

# BlockMatch Asia

## ALP Guidelines

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## 1 Introduction

Instinet Pacific Limited (“Instinet”) – CE No. ABB038 – operates an Alternative Liquidity (“ALP”) for Hong Kong listed securities pursuant to its Securities and Futures Commission (“SFC”) Type 7 license under the brand name BlockMatch Asia (“BlockMatch”), and is approved as a Recognised Market Operator (“RMO”) by the Monetary Authority of Singapore (“MAS”) under the Securities and Futures Act (Cap. 289).

This document is Instinet’s ALP Guidelines (“Guidelines”) written to ensure Instinet’s adherence to the SFC Paragraph 19 of the Code of Conduct for Persons Licensed by or Registered (“Paragraph 19”) with the SFC (“the Code”) and specifically Schedule 8 of the Code; and MAS Guidelines on the Regulation of Markets and recognition conditions for Instinet’s RMO status.

## 2 Definitions

“Alternative Liquidity Pool or ALP”:	is defined in Paragraph 19;
“Conditional Orders”:	is defined as in Paragraph 4.1 of this document
“Group of companies”:	shares the definition as in Part 1 of Schedule 1 of the Securities and Futures Ordinance (“the SFO”);
“Firm up”:	is as defined in Paragraph 4.3 of this document
“Proprietary Order”:	is as defined in Paragraph 19;
“Qualified Investor”:	is as defined in Paragraph 19;
“User”:	is as defined in Paragraph 19.

## 3 Clients and User Restrictions

### 3.1 Eligible Clients

Only “Qualified Investors” are able to trade in BlockMatch, subject to approval and acceptance of this Guide and the Terms of Business. Orders from clients who are not authorised to trade are rejected. Clients must also ensure that their underlying clients are Qualified Investors. In respect of investors in Singapore, Instinet shall only allow professional investors, accredited investors and expert investors to trade directly on its organised markets.

Instinet reserves the right to limit access to or prohibit the use of BlockMatch at its own discretion.

### 3.2 Opt-Out Arrangements

Client configurations can easily be changed to opt-out of interaction with BlockMatch and opt-out requests should be directed to your Instinet relationship manager. Clients can use Counterparty Selection functionality to tailor interaction with specific profiles of counterparty. A description of Counterparty Selection is found at 7.5, and requests can also be directed to your Instinet relationship manager.

### 3.3 Associated Risks

Given the agency nature of Instinet's business there are limited risks of which the client should be aware. Instinet is keen to ensure that the BlockMatch product is valued by all clients, and as such, we provide access to a wide spectrum of liquidity. Clients can choose to opt out of interaction with particular types of counterparty. In particular, users who do not wish to interact with Liquidity Providers can use Counterparty Selection functionality as set out at 7.5, and in addition can use minimum quantity to filter out smaller orders.

Instinet receives price feeds from Stock Exchange of Hong Kong<sup>1</sup> ("SEHK"), or other market data vendors we consider reliable. In exceptional circumstances pricing information may be delayed due to reasons beyond Instinet's control, which may result in orders being matched in BlockMatch outside the prevailing best bid and ask on SEHK.

## 4 Conditional Book

### 4.1 Conditional Orders

A non-binding order which is submitted to the Blockmatch Conditional book. Upon BlockMatch identifying matchable contra liquidity, the order submitter receives an electronic message request ("notification") from BlockMatch to send a firm order for execution in the BlockMatch Limit Crossing Book.

### 4.2 Conditional Book

The Conditional Book holds conditional orders and manages the identification and notification of contra liquidity. Conditional orders are pegged to the mid-point of the exchange best bid/offer, and are therefore prioritised by size, time. No matching takes place within the Conditional Book and all firmed up orders are executed within the BlockMatch Limit Crossing Book.

### 4.3 Firm Up

In the event the Conditional Book identifies potential contra side interest, users will receive notification of the potential trading opportunity with an invitation to firm up. The notification displays symbol and the users own size and side, however does not display any details of the contra order or identity of the counterparty. Unmarketable conditional orders, or orders which cannot meet a contra order's minimum quantity requirements are not eligible to receive a notification message.

