

Guide to

Legislative Proposals on

Automated Trading Systems and Related Issues

(to be included in the Securities and Futures Bill)

5th July 1999

Introduction

1. When the Securities Ordinance (“SO”) was enacted in 1974 – a quarter of a century ago – and the Commodities Trading Ordinance (“CTO”) in 1976, the existence of a stock or commodity market meant a physical meeting venue in a specific geographical location. Telecommunication and information technologies have since shattered such simple conception. A market today could be a network of telephone and computer connections or, as is more and more likely, be established “in cyberspace” via the Internet. It could also provide less than the full range of order matching, clearing, and settlement services involved in exchange-run markets. These new trading forums are often referred to as “alternative trading systems” or “automated trading systems” (“ATSs”).

Fast-Changing Environment

2. Advances in telecommunication and information technology that have spurred the global explosion of these ATSs have also given them new abilities – and characteristics very different from those of traditional exchanges as well as from each other. For example, a proprietary network (an Extranet) could be tailored for a small class of participants that meet the operator’s credit worthiness and sophistication criteria. On the other hand, an Internet arrangement has the potential to reach every investor in the world.
3. Furthermore, an ATS operation can evolve as technology continues to advance, thus changing the relative competitive positions within the financial industry and raising new as well as different regulatory issues.

Global Trend

4. The advent of ATS operations is a global phenomenon. According to a report by the International Organization of Securities Commissions (“IOSCO”),¹ in 1994, at least thirteen jurisdictions had had some experience with locating a place for ATSS within their regulatory frameworks.² This number has certainly increased significantly since that time. Many emerging markets are now embracing the new technologies and trying to become attractive to ATS operators. It is clear that ATSS meet a number of market needs. Members of the securities industry in Hong Kong should be, so far as consistent with proper regulation, facilitated in their provision of these services. Put simply, ATSS are here to stay, and those who do not recognize this will be left behind in the global race.

The Present Problem

5. As discussed in more detail below, a variety of ATSS already operate in Hong Kong. They vary in their characteristics, and raise a wide range of regulatory issues in relation to financial resources, system capabilities, investor protection, as well as market manipulation. The Securities and Futures Commission (the “Commission”) must extend its supervision to this area.
6. The relevant provisions in the SO and CTO define the terms “stock market” and “commodity market” by reference to “a place”. This might leave doubt as to whether ATSS are covered. To date, the Commission has attempted to regulate ATS activities in part based upon other legal grounds – for example,

¹ Issues in the Regulation of Cross-Border Proprietary Screen-Based Trading Systems, IOSCO Technical Committee (1994).

² The jurisdictions cited are Australia, France, Germany, Italy, Japan, Mexico, Ontario, Quebec, Spain, Switzerland, the United Kingdom, and the United States.

by licensing ATSS as dealers – and in part by persuasion. Such an approach, however, is unsatisfactory for five reasons.

7. First, while the Commission can treat some ATSS as dealers, to do so involves a significant extension of the usual concept of securities or futures dealing.
8. Second, the existing licensing regime is designed for a different purpose, and does not contemplate the need for standards appropriate for regulation of ATSS (such as in relation to high-volume system capabilities, contingency-plan requirements, rules of participation, surveillance of trading, and examination of audit trails). This regime would have to be stretched against even its basic structure if its coverage has to extend to ATS operations.
9. Third, the Commission currently seeks to achieve some degree of regulation by fashioning certain standards as criteria for determining whether an ATS-dealer is a “fit and proper person” (which is a general requirement under existing law). Although this approach does set threshold requirements and provides a basis for disciplinary action, it is not a proper foundation for the full range of regulatory requirements appropriate for many types of ATSS.
10. Fourth, the participation of ATSS will be increasingly important to a financial centre’s international competitiveness. Accordingly, our regulatory regime must be reformed to provide an environment that can facilitate the growth of proper and beneficial ATS operations in Hong Kong.
11. Finally, the absence of clear and direct regulation is an impediment to the Commission’s understanding of market activities. It increases the risk of improper behaviour and systemic instability.

