

Electronic Trading Service Information

Daiwa Capital Markets Hong Kong Ltd.

Important Notes

The information contained in this summary, which we believe may be of interest to our customers, is for general information only. It is strictly for the use of our customers and may not be disclosed to any third party without Daiwa's prior written consent. This summary is not a full analysis of the matters presented and should not be relied upon as such. This summary should not be construed as a commitment of Daiwa to perform any services or offer any products. It merely describes Daiwa's views and intentions at the date hereof, which are subject to change.

1st December 2024

Background

The Hong Kong Securities and Futures Commission's (SFC) Code of Conduct contains provisions for broker dealers and buy-side institutions on the provision and use of Electronic Trading services. The Code of Conduct covers "Electronic Trading" including internet trading, DMA and Algo services. The broad aim of the Code of Conduct is to ensure that an orderly market can be maintained for all market participants. The Code of Conduct is applicable to broker dealers and buy-side institutions registered or licensed in Hong Kong.

Full details on the Code of Conduct and the obligations of the broker dealers and buy-side institutions are on the Hong Kong SFC website at: <http://www.sfc.hk/web/EN/rule-book>.

The Code of Conduct's requirements on Electronic Trading came into force from 1st January 2014. It is also required that service providers regularly (annually) re-attest with their clients on their understanding of the services offered and also their understanding of the regulations.

Notes

Daiwa Capital Markets Hong Kong Limited first published this information (in the industry standard format) in November 2013 and further updated annually.

This document is an update to the previous year's document. Changes from the previous year are highlighted in red text.

Contact

For any queries or further information please contact the Daiwa team at: ET-Regulation@hk.daiwacm.com.

About Daiwa Capital Markets Hong Kong

Daiwa Capital Markets Hong Kong Limited (DCMHK) is a wholly-owned subsidiary of Daiwa Securities Group, headquartered in Japan. Daiwa Securities Group Inc. (DSG) is a publically listed company on the Tokyo Stock Exchange (8601) and is a registered provider of Financial Services in Japan. DSG operates several subsidiaries and joint ventures that are licensed broker dealers on exchanges across the globe.

Daiwa Capital Markets Hong Kong Limited is an SFC licensed (license: AAB639) broker dealer in Hong Kong and is a clearing participant of the Hong Kong Stock Exchange.

18.3 – Responsibility for orders

Paragraph	SFC Rule	Schedule 7 Section	Summary of requirement	Daiwa statement/comment
Paragraph 18.3	Responsibility for Orders		Licensed or registered person who is responsible for the settlement and financial obligations of orders sent to the market, and for implementing policies procedures and controls	<p>Global Head of Electronic Trading: Shinsuke Ikeda. Tokyo-based. Responsible for overall Electronic Trading strategy and service.</p> <p>Hong Kong Equities Trading RO (Responsible Officer): Hiroke Iwase. Responsible for HK equities trading, including electronic trading activities.</p>

18.4 – Management and supervision

Paragraph	SFC Rule	Schedule 7 Section	Summary of requirement	Daiwa statement/comment
Paragraph 18.4	Management and Supervision		Effectively manage and adequately supervise electronic trading system/algos used	<p>Design/Development. Daiwa follows industry-standard practices (based on waterfall and agile software development lifecycle management methodologies) in the design, development, testing and deployment of its systems. Changes to production systems must follow the change control process, demonstrating adequate testing and documentation with the requisite approvals and authorization from stakeholders.</p> <p>3rd party agreements. Where Daiwa makes use of consultants and vendors for provision of key systems and/or services, Daiwa ensures that there are adequate agreements in place and that the services/products offered by the vendor/service provider have been assessed and tested in line with requirements and applicable regulations. Daiwa is satisfied and in possession of adequate documentation and representation from the vendor/service provider that the systems and services provided by Hong Kong registered service providers in relation to electronic trading are in full compliance with the SFC regulations. Where 3rd party services are provided in locations outside Hong Kong, Daiwa has obtained representation that the service provider is fully compliant with local regulations in that location.</p> <p>Stakeholders. Design/development is performed with the collaboration and input of multiple departments - in particular: traders/dealers, risk, compliance, IT. All systems are built in line with internal security and access control policies.</p> <p>IT operation. Daiwa monitors systems on a 24/6 basis and has on-site support covering the market operating times of the Asian markets that Daiwa is operational in. Daiwa has written processes for dealing with, following up and finding permanent resolutions to production incidents.</p> <p>Production operation. Sales/traders/dealers operate daily within a framework of written guidelines compiled with input from Compliance and Risk departments and under the supervision of a Responsible Officer (RO). Compliance and Risk also monitor trading activities in line with applicable regulations.</p> <p>Further details on the above are provided in later, more specific sections below.</p>

