Instinet Pacific Limited

Hong Kong Electronic Trading

Minimum Client Requirements

for

DMA and Algorithms

February 2022

Contents

Version	Date	Author	Comments
1.0	31 December 2013	Liam Madden	Initial Draft of Policy Released
2.0	3 December 2014	Liam Madden	Annual Review of Policy – no change recommended
3.0	14 December 2015	Liam Madden	Annual Review of Policy – no change recommended
4.0	30 November 2016	Jade Hwang	Updated Client Assessment
5.0	30 November 2017	Jade Hwang	Updated Client Assessment
6.0	30 November 2018	Jade Hwang	Reviewed
7.0	25 November 2019	Jade Hwang	Reviewed – updated weblink and also updated client assessment
8.0	04 December 2020	Jade Hwang	Reviewed
9.0	03 December 2021	Jade Hwang	Reviewed
10.0	17 February 2022	Jade Hwang	Updated client assessment in Appendix A

1. INTRODUCTION

Instinet Pacific Limited (IPL) in Hong Kong is regulated by the Securities and Futures Commission of Hong Kong (SFC) and is licensed to conduct Types 1, 4 and 7 Regulated Activities. As such, it needs to comply with the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (the Code of Conduct).

The SFC announced changes to the Code of Conduct that become effective on 1 January 2014 in relation to the regulation of Electronic Trading in Hong Kong. IPL has implemented a range of policies and procedures reasonably designed to comply with the amendments to the Code of Conduct.

The Code of Conduct requires IPL to have in place minimum requirements to ensure that its clients are sufficiently qualified to use its DMA trading services and/or its Algorithmic Trading System.

This document sets out the minimum requirements that IPL has put in place for its clients to ensure that IPL complies with its obligations under the amended Code of Conduct.

2. SFC CODE OF CONDUCT

The SFC amended Paragraph 18 and Schedule 7 to the Code by imposing new requirements on providers of DMA and algorithmic trading services. IPL provides both of these products to certain clients in Hong Kong.

The Code requires that IPL as a provider of these services takes relevant steps to define minimum client requirements and then introduce a process to assess clients against these requirements.

3. MINIMUM CLIENT REQUIREMENTS FOR DMA

IPL's minimum client requirements for DMA services are that:

a) the client has appropriate arrangements in place to ensure that its users are proficient and competent in using the system for the DMA services;
b) the client understands and has the ability to comply with applicable regulatory requirements; and
c) the client has in place adequate arrangements to monitor the orders entered through the DMA services.

These requirements will be re-evaluated at least annually when the policy is reviewed and also whenever there is a change in relevant market conditions which would indicate a need to enhance these requirements.

4. MINIMUM CLIENT REQUIREMENTS FOR ALGORITHMS

IPL is required to ensure that its clients are suitably qualified to use its trading algorithms.

IPL's minimum client requirements for using algorithms include that the client approved to use the algorithmic trading system has a good understanding of:

   a) the operation of the algorithmic trading system and trading algorithms; and
   b) the compliance and regulatory issues which may arise from the use of the algorithmic trading system and trading algorithms.

Where necessary or where requested by the client, IPL will provide training to its clients on:

   a) the use and operation of the algorithmic trading system;
   b) each of the trading algorithms contained in the algorithmic trading system including:

   i.   its trading characteristics and execution behaviour;
   ii.   the potential market impact and risks to market integrity; and
   iii. whether it is appropriate to use a particular trading algorithm under certain market conditions in the execution of certain orders in light of the regulatory requirements.

Clients should contact their coverage trader is they require any assistance with training.

Clients should refer to the IPL Electronic Trading Information and Training Pack, the current version of which is made available at https://www.instinet.com/legal-regulatory

IPL will inform those approved to use its algorithmic trading system, and offer to provide training, in respect of any changes to the design and development of its algorithmic trading system and trading algorithms by posting those changes at the above website and amending the IPL Electronic Trading Information and Training Pack.

