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POSIT Guidelines Hong Kong

1. INTRODUCTION

ITG Hong Kong Limited (“ITG”) holds a Type 1 and Type 7 licence from the Securities and Futures Commission (“SFC”) (licence number AHD810). It is a Participant of the Stock Exchange of Hong Kong (“HKEx”). Under its Type 7 licence, ITG operates a crossing system for its clients called POSIT® in respect of a number of exchanges in Asia Pacific (each an “Exchange”).

POSIT enables client orders to be matched with other client orders on an anonymous basis. The types of financial products that can be traded in POSIT are equity market products listed on a number of different Exchanges in Asia Pacific.

This document sets out the basis on which ITG operates POSIT and it contains important information for POSIT users so that they understand the operating procedures of POSIT.

This document will be updated when there are changes to the manner in which POSIT handles orders. Clients may request a copy of these procedures at any time by contacting their Account Executive or the Compliance Department and a copy shall be provided within a reasonable time.

By placing an order with ITG for POSIT on and after 1 December, 2015, ITG clients will be deemed to have accepted the procedures and requirements set out herein.

In addition to these procedures, ITG discloses public information in respect of POSIT on its website <http://www.itg.com/compliance/regulatory-information-for-asia-pacific/posit-guidelines-hong-kong/>. This information will be updated in accordance with section 11 of *Schedule 8 to the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission* (“the Code”) from time to time.

2. WHO MAY ACCESS POSIT?

Only clients of ITG may access POSIT. All of ITG’s clients are qualified investors (as defined by Paragraph 19.2(f) of the Code) and can be categorized into the following groups:

- Institutional clients (eg. Fund managers);
- Aggregators (ie. Typically brokerage firms that connect to multiple crossing systems in order to seek liquidity for their clients);
- Liquidity providers; and
- Other third party brokers (including foreign licensed broker dealers that are ITG related entities).

A client sending orders into POSIT has the choice of determining whether it wants its orders to interact with some or all of these types of clients.

In order to access POSIT, an entity must:



- Be a qualified investor within the definition set out in Paragraph 19.2(f) of the Code;
- Meet ITG's Know Your Client and risk profile requirements;
- Enter into a written agreement with ITG in respect of the brokerage services provided by ITG and the type of trading undertaken by the entity with ITG; and
- Be approved as a client of ITG by ITG's internal client approval process.

A few of ITG clients that send orders to POSIT are third party brokers that operate their own crossing systems.

As indicated above, liquidity providers, third party brokers and ITG related companies may send orders into POSIT. Each of these entities is treated in the same manner as all other ITG POSIT clients. ITG does not provide any benefits to any of these entities by way of order priority, favourable price outcomes, access to order types not available to other POSIT users or otherwise for the orders sent by these entities.

Opting Out of POSIT

Clients may opt out of POSIT at any time and for no charge by contacting their Account Executive or emailing ap-compliance@itg.com.

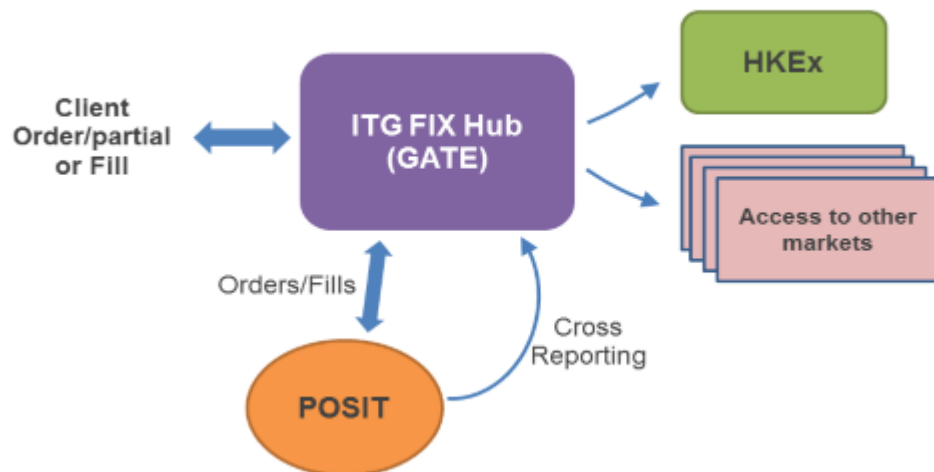
Proprietary Orders in POSIT

ITG is an execution only broker and does not engage in proprietary trading of any kind (with the exception of accommodations and errors). Therefore, no ITG proprietary orders are placed into POSIT.