Consultation and Discussion

12. When the Commission first presented a draft composite Securities and Futures Bill for consultation in early 1996, it also took the opportunity to raise the question of regulation of ATS activities in Hong Kong.³ The ensuing industry and public comments were generally in favour of bringing ATSs within the Commission's regulatory ambit.⁴
13. Subsequently, the Commission set up a Working Group on Automated Trading Systems with experts from the securities and futures industry, related professions, as well as the academia. The Working Group made its report to the Commission in early 1997, and the Commission promptly published the report for consultation.⁵
14. In 1998, the Better Hong Kong Foundation, SEHK, the Hong Kong Futures Exchange and the Commission jointly sponsored a study on the impact of Internet technology on key sectors of Hong Kong's investment services market.⁶ The report observed that "effective regulation has been, and must remain, the foundation of Hong Kong's position as one of the world's leading financial centres," and concluded that decisive action must be taken, because "a cautious or complacent, wait-and-see attitude will cause Hong Kong to be marginalized."
15. This guide builds on the work already done. It first summarizes the ATS operations active in Hong Kong, then analyzes the challenges, benefits and

³ [A Consultation Paper on a draft for a composite Securities and Futures Bill](#) (April 1996).

⁴ [Main Proposed Revisions to a Draft for a Composite Securities and Futures Bill](#) (December 1996).

⁵ [Report of the Securities and Futures Commission Working Group on Automated Trading Systems](#) (dated January 1997, published February 1997).

concerns, and examines certain international regulatory models. Finally, this guide proposes an expanded regulatory framework for moving forward as well as an approach to formulating the content of future regulation.

ATS Operations and Hong Kong

16. A number of alternative trading systems already have facilities in, and many more are accessible from, Hong Kong. These ATS operations can be grouped roughly into five categories:

- Bulletin Boards and Trade Matching Systems;
- Broker-run Proprietary ATSS;
- Exchange-run ATSS;
- Broker-to-Client Automated Linkages; and
- Internet-based Operations.

Bulletin Boards and Trade Matching Systems

17. Technological advances have enabled traditional news wire services to operate as interactive global telecommunication networks. These services, long relied upon by market participants as sources of news, are now also used by many to display “notices” of interest in trading a variety of financial instruments. All of the major wire services offer their terminals and trading services worldwide, and are used by or accessible to many market participants in Hong Kong. The items traded are primarily debt and money market instruments (including HKSAR Government debt) that have historically been traded in the over-the-counter (“OTC”) markets for deposits, as well as foreign exchange and interest

⁶ Internet Investment Services: Conclusions and Recommendations for Hong Kong (November

rate derivatives. Increasingly, illiquid small company stocks that might not be listed on any recognized exchange are also seen.

18. A bulletin board system typically does not provide trade matching or settlement services. Some have been expanded to provide these services, and are known as “trade matching systems”. Transactions effected through these systems may be settled through recognized settlement services, such as Euroclear and Cedel, or directly between the trading counterparties. At least two such systems offer their services in Hong Kong. One provides trade confirmation and settlement, the other provides trade confirmation but not settlement.

Broker-run Proprietary ATSS

19. Innovative brokerage firms have developed their own proprietary systems for trading in securities and futures contracts. Typically, the systems offer their services to other brokers, banks, and institutional investors who meet the owner-operators’ credit standards. Some owner-operators are members of an exchange, and their systems report all completed transactions to the exchange, which then publishes the relevant data. Others do not belong to an exchange, but report transactions to a “consolidated tape” which displays data from multiple markets. Still others operate independently and do not publish any transaction data.
20. One major international broker-run proprietary ATS has located one of its eight regional headquarters in Hong Kong. The office coordinates the majority of the company’s Asian businesses and, in addition to offering 24-

hour access to American and European markets, also provides for trading in Hong Kong, Singapore, Thai, and Malaysian securities. The company is a member of SEHK and reports transaction data in SEHK-listed stocks to the exchange.

21. Other broker-run ATSS that do not have a physical presence in Hong Kong are also easily accessible via various communications media. In addition, although not typically classified as ATSS but operationally similar, many brokers in Hong Kong maintain in-house systems for agency or principal trading in a variety of different products. These systems are described in more detail below.

Exchange-run ATSS

22. In response to the internationalization of investor interest and participation, traditional exchanges are increasingly expanding from their home bases by using technology to provide global access to their facilities. Indeed, this expansion is accelerating as advances in technology further simplify computer linkages by standardizing communications protocols and security measures.
23. An international screen-based trading system for futures contracts has installed trading terminals in Hong Kong. Intermediaries in Hong Kong have also established computer linkages enabling them to access regional as well as international stock and futures markets, including those in North America, Europe, Bermuda, Singapore, and Australia. In addition, consideration is being given to introducing terminals in Hong Kong for trading in “B” shares of the Mainland markets.