5. Client Assessment

Potential clients need to fill in an electronic trading questionnaire (Refer to **Appendix A**) during the customer on-boarding process. Electronic trading services can only be granted to clients after Legal and Compliance reviews and approves the questionnaire.

5. REVIEW

Instinet Compliance, in consultation with the IPL Risk Management and Compliance Committee and the IAPL Compliance and Risk Management Committee, will review these requirements at least annually.

It will be also be updated, if required, between review dates to reflect material legislative, regulatory and business changes.

(Appendix A)

NEW CLIENT ASSESSMENT – ELECTRONIC TRADING

		Response
1	Please describe the arrangements you have in place to ensure you and your authorized users are proficient, competent and suitably qualified in using our DMA services, trading algorithms and related systems (the "Services")?	Click here to enter text.
2	Please describe the processes in place to ensure you and your authorized users have: • a good understanding of, and received sufficient training on the use and operation of the Services (including trading characteristics and execution behavior of trading algorithms and their appropriateness in light of market conditions); and • compliance and regulatory issues which may arise from the use of the Services (including potential market impact and risks to market integrity)?	Click here to enter text.
3	Please confirm you and your authorized users comply with all laws and regulatory requirements applicable to the use of the Services (including short selling and market misconduct)?	☐ No ☐ Yes
4	Please name the systems you use to send orders through Services (other than those provided by us)("your electronic trading systems")	Click here to enter text.
5	Do you have written policies and procedures that are in place relating to the operation and supervision of your electronic trading systems?	☐ No ☐ Yes
6	Please describe the managerial and supervisory controls that are in place relating to the operation and supervision of your electronic trading systems?	Click here to enter text.
7	Please summarise the pre-trade, intra-day and post-trade risk management controls that are in place relating to the operation and supervision of your electronic trading systems?	Click here to enter text.

8	Are you a broker dealer licensed or registered with, and subject to regulatory supervision by, the SFC or an overseas securities, futures or banking regulator in a FATF jurisdiction?	☐ No ☐ Yes
9	If you are a broker dealer, will you sub-delegate the Services to your clients?	☐ No ☐ Yes ☐ Not applicable
10	If you are a broker dealer, do you have a written agreement in place with each client to whom you delegate the Services that sets out the terms and conditions on which Services are sub-delegated?	☐ No ☐ Yes ☐ Not applicable
11	If you are a broker dealer, do you have a due diligence process and minimum client requirements for clients to whom you delegate the Services?	☐ No ☐ Yes ☐ Not applicable
12	Instinet offers BlockMatch Asia as its Alternative Liquidity Pool ("ALP") as defined by the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission as amended from time to time ("Code of Conduct") and is able to access other ALPs run by other brokers. Please confirm that you will only place orders on behalf of qualified investors as defined in paragraph 19.2 (f) of the Code of Conduct and confirm that you have adequate processes in place to ensure that the person who is ultimately responsible for originating the instructions for the order is a qualified investor.	☐ I Confirm ☐ I do not confirm
13	Counterparty Selection Within BlockMatch Asia, Instinet categorises clients based on the nature of their order flow within one of the following profiles: - Institutional: Agency flows and agency algo users - Principal: Nomura proprietary trading desk flow - Liquidity Providers: Specialised liquidity providers (including low-latency strategies) - Active Trader: Other latency sensitive participants (not restricted to liquidity provision strategies) - Partner Broker: DMA flow from external brokers Clients can choose to tailor their interactions to target one or multiple profiles (the default setting is to interact with all profiles), and clients can provide Instinet with a set of profiles which they interact with, configurable at client or ID level. Profiles are set up prior to go live. Please confirm which profile is applicable to your firm. Please also refer to the most updated BlockMatch guideline at https://www.instinet.com/legal-regulatory for specific definition.	☐ Institutional ☐ Principal ☐ Liquidity Providers ☐ Active Trader ☐ Partner Broker

Our minimum requirements for use of our DMA system and our algorithmic trading system, as well as Guideline for Blockmatch Asia as applicable from time to time can be found at https://www.instinet.com/legal-regulatory