3. ACCESS TO POSIT AND ORDER ROUTING

A client may choose how it wishes to access POSIT. A client may send orders to ITG's Trading Desk for placement of the order into POSIT by an ITG trader. In some instances a client may access POSIT directly via electronic connection, however, access is typically via ITG Algorithms[®].

Orders sent into POSIT are routed in the manner set out below:



Accessing POSIT via ITG Algorithms

If a client wishes to access POSIT via ITG Algorithms, the client will need to comply with the algorithm FIX specification provided by ITG to the client. It is quite common for certain client trading platforms (eg. Bloomberg and Charles River EMS platforms) to already have ITG Algorithms embedded within them.

ITG Algorithms govern a client's interaction with POSIT, therefore, there are no further prescriptive requirements or rules for clients who use POSIT other than those identified in



this document (eg. Order types). ITG takes this approach as it has designed ITG Algorithms to interact with POSIT in the necessary manner.

Accessing POSIT directly

If a client wishes to access POSIT directly, it will need a FIX connection to ITG's order handling system. ITG will provide the client with the necessary FIX specification for POSIT. POSIT has not been integrated with any buy-side trading systems, therefore, a prospective POSIT user will have to develop a bespoke process to connect to POSIT. ITG works with these types of clients to assist them in this process.

4. USER OBLIGATIONS AND RISKS

POSIT User Obligations

By being granted access to POSIT, all POSIT users hereby agree to place orders into POSIT in a manner that is not detrimental to other POSIT users or the POSIT system itself.

Each time a client places an order in POSIT, it agrees that:

- If an order is a short sell order (as deemed so by the relevant rules and regulations ("The Applicable Rules") of an Exchange and is permitted by such Applicable Rules), then it will notify ITG of this prior to or at the time that it placed the order;
- The order complies in all respects with all applicable Rules of the Stock Exchange of Hong Kong ("HKEx") and the relevant provisions of the SFO and/or the Applicable Rules of the relevant Exchange;
- It will send orders to POSIT in accordance with the FIX specifications;
- Its trading behaviour is not detrimental to the POSIT trading system or other users of the system.

ITG does not, at this time, prescribe what behaviour would be deemed detrimental to the system. However, ITG does take into account the following factors when monitoring POSIT orders:

- Whether the user is sending an excessive number of orders in respect of a security or excessive amendments to such orders in POSIT;
- Whether the user's orders do not rest within POSIT, but instead are transitory, always being cancelled immediately after having been sent;
- Whether the user consistently creates adverse selection relative to other users of the system; and
- Whether the user repeatedly sends orders of a tiny size to POSIT.

Potential Risks of Placing Orders in POSIT

The biggest potential risk a client takes when placing an order into POSIT is that the POSIT system may experience a technical issue and need to be shut down for a period of time. If this is to occur, no orders will be matched in POSIT. To a client, this means that an order it sends into POSIT prior to such an event occurring will not have their order matched if there was a corresponding order in POSIT at the time.

Other risks that a client takes when placing an order into POSIT include:

- Partial completion of an order or an incomplete order;
- Missing liquidity in other trading venues;
- Potential for adverse selection; and
- Mispriced execution.



5. ORDER TYPES

A POSIT user can place the following types of orders into POSIT:

- Order Types: Peg
- Peg Types: Aggressive, Mid, Passive;
- Time in Force: Day; and
- Pricing: Limit and Market.

POSIT does not accept any other types of orders and all POSIT users are able to place either of these types of orders in POSIT.

Users are able to enter minimum execution quantities on their POSIT orders. If the unfilled shares on an order are less than the minimum execution quantity, POSIT will take the remaining shares as being the minimum execution quantity.

All orders within POSIT are treated equally. POSIT does not support any special order types that grant preferential priority within its matching algorithm.

POSIT does not simultaneously post orders it has received onto an Exchange.