Paragraph	SFC Rule	Schedule 7 Section	Summary of requirement	Daiwa statement/comment
Paragraph 18.4	Management and Supervision	1.1, 1.1.1(a)	Responsible officer for the overall management and supervision	<p>Daiwa Capital Markets Hong Kong is a Hong Kong SFC Type 1, Type 2, Type 4 and Type 6 registered broker/dealer.</p> <p>Equities Front-Office Responsible Officer: Hiroke Iwase. Overall responsibility for Asia-x-Japan equities trading, including HK markets and Electronic Trading.</p> <p>Global Head of Electronic Trading: Shinsuke Ikeda. Responsible for Electronic Trading on JP, HK and other Asia markets.</p> <p>Backoffice responsibility - Head of Regional Operations: Yuichi Sekimoto. Responsible for management of the Settlement, Clearing functions in Asia-x-Japan.</p>

Paragraph	SFC Rule	Schedule 7 Section	Summary of requirement	Daiwa statement/comment
Paragraph 18.4	Management and Supervision	1.1, 1.1.1(b)	Formalised governance process with input from dealing, risk and compliance	<p>Daiwa Hong Kong trading policies, procedures and controls are defined by the trading, compliance and risk departments. These teams are based in Hong Kong but with input and a reporting line into the Daiwa Group headquarters in Tokyo, Japan.</p> <p>The objective of these policies are to ensure that all trading undertaken through the Hong Kong office is done to a high level of service, in a controlled environment and in full compliance with the applicable regulations.</p> <p>Electronic Trading services in Daiwa Hong Kong are overseen by the ET Oversight Committee (ETOC) based in Hong Kong. Senior Management, Risk, Compliance, Technology, Internal Audit and Trading staff from Hong Kong are represented on this committee as well as trading staff based in Tokyo. The ETOC meets quarterly and the purpose of the committee is to provide guidance and to ensure that Daiwa's ET systems development and ET service offerings are in line with Compliance, Risk and Regulatory policies.</p> <p>Daiwa's electronic trading system does have risk controls dedicated to electronic trading. The controls are reviewed regularly to ensure that they are consistent, appropriate and relevant to the trading being undertaken.</p> <p>Where Daiwa makes use of 3rd party vendors and service providers, Daiwa is satisfied and in possession of satisfactory documentation that the service provider has appropriate policies, procedures and risk controls in place and that the service provider gives sufficient representation of compliance with regulations. Where such services are provided in locations outside Hong Kong, Daiwa has obtained representation that the service provider is fully compliant with local regulations in that location.</p> <p>Daiwa aims to review 3rd party vendors on at least a semi-annual basis to ensure that the vendor service meets with Daiwa's policies and requirements. Any findings are reported to the ET Oversight Committee.</p>

Paragraph	SFC Rule	Schedule 7 Section	Summary of requirement	Daiwa statement/comment
Paragraph 18.4	Management and Supervision	1.1, 1.1.1(c)	Clearly identified reporting lines with supervisory and reporting responsibilities assigned	<p>The Electronic Trading Technology team is based in both HK and Tokyo. Both locations report into a team head, based in HK. The head of ET Technology has a matrix reporting line to the technology heads in HK and Tokyo.</p> <p>Daiwa Hong Kong has a single IT Department. Hong Kong based deployment and operations teams report into the Head of IT in Hong Kong.</p> <p>Daiwa Group IT is headquartered in Tokyo, Japan. Deployment and operations of Japan-based algos are handled by the IT teams in Tokyo reporting in to the Tokyo IT management.</p> <p>Additionally, the trading team is involved in the design and testing of the trading systems and algorithms, the compliance and risk teams are also involved in the design and testing of the trade surveillance and risk control modules. The trading, compliance and risk teams report in to their respective local and global department heads.</p> <p>Where Daiwa makes use of 3rd party vendors and service providers, Daiwa is satisfied and in possession of satisfactory documentation that the service provider has appropriate policies, procedures and risk controls in place and that the service provider gives sufficient representation of compliance with regulations. Where such services are provided in locations outside Hong Kong, Daiwa has obtained representation that the service provider is fully compliant with local regulations in that location.</p>
Paragraph 18.4	Management and Supervision	1.1, 1.1.1(d)	Managerial and supervisory controls designed to managed risks associated with use of electronic trading system	<p>All departments have written policies and procedures, including escalation procedures that are reviewed annually. Staff is provided training on key trading, compliance and regulatory issues and is kept advised of the policies. Heads of desks are reminded to keep their staff appraised of the current procedures.</p> <p>Internal trading staff is provided training on the algo platform with updates whenever there is a material change to the system. In addition to the written training material that we distribute to ET clients, we also offer to our clients either remote or on-site training on our algo platform.</p> <p>There is an approval process in place for granting access to any trading system. Access is updated when there are staff changes and access rights and risk limits are reviewed annually.</p> <p>Any deficiencies identified are resolved depending on the nature. Simple issues will be discussed and agreed with the stakeholder parties and resolved at the earliest opportunity. More complicated deficiencies will be raised to the ET Oversight Committee for agreement on appropriate actions and schedule.</p>

