

25<sup>th</sup> April 2014

Sent by Email and by Post

Securities and Futures Commission  
35/F, Cheung Kong Center  
2 Queen's Road Central  
Hong Kong

Dear Sirs/Madams,

**Re: Consultation Paper Concerning the Regulation of Alternative Liquidity Pools**

The Hong Kong Society of Financial Analysts (HKSFA) is pleased to comment on the consultation concerning the regulation of alternative liquidity pools (ALP). The HKSFA is basically supportive of the development of the ALP to allow a licensed or registered person to operate the business of providing electronic systems through which the crossing or matching of orders is conducted using systems designed and developed in-house or by third party service providers.

Based on our positions, we state our comments to the specific questions set out in the Consultation Paper as follows:

- Q3. Do you think that the definition of “institutional investor” set out in the draft paragraph 19.2 of the Code of Conduct is appropriate? If not, why not?

Restricting the services to “institutional investors” would affect the rights for highly sophisticated, experienced and wealthy individuals or their respective investment vehicles/family office to participate. This may not be conducive for developing Hong Kong as one of the important financial centres.

- Q15. Do you agree that an ALP operator should keep the SFC informed as to the identity of its staff having access to trading and other information relevant to its ALP, the basis upon which such access is permitted, and any change made in relation to the staff to whom such access is permitted and the basis for such change? If not, why not?

It is mentioned under “Information security” (page 16, item 50.(a) (i)) that “the identity of each such staff member (by title and department) and the information to which he/she has access...”. We would like to know what the rationale for using “by title and department” is, especially if there are a number of staff members sharing the same title and department.

- Q21 Do you agree that the proposed requirements for risk management and post-trade reviews of transactions conducted in ALPs are sufficient to maintain the fair and orderly operation of the market? If not, why not?

It may not be fair to conclude if the proposed requirements are “sufficient” but it appears to be a balanced approach taking into account potential benefits and costs to the industry participants.

- Q22 Are the proposed reporting and notification requirements appropriate? If not, why not?

We would like to clarify the rationale for a report recording the volume of trades conducted by each of the 10 largest users of its ALP. On Appendix B, draft paragraph 29 of Schedule 8, it is suggested that only material changes are required to be reported to the SFC. This seems to be sufficient if material changes are well defined and unambiguous. It would also be useful for the SFC to provide some examples as to what would be considered as material and necessitate SFC reporting to be made. In relation to (d), it would be helpful if the rationale for requiring “any updated review report” is provided by the SFC. We suggest that either a frequency be set with scopes specified or required LP to report material exceptions during their reviews.



香港財經分析師學會

THE HONG KONG SOCIETY OF FINANCIAL ANALYSTS

The HKSFA appreciates the opportunity to comment on consultation paper concerning the regulation of alternative liquidity pools. We trust you find our comments useful and constructive.

Yours sincerely,  
For and on behalf of  
The Hong Kong Society of Financial Analysts

Jimmy Jim, CFA  
Chair, Advocacy Committee

Ashley Khoo, CFA  
Chair, Advocacy Committee