

Terms and conditions for operating a Shared Order Book

General

1. In these Terms and Conditions (**Terms and Conditions**), a “**Shared Order Book**” means an arrangement under which orders from different platforms are combined into an aggregate liquidity pool to enable order matching and execution across platforms. Unless otherwise specified, terms used in these Terms and Conditions have the same meaning as those defined in the Guidelines for Virtual Asset Trading Platform Operators (**VATP Guidelines**).
2. A Platform Operator which integrates its order book with that of an overseas virtual asset trading platform operator (**OVATP**) for the purpose of operating a Shared Order Book should ensure that its Associated Entity complies with these Terms and Conditions.

Eligibility and Scope

3. The Shared Order Book should be jointly operated by a Platform Operator and an OVATP which is a related corporation as defined in section 53ZRC of the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Cap. 615).
4. The OVATP should be duly licensed in the jurisdiction where its activities are conducted.
5. The OVATP should operate in a jurisdiction that:
 - a) is a member of the Financial Action Task Force (**FATF**) or an FATF-Style Regional Body¹; and
 - b) has effective regulation substantially aligned with FATF recommendations and the following IOSCO Policy Recommendations for Crypto and Digital Asset Markets² with respect to market abuse and client asset protection:
 - i. fraud and market abuse (Recommendation 8);
 - ii. segregation and handling of client monies and assets (Recommendation 13);
 - iii. client asset reconciliation and independent assurance (Recommendation 15); and
 - iv. securing client money and assets (Recommendation 16).
6. Virtual assets which a Platform Operator may make available for trading on the Shared Order Book should be limited to those virtual assets which the Platform Operator has assessed and made available for trading in accordance with the VATP Guidelines.
7. A Platform Operator offering a Shared Order Book should establish and maintain effective policies and procedures to ensure the proper management of the increased credit, liquidity and operational risks which may arise when matched trades are not fully settled immediately. A Platform Operator should ensure a high level of protection for its

¹ For details of FATF-Style Regional Bodies, please refer to <https://www.fatf-gafi.org/en/countries/global-network.html>

² <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD747.pdf>

clients in the event of the default or insolvency of the OVATP, its Designated Custodian (referred to in paragraph 13), or any other participant in the Shared Order Book (**Platform Participant**).

Shared Order Book Rules

8. A Platform Operator should establish a comprehensive set of rules for operating the Shared Order Book (**Shared Order Book Rules**) which clearly define the pre-trade and post-trade procedures and operation of the Shared Order Book applicable to all Platform Participants.
9. The Shared Order Book Rules should cover pre-funding, order placement, trade execution, novation (where applicable), settlement and default management.
10. A Platform Operator should ensure that the Shared Order Book Rules:
 - a) are binding and enforceable upon the OVATP, Platform Participants and any Designated Custodian as a multilateral contract establishing enforceable mutual obligations among all parties, and
 - b) provide a clear legal basis for the transfer of proprietary interests in Settlement Assets to the Platform Operator's clients or its Associated Entity.
11. A Platform Operator should procure the OVATP to comply with these Terms and Conditions and the Shared Order Book Rules.
12. The Shared Order Book Rules and other agreements relating to the operation of the Shared Order Book should be reviewed upon any material change to the trading or settlement system or process of the Shared Order Book.

Trading Operations

13. A Platform Operator or an OVATP should execute an order for a client only if there are sufficient fiat currencies or virtual assets in the client's account with the relevant Platform Operator or OVATP to cover that trade. The assets required for settlement (**Settlement Asset**) should be deposited with one or more custodians designated by the Platform Operator or OVATP (individually and collectively **Designated Custodian**).
14. A Platform Operator and the OVATP should implement automated pre-trade verification to confirm full pre-funding before accepting any order.
15. Upon matching of orders on the Shared Order Book, a trade should be regarded as executed and binding, and the trading account ledgers should be updated in real time by the Platform Operator and the OVATP.
16. A Platform Operator should maintain internal controls to address conflicts of interest, including structural separation and "Chinese Walls" policies between the trading/market making functions of the OVATP (or its related corporation) and the operations of the Shared Order Book, and should implement pre and post trade transparency arrangements.

17. A Platform Operator should ensure fair and orderly trading on the Shared Order Book, and that Platform Participants have equal access to Shared Order Book data.
18. A Platform Operator should maintain a contingency mechanism to suspend order matching with the OVATP where necessary, such as in the event of a material disruption affecting the operations of the OVATP or any Designated Custodian. This mechanism should enable the Platform Operator to isolate its client orders from matching with other orders on the Shared Order Book.