### 4.4 Response Timeframe and Matching Priority

Users have 2 seconds to respond to a notification message and send a firm order to the BlockMatch Limit Crossing Book. All orders injected into the BlockMatch Limit Crossing Book are matched on a price, size, time basis.

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<sup>1</sup> Owned and operated by Hong Kong Exchanges and Clearing Limited

#### **4.5 Firm order interaction with the Conditional Book**

Resting orders in the BlockMatch Limit Crossing Book can elect to interact with conditional orders using FIX Tag 7098 MatchInst, which flags the order to the Conditional Book. When the Conditional Book is looking for contra liquidity, it therefore can see any conditional orders, and those firm orders which have been flagged. Questions or requests regarding tagging of firm orders can be directed to your Instinet relationship manager.

#### **4.6 Order Behaviour**

Any order that is injected into the BlockMatch Limit Crossing Book can execute against any marketable contra liquidity, subject to its limit price and any minimum quantity applied. This includes conditional order firm ups, orders received as a late response to a firm up request, and any resting firm orders. To ensure service integrity, Instinet will monitor timing of responses to firm up requests alongside monitoring described at 4.7.

#### **4.7 Monitoring**

In monitoring the response rate to conditional orders, and limit the potential for information leakage, Instinet personnel will evaluate, on an ongoing basis for each trading day, the firm up rate for each client. Where a client's firm up rate falls below a defined % for the relevant trade date, Instinet will take appropriate steps to ensure service integrity.

### **5 Treatment of Proprietary Orders**

Instinet is an agency only broker and therefore does not have any of its own proprietary orders that access BlockMatch. Within BlockMatch, the matching logic prioritises agency orders over principal meaning for example where two orders are resting at the same price level, the agency order has queue priority over the principal order, irrespective of time entered. Instinet monitors matching priority of orders on a post trade basis to ensure fair treatment and service integrity.

Instinet is wholly owned by Nomura Holdings Inc. Some Nomura entities under the same ownership, whilst treated the same as any other client at Instinet, are treated as "proprietary" under the broad definitions in the Code and the SFO (Cap 571). If any of these Nomura entities access BlockMatch, irrespective of the time when their orders are placed, the matching logic prioritises agency orders over principal orders.

In addition, Instinet uses Counterparty Selection profile tagging should clients wish to opt out of any interaction with principal orders.

## 6 Trading and Operational Matters

### 6.1 Hours of Operation

SEHK opening hours for normal trading hours are as follows:

Time	Session
09:00 – 09:30	Pre-open Session
09:30 – 12:00	Morning Continuous Trading
12:00 – 13:30	Extended Morning Session
13:00 – 16:00	Afternoon Continuous Trading
16:01 – 16:10	Closing Auction (for eligible stocks)

On Lunar New Year's Eve, Christmas Eve and New Year's Eve, trading hours are cut short to half a day with trading ceasing at 12:30. There will be no trading on New Year's Day and other public holidays in Hong Kong.

There are also other special circumstances such as typhoons where the exchange is closed or has shortened trading hours.

BlockMatch operates two distinct books; a regular Limit Crossing order book, and a Market-On-Close order book. In addition, BlockMatch provides a Conditional Book for management of conditional orders, and matching of conditional orders takes place within the Limit Crossing book. Each book operates under the following hours:

Book	Operating Hours	Comments
Conditional Book	09:30 – 16:00	Holds conditional orders, identifies contra liquidity and requests firm up.
Limit Crossing	09:30 – 16:00	Orders can only cross once Continuous trading at SEHK commences at 09:30.
Market-On-Close	07:30 – 18:30	Orders will cross with an indicative price (previous close) and then re-price to the closing price once it is published.

### 6.2 Monitoring and Internal Controls

Instinet operates appropriate system controls to ensure the fair and orderly functioning of Block Match including for example the treatment of proprietary orders, execution methodology, Counterparty Selection and matching priority as set out in this document.

