

Measures of China Financial Futures Exchange on the Management of Market Makers

Chapter I General Provisions

Article 1 These Measures are formulated in accordance with the *Trading Rules of China Financial Futures Exchange* for the purposes of regulating the management of market makers at the China Financial Futures Exchange (the “Exchange”), enhancing market liquidity, and facilitating the functioning of the market.

Article 2 For the purpose of these Measures, “market maker” refers to any legal entity or other economic organization that is approved by the Exchange to provide two-sided quotes and other services for specified futures and options contracts.

Article 3 These Measures shall apply to the management of market makers and related activities on the Exchange, and shall be observed by the Exchange, market makers, and members.

Chapter II Management of Market Maker Status

Article 4 The Exchange may introduce market makers for specified products. The list of such products shall be published.

Article 5 The Exchange may classify market makers into tiers. The number and tiers of market makers may be adjusted in accordance with the market development.

Article 6 The Exchange shall manage the market maker status by product. To apply for the market maker status, an applicant shall:

- (1) have at least RMB 50 million in net assets;
- (2) have a dedicated department and staff for market making; such staff shall possess a good understanding of relevant laws and regulations as well as the rules of the Exchange;
- (3) have sound market making implementation plans, internal controls, and risk management framework;
- (4) have no record of major violations of laws or regulations within the past three years;
- (5) have in place stable and reliable technical system for market making;
- (6) have the experience of trading, market making, or market making for mock trading recognized by the Exchange; and
- (7) meet other requirements prescribed by the Exchange.

Article 7 To apply for the market maker status, an applicant shall submit the following materials to the Exchange:

- (1) the market maker application form affixed with the signature of its legal representative and its common seal;
- (2) a photocopy of its Business License affixed with the common seal;
- (3) the original audited financial statements for the latest accounting period, or a photocopy of such statements affixed with the common seal of the accounting firm;
- (4) a description of the positions and responsibilities of its market making department, and the names and resumes of the department head and relevant staff;
- (5) its market making implementation plan and an overview of its internal controls and risk management framework;
- (6) a written statement that it has not committed any major violation of laws or regulations within the past three years;
- (7) a description of its technical system for market making;
- (8) a statement on its experience of trading, market making, or market making for mock trading; and
- (9) other materials required by the Exchange.

Article 8 After approval of its application, the applicant shall enter into a market maker agreement (“agreement”) with the Exchange within ten trading days upon receiving the Exchange’s approval notice. Following the execution of the agreement, the applicant shall be granted the market maker status for the specified product(s).

Article 9 The Exchange may revoke the status of a market maker for a particular product, if the market maker:

- (1) fails to perform all its quoting obligations for two consecutive months or a cumulative of three months within the term specified by the agreement;
- (2) no longer satisfies the eligibility requirements for a market maker as prescribed in Article 6 of these Measures; or
- (3) is involved in any other circumstance for status revocation as recognized by the Exchange or provided in the agreement.

Article 10 The Exchange may revoke the status of a market maker for all products, if the market maker:

- (1) commits a major violation of laws or regulations;
- (2) is barred from the securities or futures market;

- (3) is lawfully acquired, merged, deregistered, dissolved, or declared bankrupt;
- (4) provides any false materials to the Exchange; or
- (5) is involved in any other circumstance for status revocation as recognized by the Exchange or provided in the agreement.

Article 11 Any market maker intending to cancel its market maker status shall submit the written application to the Exchange one month in advance.

Article 12 If a market maker cancels or is revoked of its status for one or more products, then as of the day the Exchange notifies it of the termination of its market maker status, all relevant agreements it has entered into with the Exchange shall automatically terminate and the Exchange shall not accept its market making application for the corresponding product(s) within one year.

Chapter III Market Making

Article 13 Market makers shall use a dedicated trading code for market making activities.

Any market maker intending to change its market making trading code shall apply to the Exchange in advance. The new market making trading code shall take effect on the first trading day of the month following such change.

From the day the new trading code takes effect, the original code shall not be used to open new positions and shall be timely canceled once the corresponding existing positions are closed out.

Article 14 From the day a market maker loses its market maker status for a product, the corresponding market making trading code shall not be used to open positions in that product.

Such trading code shall be timely canceled following the closing of the corresponding existing positions, unless it is being used for market making for another product.

Article 15 Two-sided quotes from market makers are classified into continuous quotes and responsive quotes.