Broker-to-Client Automated Linkages

24. Many brokers now operate linkages between their own systems and their clients' computers, often via the Internet. These linkages may provide market data, account balances, as well as on-line order entry, execution, and trade confirmation services. In most cases, client orders are routed directly to an exchange for execution, and are confirmed directly to the client without any personal contact between the broker and the client.
25. Affiliates of certain Canadian and U.S. retail investment services providers have registered as dealers in Hong Kong and offer their clients computer connections to their own systems for trading in Canadian and U.S. stock, options, and bond markets. Several other firms are exploring similar possibilities in tapping into Hong Kong's capital by providing trading in a variety of foreign markets.

Internet-Based Operations

26. Any of the four kinds of ATs described above can utilize the Internet as their means of communicating with clients and potential customers. One major area of growth in this regard is the creation and use of bulletin boards for secondary market activities. There is, however, a crucial difference between these operations and the ones maintained by news wire services. Internet bulletin boards are potentially open to – indeed, they are often designed to be attractive to – individual investors from anywhere in the globe.
27. In addition, as mentioned earlier, brokers frequently offer direct linkages to customers via the Internet. There are at least three Hong Kong providers of such services. All are registered with the Commission, but only one is a

member of SEHK. Their websites offer access to the Hong Kong, U.S., and Japanese securities markets and, in addition, have hyperlinks to or information about the respective firm's futures, leverage foreign exchange, or hedge funds operations.

28. Furthermore, it must be emphasized that geographical location is generally not a limiting factor in relation to the Internet. Arrangements such as the bulletin boards and broker-to-client linkages described above are accessible from Hong Kong regardless of the location of the persons operating the facilities and the markets in which they provide trading.

New Challenges and Regulatory Criteria

29. As the above description shows, ATs can operate very differently (in comparison to traditional exchanges as well as to each other) in terms of access, product range, advice and services, speed of trade execution, assurance of fair pricing, and degrees of transparency or confidentiality. These differences pose a host of new regulatory challenges. The Commission's approach in regulating ATs and meeting the challenges will be based on five basic criteria:

- transparency;
- reducing systemic risks;
- market liquidity;
- coordination with exchanges (especially those trading the same or related products); and
- international cooperation.

Transparency

30. A universal aspect of all financial regulatory regimes is the requirement that relevant institutions (banks, exchanges, brokers etc.) retain certain records and data. This approach should also apply to ATS operations.
31. In addition, key attributes of every trading forum should be made known to its participants. Information about orders or quotes, market depth, and completed transactions is important to the price discovery process. The rules on order priority, routing, and execution are part of the maintenance of a level playing field. Depending on the specific features of an ATS, different levels of compulsory disclosure might be necessary. The Commission will work with industry professionals to set out suitable guidelines, and will cooperate with each applicant for ATS authorization to resolve any issues that arise in practice.

Reducing Systemic Risks

32. Where an ATS becomes of sufficient size and importance, its operational or financial failure could materially disrupt the market. Similar concerns exist with exchanges, clearing houses, brokers, and banks. As in all of these other areas, the regulatory regime applicable to ATSs should impose minimum standards of financial and operational capabilities appropriate to the functions performed.
33. In addition, in some markets, the ease with which orders can be placed through Internet-based ATSs have added to the growth of “day traders” and contributed to price volatility. The applicable regulatory standards, therefore,

should ensure that Internet-based systems are designed and maintained properly in light of changing customer composition and trading patterns.

Market Liquidity

34. The advent of ATS operations could theoretically split the overall trading interest among the relevant exchanges and the new systems, and thereby reduce the liquidity otherwise provided by a central market. A similar concern was cited as reason for consolidation of the four then-existing exchanges into SEHK when the Stock Exchanges Unification Ordinance was passed in 1980 and ultimately carried out in 1986.
35. Circumstances, however, have changed dramatically since 1986. The Hong Kong stock market has grown more than six-fold in capitalization and thirteen-fold in annual turnover. In addition, the presence of arbitrageurs and the simultaneous participation of institutional investors in both ATSs and SEHK should make any attempt to manipulate one market no easier than trying to affect the pricing process in both venues.
36. Most importantly, ATSs do not appear to have caused any material fragmentation in markets where they are active. The Commission believes that, in practice, the issue of market fragmentation and liquidity will not be a serious one. Nevertheless, it is mindful of the concern, and will take the relevant factors into account when assessing any application for ATS authorization.