Instinet conducts monitoring of matching priority on a post trade basis to ensure fair treatment of agency orders over principal orders, and Instinet conducts monitoring of Counterparty Selection settings on a post trade basis to ensure integrity and accuracy of those settings.

Monitoring of conditional firm up requests and responses is stated at 4.7 and where relevant Instinet will take steps to ensure service integrity. 3.3 sets out that clients who do not wish to interact with Liquidity Provider orders, can do so by using Counterparty Selection as described at 7.5.

Management of conflicts of interests is mitigated by:

- Opt-out arrangements. Clients can opt-out of interaction with BlockMatch, and can also opt-out of interaction with particular categories of client, and;
- Within Instinet, real-time visibility of BlockMatch (including pre-trade order level data) is restricted to a need to know basis.
- Monitoring of executions on a post trade basis to ensure integrity of agency over principal.

### 6.3 Trade Reporting Timing

Off exchange transactions that occur during market hours are required to be reported to SEHK within 1 minute. Transactions concluded outside SEHK trading hours are reported to the Exchange within the order input period of the Pre-opening session or the first 15 minutes of the commencement of Continuous trading.

Instinet will report all BlockMatch transactions as soon as the SEHK system is available for reporting.

The below table states when a BlockMatch trade is reported:

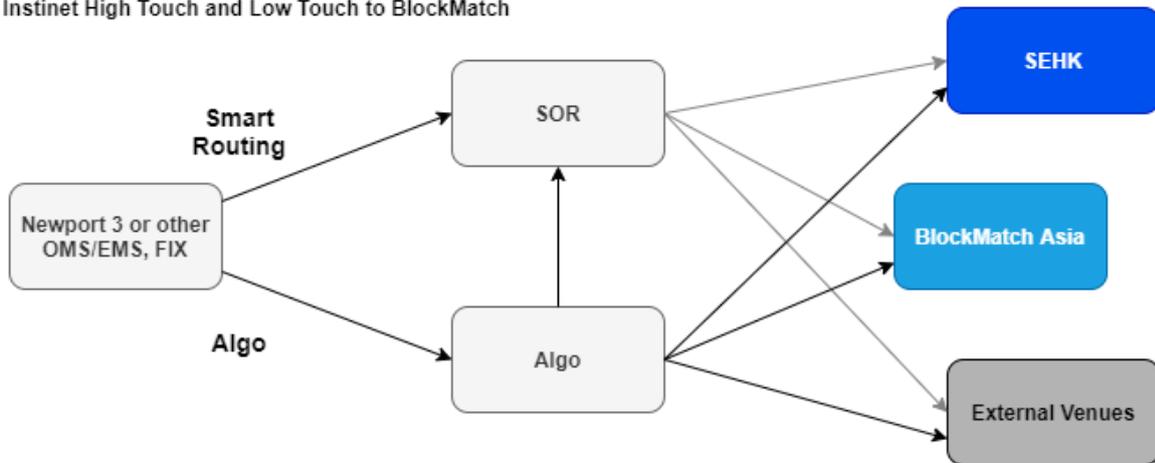
Book	Time of Trade	Reporting time	Comment
Conditional Book	09:30 – 16:00	Immediately after the trade is executed.	Trades entered at 12:00-13:00 report after 13:00:30.
Limit Crossing Book	09:30 – 16:00	Immediately after the trade is executed.	Trades entered at 12:00-13:00 report after 13:00:30.
Market-On-Close Book	07:30-18:30	The following trading day after 09:01:30.	These trades are reported to the exchange with a “previous day indicator”. i.e. a previous day’s trade, reported the next morning will have the previous day’s trade date.