- (1) “Continuous quotes” refer to the two-sided quotes actively provided by the market maker on a continuous basis during the trading hours in accordance with the agreement;
- (2) “Responsive quotes” refer to the two-sided quotes provided by the market marker in response to requests for quotes for a particular contract during the trading hours in accordance with the agreement.

Article 16 Each quotation provided by a market maker shall specify the contract code, bid price, ask price, and bid and ask quantities.

Article 17 Two-sided quotes from market makers shall be submitted as limit orders.

Article 18 A market maker may, if necessary, for the performance of its market making obligations, apply for a position quota beyond the market maker position limit.

The market maker position limit shall be separately prescribed by the Exchange.

Chapter IV Rights and Obligations

Article 19 Subject to the provisions of the agreement and the state of its market making business, a market maker may have such rights as fee reductions.

Article 20 A market maker shall perform the obligations provided in the agreement.

Article 21 The Exchange shall release a futures market maker from its quoting obligations under the following market conditions:

- (1) during the opening auction, the market maker shall be released from its quoting obligation with respect to all contracts of the product(s) for which it acts as a market maker;
- (2) when the trading price of a contract for which it provides quotes reaches the limit up/limit down, the market maker shall be released from its quoting obligation with respect to that contract; or
- (3) any other conditions provided in the agreement.

The market maker shall resume the performance of the corresponding market making obligations once the conditions specified in the foregoing paragraphs cease to exist.

Article 22 The Exchange shall release an options market maker from its quoting obligations under the following market conditions:

- (1) during the opening auction, the market maker shall be released from its quoting obligation with respect to all contracts of the product(s) for which it acts as a market maker;
- (2) when the trading price of a contract for which it provides quotes reaches the limit up/limit down, the market maker shall be released from its quoting obligation with respect to that contract;
- (3) when the trading price of the underlying futures contract or a futures contract with the same underlying and expiration month reaches the limit up/limit down, the market maker shall be released from its quoting obligation with respect to the corresponding options contract;
- (4) when the trading prices of all contracts of a futures product with the same underlying reach their limit up/limit down, the market maker shall be released from its quoting obligation with respect to all contracts of the options product for which it acts as a market maker;
- (5) when an options contract for which it provides quotes is trading below the price level agreed upon in the agreement, the market maker shall be released from its quoting obligation with respect to that options contract; or

(6) any other conditions provided in the agreement.

The market maker shall resume the performance of the corresponding market making obligations once the conditions specified in the foregoing paragraphs cease to exist.

Article 23 The entitlement of a market maker to the relevant rights is conditional on its completion of the obligations under the agreement within the prescribed period.

Chapter V Supervision

Article 24 The Exchange shall supervise market makers in accordance with these Measures and relevant rules of the Exchange. Market makers and their associated members shall cooperate with such supervision.

Article 25 Market makers shall provide reasonable quotes based on the market conditions.

Article 26 A market maker shall not be deemed as engaging in abnormal trading activities if it frequently submits and cancels orders for the purpose of market making.

No market maker shall abuse its market maker status to engage in insider trading, market manipulation, fraud, or other violation of laws or regulations, or to seek improper gains.

Article 27 A market maker shall establish a sound IT management framework and emergency response mechanism; timely update the Exchange on the development, testing, connection, upgrade, and other changes to its electronic market making system; and participate in relevant system testing and emergency drills as required by the Exchange.

Article 28 The Exchange may evaluate and rank market makers based on the performance of their market making obligations.

The Exchange may publish information on the rankings of market makers.

Article 29 Any changes in a market maker's controlling shareholders (or partners), business premise, legal representative, head of market making business or the head's contact information, or any material change in its financial conditions or technical system, shall be reported by the market maker to the Exchange in writing within three trading days of the change.

Article 30 A market maker shall submit reports on its market making business as required by the Exchange, and properly preserve relevant trading and risk control records for future examination.

Article 31 The Exchange may supervise and inspect market makers with respect to risk management, trading activities, system operations, business operations, credit standing, and other aspects. The market makers shall assist and cooperate with the Exchange in such supervision and inspection.

Chapter VI Ancillary Provisions

Article 32 Any violation of these Measures shall be handled by the Exchange in accordance with the *Measures of China Financial Futures Exchange on Dealing with Violations and Breaches*.

Article 33 The Exchange reserves the right to interpret these *Measures*.

Article 34 These *Measures* shall come into effect on November 9, 2020.