Coordination with Exchanges

37. There are occasions when an exchange might temporarily suspend trading in a security or in general. The suspension could be due to a pending important announcement by the company, or because of a need for a “cooling off” period. This raises difficult issues as to whether an ATS should observe the suspension, continue trading but inform all participants of the suspension, or continue as usual on the assumption that the participants are all sophisticated investors. The situation is further complicated by the fact that many ATSs will provide trading in foreign securities, or in Hong Kong instruments but are themselves located offshore.
38. A similar situation already arises in respect of the trading in shares on two or more traditional exchanges. There are, for example, many stocks that trade on the New York Stock Exchange and on overseas exchanges, just as there are stocks that trade on both SEHK and the London Stock Exchange.
39. The Commission does not believe that applying a set of universal rules is suitable. An ATS operation that has a large overlap with the OTC market may need to stand ready at serving its clients at all times. On the other hand, an ATS operation that is simply a matching system for listed securities likely should respect any suspension or other measures imposed in the home exchange. Accordingly, the Commission will approach the question of coordination with exchanges pragmatically, and will examine the specifics of each proposed ATS before concluding on what rules on coordination are appropriate.

International Cooperation

40. Almost all ATSS operate across national borders – indeed some are truly global 24-hour operations. This could make it difficult for any single regulator to obtain a complete picture of the overall business of an ATS. Accordingly, regulators must strengthen their information sharing arrangements and engage in more joint efforts.
41. A corollary of the fact that ATSS operate across borders is that ATSS from divergent legal backgrounds will be doing business in the same jurisdiction. Those from leading financial centres are probably already subject to adequate regulation; but some are under strict supervision only in relation to customers or instruments in their home jurisdictions; still others are not caught by any regulatory net. If possible, duplicative regulation between the home country and host jurisdiction should be avoided.

Benefits of ATS Operations

42. Depending on the system involved, ATSS can present a number of significant benefits. They are summarized in the paragraphs below.
43. Lower transaction costs. By maximizing the use of automated systems, targeting niche markets, and providing a specialized and discrete range of services, ATSS frequently have lower transaction costs compared to traditional exchanges.
44. Reducing Market Impact Costs. Some ATSS operate on “passive pricing” – i.e., at average daily prices or a single auction price. This can be attractive to portfolio managers who are less concerned with instant execution but are sensitive to the market impact costs of their institutional-size orders.

45. Anonymity. Many ATSs provide (to different degrees) more anonymity than traditional exchanges for their clients. This feature is cited by portfolio managers as also helpful to the reduction of market impact costs.
46. Assurance of Ultimate Completion of an Agreed Trade. When the home market of the instruments involved lacks integrity, ATSs that have appropriate admission standards can provide a more efficient trading environment with creditworthy counterparties. Participants, therefore, have more assurance that an agreed transaction will ultimately follow through.

Concerns when Making Transactions on ATSs

47. Prospective clients of any particular alternative trading system will weigh the potential benefits against possible costs. Depending on the system involved, there can be a number of concerns. They are summarized in the paragraphs below. For present purposes, these concerns should be borne in mind as issues that the basis of the Commission's power to regulate as well as the content of regulation will need to address.
48. Security. Many of the alternative systems utilize new means of communications (e.g., the Internet). The security of such channels could be a concern.
49. System Capabilities. As the Securities and Exchange Commission of the United States (the "SEC") and several other organizations recently warned customers of Internet ATSs, technology can go wrong, resulting in delays or mistakes in both handling of orders and execution of trades. The same principle is true for other types of ATS operations. While the regulator can impose minimum standards on system capabilities, completely foolproof

measures are neither practical nor practicable. Such would take away from the efficiency and other benefits of having ATSS in the first place. Prospective customers of a particular system will have to carefully consider the potential costs of technological limits and, if necessary, devise back-up plans.

50. Suitability. As mentioned throughout this guide, a major benefit of ATSS is that they are usually tailored for specific groups of market participants. While the regulator would usually set customer suitability conditions before authorizing an ATSS operation, a prospective customer is in a far better position to judge for himself on this issue as well as to engage in self-protection in general.
51. Reputation. ATSS may be “newcomers” relative to the established exchanges, and enjoy much less prestige and goodwill.
52. Recourse and Redress. Related to the issue of reputation is the degree of comfort about possible recourse and redress in the event that things do go wrong. An established exchange has a track record of handling complaints and being subject to the jurisdiction of certain regulatory bodies as well as judicial organs. Prospective customers of an ATSS operation should factor in any uncertainty about what review mechanisms are available and the extent of their effectiveness.