## 7 Execution Methodology and Trade Price

### 7.1 Order Entry and Order Routing

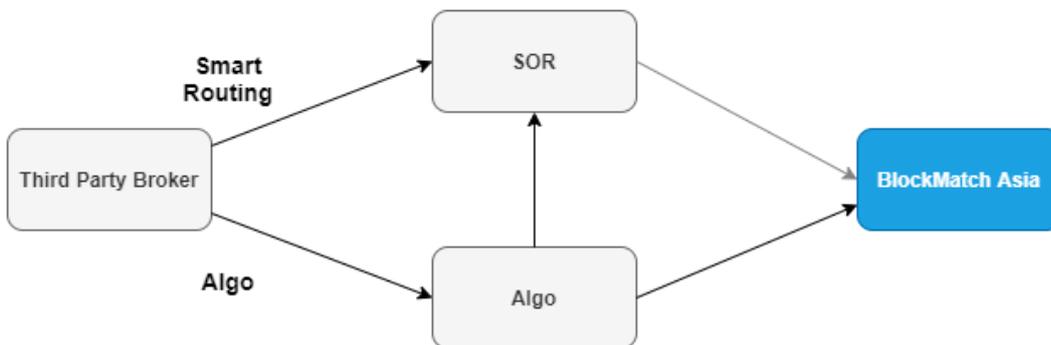
Client	Routing
High touch client	Uses Newport 3, other OMS/EMS or FIX to send orders to coverage trader. Coverage trader uses Newport 3 to access external venues via SOR or Instinet Expert Algorithms.
Low touch client	Sends order via Newport 3, FIX to SOR, or Instinet Experts Algorithms.

Instinet High Touch and Low Touch to BlockMatch



Client	Routing
Third Party Broker	Uses own SOR or algorithms to send orders to BlockMatch.
Direct Client Interaction	Uses FIX to send orders directly to BlockMatch.

Third Party Broker routing to BlockMatch



Client direct FIX to BlockMatch



## 7.2 Conditional Order Entry and Firm Up

### Order Entry

1: Buyer sends conditional order to BlockMatch Asia to buy 500k shares. Order is pegged to the mid-point of the exchange Best Bid/Offer

2: Seller sends conditional order to BlockMatch Asia to sell 250K shares. Order is pegged to the mid-point of the exchange Best Bid/Offer



### Firm Up Request

3: BlockMatch Asia identifies matchable contra liquidity and sends firm up request to buyer and seller asking them to send a firm order for matching. Both buyer and seller have a short time window of 2 seconds to respond



### Execution

4: Both buyer and seller 'firm up' by sending firm orders to BlockMatch Asia for matching and trade is executed in **250k shares at the mid-point of the primary exchange**



Outcomes	
<b>Both buyer and seller firm up in same size as underlying conditional order</b>	As described in the workflow above. Buyer has entered a firm order for 500k shares and seller 250k shares. Trade executes at mid-point of the primary exchange for 250k shares.
<b>Seller firms up in larger size than underlying conditional order</b>	Seller increases size when firming up and responds with 400k shares rather than 250k, and buyer enters firm order for 500k. Trade executes at mid-point of the primary exchange for 400k.
<b>Buyer firms up in lesser size than underlying conditional order</b>	Buyer enters firm order smaller in size than original conditional at 200k shares, and seller in full original size of 250k. Trade executes at mid-point of the primary exchange.
<b>Seller fails respond to firm up request to send a firm order</b>	Buyer sends firm order and seller fails to respond. Buyers order will execute against any matchable resting liquidity in the Limit Crossing Book.
<b>Both buyer and seller fail to respond to firm up request and send a firm order</b>	No execution occurs.

### 7.3 Onward Routing

BlockMatch does not provide for routing of orders onwards to other liquidity pools.

### 7.4 Trade Price

Within the Limit Crossing Book, Limit orders and pegged orders, can only cross at, or better than the best bid or ask published by SEHK at the time of execution. This also applies for stocks that triggered the volatility control mechanism. If trading at SEHK is a crossed book or in suspension BlockMatch will not execute trades. Market-On-Close orders will cross with an indicative price (previous close) and then re-price to the closing price once it is published.

### 7.5 Counterparty Selection

Within BlockMatch, 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). Counterparty selection requests should be directed to your Instinet relationship manager. Instinet may monitor executions, and in addition will review Counterparty Selection settings and execution reports monthly to ensure service integrity.

