

## Direct Electronic Access

### Compliance Manual

#### Background

An investment firm that provides direct electronic access (“DEA”) to a trading venue is required to put in place systems and controls to prevent trading by clients which:

- (a) may create risks to the firm;
- (b) may create, or contribute to, a disorderly market; or
- (c) could be contrary to applicable laws and regulations, including the rules of a trading venue.

In accordance with the above, this Compliance Manual sets out the responsibilities and obligations of clients that receive DEA from INTL FCStone Ltd (“IFL”).

In this Compliance Manual, the terms:

- (a) “*trading venue*” refers to regulated markets (also known as “exchanges”), multilateral trading facilities (“MTFs”) and organised trading facilities (“OTFs”); and
- (b) “*direct electronic access*” refers to an arrangement where a member or participant of a trading venue permits a client to use its trading code so that the client can electronically transmit orders relating to a financial instrument directly to the trading venue and includes arrangements which involve the use by a person of the infrastructure of the member or participant or client, or any connecting system provided by the member or participant or client, to transmit the orders (direct market access) and arrangements where such an infrastructure is not used by a client (sponsored access).

This Compliance Manual should be read in conjunction with the current terms of business in place between IFL and its client.

#### Responsibilities of a DEA client of IFL

A DEA client of IFL is responsible for ensuring that it, or anyone who acts for it:

- (a) is familiar with all applicable laws and regulations, particularly the rules of the trading venue(s) it is active on. A list of weblinks to the rulebooks of trading venues that IFL currently offers DEA to can be found in Annex One and a list of key EU and UK laws and regulations in Annex Three;
- (b) does not engage in, or attempt to engage in, any prohibited transactions, commit market abuse or otherwise take any action that would undermine confidence in any trading venue. A summary list of abusive behaviours can be found in Annex Two; and

- (c) observes robust security processes to protect IFL from viruses and safeguard access credentials to DEA systems. For example, a DEA client should use strong passwords and ensure that these are kept confidential.

In accordance with the above, a DEA client of IFL must:

- (a) monitor any orders submitted, and transactions made, on its behalf by anyone who acts for it;
- (b) if the DEA client uses, or intends to use, IFL's trading code to offer sub-delegated direct market access to its own clients:
- a. inform IFL before offering such sub-delegation;
  - b. send a written document to its sub-delegation clients that explains their responsibilities when trading on IFL's trading code;
  - c. systematically monitor the activities of its own clients to ensure that they are compliant with the requirements of this Compliance Manual; and
- (c) inform IFL's Compliance Monitoring team as soon as possible of:
- a. any actual or suspected breaches of applicable laws or regulations; and
  - b. anything which may create, or contribute to, a disorderly market or otherwise cause risks to IFL.

IFL's provision of DEA to a client is conditional upon the client fulfilling these responsibilities.

### **Specific requirements applicable to DEA clients that are engaged in algorithmic trading using their own code and/or systems**

A DEA client must notify IFL in advance if it (or anyone to whom the DEA client offers sub-delegated direct market access) intends to engage in algorithmic trading using:

- (a) IFL's trading code; and
- (b) its own proprietary code and/or systems.

The notification must contain the following information:

- (a) a description of the nature of the DEA client's algorithmic trading strategies;
- (b) details of the trading parameters or limits to which the DEA client's system is subject; and

- (c) details of the DEA client's testing of its systems, particularly in terms of conforming with any requirements set by trading venues that the DEA client intends to use the system to trade on.

IFL may require that this information is provided in a standardised format.

IFL reserves the right to decline to provide, or withdraw, DEA access from a client if:

- (a) it declines to provide the abovementioned information; or
- (b) if the answers given indicate that the client does not have appropriate systems and controls in place.

For the avoidance of doubt, if a DEA client only uses algorithmic trading functionality that is built into a trading platform provided by IFL then it does not need to notify IFL. In this Compliance Manual, the term "*Algorithmic trading*" is defined as trading in financial instruments:

- (a) where a computer algorithm automatically determines individual parameters of orders such as whether to initiate the order, the timing, price or quantity of the order for how to manage the order after its submission; and
- (b) there is limited or no human intervention; but

does not include any system that is only used for the purpose of routing orders to one or more trading venues or the processing of orders involving no determination of any trading parameters or for the confirmation of orders or the post-trade processing of executed transactions.

