

## **Annex 3-2**

### **Notes on the *Guidelines No. 2 for Depository Receipts under the Stock Connect Scheme of Shenzhen Stock Exchange: Market Making for Chinese Depository Receipts***

In order to regulate the market making business of Chinese depository receipts under the Stock Connect Scheme between Shenzhen Stock Exchange (the “SZSE”) and Overseas Stock Exchanges, improve the liquidity of the secondary market of Chinese depository receipts, and enhance the market’s price discovery mechanism, the SZSE has formulated the *Guidelines No.2 for Depository Receipts under the Stock Connect Scheme of Shenzhen Stock Exchange: Market Making for Chinese Depository Receipts (the “Market Making Guidelines”)*. The relevant explanation is provided as follows:

#### **I. Drafting Background**

By providing services such as bilateral quotations, market makers help to increase market liquidity and market depth, improve price discovery capabilities, promote reasonable market pricing, guide market participants to invest rationally, and provide investors with necessary protection. Considering the time zone differences between domestic and overseas stock exchanges, investors’ limited knowledge of overseas issuers, and understanding of the product features of Chinese depository receipts (“CDRs”) that has yet to deepen, the market making mechanism is expected to play a significant role in the healthy development of the depository receipt business under the Stock Connect Scheme. Hence, the SZSE has introduced the CDR market making mechanism and formulated the *Market Making Guidelines* to regulate the business arrangements.

#### **II. Formulating Principles**

##### **(1) Principle of Comprehensiveness**

The *Market Making Guidelines* cover the application and termination of CDR market making business, the rights and obligations of market makers, supervision and management, etc., and can comprehensively regulate market making business and provide system support for market makers' business development.

##### **(2) Principle of Consistency**

The *Market Making Guidelines* are basically consistent with the corresponding guidelines of Shanghai Stock Exchange, which is conducive to reducing transaction cost for the system and securities institutions in market making business and improve market efficiency.

##### **(3) Principle of Inclusiveness**

The *Market Making Guidelines* reserve space for rule-making for future business development and market conditions, with only overall framework and principles laid out for each aspects of CDR market making business. Specific evaluation indicators, standards, and calculation methods will be clarified in the corresponding business guides and market making agreements.

#### **III. Main Contents of the *Market Making Guidelines***

Please note:

This translation is furnished for information purposes only. The original Chinese text is binding in all respects.

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The *Market Making Guidelines* consist of 5 chapters and 25 articles, with each chapter named: Chapter I "General Provisions", Chapter II "Admission and Termination of Market Making", Chapter III "Rights and Obligations of Market Makers", Chapter IV "Market Self-regulation", Chapter V "Ancillary Provisions". Major contents are laid out as follows:

(1) General Rules

The *Market Making Guidelines* clarify the purpose and basis of the formulation, the scope of application, and clarify the definition and the basic requirements for market makers.

(2) Application and Termination of Market Making Business

The *Market Making Guidelines* stipulate the conditions, application materials and procedures for market making business application. The application for market making business is divided into two phases: eligible members can apply to SZSE to conduct the market making business of CDRs. Once obtaining the verification, the market maker should apply to the SZSE to carry out market making business for a single or multiple specific CDRs.

(3) Rights and Obligations of Market Makers

CDRs adopt a competitive market making system. The *Market Making Guidelines* clarify the basic rules of market making, designated securities accounts, market makers' rights and obligations, and termination mechanisms.

(4) Self-regulation

The *Market Making Guidelines* stipulate the technical system, internal system and other requirements of market makers, and clarify the basis for conducting inspections, adopting self-regulatory measures and disciplinary sanctions against market makers.

#### **IV. Opinions Received and Reviewed**

Over the course of soliciting opinions, we have received a total of 2 comments concerning on the *Market Making Guidelines*, which refer to the interpretation of the rules rather than the revision. We have made corresponding explanations in the form of consultation symposiums and policy Q&A, etc.