Clients have a **MemberProfile**: the category which the client belongs to, and **TargetProfiles**: the categories the client is willing to interact with.

- **MemberProfile:** maps a client to a profile, and is used to define the categories to which a client belongs.
- **TargetProfile:** maps a client to the profiles against which it is willing to cross. Each client can have any number of target crossing profile codes.

### 7.6 Priority

Matching priority in the Limit Crossing Book is on a price, size, time basis meaning where there are several orders resting at the same price level, larger sized orders go to the top of the queue. Where orders at a given price level are of the same size, orders are then prioritised by time. Priority in the Market-on-Close Book is time only, as all orders are matched at the closing auction price. Priority in the Conditional Book is size, time, as all orders are pegged to the mid-point of the SEHK best bid offer. In addition, agency orders have priority over principal orders at any given price level.

## 7.7 Order Types

BlockMatch supports the following order types:

Order Type	Comment	Priority
Limit	Limit Order is an order with a limit price	Price, Size, Time
Fill or Kill	The order will be totally filled or cancelled immediately	Price, Size, Time
Immediate or Cancel	The order will trade as much as possible and the have the residual cancelled immediately	Price, Size, Time
Pegged orders	<p>Multiple pegged order types supported:</p> <ul style="list-style-type: none"> <li>• Primary Peg Types: <ul style="list-style-type: none"> <li>○ Basic Primary Peg – pegged to the SEHK best bid or offer. Order will dynamically move with the market up to the limit price.</li> <li>○ Primary Peg with Increments – pegged at user defined increment away from the same side of the SEHK best bid or offer.</li> </ul> </li> <li>• Mid Peg Types: <ul style="list-style-type: none"> <li>○ Basic Mid Peg – pegged to the mid-point of the SEHK best bid offer. Order will dynamically move with the market up to the limit price.</li> <li>○ Mid Peg with Increments – pegged at user defined increment away from middle of SEHK best bid offer. Order will dynamically move with the market up to the limit price.</li> </ul> </li> <li>• Market Peg Types: <ul style="list-style-type: none"> <li>○ Basic Market Peg – pegged to the contra-side of the SEHK best bid or offer. Order will dynamically move with the market up to the limit price.</li> <li>○ Market Peg with Increments – pegged at user defined increment away from the contra-side of the SEHK best bid or offer. Order will dynamically move with the market up to the limit price.</li> </ul> </li> </ul>	Price, Size, Time
MOC	Market-On-Close. Trades are executed at the day's SEHK closing auction price. Clients will be sent indicative fills as they are matched using the previous day's closing price, and are repriced to the day's closing auction price, following completion of the SEHK closing auction. Trades will be reported to SEHK on the following trading day using the "previous day's trade" flag.	Time only

## 7.8 Minimum Quantity

Clients can apply a minimum executable quantity, specified as a set number of shares on a per order basis.

## 7.9 Tick Sizes

Tick Sizes in BlockMatch are defined as follows:

Low Range	High Range	Price Step
0	9.999	0.001
0.25	0.499	0.001
0.5	9.999	0.001
10	19.998	0.002
20	99.995	0.005
100	199.99	0.01
200	499.98	0.02
500	999.95	0.05
1000	1999.9	0.1
2000	4999.8	0.2
5000 or above		0.5

Orders entered into BlockMatch that have a limit price between the spread will be rounded conservatively; that is, for buy orders, downwards to the nearest price step and upwards for sell orders.

## 7.10 Quantity

BlockMatch will accept board lots only. Any mixed or odd lot orders will be rejected. Board lots are defined and set by SEHK. The maximum order size is defined on a per-client basis as part of Instinet's standard pre-trade risk controls. There is no default maximum share/lot size for orders entered into BlockMatch.

## 7.11 Side

BlockMatch will support Buy and Long Sell only. Any other side will be rejected.

## 7.12 Supported Securities

BlockMatch will support trading of all securities tradeable on SEHK that have the same settlement process as an ordinary stock. This includes ordinary stocks, exchange traded funds, but not bonds. Orders for SEHK bonds will be rejected.