### **Position limits**

A client is solely responsible for ensuring that it observes any applicable position limits that have been set by trading venues and/or competent authorities. IFL is unable to monitor compliance with position limits on a client's behalf because: (a) it is unlikely to know a client's entire position; and (b) should not know a client's entire position to prevent conflicts of interest from emerging.

For convenience, a list of links to key position limit regimes is provided below.

*European Securities and Markets Authority ("ESMA") – consolidated list of position limits for liquid commodity derivatives contracts in the European Economic Area ("EEA")*

<https://www.esma.europa.eu/policy-activities/mifid-ii/commodity-derivatives>

*ICE Futures US*

<https://www.theice.com/futures-us/market-resources>

*CME Group (CME, CBOT, NYMEX and COMEX)*

<https://www.cmegroup.com/market-regulation/position-limits.html>

*Hong Kong Exchange (incorporating commodity futures)*

[https://www.hkex.com.hk/Services/Trading/Derivatives/Overview/Trading-Mechanism/Large-Open-Positions-and-Position-Limits?sc\\_lang=en](https://www.hkex.com.hk/Services/Trading/Derivatives/Overview/Trading-Mechanism/Large-Open-Positions-and-Position-Limits?sc_lang=en)

*US Commodity Futures Trading Commission*

<https://www.cftc.gov/LawRegulation/DoddFrankAct/Rulemakings/PositionLimitsforDerivatives/index.htm>

## **Block trading, transfers and crossing rules**

A DEA client should be particularly careful to observe the block, transfer and crossing (also known as “wash trade”) rules that have been set by the trading venues that they are active on. These rules are detailed in full in each trading venue’s rulebook (see Annex One), with links to additional guidance (where available) provided below.

*Overview – block trades*

<https://fia.org/sites/default/files/FIA%20Block%20Trade%20Fundamentals.docx%20updated.pdf>

*ICE Futures US*

Block trades: <https://www.theice.com/futures-us/market-resources>

Wash trades: [https://www.theice.com/publicdocs/futures\\_us/Wash\\_Sale\\_FAQ.pdf](https://www.theice.com/publicdocs/futures_us/Wash_Sale_FAQ.pdf)

*ICE Futures Europe*

Block trades:

[https://www.theice.com/publicdocs/futures/ICE\\_Futures\\_Block\\_Trade\\_Policy.pdf](https://www.theice.com/publicdocs/futures/ICE_Futures_Block_Trade_Policy.pdf)

Position transfers: [https://www.theice.com/publicdocs/Position\\_Transfer\\_Guidance.pdf](https://www.theice.com/publicdocs/Position_Transfer_Guidance.pdf)

*CME Group (CME, CBOT, NYMEX and COMEX)*

Block trades: <https://www.cmegroup.com/clearing/trading-practices/block-trades.html>

*Hong Kong Exchange (incorporating commodity futures)*

Block trades:

[https://www.hkex.com.hk/Services/Trading/Derivatives/Overview/Trading-Mechanism/Block-Trade-Facility?sc\\_lang=en](https://www.hkex.com.hk/Services/Trading/Derivatives/Overview/Trading-Mechanism/Block-Trade-Facility?sc_lang=en)

## **Purpose of execution**

Non-financial entity clients active on EEA venues are required to perform certain calculations (number of risk reducing versus speculative trades) to determine whether:

- (a) they are in excess of a clearing threshold set by the European Markets Infrastructure Regulation No. 648/2012 (“EMIR”). Please refer to <https://www.esma.europa.eu/regulation/post-trading/non-financial-counterparties-nfcs> for more information;
- (b) they are able to benefit from the dealing on the ancillary activity (“commodity derivatives trader” exemption in Article 2(1)(j) of the second Markets in Financial Instrument Directive (EU) No. 65/2014 (“MIFID II”). Please refer to <https://www.fca.org.uk/markets/mifid-ii/commodity-derivatives> for more information; and
- (c) one of their positions is subject to MIFID II position limits or not, or whether they need to file for a position limit exemption or not. Please refer to <https://www.handbook.fca.org.uk/handbook/MAR/10/2.html> for more information.