Paragraph	SFC Rule	Schedule 7 Section	Summary of requirement	Daiwa statement/comment
				Where Daiwa makes use of 3rd party vendors and service providers, Daiwa is satisfied and in possession of satisfactory documentation that the service provider has appropriate policies, procedures and risk controls in place and that the service provider gives sufficient representation of compliance with regulations. Where such services are provided in locations outside Hong Kong, Daiwa has obtained representation that the service provider is fully compliant with local regulations in that location.
Paragraph 18.4	Management and Supervision	1.1.2	Comply with the requirements set out in 1.1.1 in respect of design, development and deployment of the system	See above 1.1.
Paragraph 18.4	Management and Supervision	1.1.3	Conduct regular reviews to ensure compliance with internal policies	Daiwa policies and procedures are updated as required when there is a material change to the operating environment or market conditions. There is a regular annual review initiated by Compliance and also further checks by Internal Audit. Any issues identified are addressed as part of the regular reviews or through recommended remediation and tracked by Internal Audit. Additionally, the ET Oversight Committee (ETOC) meets regularly to discuss ongoing development of the platform.

Paragraph	SFC Rule	Schedule 7 Section	Summary of requirement	Daiwa statement/comment
Paragraph 18.4	Management and Supervision	1.1.4	Assign adequately qualified staff, expertise, technology and financial resources to the electronic trading system	<p>Daiwa's algo design, development and testing team are based in Tokyo and Hong Kong, reporting into a single team lead and also into local IT management at both locations. The staff have appropriate experience in their fields of expertise and have been appointed following an interview and testing process.</p> <p>IT staff associated with electronic trading system design, development and testing must follow internal procedures for project management and software development. They also have received or will receive training on the regulatory and compliance issues regarding electronic trading systems.</p> <p>Where Daiwa makes use of 3rd party vendors and service providers, Daiwa is satisfied and in possession of satisfactory documentation that the service provider has appropriate policies, procedures and risk controls in place and that the service provider gives sufficient representation of compliance with regulations. Where such services are provided in locations outside Hong Kong, Daiwa has obtained representation that the service provider is fully compliant with local regulations in that location.</p>

18.5 – Adequacy of system

Paragraph	SFC Rule	Schedule 7 Section	Summary of requirement	Daiwa statement/comment
Paragraph 18.5	Adequacy of System		Ensure integrity of electronic trading system and have appropriate contingency measures	<p>Cyber Security and Risk Teams. Asia-x-JP IT systems are built to standards and controls defined by the IT Control and Governance team located in Hong Kong. The Cyber Security Incident Response Team (CSIRT) also monitor and review the integrity and security of the electronic trading systems regularly to detect and respond to any potential attacks. The features of the electronic trading systems include industry standard security and authentication methods.</p> <p>Contingency Planning. Systems are built to accommodate current and expected future capacity. Additionally, systems are built on resilient infrastructure and housed in multiple data centers that meet industry standards and guidelines.</p> <p>Auditing. Electronic Trading system activity is logged and there are regular independent audits of trading systems, IT infrastructure and IT controls to ensure adequate security and integrity of the systems.</p> <p>Risk controls. There are appropriate automated pre-trade risk controls in place for electronic trading systems and there is a regular process for post-trade surveillance. Exceptions reports are also produced for review by Risk, Compliance and the front office. Any potential regulatory breaches are investigated further by Risk and Compliance.</p> <p>3rd Party services. Daiwa makes use of various 3rd party products and services in the provision of services to Daiwa clients. Where such services are used, Daiwa has suitable contracts in place with relevant agreements and has performed due diligence against these vendors to comply with regulatory requirements. Where such services are provided in locations outside Hong Kong, Daiwa has obtained representation that the service provider is fully compliant with local regulations in that location.</p> <p>Risk Management. There is a clearly defined policy and process for the approval and authorization and change management of risk controls.</p>

