable laws, administration regulations, departmental rules, and normative documents, the applicable rules of the SZSE, 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 Admission and Termination of Market Makers

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

- (1) it is licensed to engage in market making of securities; and
- (2) it has 3 or more years of experience in international securities business.

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

- (1) application form for the market making for CDRs;

- (2) photocopy of its duplicate business license, and certification of its qualification for market making 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 market making business, brokerage business in the past one year; and
- (9) other materials so prescribed by the SZSE.

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

Article 7 The SZSE 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 SZSE will reject an application if the member evidently does not meet the application requirements or has submitted incomplete application materials.

The SZSE will decide whether an applicant has passed the examination process within 10 trading days of the completion of examination and inform the applicant.

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

Article 8 A member who has obtained market making status shall apply to the SZSE 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 SZSE the market making application form for such CDR and other application documents required by the SZSE.

The SZSE 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 SZSE may designate market makers for any CDR for which fewer than 3 market makers have submitted an application or any CDR for which more than 3 market makers are required to fulfill demands despite existence of over 3 applications.

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Article 9 A market maker shall, within 5 trading days after the publication of the list of market makers for specific CDRs, sign a market maker agreement with the SZSE and specify the rights and obligations in relation to the market making business.

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

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

Any market maker that has voluntarily terminated its status as a market maker for CDRs in SZSE may not re-apply to become a market maker for CDRs 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 The SZSE has the power 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 SZSE with respect to the results of its monthly comprehensive assessment;
- (3) falls under any circumstance prescribed by the SZSE 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 year over CDR market making business; or
- (6) falls under any other circumstances so prescribed by the SZSE 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 SZSE 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 file such account

with the SZSE for record. The market maker shall not apply 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 file such change with the SZSE 15 trading days in advance and effect such change only upon the SZSE's confirmation.

Article 14 A market maker shall use its proprietary funds to engage in market making business.

Article 15 Market making 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 SZSE may adjust the market making obligation indicators based on market conditions or the request of the relevant market maker.

Article 16 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 The SZSE 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 SZSE 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 SZSE may exempt it from the corresponding market making obligations upon its request given that the market maker file the request for exemption one day advance; or
- (4) there is any other circumstance where the SZSE 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

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above circumstances cease to exist.

Article 18 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, except that its activities evidently deviate from what is reasonable or standard for the market making business or undermine the normal course of trading.

Article 19 The SZSE 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 SZSE may decide to not perform such assessment within a specified period, in which case it will announce the decision to the market.

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

Article 20 The SZSE may, based on the results of monthly assessment of market makers on their market making performance for specific CDRs, grant appropriate reduction, exemption in transaction fees and incentives 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 falls under any circumstance so prescribed by the SZSE for CDR market making business.

Chapter IV Market Self-Regulation

Article 21 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 SZSE on a quarterly basis.

Article 22 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 interests of investors.

Article 23 The SZSE 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 If a market maker violates this *Guidelines*, the SZSE 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, 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 SZSE reserves the right to interpret this *Guidelines*.

Article 26 This *Guidelines* shall be implemented as of the date of issuance.