It is the DEA client’s responsibility to use any functionality provided in a DEA system to flag its trades as being for risk reducing or speculative purposes. IFL will set a default in its back-office systems to reflect the default purpose of trading expressed by a client in its account opening documentation. However, the responsibility for toggling this default lies solely with clients. For more information, please refer to Annex Four.

## Potential consequences of breaching applicable laws and regulations

The consequences of breaching applicable laws and regulations can be severe and can include:

- prosecution for criminal or civil offences;
- disciplinary action taken by trading venues that can lead to large fines or lengthy trading bans;
- IFL withdrawing DEA from a client; and/or
- IFL closing a client’s account.

## Contact details

A DEA client should contact IFL’s Compliance Monitoring team if it has any questions about the contents of this Manual or wishes to make a notification to IFL as described in this Manual:

Email: [IFLComplianceMonitoring@intlfcstone.com](mailto:IFLComplianceMonitoring@intlfcstone.com)

Telephone: +44 (0)20 3580 6037

**Annex One**  
**Links to venue rulebooks**

<b>Venue</b>	<b>Link</b>
Australian Securities Exchange	<a href="https://www.asx.com.au/regulation/rules-guidance-notes-and-waivers.htm">https://www.asx.com.au/regulation/rules-guidance-notes-and-waivers.htm</a>
Bursa Malaysia	<a href="http://www.bursamalaysia.com/market/regulation/">http://www.bursamalaysia.com/market/regulation/</a>
Chicago Mercantile Exchange	<a href="https://www.cmegroup.com/rulebook/CME/">https://www.cmegroup.com/rulebook/CME/</a>
Eurex Exchange	<a href="https://www.eurexchange.com/exchange-en/resources/rules-regulations">https://www.eurexchange.com/exchange-en/resources/rules-regulations</a>
Euronext	<a href="https://www.euronext.com/en/regulation">https://www.euronext.com/en/regulation</a>
European Energy Exchange	<a href="https://www.eex.com/en/trading/rules-and-regulations/regulated-market">https://www.eex.com/en/trading/rules-and-regulations/regulated-market</a>
Hong Kong Futures Exchange	<a href="https://www.hkex.com.hk/Services/Rules-and-Forms-and-Fees/Rules/HKFE/Rules?sc_lang=en">https://www.hkex.com.hk/Services/Rules-and-Forms-and-Fees/Rules/HKFE/Rules?sc_lang=en</a>
ICE Futures Europe	<a href="https://www.theice.com/futures-europe/regulation">https://www.theice.com/futures-europe/regulation</a>
ICE Futures US	<a href="https://www.theice.com/futures-us/regulation">https://www.theice.com/futures-us/regulation</a>
Johannesburg Stock Exchange	<a href="https://www.jse.co.za/services/market-regulation">https://www.jse.co.za/services/market-regulation</a>
London Metal Exchange	<a href="https://www.lme.com/en-GB/About/Regulation/Rules/Rulebook">https://www.lme.com/en-GB/About/Regulation/Rules/Rulebook</a>
New Zealand Stock Exchange	<a href="https://www.nzx.com/regulation/nzx-rules-guidance">https://www.nzx.com/regulation/nzx-rules-guidance</a>
Norexco ASA	<a href="http://www.norexco.com/rules/">http://www.norexco.com/rules/</a>
Singapore Exchange Limited	<a href="http://rulebook.sgx.com/">http://rulebook.sgx.com/</a>
Tokyo Commodity Exchange	<a href="https://www.tocom.or.jp/rule/index.html">https://www.tocom.or.jp/rule/index.html</a>

## Annex Two

### Examples of behaviour that would constitute market abuse

Behaviour	Summary description
Dissemination	Using the media, internet or any other means to spread false or misleading information regarding the price, supply or demand of financial instruments.
Insider dealing	Making use of unpublished, price sensitive information (e.g. of a takeover or commodity stock levels) for personal gain.
Manipulating devices	Deceptive behaviour using a device or other contrivance such as entering into a transaction or placing an order that affects, or is likely to affect, the price of a financial instrument.
Manipulating transactions	Giving a false impression regarding the supply of, demand for or price of any financial instrument through transactions, an order to trade or any other behaviour.
Misleading behaviour and distortion	Colluding to squeeze prices through the securing, and abuse of, a dominant position in any financial instrument. Also using algorithmic trading techniques to create an unfair marketplace.
Unlawful disclosure	The disclosure of any inside (i.e. price sensitive) information by a legal or natural person other than for legitimate purposes.

