



User Guidelines on Macquarie Crossing (MaX)

Commodities and Global Markets

Hong Kong



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Introduction

Macquarie Capital Limited (“MCL”) is licensed by the Securities and Futures Commission (“SFC”) in Hong Kong to provide Automated Trading Services on Macquarie Crossing (MaX). These User Guidelines provide guidance on the operation of MaX, how it functions and the implications to users. MCL and/or its affiliates (“Macquarie”) are obliged to bring the User Guidelines to the attention of the user who must provide a formal acknowledgement of receipt and a formal consent permitting its orders to be transacted on MaX prior to becoming a user of MaX. If you plan to send orders for another entity, you shall provide the User Guidelines (including any subsequent amendments) to such entity.

The User Guidelines may be revised from time to time. Users can access the latest copy on <http://www.macquarie.com/hk/corporate/trading-and-hedging/equities>.

1. Trading and Operational Matters

1.1 Type of Securities Covered

Stocks, ETFs, depository receipts, mutual funds/unit trusts and REITs listed on the Stock Exchange of Hong Kong Limited (“HKEX”) can be crossed in MaX.

1.2 Hours of Operation

On any trading days when the HKEX is opened, orders can be matched in MaX during the Morning Session and Afternoon Session of the Continuous Trading Sessions of the HKEX (“Operating Hours”).

1.3 Types of Liquidity

1.3.1 *Shadowed Liquidity*

Shadowed liquidity comes from Shadowed Orders. Orders passing through MaX but not fully matched upon arrival will have the residual quantity sent to the HKEX and copied in MaX as an indicative order (“Shadowed Orders”) for subsequent crossing opportunity.

1.3.2 *Dark Liquidity*

Dark liquidity comes from Dark Orders, which are orders designated as dark-only. Dark Orders will only rest in MaX for matching and will not be routed to the HKEX.

1.4 Order Input / Amendment / Cancellation

1.4.1 Shadowed Orders

- Orders are only shadowed in MaX from the start of the Morning Session.
- Shadowed Orders will only be crossed during Operating Hours.
- During lunch time, amendment and cancellation made to Shadowed Orders follows the same rules as HKEX. Clients may still send orders but these will not be released from a queue to be executed until trading hours recommence (i.e. Afternoon Session).

1.4.2 Dark Orders

- Dark Orders can be entered, amended or cancelled while MaX is active (i.e. 09:00 – 16:00)
- Dark Orders will only be crossed during the Operating Hours.

Orders can be sent to MaX with expiry type of Good For Day (GFD) or Immediate or Cancel (IOC). All unmatched orders at the close of a trading day will automatically be cancelled by MaX.

Users of MaX may also exclude individual orders from participating in MaX by flagging the order as do not cross.

Orders of short sale, odd lots and securities which are in a suspended state at the HKEX will **not** be eligible to participate in MaX.

2. User Participation Criteria

Only Qualified Investors may participate in MaX. The term "Qualified Investors" means users who are classified as either:

- A "professional investor" within the meaning of paragraphs (a) to (i) (inclusive) of the definition of "professional investor" contained in Part 1 of Schedule 1 of the Securities and Futures Ordinance (Cap. 571 of The Laws of Hong Kong); or
- A trust corporation within the meaning of section 3(a), or a corporation or partnership within the meaning of section 3 (c), (d)(i), (d)(iii) or (d)(iv) of the Securities and Futures (Professional Investor) Rules (Cap. 571D of The Laws of Hong Kong).

Macquarie must ensure that the individual / entity which is ultimately responsible for originating the instruction in relation to a transaction conducted on MaX (the "End User") is a Qualified Investor. While clients will generally not face MCL directly as the SFC Type 7 licensee, the obligation to "look through" to the End User applies regardless of which Macquarie entity the client contracts with, and whether or not the End User has a direct contractual relationship with Macquarie at all. Further, in the event of a service disruption including a material system delay or failure, Macquarie will inform the clients of the causes or possible causes and the manner in which their orders will be handled. As a condition of using the MaX system, clients who are sending orders for End Users will be required to ensure that (i) all their End Users are Qualified Investors; (ii) the identity, address and contact details of the End Users are disclosed to MCL upon

request; (iii) when they receive information in relation to MaX from Macquarie, it shall pass on such information to their End Users in a timely manner (including but not limited to the causes or possible causes of any service disruption). In addition, all clients shall provide upon request the identity, address and contact details of the authorised traders initiating an entry, modification, cancellation or execution of an order.

3. Order Routing, Execution Methodology and User Priority

Orders are crossed on a price-time priority basis, where orders at the same price will be matched in the time sequence they were received. MaX interacts with a Smart Order Router (SOR). When an order arrives, the SOR first checks the available liquidity in MaX to source if there are any orders that can be crossed with. If the order is not fully crossed in MaX, the residual quantity will be sent to the HKEX and shadowed in MaX. Dark Orders will be routed directly to MaX without sending to the HKEX.

If there is no bid and ask price, or only one side exists on the HKEX, orders will not be crossed in MaX.