Settlement Controls

19. A Platform Operator should maintain a clear and certain settlement process. Settlement should be effected via a delivery-versus-payment (**DVP**) mechanism which ensures simultaneous exchange of assets, including fiat and virtual assets, between the Platform Operator and the OVATP.
20. The OVATP and its Designated Custodian should be responsible for delivering to the Platform Operator the Settlement Assets relating to OVATP orders.
21. A Platform Operator should maintain asset-swap procedures and proper controls that address practical timing variables, to minimise delays and consistently adhere to DVP principles, including
 - a) delays in transferring assets from cold to hot wallets;
 - b) blockchain network outages or congestion; and
 - c) bank holiday effects on fiat transfers.
22. A Platform Operator should effectively measure, monitor and manage its exposure relating to the settlement process. The Platform Operator should maintain appropriate risk limits in respect of its exposure to the OVATP and its Designated Custodian, as well as sufficient financial resources to cover such exposure in full at all times. Counterparty exposure should be reduced to the extent possible through netting arrangements where delivery obligations are netted on a continuous real-time basis. The Platform Operator should ensure that the netting arrangements are legally enforceable, including upon the insolvency of the OVATP or its Designated Custodian.
23. A Platform Operator should settle all trades with the OVATP at least once per day, and should conduct intraday settlements whenever necessary to ensure that the unsettled trade exposure does not exceed the Unsettled Trade Limit set under paragraph 25. The Platform Operator should ensure a high degree of operational reliability and scalability in its systems and procedures to complete all trade settlements at the time required, including during a period of rapid increase in trading volume or massive client withdrawals.
24. Before initiating any settlement, a Platform Operator should verify that the OVATP and its Designated Custodian are operational and able to deliver the required assets at the time of settlement, such as through system status checks and confirmations of asset availability.

25. A Platform Operator should determine and maintain a pre-defined threshold (**Unsettled Trade Limit**) based on the following factors:

- a) projected unsettled trade exposure;
- b) market volatility of the traded assets, including in extreme but plausible market conditions;
- c) differences between ledger balances and assets held, by asset type; and
- d) how quickly the reserve fund can be increased following a projected increase in unsettled trade exposure.

26. A Platform Operator should implement robust real-time monitoring of unsettled trade exposure, with alerts calibrated to trigger intraday settlement to ensure that full settlement can be completed before the Unsettled Trade Limit is reached, together with escalation procedures to senior management.

27. Following each regular or intraday settlement, client assets should be held in custody by the Platform Operator's Associated Entity.

Default Management

28. The Shared Order Book Rules should clearly define what constitutes a default in settlement and identify defaulting parties. The OVATP and its Designated Custodian should be regarded as defaulting parties if they fail to deliver Settlement Assets to settle client trades executed on the Shared Order Book, or if they materially delay delivery.

29. A Platform Operator should maintain effective policies and procedures with a detailed action plan to manage delayed or failed settlement, and should take timely action to meet its delivery obligation to clients and minimise client losses. The Platform Operator should compensate its clients without undue delay for any loss upon a delay or failure in settlement, including mark-to-market losses resulting from the difference between the execution price and the current price, in accordance with paragraphs 32 to 37. The compensation arrangement should be set out either in the Shared Order Book Rules or in the client agreement.

30. The Shared Order Book Rules should set out the rights of the non-defaulting parties against the defaulting parties, including rights to:

- a) terminate affected trades immediately when delivery fails at the time of settlement; and
- b) claim compensation for losses, including mark-to-market losses and any consequential damages.

31. A Platform Operator should immediately report any failed settlement to the SFC.

Compensation Arrangements

32. A Platform Operator offering a Shared Order Book should assume full responsibility for its clients for trades executed through the Shared Order Book as if such trades were executed on its own order book.
33. A Platform Operator should maintain in Hong Kong a reserve fund, held in one or more segregated bank accounts with an authorised financial institution. The reserve fund should be designated for client compensation and available to cover client losses arising from settlement failures, including mark-to-market losses resulting from the difference between the execution price and the current price.
34. The reserve fund should be maintained in fiat currency, unless otherwise agreed with the SFC.
35. The size of the reserve fund should not be less than the Unsettled Trade Limit, determined in accordance with a methodology agreed with the SFC. The Platform Operator should also specify a timeframe within which any required increase in the level of the reserve fund will be met.
36. A Platform Operator should review the adequacy of the reserve fund regularly and make appropriate adjustments to the reserve fund level to ensure its unsettled trade exposure is covered in full.
37. Where an increase in the reserve fund becomes necessary, it should be funded to the required level within the designated timeframe specified in the agreed methodology. Any breach of the Unsettled Trade Limit or utilisation of the reserve fund should be immediately reported to the SFC.
38. A Platform Operator should maintain insurance or a compensation arrangement in an amount no less than that required under paragraph 10.22 of the VATP Guidelines, covering loss of Settlement Assets held by the OVATP or its Designated Custodian and assets in transit. Unless otherwise agreed with the SFC, where the OVATP maintains such insurance, the Platform Operator or its Associated Entity should be included as a beneficiary, holding such benefit on trust for clients.
39. A Platform Operator should immediately suspend the matching of the Platform Operator's client orders with other orders on the Shared Order Book if the Platform Operator fails to maintain the required level of the reserve fund or the compensation arrangement.