## **8 Cancellation and Amendment Process**

### **8.1 Client Cancellation**

Clients are able to cancel orders sent to the BlockMatch Limit Crossing or Conditional Book at any time until they become fully filled. Market-On-Close orders may be cancelled at any time, but once an indicative fill has been issued, that part of the order can no longer be cancelled.

### **8.2 Client Amendment**

Clients are able to modify the quantity and price of their orders in the Limit Crossing Book subject to price, size, time priority. In the Conditional Book size, time priority and time priority in the Market-On-Close Book. Amended orders are timestamped with time amended and prioritised accordingly.

### **8.3 Trade Cancel/Trade Correct**

Instinet has discretion to cancel/correct a trade that has already occurred on BlockMatch. This facility is not generally available and will only be used to correct genuine errors of faults. Trades already reported to the exchange cannot be cancelled/corrected by Instinet, as they are subject to the Rules of SEHK.

### **8.4 Force Cancel**

In the event of a force majeure, connectivity problems, clearly anomalous trades or other relevant and genuine emergency situations, Instinet reserves the right to force cancel an order in BlockMatch, if in Instinet's absolute discretion, such a cancellation is required. Impacted participants will be notified for any such cancellations.

Orders outstanding in BlockMatch after trading hours will be cancelled back to clients. They will not roll over to the next trading day.

### **8.5 Contingency Arrangement**

If BlockMatch is not operational due to a system failure, data services failure or any other reasons, unexecuted orders may be either cancelled, or held pending resolution of the incident. Instinet will use appropriate communication channels to inform impacted clients of the causes, or possible causes and to confirm the way orders will be handled.

## **9 Aggregation**

Orders are not aggregated in BlockMatch.

## 10 Self-Crossing

By default, all clients can execute against their own contra orders in BlockMatch. If required, the default setting can be changed and clients can switch off self-crossing. Clients are expected to have controls in place to ensure compliance with relevant rules, particularly regarding prevention of wash trades.

## 11 Internal Control Process

### 11.1 Stock Suspension

There will be no trading of stocks during any crossing time in BlockMatch if the stock is in suspension at SEHK. In the case of a Market-On-Close cross, if after the preliminary match the stock becomes suspended from trading, Instinet will still execute the match if a Closing price is ascertainable by Instinet. The indicative trade will be cancelled if a Closing price cannot be determined by Instinet.

### 11.2 Price Range Checking

BlockMatch will allow matching of orders in the Limit Crossing Book at or better than the best available bid and offer on SEHK at that point in time. Orders more aggressively priced (but still within Instinet's pre-trade risk controls set up on a per client basis) will be rounded down to the far touch price and more passively priced orders will rest in the book until they come into range or BlockMatch closes for the day.

### 11.3 Schedule of Internal Users

In order to provide monitoring, support, governance, and operational assistance to clients, the following Instinet users have access to certain data within BlockMatch:

Department	Title	Real-time visibility?	Reason for Access
Technology	Asia Trading Operations	Y	Application support
	Product Strategy	N	Product support
Operations	Middle Office/settlements	N	Allocations, booking, clearing and settlement
Legal & Compliance	Compliance	N	Trade surveillance and monitoring
Front office	Electronic coverage	N	Account coverage for clients
	Responsible officers/regulatory managers	N	Supervision and Management
	Head of Liquidity Strategy	N	Managing development of ALP liquidity and performance

## **12 Settlement**

Clearing and settlement follows the existing post trade processes of SEHK. As transactions are reported to SEHK with a tag indicating the trade date to be the actual date of the transaction. Clearing and settlement will conclude in the usual manner in accordance with the rules, regulations and procedures of SEHK. Participants are required to inform themselves of these rules, regulations and procedures and adhere to them in accordance with Instinet's usual terms of business for trading SEHK.

Participants are reminded that settlement of transactions will take place in accordance with CCASS Operational procedures. This includes changes to settlement timing due to typhoons, black rainstorms and other contingency events.

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