Paragraph	SFC Rule	Schedule 7 Section	Summary of requirement	Daiwa statement/comment
Paragraph 18.5	Adequacy of System	1.2.1(a), 1.2.1(b)	Immediately prevent the system from generating and sending orders to the market. Cancel any unexecuted orders that are in the market.	<p>Pre-trade controls.</p> <p>Credit checks. Electronic orders are subject to automated credit checks. Thresholds are set to alert traders if limits are being approached and orders are rejected if limits are breached. There is a documented approval, authorization and change control process controlled by the Risk department for any temporary or permanent changes to these credit limits.</p> <p>Market impact checks. Electronic orders are checked to ensure that received orders are within preset limits from the current market price and that the execution of such orders will not move the market price outside of set limits. Orders that breach these limits are rejected or directed to an error queue for manual handling.</p> <p>Per order checks. Fat finger checks are in place to limit the max value and/or size of any single order.</p> <p>Contingency. In the event of a critical systems failure or major market issue, IT support have documented processes to manually override and immediately terminate order processing and stop orders from reaching the market. Standby connections, incl. exchange-provided terminals, exist to monitor and/or cancel any orders already on the market. In the event that standby connections and phone systems also fail, Daiwa will send a member of staff to the HK exchange to physically cancel orders.</p> <p>Where Daiwa uses 3rd party dealers for market connection, Daiwa can stop orders reaching these dealers and/or has arrangements in place with the dealers to request that orders in progress are pulled.</p>

Paragraph	SFC Rule	Schedule 7 Section	Summary of requirement	Daiwa statement/comment
Paragraph 18.5	Adequacy of System	1.2.2	Systems/modifications tested before deployment and regularly reviewed to ensure reliability	<p>Enhancements/Testing. Daiwa follows industry-standard practices (based on waterfall and agile software development lifecycle management methodologies) in the design, development, testing and deployment of its systems.</p> <p>Test strategies, plans and cases are defined from requirements and user input. Testing includes functional, non-functional (eg. resiliency, capacity, security, stress testing, etc.), and negative test cases to ensure that the system functions reliably in production.</p> <p>Changes to production systems must follow the documented change control process. This requires demonstrating adequate testing and documentation and that the deployment process is clearly documented and tested before deployment. The change must be approved and authorized by all stakeholders within IT and user departments.</p> <p>Any change to the code, configuration, or related operating system, database, component etc. of the system must follow the change control process.</p> <p>Production changes must be performed outside trading hours and also be tested post-deployment (within the limits possible in a production environment and lack of trading facilities).</p> <p>In the event of a production emergency, the change control process can be expedited with the approval of a front-office manager or Head of IT. In such circumstances, a system incident must be logged and any production change must be retrospectively logged and approved (this will include testing of the change).</p> <p>Systems in production undergo a daily health check (including but not limited to network capacity, storage capacity, database operations, system operations, market data feeds, OS and application logs, etc.) prior to market open to ensure that all systems, related systems, connections, databases, etc. are operational.</p> <p>The Electronic Trading Solutions team maintain a development and release schedule. System reviews are done for each major release – looking at functionality, performance, capacity, etc. Daiwa aims for major releases every quarter although actual timing will be dependent on requirements within that release and any dependencies on external factors such as regulatory updates, market structure changes, etc.</p> <p>Additionally, the systems and network connections are tested and monitored regularly by the IT Infrastructure Team to enhance reliability and integrity of the electronic trading systems and underlying infrastructure.</p>

Paragraph	SFC Rule	Schedule 7 Section	Summary of requirement	Daiwa statement/comment
Paragraph 18.5	Adequacy of System	1.2.3	Promptly report to the Commission any material service interruption or other significant issues	There is a written incident management process which includes written criteria for assessing the severity and impact of an incident and procedures for escalation depending on the severity/criticality of the incident. Material service interruptions will be reported to the Commission.
Paragraph 18.5	Adequacy of System	1.2.4	Have adequate and appropriate security controls, including at least the items in (a) – (d) below	Daiwa electronic trading systems have adequate and appropriate security controls in the areas listed below as well as having processes in place to regularly review and enhance the security as required with changing industry standards.
Paragraph 18.5	Adequacy of System	1.2.4(a)	controls to authenticate or validate the identity and authority of the system users and ensure access is on a need-to-have basis	<p>Daiwa follows standard security controls for sign-on authentication and validation of access to its electronic trading systems. Access is only granted to users on a need-to-have basis after going through the appropriate approval process. The Head of the Desk and Head of the Division must approve all user access before it is applied.</p> <p>Emergency access to production trading systems by Equity IT support team must be approved by the Head of Trading and Head of IT. Privileged system access is restricted with a defined and documented approval process for obtaining privileged access. Production changes are only done by the production team after approval by the Change Advisory Board.</p> <p>IT privileged access activities are logged and are restricted as per security policy and such activities are reviewed by the Head of Equity Technology on a monthly basis.</p> <p>Review of user access rights are conducted annually managed by the Cyber Security team with re-certification of access rights by both IT and business system owners.</p> <p>Internal Audit initiate regular independent audits of security controls to ensure that controls are adequate and in compliance with regulations.</p>
Paragraph 18.5	Adequacy of System	1.2.4(b)	Effective techniques to protect the confidentiality and integrity of stored information and passed between networks	<p>Daiwa follows industry standard infrastructure and network security controls to maintain the confidentiality and integrity of the data and stored information passed between networks. These include the use of secure leased lines, secure data centers complying with TIA-942 standards and secure off-site data storage vendors.</p> <p>These controls are monitored and assessed regularly by the Daiwa HK IT Cyber Security Team and regularly audited by both Internal Audit and independent consultants.</p>