6. TRADING AND OPERATIONAL MATTERS

POSIT Operation Hours

POSIT operates during the continuous trading sessions on the days upon which the relevant Exchange is open in respect of securities which have a valid quote on the Exchange (ie. POSIT will not operate in respect of securities that are in a trading halt). If an Exchange is closed for a day, the relevant instance of POSIT will not operate for that day.

After Market Close on each trading day, all orders in POSIT are removed and no orders remain in POSIT to trade on the next trading day.

Pricing of Orders in POSIT

The price of an order matched in POSIT depends upon the limit prices and the pegging instructions on the orders in the match. Typically it will be priced at midpoint of the current Bid and Offer made available by the quote feed of a third party market data vendor for POSIT on the relevant Exchange, however, it is possible for the executed price to be at the last Bid, Ask or mid price.

Order Handling in POSIT and Execution Methodology

POSIT is premised on matching buyers and sellers with marketable orders at or within the prevailing spread at the corresponding market venue. As such, all users in POSIT are treated equally. POSIT does not support preferential treatment of any user types.

The core crossing mechanism in POSIT will match all eligible orders (ie. Orders with marketable limit price) and will allocate fills on a prorated basis proportionate to order size. Thus, larger orders obtain a larger proportion of the fill.

This logic is subject to a number of constraints such as:

- minimum fill quantity (these may be user defined or mandated by the regulations of the various Exchanges);
- user type constraint (ie. one user type (e.g. Institution) wishing to avoid crossing with another user type (e.g. a Broker));
- limit price constraint (this may make the order unmarketable at the time of the cross); and
- peg instructions (discussed further below).

At any point when constraints influence the match, the resulting fills may move away from the optimal prorated allocation described above.



In addition to the above, POSIT users should be aware of the following:

- The priority logic in POSIT will match aggressive pegged orders against aggressive and midpoint pegged orders at the same time; any residual will be matched with passively pegged orders.
- Passively pegged orders can only be matched against aggressive orders;
- Mid pegged orders can be matched against both aggressive and other mid pegged orders.

For the sake of clarity, users should note that POSIT does not have any time priority of orders.

A client sending orders into POSIT has the choice of determining whether it wants its orders to interact with some or all of the different types of clients that send orders to POSIT. If a client wishes to restrict the types of counterparties they interact with in POSIT, they can do so by contacting their Account Executive.

Order Cancellations

Order cancellations and amendments are made by the user by sending a standard FIX cancellation or cancel/replace request to POSIT.

Visibility into POSIT

Orders sent to POSIT are anonymous. Only selected ITG employees have visibility into the contents of the order matching pool. No external party or internal trading desk of ITG has access to this information. Set out below is a list of the ITG employees that have access to the contents of the POSIT order matching pool and the relevant order and trading information inside that pool.

Title	Department	Reason for Access
Application Support – Manager	Support	First Level Support to Clients
Application Support Team Member	Support (6 employees)	First Level Support to Clients
Development – Manager	Development	Second Level Support to Clients
Development Team Member	Development (5 employees)	Second Level Support to Clients
Product Manager – POSIT	Electronic Brokerage (2 employees)	Specialised expertise in POSIT operation
Database Administrator	Technology Infrastructure	First and second level support for POSIT database
Head of Operations – Asia Pacific	Operations	Settlement and operational purposes. Post trade information only.



Operations Officers	Operations (4 employees)	Bookings and settlement of POSIT orders. Post trade information only.
Head of Settlement Operations Hong Kong	Operations	Settlement purposes. Post trade information only.
Trading Analyst	Middle and Back Office (2 employees)	Reporting and analytics purposes. Post trade information only.

Internal Control Procedures

On a daily basis, the various Support and Development employees identified above ensure that POSIT is functioning as it ought.

Once per month, ITG generates a report in respect of the performance of each instance of POSIT. This report tracks various parameters including (but not limited to) usage, average price improvement and adverse selection. This report is reviewed by the Responsible Officer and Product Manager for POSIT and any issues arising from the report are then addressed with either the product or (if client specific) with the respective client.

In addition, ITG operates post-trade surveillance of orders in Hong Kong POSIT via alerts from SMARTS that may arise from orders placed into POSIT. These alerts are reviewed on a daily basis and any issues of concern are brought to the attention of management.