The International Experience

53. As mentioned earlier, almost every major international financial centre has had some experience with alternative trading systems, and many emerging markets are actively seeking to take advantage of the opportunities ATSS offer.

This section summarizes the approaches taken in the United States and the United Kingdom – the leading common law jurisdictions in the ATS area.

United States

54. The SEC has long taken a flexible approach to the regulation of ATSs. An amendment to the Securities and Exchange Act in 1996 gave the SEC additional authority and even greater flexibility in regulating new trading systems and traditional-type exchanges.⁷ Until very recently, the SEC had refrained from setting down a detailed framework for ATS operations. Technically, it characterized most ATSs as broker-dealers. But in substance, it examined each case and administratively imposed additional requirements on disclosure of trading activity, admission of system participants, and advance notice of changes to operations.⁸
55. In 1998, the SEC felt that ATS operations in the U.S. had grown to a size warranting a more detailed regulatory framework, and that it had had sufficient experience to craft more concrete rules, whilst retaining the necessary degree of flexibility. Each ATS operation may choose between registering as an exchange or as a broker-dealer. An ATS registered as a broker-dealer is exempt from some of the more onerous provisions applicable to exchanges.
56. For ATSs registered as broker-dealers, the baseline requirements are complying with conditions of broker-dealer registration (such as capital and capability requirements), describing to the SEC in a written notice the way the

⁷ See Exchange Act Release No. 39884 (17th April 1998).

⁸ The requirements usually took the form of conditions for SEC's issuance of a "no action" letter (which serves as assurance that the SEC will not take action against the ATS for not registering as an exchange).

ATS operates, maintaining an audit trail, and filing quarterly reports. For ATSs with limited trading volume, there are no further requirements.

57. A larger ATS, however, will have to comply with certain additional rules. But even in this respect the regulation is tiered:

- If an ATS has 5% or more of the trading volume of a security, it is required to link with a registered exchange or the National Association of Securities Dealers (“NASD”), publicly display its best priced orders, and allow members of registered exchanges and NASD to execute against those orders; but these requirements apply only for those orders that the ATS displays to more than one participant in its system;
- If an ATS has 20% or more of the trading volume of a security or of a category of debt instruments, it must meet certain capacity, integrity, and security standards intended to prevent system outages; it also must not have an inappropriate discriminatory policy for admitting participants into its system.

58. The U.S. experience demonstrates the importance of flexibility in regulating ATSs. The regulator must be able to keep pace with market innovation, learn first-hand from dealing with a variety of operations, and respond to different situations accordingly.

United Kingdom

59. At present, the U.K. considers ATSs variously as service companies, brokers, or recognized investment exchanges, with the level of regulation increasing accordingly. For example, a service company that does not act as a trading counterparty is exempt from certain capital requirements. An ATS operator

that does not qualify as a service company may choose whether to be a broker or an exchange, and would be subject to different regulatory requirements depending on its choice of status.

60. The proposed Financial Services and Markets Bill (the “FSMB”) does not appear to alter this basic approach. Indeed, the FSMB will make the Financial Services Authority (the “FSA”) the single regulator for authorization of all types of financial businesses. It also expressly provides that the FSA may impose different directions and requirements on “different applications or categories of applications”.⁹ This will likely further broaden the already flexible approach in U.K.’s regulation of ATS operations.

The Way Forward for Hong Kong

61. Any regulation of ATSs must account for the diversity in types of participants served, size of orders executed, and volume of trading involved. There must be a balance among the need to protect the investing public, the benefits of financial innovation, and the imperative of maintaining our competitiveness. It is also important to avoid imposition of unnecessary regulatory and compliance costs or to prohibit financial innovation.

An Expanded Regulatory Framework

62. The growing sphere of ATS activities must be brought within the regulatory framework. The proposed Securities and Futures Bill (the “Composite Bill”) will no longer define “market” by reference to a physical location, and will make clear that any unauthorized provision of a facility for bringing together

⁹ FSMB section 22(7).

buyers and sellers on a regular basis constitutes an illegal stock or futures market operation. This, in effect, will require all ATSS with material activities in Hong Kong to obtain authorization from the Commission.

