



NOTICE OF AUTHORIZATION TO PROVIDE AUTOMATED TRADING SERVICES

Pursuant to section 95(2) of the Securities and Futures Ordinance (**SFO**), the Securities and Futures Commission (**SFC**) hereby authorizes Hong Kong Mercantile Exchange Limited (**HKMEx**) to provide automated trading services (**ATS**) for the purposes of operating a commodities futures market in Hong Kong subject to the following conditions –

General

1. HKMEx shall comply with, and implement and maintain measures appropriate to ensuring compliance with, the law, including in particular the SFO.
2. In providing ATS, HKMEx shall conduct its business, operations and affairs in a manner that is honest, fair and consistent with the principles, procedures and standards reflected in the SFC's Guidelines on the Regulation of Automated Trading Services.

Financials

3. HKMEx must have financial resources sufficient for the proper performance of its functions and obligations as an authorised ATS provider.

Operations

4. HKMEx must –
 - (1) only provide ATS via its Pearl trading platform, or such other platform as is approved in writing by the SFC,
 - (2) ensure as far as reasonably practicable that there is an orderly, informed and fair market in relation to all transactions which are carried out by means of or through its ATS,
 - (3) ensure that risks associated with its business and operations are managed prudently, and
 - (4) ensure that the futures contracts traded through its services belong to a class that is approved in writing by the SFC for such purpose.
5. Additionally, for the conduct of its business and provision of ATS, HKMEx must provide and maintain –
 - (1) adequate and properly equipped premises,
 - (2) competent personnel, and
 - (3) reliable systems with adequate capacity and stability, facilities to meet contingencies or emergencies, security arrangements and technical support, no matter owned by HKMEx itself or provided by an outsourcing party.



6. HKMEX must provide its services and operate its facilities and markets in accordance with its constitution and any rules and procedures made by it and approved in writing by the SFC (collectively, **HKMEX rules**). It must also formulate and implement appropriate procedures for ensuring that its members/participants comply with HKMEX rules. Additionally, HKMEX must ensure that no amendment to any HKMEX rules takes effect unless such amendment has been approved in writing by the SFC.
7. Where reasonably practicable, HKMEX must consult with the SFC before taking any action which may limit or otherwise affect the continued or orderly operation of its services, facilities or markets. Where prior consultation is not reasonably practicable, HKMEX must notify the SFC as soon as practicably possible after taking such action. As far as reasonably practicable, any consultation or notification pursuant to this paragraph must be in writing.

Reporting and disclosure requirements

8. HKMEX must disclose to the SFC, within the time and in the manner specified, such information and documents relating to its business and operations or to any trading conducted through its services, as the SFC may at any time and from time to time reasonably request.
9. HKMEX will be responsible for –
 - (1) surveillance of activities in the markets operated by it, and
 - (2) frontline prudential and conduct regulation of its members/participants vis-à-vis their activities in HKMEX's markets,and must provide regular reports in writing to the SFC of its surveillance and regulation activities, and of any actions taken.
10. HKMEX must immediately inform the SFC of the following upon becoming aware of the same –
 - (1) any material change to information provided in connection with its ATS application,
 - (2) any regulatory or other enforcement action having been taken against HKMEX or any of its shareholders, directors, or senior staff which calls into question their integrity or fitness and propriety to be a shareholder, director or senior staff of HKMEX,
 - (3) any system or operational failures or defects, and remedial steps taken,
 - (4) any breach or potential breach of any of the conditions of HKMEX's authorization to provide ATS,
 - (5) any matter arising from HKMEX's surveillance or regulatory activities that might prompt the need for further action by HKMEX, and
 - (6) that any of its members/participants: is unable to comply with HKMEX's rules; is unable to meet its legal obligations; is suspected of having breached any legal or regulatory requirement to which it is subject; or is affected by a matter that calls, or may call, into question its financial standing or integrity.



Regulatory action

11. HKMEX must amend the HKMEX rules as reasonably requested by the SFC provided that the SFC shall consult HKMEX and take into account any concerns it may have before making any such request.
12. Upon the SFC so requesting, HKMEX must permit any persons so authorized by the SFC –
 - (1) to enter any premises on which its services are provided or the books and records relating to its business of providing ATS are kept, and
 - (2) to inspect the electronic facilities through which its services are provided, and any books and records relating to its business as a provider of ATS.
13. Upon the SFC so requesting, HKMEX must provide all reasonable assistance and access to facilitate a regular review of its business, operations and services by the SFC.
14. Upon the SFC so directing in writing, HKMEX must cease to provide or operate such facilities or services as are specified and for such period as is specified provided that the SFC will only issue such a direction if it considers that the orderly transaction of business on any market operated by HKMEX is being, or likely to be, impeded or prejudiced because of an emergency or natural disaster, an economic or financial crisis, or any other circumstance.

Clearing and settlement

15. HKMEX must ensure that the futures contracts traded through its services are cleared through LCH.Clearnet's authorized ATS platform, or such other recognized clearing house or authorized ATS provider as may be approved in writing by the SFC for such purpose.

Launch

16. HKMEX shall not launch its services or permit trading on its ATS platform to commence until the SFC has confirmed in writing that all significant systems and operational tests relating to HKMEX's platform and services have been completed to the satisfaction of the SFC.

Each of the above conditions is independent, and should not be regarded as being limited or affected in any way by any of the other conditions.

DATED: 26 APRIL 2011