Prevention of Market Manipulative and Abusive Activities

40. A Platform Operator should implement, together with the OVATP, a unified market surveillance programme across the Shared Order Book, rather than segmenting oversight by clients' onboarding jurisdiction, for the purpose of complying with paragraphs 8.1 to 8.4 and paragraphs 9.8 to 9.10 of the VATP Guidelines.
41. A Platform Operator should designate at least one Responsible Officer or Manager-in-Charge to:

- a) oversee the joint market surveillance programme;
- b) ensure compliance with the SFC's requirements;
- c) participate in the decision-making process on the surveillance workflow, parameter selection, alert logic, and management information reporting;
- d) supervise the handling of alerts for potential misconduct; and
- e) regularly evaluate the programme's effectiveness and assess the market misconduct risk arising from operating a Shared Order Book.

42. A Platform Operator should provide Shared Order Book data to the SFC promptly on request, including:

- a) all order and trade data (including records set out under paragraphs 14.8(c), (e) and (f) of the VATP Guidelines);
- b) order originator³ information as specified under paragraph 9.8 of the VATP Guidelines; and
- c) market surveillance records, including alerts, investigations and outcomes.

Operational Resilience, Cybersecurity and Record Keeping

43. A Platform Operator should ensure that the operation of the Shared Order Book complies with the VATP Guidelines, including:

- a) the reliability and security of the trading platform under paragraph 5.1(g) of the VATP Guidelines;
- b) policies and procedures relating to the trading process to prevent or detect errors, omissions, fraud and other unauthorised or improper activities under paragraph 7.22 of the VATP Guidelines;
- c) comprehensive trading and operational rules under paragraph 7.27 of the VATP Guidelines;
- d) cybersecurity under Part XII of the VATP Guidelines; and
- e) record keeping under Part XIV of the VATP Guidelines.

44. A Platform Operator should keep records sufficient to explain the design, development, testing, operation and modification of the Shared Order Book, and to reconstruct the lifecycle of orders, trades, settlements, surveillance alerts and incident responses for a period of not less than seven years.

³ Including OVATP orders

Disclosures

45. Before offering Shared Order Book trading services, a Platform Operator should make clear and adequate disclosures to enable clients to make informed decisions, including:

- a) potential conflicts of interest involving the Platform Operator and OVATP;
- b) the settlement mechanism (including responsibilities of each party and risks of delay or failure);
- c) scenarios in which failed settlement may arise, the default management and (if applicable) trade cancellation processes;
- d) the risk mitigation measures in place, including the reserve fund and insurance; and
- e) the extent of client protection, clients' rights and available recourse.

46. A Platform Operator may offer a retail client access to the Shared Order Book only if:

- a) the Platform Operator has explained the additional risks associated with order matching and settlement involving overseas jurisdiction(s), including the risk that client protection in the overseas jurisdiction(s) may be lower than that in Hong Kong, to enable the client to make an informed decision; and
- b) the client has expressly elected to participate in the Shared Order Book.

47. A Platform Operator should ensure that any representation made or information provided by the OVATP to Platform Participants in relation to the Shared Order Book is accurate and not misleading.

Obligations to the SFC

48. A Platform Operator should obtain the SFC's prior written approval for any plan or proposal to operate a Shared Order Book.

49. A Platform Operator should ensure that it has put in place robust governance frameworks and clear operational arrangements with the OVATP to enable timely and effective responses to regulatory enquiries and investigations. This includes mechanisms for prompt and transparent information sharing, joint compliance monitoring, escalation protocols to senior management, comprehensive record-keeping, and investigation procedures.

50. A Platform Operator should immediately report to the SFC upon the occurrence of any of the following:

- a) any actual or suspected material non-compliance with these Terms and Conditions;

- b) any regulatory action taken by any regulatory or law enforcement authorities in respect of the OVATP, any Designated Custodian or any liquidity provider to the Shared Order Book in a controlling entity relationship with the Platform Operator (as defined in section 1 of Part 1 of Schedule 1 to the SFO);
- c) any material event which may adversely and directly impact the OVATP or a Designated Custodian, including a change in the ownership, operation, financial resources, management or controls of the OVATP or a Designated Custodian;
- d) any potential regulatory change that may have a significant impact on the operation of an OVATP or a Designated Custodian.