MaX will determine the order matching priority on Price – Flow Type – Time basis. Users are categorized based on the predominant nature of business. Clients may elect not to cross with any one or more categories. Macquarie's proprietary trading flows may also participate in MaX. Proprietary flows include orders for the account of Macquarie trading as principal or have an interest, orders of any employee or agent of Macquarie and client facilitation orders. Agency orders will have priority over proprietary orders at the same price. Users may give instructions to Macquarie indicating the preference as to whether to have their own orders crossed with Macquarie's proprietary flows in MaX.

Orders of different users of MaX are **not** aggregated. MaX does not send orders outbound to other liquidity aggregators.

Orders identified as matchable in MaX are withheld and reported to the HKEX as Direct Business in the prescribed manner and within the timeframe in accordance with the HKEX Trading Rules. Orders are only recognized as matched after a Direct Business transaction is reported to the HKEX.

The clearing and settlement process for trades matched in MaX will follow the existing procedures for settlement of HKEX on-exchange executions.

4. Order and Transaction pricing

Orders can be pegged at near touch, mid-point and far touch with reference to the primary market spread. The execution price is at or within the primary exchange's best bid/offer spread.

At the request of users, post-trade reports indicating price improvements will be available to users of MaX.

5. Internal control procedures to ensure the fair and orderly functioning of MaX

Macquarie has the discretion to take any action it considers necessary to ensure the fair and orderly functioning of MaX without revealing the reason, including:

- i. rejecting one or more orders entered into MaX;
- ii. cancelling or amending any transaction executed in MaX;
- iii. suspending or halting the trading of one or more securities in MaX;
- iv. modifying, restricting or suspending access by one or more users to all or part of MaX; or
- v. suspending or halting trading in all or part of MaX.

When a security is placed into suspension, MaX will not cross orders for that security. Dark Orders and Shadowed Orders entered into MaX prior and during the security suspension will also be suspended from matching in MaX until the security suspension is lifted. Only cancellations of existing Dark Orders will be allowed. Orders remaining unmatched at the close of a trading day will automatically be cancelled by MaX.

When MaX itself is placed into suspension, order matching will be suspended. Orders will be passed directly to HKEX. Only cancellation of existing Dark Orders will be allowed.

Macquarie adopts policies and established procedures to safeguard from potential conflict of interests within the firm. Macquarie has electronic and physical segregation to prevent client order and trading information being used inappropriately. It also monitors trading performance and conducts trading surveillance to detect potential front running.

Visibility to information about client orders in MaX by Macquarie staff will be strictly controlled. Only designated personnel in supervisory / monitoring and system support roles will be granted access to MaX and have the visibility to all orders and crossed trades in it to the extent it is necessary to discharge their respective responsibilities. The designated personnel are subject to high standards of conduct in managing conflicts of interest. Access to information of client orders in MaX is prohibited for Macquarie proprietary trading desks. Authorised approvers or delegates must formally approve the creation of a new user or changing of access rights for an existing user.

6. Potential risks associated with transactions conducted on MaX

While the use of crossing systems generally results in better execution compared with the order being placed on an external market, they can cause latency as a result of checking the availability of potentially matching orders. Macquarie may remove orders placed in one venue for matching or execution on the other venue in response to price movements and liquidity or volume changes. Also, in case of system interruption causing MaX unable to report a Direct Business transaction to the HKEX, the orders withheld for matching will be re-submitted to the HKEX (except for Dark Orders). This may result in loss of priority at venues if orders need to be resubmitted and may also result in mixed executions. In terms of achieving the best outcome, the occasional impact of missed opportunity is expected to be outweighed by a more frequent optimal outcome. Macquarie is less likely to move orders from one venue to another where an order is immediately executable on the original venue and more likely to move orders to another venue with greater volume at an improved price so that better execution is reasonably certain. The order type is also a relevant consideration.

Clients may elect to instruct Macquarie not to use MaX for the execution of their orders.

In addition, clients' orders may match with Macquarie's opposing proprietary orders. Clients may elect not to cross with Macquarie's proprietary orders when participating in MaX.

Please also refer to Macquarie's Best Execution Policy:

<http://www.macquarie.hk/dafiles/Internet/mgl/hk/docs/client-information/msg-asia-best-execution-policy.pdf>

7. Macquarie staff who are permitted access to order / trading information on MaX

Please refer to Appendix 1.

Appendix 1

	Department	Title	Level of Access
1	Cash – Electronic Execution	Sales Traders	Real time access to all orders and trades conducted in MaX to monitor the operation of MaX. Access right to manage orders, securities within MaX and the operation of MaX.
2	IT	System Support	Real time access to all orders and trades conducted in MaX to perform system support for MaX. Access right to manage orders, securities within MaX and the operation of MaX.
3	IT	User Support	Real time access to all orders and trades conducted in MaX to perform system support for MaX. Access right to manage orders and securities within MaX.
4	Cash – Sales Trading	Sales Traders	Only post-trade execution confirmation for agency / house orders is received from MaX for trade reporting purpose. No visibility to live activities in MaX.
5	Cash – Execution	Dealers	Only post-trade execution confirmation for agency / house orders is received from MaX for trade reporting purpose. No visibility to live activities in MaX.
6	Compliance	Compliance Officers	Only post-trade information of orders and trades in MaX for Compliance trade surveillance purpose. No real time visibility to activities in MaX
7	Proprietary Desks	Traders	Only post-trade execution confirmation for own proprietary orders is received from MaX for trade booking purpose. No visibility to orders, transactions and activities in MaX.