

Hong Kong Electronic Trading Rules – Sub-Delegation of Direct Market Access

With effect from 1 January 2014, the Securities and Futures Commission of Hong Kong (the “SFC”) has introduced new regulations on electronic trading, covering (among other things) direct market access (“DMA”) activities.

Sub-Delegation Requirements

J.P. Morgan hereby acknowledges a DMA-trading Client (the “Client”) may sub-delegate its access (to the J.P. Morgan DMA system) to its underlying clients / its affiliates (the “Sub-Delegates”). “Sub-delegation” refers to the arrangement between the Client and the Sub-Delegates whereby the Sub-Delegates place DMA orders to an exchange via J.P. Morgan’s DMA system offered to the Client, without manual re-entry by the Client. A sub-delegating Client must have a good understanding of its Sub-Delegates (including the electronic trading systems and trading algorithms used by them). In particular, J.P. Morgan requires you to adhere to the following requirements:

- (a) The Client must be a licensed or registered person under the Securities and Futures Ordinance of Hong Kong or an overseas securities or futures dealer or an overseas bank subject to regulatory supervision.
- (b) All orders belonging to or originated by the Sub-Delegates must flow through the Client’s systems. Such orders must be subject to appropriate risk management and supervisory controls (including pre-trade controls and post-trade monitoring) established by the Client.
- (c) The Client must ensure the Sub-Delegates meet the following minimum requirements:
 - (i) the Sub-Delegates should have appropriate arrangements in place to ensure their users are proficient and competent in using the J.P. Morgan DMA system;
 - (ii) the Sub-Delegates must understand and be able to comply with applicable regulatory requirements; and
 - (iii) the Sub-Delegates need to have adequate arrangements to monitor their orders entered through J.P. Morgan’s DMA services.
- (d) The Client must put in place a written agreement with its Sub-Delegates, setting out the terms of the J.P. Morgan DMA services that are being sub-delegated.

The requirements above are subject to change from time to time. If a Client is unable to comply with all of J.P. Morgan’s requirements, it must not, and must cease to, sub-delegate its access to the J.P. Morgan DMA system, and notify its usual J.P. Morgan contact immediately.