

Terms and conditions for a virtual asset trading platform operator to accept affiliated market makers

Conflicts of interest controls

1. A Platform Operator may allow its affiliated company to engage in market making activities on its virtual asset trading platform (**VATP**) for trading of virtual assets when the Platform Operator maintains effective conflicts of interest controls, including the following:

Functional independence

- a) the affiliated market maker (**AFMM**) should be functionally independent from the Platform Operator, with organisational and administrative segregation¹ from the Platform Operator's operating environment;
- b) robust conflicts of interest policies and procedures are implemented regarding the AFMM to prevent, manage and monitor any actual or potential conflicts of interest, and at least one Responsible Officer or Manager-in-Charge is responsible for conflicts of interest management regarding the AFMM;
- c) effective data security policies and procedures as well as information barriers are implemented (i) to prevent the AFMM from accessing the Platform Operator's confidential data, including client data, system data and client pre-trade information and (ii) to prevent information leakage to the AFMM²;
- d) periodic reviews of access logs are conducted to ensure the continued effectiveness of the information barriers implemented;

Order handling

- e) client orders should always have priority over the AFMM's orders when being transacted at the same price level;
- f) when providing post-trade data to clients, the Platform Operator should indicate, on a trade-by-trade basis, which trades were executed by the AFMM;
- g) technical access available to the AFMM and other market makers (if any), including market data feeds, connectivity and order type availability, are identical;

Disclosure

- h) the Platform Operator should clearly disclose to clients about the AFMM's presence and role on the VATP and associated risks to clients, including:

¹ Paragraph 11.5 of the SFC's Guidelines for Virtual Asset Trading Platform Operators.

² Section IV of the Management, Supervision and Internal Control Guidelines for Persons Licensed by or Registered with the Securities and Futures Commission.

- i. all formal and informal arrangements with, or preferential treatment to, an AFMM in relation to pre-trade transparency, order placing and execution;
- ii. whether there is any difference in an AFMM's access to the order book compared to client access;
- iii. whether the Platform Operator provides any extra services to the AFMM, or vice versa.

Other ongoing obligations

2. Orders and trades of an AFMM should be captured in the Platform Operator's market surveillance systems. The focus should be on reinforcing independence and governance to ensure that existing surveillance obligations are applied effectively to AFMM activity.
3. A Platform Operator should immediately report to the SFC upon the occurrence of any of the following:
 - a) any actual or potential material breach or infringement of or non-compliance with these Terms and Conditions;
 - b) any regulatory action taken by any regulatory or law enforcement authorities in respect of the AFMM.
4. Compliance with the above conditions should be covered in the annual review by an independent professional firm of the Platform Operator's activities and operations, and reported to the SFC.