

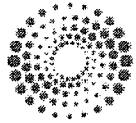
Consultation paper on the regulation of electronic trading
Questionnaire by the Hong Kong Securities and Futures Commission (SFC)

The Securities and Futures Commission (SFC) invites market participants and interested parties to submit written comments on the proposals discussed in this consultation paper or to comment on related matters that might have a significant impact upon the proposals by no later than 24 September 2012. Any person wishing to comment on the proposals should provide details of any organisation whose views they represent. Please note that the names of the commentators and the contents of their submissions may be published, in whole or in part, on the SFC’s website and in other documents to be published by the SFC. In this connection, please read the Personal Information Collection Statement attached to this consultation document. You may not wish your name and/or submission to be published by the SFC. If this is the case, please state that you wish your name and/or submission to be withheld from publication when you make your submission. Please send your answers to electronic_trading@sfc.hk by **24 September 2012**.

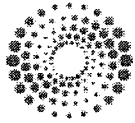
RESPONSE FROM THOMSON REUTERS

Thomson Reuters is the world’s leading source of intelligent information for businesses and professionals.

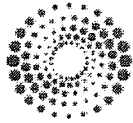
Theme	Question	Answers
Scope of the proposal	1) Do you agree that the proposed scope of the regulation of electronic trading is appropriate in terms of	
	i) the types of electronic trading, which include internet trading, DMA and algorithmic trading?	To the extent that internet trading involves connectivity into the exchange it is simply another connection method that may involve DMA or the use of algorithms to facilitate execution. The same obligations should apply to executing brokers offering internet trading as to those receiving orders via other means.
	ii) the types of products primarily covered by these proposals namely securities and futures contracts that are listed or traded on an	The inclusion of FX trading within the scope of this legislation appears a new addition to SFC purview. Is this intentional? To the



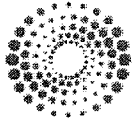
	exchange?	extent that most FX trading will involve access to OTC pricing rather than exchange pricing the dynamics of this market are fundamentally different to exchange based trading
	iii) the persons to whom the proposals apply?	This appears sensible
Responsibility for orders	2) Do you agree that an intermediary should be ultimately responsible for the orders sent to the market through its electronic trading system and for the compliance of the orders with applicable regulatory requirements? If not, why not?	This is the IOSCO supported approach. The indicated expansion of trading methods may make full control less realistic, depending on the expanded methods involved.
Management and supervision	3) Do you agree that an intermediary should effectively manage and adequately supervise the design, development, deployment and operation of the electronic trading system it uses or provides to clients for use? If yes, are the proposed requirements sufficient? If not, why not?	Partially - There are occasions where those businesses which are not large enough to fund the complete design and build of a system will buy a system from a third party vendor. The deployment and operation is directly under their control and should be actively managed. The initial design and build may be outside of their control and follow a more generic design. The procedure of selecting the design and development criteria should be documented to demonstrate understanding of the elements and acceptance of these details. They should be responsible for any bespoke calibrations relating to their own business.
Contingencies	4) Do you agree that an intermediary should ensure the integrity of the electronic trading system it uses or provides to clients for use, including the system's reliability, security and capacity, and have appropriate contingency measures in place? If yes, are the proposed requirements sufficient? If not, why not?	Agreed.
Record keeping	5) Do you agree that an intermediary should keep, or cause to be kept, proper records on the design, development, deployment and operation of its electronic trading system? If not, why not?	Yes. The speed of availability by regulators in case of necessity could be defined, which will offer guidance on the format and geography of maintaining records appropriately (ie hard copy/soft copy or onsite/warehouse)



	6) Do you agree with the proposed periods of record keeping? If not, why not?	
Risk Management; internet trading and DMA	7) Do you agree that, in providing internet trading or DMA services, the proposed pre-trade controls should be put in place by an intermediary? If yes, are the proposed requirements appropriate? If not, why not?	To the extent that the controls are measurable (such as client maximum size of trade or maximum overall exposure) this appears sensible
	8) Do you agree that, in providing internet trading or DMA services, an intermediary should conduct post-trade monitoring to reasonably identify any order instructions and transactions which may be manipulative or abusive in nature? If not, why not?	Yes. Intermediaries should be monitoring all orders to try and identify order instructions and transactions which may be manipulative or abusive in nature. However the effectiveness of such monitoring can be compromised where order originators use multiple brokers to execute their order flow.
Minimum client requirements for DMA services	9) Do you agree that an intermediary should establish minimum client requirements for its DMA services and assess whether each client meets the requirements before granting DMA services to a client? If not, why not?	Yes . the intermediary should define those standards as appropriate to the service that they are offering to their customer.
	10) Do you agree that an intermediary should not allow its client to sub-delegate the DMA services to another person unless the client is a licensed or registered person or an overseas securities or futures dealer? Do you agree with the proposed definition of 'overseas securities or futures dealer'? If not, why not?	It appears sensible to limit activity in this way as part of the normal course of business and ensuring compliance within the intermediary. It is normal to be aware of a customer's status as part of the normal KYC procedures.
Specific requirements on Algorithmic	11) Do you agree that an intermediary should establish and implement effective policies and procedures to reasonably ensure that persons involved in the design and development of, or approved to use its algorithmic trading system and trading algorithms are	This appears to be good business sense



trading	suitably qualified? If not, why not?	
Testing	12) Do you agree that an intermediary should ensure that the algorithmic trading system and trading algorithms it uses or provides to clients for use are adequately tested to ensure that they operate as designed at all times? If not, why not?	The policy goal behind this question is sensible and the correct calibration is important. Rather than say "at all times" a Suggested wording could say, "operate in all usual and foreseeable market conditions".
Risk Management	13) Do you agree that an intermediary should have effective controls to ensure the integrity of its algorithmic trading system and trading algorithms and that they operate in the interest of the integrity of the market? If yes, are the proposed requirements for risk management sufficient? If not, why not?	The proposed regular post-trade analysis is a sensible approach
Record keeping	14) Do you agree that an intermediary should keep, or cause to be kept, proper records on the design, development, deployment and operation of its algorithmic trading system and trading algorithms? If not, why not?	Yes
	15) Do you agree with the proposed periods of record keeping and details of the records to be kept? If not, why not?	Yes
Electronic trading system not developed by the licensed or registered person	16) Do you agree that where an electronic trading system is provided by third party service provider, an intermediary should perform appropriate due diligence to ensure that the intermediary meets the proposed requirements set out in paragraph 18 of and Schedule 7 to the Code of Conduct in its use of the system? If not, why not?	Yes – given the feedback above is included



	17) What is your view on requiring an intermediary to make arrangements with a service provider for the purpose of meeting the proposed requirements on record keeping?	Not all vendors of trading platforms would also be able to offer the kind of secure database facilities that this requirement dictates. The obligation on the bank should allow them to choose the most appropriate method to satisfy the requirement
--	---	---

We hope you have found our comments helpful.

Please feel free to contact Robin Poynder (+44 (0)20 7542 1448) or our Global Head of Government Affairs, Nick Collier, (+44 (0)20 7542 2796) if you wish to discuss any aspects of this response.