Paragraph	SFC Rule	Schedule 7 Section	Summary of requirement	Daiwa statement/comment
Paragraph 18.5	Adequacy of System	1.2.4(c)	Appropriate operating controls to prevent and detect unauthorised intrusion, security breach or attack	<p>Daiwa has appropriate industry standard controls and systems in place to detect and prevent unauthorized intrusions and cyber security breaches into our network. These include controls to prevent connection of equipment to desktops computers, firewalls, network intrusion monitoring, website access controls, email scanning, web download controls, antivirus, advanced persistent threat analysis technologies, etc.</p> <p>Daiwa has a process in place to lockdown and prevent the spread of intrusions, breaches, or cyber attacks - supported by a 24x7 Managed Security Service Provider.</p> <p>Regular network intrusion detection and monitoring checks are conducted by internal and independent consultants to ensure that these security controls are operating adequately.</p>
Paragraph 18.5	Adequacy of System	1.2.4(d)	Take appropriate steps to raise the awareness of system users on the importance of security	<p>Daiwa regularly provides security awareness training to all its employees and users of electronic trading systems on the importance of security and appropriate methods for maintaining security. Daiwa also sends periodic phishing email tests to all employees to maintain awareness.</p> <p>Additionally this involves regular testing and signing off users on their knowledge of security awareness.</p>

Paragraph	SFC Rule	Schedule 7 Section	Summary of requirement	Daiwa statement/comment
Paragraph 18.5	Adequacy of System	1.2.5(a)	Ensure that the capacity usage is regularly monitored and appropriate capacity planning developed	<p>Presently, Daiwa's electronic trading systems are operating well within designed capacity limits.</p> <p>Capacity testing is a core part of the system development lifecycle. Electronic trading systems are capacity tested (using historical maximum flow and market data) for different conditions (e.g. large orders, high order volumes, high market data volumes, etc.) whenever there is any major change to the system or any component that the system is dependent on (eg. hardware, OS, database). Daiwa aims for a quarterly major release schedule.</p> <p>Production capacity testing is dependent on the testing services provided by the exchanges and will be performed to the extent possible for the markets that are covered.</p> <p>Production capacity is monitored and reported into the ET Oversight Committee. If trends show a sustained growth, capacity will be increased, following Daiwa's internal project management procedures.</p> <p>Any capacity-related incident is treated as a critical system incident and is handled and mitigated through internal incident management policies.</p> <p>Where Daiwa makes use of 3rd party vendors and service providers, Daiwa is satisfied and in possession of satisfactory documentation and representation from the vendor that their systems are sufficiently capacity tested and appropriate procedures are in place to deal with capacity issues in line with regulatory requirements. Where such services are provided in locations outside Hong Kong, Daiwa has obtained representation that the service provider is fully compliant with local regulations in that location.</p>
Paragraph 18.5	Adequacy of System	1.2.5(b)	Ensure that the capacity is regularly stress tested	See above - 1.2.5(a).
Paragraph 18.5	Adequacy of System	1.2.5(c)	Ensure that the system has sufficient capacity to handle foreseeable increase in volumes and turnover	<p>Daiwa's software development lifecycle management, requirements analysis and testing procedures must account for current and expected future system capacity. Any major or material changes to the system will require capacity to be re-assessed and tested.</p> <p>Production systems are continuously monitored by the IT Department to ensure that they are performing adequately. In the event that there are issues, Daiwa will take appropriate action to review the capacity and update as necessary.</p>