63. Regarding the authorization process as well as continual regulation, as explained earlier, attempting to do the necessary work solely through the traditional dealer license criteria is an unsatisfactory approach. It stretches to an excessive degree the usual concept of a dealer business, impedes the Commission's ability to regulate appropriately the full range of ATS activities, and lacks clarity.
64. As explained in detail in another public consultation document, *Consultation Paper on Review of Licensing Regime*, published in June 1999, it is proposed that the existing multiple-registration system (for securities dealers, futures dealers, securities advisors, futures advisors, and leveraged foreign exchange traders) be replaced with a single-license regime. This will reduce the administrative burden on and regulatory cost for intermediaries. Each new license will specify the scope of business which the licensee is authorized to conduct.
65. In relation to ATS service providers, the new licensing regime will allow for the authorization of these entities as such, rather than necessarily as dealers. This approach will do away with the need to fit ATS operators into a category intended for another type of intermediaries, increase clarity, and provide more transparency in regulation. The Commission will also be able to develop a separate set of regulatory standards appropriate for the varied nature and special characteristics of ATS operations.

66. In addition, the Composite Bill will continue to provide for the approval of exchanges but will protect the existing monopoly held by the approved exchange company (currently SEHK) in respect of trading in securities.

The Content of Regulation

67. As discussed above in paragraphs 16 to 28, ATs can operate very differently in terms of access, target investor group, product range, advice and services, speed of trade execution, average size of transactions, assurance of fair pricing, total trading volume, and degrees of transparency or confidentiality. No single set of rules is appropriate for the whole range of facilities and services on offer. The particular characteristics of a facility should determine how it is to be regulated so that its operation is fair, efficient and transparent, and that its risks are properly managed.
68. The Commission proposes to follow proven international practice in adopting a flexible and pragmatic approach in formulating the details of regulation. There will be an initial stage for testing and adapting. Each application for ATS authorization will be examined carefully, and the applicable rules and obligations determined upon the specifics of the case. As explained in paragraphs 29 to 41 above, the relevant analysis will be based on five basic criteria. The Commission also welcomes any suggestion industry professionals might offer in this area.
69. The Commission contemplates that, as its experience with regulating different types of ATs accumulates, it will be in a position to formulate some guidelines or codes of conduct. In this regard, the input of industry participants will be essential, and is encouraged at all times.

70. Part of the rationale for flexibility is the need to respond to a changing landscape. The Commission places a high priority on monitoring the constant creation and development of different kinds of ATSs, and analyzing the risks posed as well as the benefits offered by each of them. Assistance from the industry and the public (for example, by bringing new systems or new features to the Commission's attention) is invaluable and will be gratefully appreciated.
71. The proposed regulatory approach is accepted practice in the United States and the United Kingdom, and is critical in creating the necessary opportunity for the regulator as well as the participants to learn, test, and adapt in this fast-developing area of the securities and futures industry. Regulation in this area is very much a dynamic process.
72. The Commission is committed to making this process as transparent and as effective as possible. Many of the relevant requirements and measures of transparency and accountability, as well as mechanisms of checks and balances, also apply to other areas of the Commission's work. They are discussed in detail in *Guide to Legislative Proposals on Objectives, Powers and Functions of the Securities and Futures Commission*, and in other papers published in the same series as the present document. Readers are urged to comment on the proposed measures as well as to make additional suggestions.
73. In particular, as with its actions in many other areas, the Commission's decision on an ATS application will be fully appealable to the Securities and Futures Appeals Tribunal. The purpose and operation of the tribunal are discussed in detail in *Guide to Legislative Proposals on Establishing a Securities and Futures Appeals Tribunal*. Readers are also encouraged to comment on this aspect of the proposed new bill.

74. The Commission strongly believes effective regulation is possible only through cooperation with members of the industry. This is especially true for fast-changing areas such as the case of ATS operations. The Commission is committed to working with present and potential ATS operators, other market participants, as well as members of the public to facilitate the beneficial utilization of these new technologies.

Public Consultation

75. The Government and the Commission believe the proposals discussed in this Guide will facilitate innovative uses of new technologies in our markets as well as allow us to address the consequent regulatory challenges, thereby enhancing Hong Kong's competitiveness as an international financial centre. Comments and views are sought from the financial community and general public. Please write to the Securities and Futures Commission, 12th floor, Edinburgh Tower, The Landmark, 15 Queen's Road, Central, Hong Kong or e-mail to <newbill@hksfc.org.hk>. In view of the tight legislative timetable, we would be grateful if your comments and suggestions could reach the Commission before 6 August 1999.