Reporting of orders matched in POSIT

Orders matched in POSIT are trade reported to the relevant Exchange. For POSIT Hong Kong, that is to the HKEx by ITG within the time frame specified by the relevant rules. For all other Exchanges, it is to the relevant Exchange by a licensed local broker in the relevant jurisdiction.

Aggregation of Client Orders

POSIT does not aggregate the orders of different POSIT users in any manner.

Suspension of POSIT

ITG will suspend the operation of POSIT if there is a technical or other system issue in respect of POSIT that materially affects the efficient or proper functioning of POSIT. In such instances, the matching engine of POSIT will be suspended and POSIT may reject any new orders sent into the system and cancel any existing open order in POSIT at the time.

The procedure in respect of client notification of such suspensions and/or issues is set out in detail below.

System failures and outages

If there is a technical or other system issue in respect of POSIT that causes a material delay or failure to the operation of POSIT, the ITG POSIT Support Team will be notified of the issue by ITG's systems. At this time, the ITG POSIT Support Team will notify ITG's Compliance Team and inform it of the issue.

The ITG Compliance Team and will then notify the SFC of the following:

- A description of the effect or the technical and/or other system issue;
- The causes or possible causes of the material delay or failure to the operation of POSIT affecting clients with orders in POSIT; and



- How the issue is being managed by ITG.

ITG will also notify all clients that have orders in POSIT at the time of the issue of the above and keep them updated if necessary.

Once the issue is resolved, the ITG Compliance Team will notify the SFC of the resolution and ITG will notify all clients that have orders in POSIT at the time of the issue of the same.

During such an issue, ITG is able to suspend symbols in POSIT which results in no matches taking place in POSIT. ITG can also cancel open orders in POSIT and reject new orders from being submitted into POSIT.

In addition, clients should be able to cancel out their orders from POSIT depending upon the nature of the issue. If this is not possible, the client can contact its Account Executive or the ITG Trading Desk and instruct them to cancel its orders on its behalf.

In the event of the suspension of POSIT, ITG will not re-route new or existing orders in POSIT to alternative execution venues.

Conflicts of Interest in POSIT

As an execution-only agency broker, ITG does not operate a proprietary trading desk, nor does it engage in principal trading.

No third party has access to any information displayed in POSIT (this includes ITG related companies). For the sake of clarity – no clients have access to any information displayed in POSIT.

In addition, POSIT does not give any form of preferential matching to based on user type or agreed commission rate.

In these circumstances, ITG is yet to identify and/or experience a conflict of interest arising from POSIT.

7. FEES

Orders placed into POSIT that are matched attract a brokerage commission fee that is predetermined through negotiations and is standard to the client. These fees are not in addition to ITG's standard commission rates.

ITG does not implement a fee structure whereby fees are determinate by user type. Rather, POSIT fees are negotiated on a client by client basis. There is no preferencing of or effect on an order's interaction with POSIT which is in any way linked to the fees a client pays.

8. FAIR TREATMENT OF POSIT USERS

POSIT is operated by a common set of procedures that balance the interests of all users – these procedures relate to all POSIT clients and their orders, with no exceptions.

All POSIT users are treated fairly and impartially with no POSIT orders of a particular user and/or client being treated in a manner that is different to all other POSIT users and their orders.

For the avoidance of doubt, this fair and impartial treatment extends to POSIT orders received from clients that are related bodies corporate to ITG and to orders from third party brokers and/or liquidity providers – none of these clients and their orders are treated differently to other POSIT clients and their orders.



9. LEGAL INFORMATION

Audience

The intended audience for this document is all clients of ITG Hong Kong Limited that access ITG's crossing system called POSIT®.

Note to Clients

ITG may modify these Guidelines at any time and at its own discretion. Upon modification, ITG will notify its clients of the changes to the Guidelines. By placing an order with ITG for POSIT, clients will be deemed to have accepted these Guidelines in their current form at the date of the placement of the order.

Nothing in these Guidelines should be taken as legal advice or a guide to action. Any failure by ITG to comply with these procedures does not constitute a breach of ITG's Terms of Business with a client.

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Or

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