Paragraph	SFC Rule	Schedule 7 Section	Summary of requirement	Daiwa statement/comment
Paragraph 18.5	Adequacy of System	1.2.5(d)	Ensure that you have contingency arrangements to: i) handle client order instructions exceeding the capacity; and ii) inform clients about the arrangements and ensure an alternative means of order execution	<p>IT Department monitors the health of the Electronic Trading systems. If load is approaching or becomes critical, the systems can be prevented from accepting new orders. Orders in progress can be allowed to continue processing. In case of a critical capacity issue, systems can be shut down and manual procedures used to complete and/or cancel orders already on the market.</p> <p>Any capacity issues are communicated to the electronic trading staff based in Hong Kong and Tokyo. Trading staff have sufficient access to communication systems to inform clients of the situation. The head of the electronic trading desk would oversee any decision on the actions to be taken and on the communication with clients.</p>
Paragraph 18.5	Adequacy of System	1.2.6	Have a written contingency plan to cope with emergencies and disruptions, which should include at least (a) – (c) below	<p>Electronic trading staff are based in both Tokyo and Hong Kong. Each location can cover for the other to ensure that communication with clients is maintained in the event of a BCP/DR situation.</p> <p>Daiwa maintains dedicated, geographically separated (within Hong Kong), primary and standby facilities and, in the event of BCP/DR being invoked, operations can be switched to the standby facility. This ensures that outstanding order and trade status can be established, record-keeping requirements are met and that clients can be kept informed at all times.</p> <p>Daiwa has an incident management process. Interruptions not manageable via this process and deemed to materially impact business operations are escalated to executive management where the decision to invoke recovery is made. Upon invocation, staff can relocate to the business recovery centre which, combined with remote working capability, allows operational services to be continued.</p> <p>Plans are reviewed and tested annually.</p>
Paragraph 18.5	Adequacy of System	1.2.6(a)	Have a suitable back up facility	<p>Electronic Trading systems are fault-tolerant applications and are built on resilient hardware and network infrastructure.</p> <p>A standby data centre is also available. For DMA orders, this is a 'hot' site with duplicate systems and real-time data replication between the primary and standby sites, allowing for rapid recovery from individual system or component failures. For algo orders, this is a 'cold' site where outstanding/incomplete orders require manual intervention for re-start or cancellation.</p> <p>In addition to the standby data center, there is also a recovery site available in the event of a BCP/DR situation (such as loss of primary data centre, loss of primary offices or loss of access to primary offices).</p>

Paragraph	SFC Rule	Schedule 7 Section	Summary of requirement	Daiwa statement/comment
				In the event that BCP/DR is invoked, the main aim is to ensure that existing orders are cancelled or processed, trades are settled, and that clients are fully informed. Upon invocation of BCP/DR, resumption of operations is projected to require up to one (1) business day (i.e. overnight).
Paragraph 18.5	Adequacy of System	1.2.6(b)	Have arrangements to ensure business records, client and transaction databases, servers and supporting documents are backed up	Depending on the volume of data associated with the type of document or record being stored, the storage may be online (for immediate access) or backed up to offline storage and stored securely offsite in a location with physical security controls, keycard entry, CCTV surveillance and access logs.
Paragraph 18.5	Adequacy of System	1.2.6(c)	Have a plan to deal with client and regulatory enquiries by trained staff	Daiwa trading, backoffice and support staff will have established lines of communication with clients. They will be the first point of contact for enquiries and will direct any enquiries to the most appropriate internal staff. Daiwa has an appointed officer to coordinate the BCP and DR planning and execution (in the event of an incident). Communication with regulators and enquiries regarding regulatory, legal and compliance issues will be directed to and handled by the Legal and Compliance department.
Paragraph 18.5	Adequacy of System	1.2.7	Contingency plan periodically tested for adequacy and viability	Business recovery exercises are conducted annually. The last exercise was conducted in September 2024.

Paragraph	SFC Rule	Schedule 7 Section	Summary of requirement	Daiwa statement/comment
Paragraph 18.5	Adequacy of System	1.2.8	In the event of a material system delay or failure, a firm which provides an electronic trading system to clients should, in a timely manner, a) ensure the delay or failure is rectified; and b) inform clients of causes and how client orders will be handled	<p>In the event of a critical systems failure or major market issue, IT Department have documented processes to manually override and immediately terminate order processing and stop orders from reaching the market. Standby connections, incl. exchange-provided terminals, exist to monitor and/or cancel any orders already on the market. It is the responsibility of the Account Manager/Trading staff to inform the client. Further communication may be passed on to other staff/departments if necessary.</p> <p>Where Daiwa uses 3rd party dealers for market connection, Daiwa can stop orders reaching these dealers and/or has arrangements in place with the dealers to request that orders in progress are pulled.</p> <p>Policies and Procedures dictate that all incidents are immediately informed to users directly affected by the incident, followed by a general notice to other stakeholder users, departments and geographic locations likely to be impacted. Incidents are also promptly logged and are then investigated and tracked through to a final, permanent resolution. Resolutions could include system changes, policy and procedure changes or further training. The incident management process involves immediate action to resolve the issue, investigation and root cause analysis, identification of a long-term resolution, agreement with stakeholders and the ET Oversight Committee on the actions and schedule for implementation.</p>