Please note that these are “high level” summaries. For a more detailed description of each type of abusive behaviour, please refer to the Market Abuse Regulation (Regulation (EU) No. 596/2014).

Please also note that any attempt to engage in these behaviours is also likely to be actionable.

## Annex Three

### List of key EU and UK laws and regulations and other useful materials

Law / regulation	Link
Criminal Justice Act 1993 Part V: Insider Dealing	<a href="https://www.legislation.gov.uk/ukpga/1993/36/part/V">https://www.legislation.gov.uk/ukpga/1993/36/part/V</a>
ESMA market abuse materials	<a href="https://www.esma.europa.eu/regulation/trading/market-abuse">https://www.esma.europa.eu/regulation/trading/market-abuse</a>
European Securities and Markets Authority ("ESMA") short selling materials	<a href="https://www.esma.europa.eu/regulation/trading/short-selling">https://www.esma.europa.eu/regulation/trading/short-selling</a>
FCA market abuse materials	<a href="https://www.fca.org.uk/markets/market-abuse">https://www.fca.org.uk/markets/market-abuse</a>
FCA Market Conduct Handbook ("MAR")	<a href="https://www.handbook.fca.org.uk/handbook/MAR/1/1.html">https://www.handbook.fca.org.uk/handbook/MAR/1/1.html</a>
Fourth Money Laundering Directive (EU) No. 849/2015)	<a href="https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32015L0849">https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32015L0849</a>
Market Abuse Regulation (EU) No.596/2014	<a href="https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32014R0596">https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32014R0596</a>
Markets in Financial Instrument Directive (EU) No. 65/2014	<a href="https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32014L0065">https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32014L0065</a>
Markets in Financial Instruments Regulation (EU) No. 600/2014	<a href="https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014R0600">https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014R0600</a>
OFGEM REMIT materials	<a href="https://www.ofgem.gov.uk/electricity/wholesale-market/european-market/remit">https://www.ofgem.gov.uk/electricity/wholesale-market/european-market/remit</a>
Regulation on Wholesale Energy Market Integrity and Transparency (EU) No.1227/2011 ("REMIT")	<a href="https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32011R1227">https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32011R1227</a>
Short Selling Regulation (EU) No. 236/2012	<a href="https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32012R0236">https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32012R0236</a>



## Annex Four

### ESMA Q&A re: hedge/speculation indicator

#### Question 18 [Last update: 15/12/2017]

*How should clients of investment firms inform their intermediaries of the nature of each of their positions (hedge or speculation)? Should that information be provided for each position or could clients indicate to their intermediaries that, except if they explain otherwise, all their positions should be deemed for hedging or non-hedging purposes?*

#### Answer 18

The obligation to report positions under Article 58 of MIFID rests with members or participants of regulated markets, MTFs and clients of OTFs or with investment firms when executing EEOC transactions on behalf of their clients.

It is the client's responsibility to ensure that their position is accurately described in their position report, in particular regarding whether their positions are for hedging or speculative purposes. It is a matter for the individual client as to how they satisfy this obligation and they may provide an initial instruction that unless informed otherwise, the investment firm should report certain defined positions to be for hedging (or speculative) purposes providing that this is an accurate description at the time. There may, however, be circumstances where a client is able more accurately to assign new transactions to hedging or speculative positions only after the initial trade. In this case the client should ensure that their position report is adjusted accordingly to the hedging or non-hedging nature of their position. Some clients may find it useful to adopt the ITS 4 template for reporting to investment firms.

**Source:** ESMA, Questions and answers on MIFID II and MIFIR commodity derivatives topics, available at: <https://www.esma.europa.eu/press-news/esma-news/esma-updates-mifid-ii-qa-commodity-derivatives>

#### Disclaimer – third party websites referred to in this Compliance Manual

Please note that links to any third party websites are provided solely for information purposes. IFL does not have any control over the content of external websites and their content is subject to change without notice. IFL does not accept any responsibility for the accuracy, completeness or reliability of external websites.