18.6 – Record keeping

Paragraph	SFC Rule	Schedule 7 Section	Summary of requirement	Daiwa statement/comment
Paragraph 18.6	Record keeping		Licensed or registered person should keep or cause to be kept proper records of the design, development, deployment and operation of electronic trading systems	<p>Daiwa maintains records of the design and development of its electronic trading systems. This is held within appropriate development and change management systems.</p> <p>Operational manuals for the electronic trading systems are produced at the time of the system development and are updated as required when material system changes or enhancements occur.</p> <p>All documentation is maintained for the minimum regulatory period of 2-years after the system has ceased to be used.</p> <p>Where Daiwa makes use of 3rd party vendors and service providers, Daiwa is satisfied and in possession of satisfactory representation from the vendor of compliance with regulations. Where such services are provided in locations outside Hong Kong, Daiwa has obtained representation that the service provider is fully compliant with local regulations in that location.</p>

Paragraph	SFC Rule	Schedule 7 Section	Summary of requirement	Daiwa statement/comment
Paragraph 18.6	Record keeping	1.3.1(a), 3.4.1 (algos)	<p>General - Licensed or registered person should keep or cause to be kept comprehensive documentation of the design and development, including any testing, reviews, modifications, upgrades or rectifications of its system</p> <p>Algos – Design and development, including modifications, of algos are documented in writing. The documentation should show the rationale for the design, development and modification, as well as their intended outcome. These records should be retained for a period of no less than 2 years after its system and algorithms cease to be used.</p>	<p>Daiwa follows standard software development lifecycle management methodologies. Projects must follow written processes and guidelines. Documentation must be produced for any system design, development, testing and modification. (For example, Business Requirements Documentation, Functional Design Specification, IT Technical Design Document, Testing Plans and Test cases, etc.).</p> <p>Changes must follow the change control process which ensure that existing user guides and system documentation are updated as required.</p> <p>Documentation is therefore maintained at all stages of a system lifecycle and this documentation will be maintained for at least the minimum period of 2 years after the system has ceased to be used (in compliance with regulations).</p> <p>The Risk Management Controls built into systems are documented as part of the above project management and change control methodology. The current controls in place are part of the written policies and procedures of the front-office and middle-office teams.</p> <p>Documentation is reviewed on an ad-hoc basis based on changes to the system and/or changing market conditions. Compliance also initiate an annual review of policies and procedures to ensure that they are relevant and up-to-date.</p>
Paragraph 18.6	Record keeping	1.3.1(b)	Keep or cause to be kept comprehensive documentation of the risk management controls of its system	Comprehensive documentation of the system and the risk controls is maintained at all stages of a system lifecycle and this documentation will be maintained for at least the minimum period of 2 years after the system has ceased to be used (in compliance with regulations).
Paragraph 18.6	Record keeping	1.3.1 (c), Schedule 7 annex	<p>Keep or cause to be kept audit logs on the activities of its system</p> <p>Further details in Annex</p>	Order history and trade history (including full order details with all order parameters, as required by schedule 7 rules) are logged and stored. Due to the volume of data this can generate, recent history is stored online. Older history is backed up and stored offsite. All such records will be maintained for at least 2 years in line with regulations.

Paragraph	SFC Rule	Schedule 7 Section	Summary of requirement	Daiwa statement/comment
Paragraph 18.6	Record keeping	1.3.1(d), Schedule 7 annex	Keep or cause to be kept incident reports for all material system delays or failures of its system Further details in Annex	Any IT issue that impacts or could potentially impact the normal, smooth operation of the business is considered as a system incident. IT Policies and Procedures dictate that all such incidents are promptly logged. Incidents are then investigated and tracked through to a final, permanent resolution. The records of the incident will be maintained for a minimum of 2 years in line with regulations.
Paragraph 18.6	Record keeping	1.3.2	Licensed or registered person keep or cause to be kept documentation referred to in paragraphs 1.3.1 (a) and (b) for a period of not less than 2 years after the electronic trading system ceased to be used; and the audit logs and incident reports in paragraphs 1.3.1(c) and (d) for not less than 2 years	Documentation, system audit logs and incident reports will be stored for a minimum of 2 years in line with regulations. Depending on the volume of data associated with the type of document or record being stored, the storage may be online (for immediate access) or backed up to offline storage and stored securely offsite.
Paragraph 18.6	Record keeping	3.4.2	Licensed or registered person ensure that records of all the parameters which its algorithmic trading system and trading algorithms take into account for each order is kept and is retained for a period of no less than 2 years	Requirements, analysis, design, testing and test result documentation will be maintained for a minimum period of 2 years after the system has ceased to be used in line with regulations. Order history and trade history (including full order details with all order parameters) are logged and stored. Due to the volume of data this can generate, recent history is stored online. Older history is backed up and stored offsite. All such records will be maintained for at least 2 years after the system has ceased to be used (in line with regulations).

Paragraph	SFC Rule	Schedule 7 Section	Summary of requirement	Daiwa statement/comment
Paragraph 18.6	Record keeping	3.4.3	Licensed or registered person should ensure that records of the reviews and tests conducted under paragraph 3.2.2 setting out the scope of findings of the tests are kept and are retained for a period of no less than 2 years.	Testing strategies, test plans/cases and results will be maintained for a minimum of 2 years in line with regulations.

18.7 – Risk management: internet trading and DMA

Paragraph	SFC Rule	Schedule 7 Section	Summary of requirement	Daiwa statement/comment
Paragraph 18.7	Risk Management – Internet Trading and DMA		When providing internet trading/DMA, firm must ensure all orders are transmitted to the firm's infrastructure and are subject to appropriate automated pre-trade risk management controls, and regular post-trade monitoring	All electronic orders handled by Daiwa pass through the firms' infrastructure and are subject to appropriate pre-trade risk controls and post-trade monitoring in line with appropriate and applicable regulations.
Paragraph 18.7	Risk Management – Internet Trading and DMA	2.1.1	Firm should put in place risk management and supervisory controls for the operation of its internet/DMA service that are directly controlled by the firm, including those in (a) and (b) below	<p>Daiwa has:</p> <ul style="list-style-type: none"> - pre-trade risk controls on DMA and algo orders to stop erroneous orders or orders breaching financial controls. - post trade surveillance to identify market abuse. - fat-finger controls to stop erroneous orders. <p>Daiwa is compliant with local regulations in each of the markets that Daiwa provides access to. The exact controls applied will be dependent on the local market regulations and controls.</p> <p>Market controls have been determined through market analysis and with regard to the regulator's expectations of appropriate controls.</p> <p>Daiwa has a KYC policy and credit limits are set after a financial review of the client has been performed.</p> <p>Daiwa review the limits periodically and will make necessary changes if there is any change in circumstances (e.g. material change in economic environment, financial crisis etc.).</p>

Paragraph	SFC Rule	Schedule 7 Section	Summary of requirement	Daiwa statement/comment
Paragraph 18.7	Risk Management – Internet Trading and DMA	2.1.1(a)(i)	An automated pre-trade control reasonably designed to prevent entry of orders that would exceed trading/credit thresholds	<p>Pre-trade controls.</p> <p>Credit checks. Electronic orders are subject to automated credit checks. Thresholds are set to alert traders if limits are being approached and orders are rejected if limits are breached. There is a documented approval, authorization and change control process controlled by the Risk department for any temporary or permanent changes to these credit limits.</p> <p>Market impact checks. Electronic orders are checked to ensure that received orders are within preset limits from the current market price and that the execution of such orders will not move the market price outside of set limits. Orders that breach these limits are rejected or directed to an error queue for manual handling.</p> <p>Per order checks. Fat finger checks are in place to limit the max value and/or size of any single order.</p> <p>These controls are in place for all markets but will differ significantly in their implementation on each market. However, Daiwa will ensure that controls are appropriate for each market and in full compliance with local regulations for each market.</p>
Paragraph 18.7	Risk Management – Internet Trading and DMA	2.1.1(a)(ii)	An automated pre-trade control reasonably designed to limit the financial exposure of the firm (providing the internet/DMA service)	See above - 2.1.1(a)(i).
Paragraph 18.7	Risk Management – Internet Trading and DMA	2.1.1(a)(iii)	An automated pre-trade control reasonably designed to alert the user to and prevent the entry of potential erroneous orders	See above - 2.1.1(a)(i).
Paragraph 18.7	Risk Management – Internet Trading and DMA	2.1.1(a)(iv)	An automated pre-trade control reasonably designed to prevent the entry of orders not in compliance with regulatory requirements	See above - 2.1.1(a)(i).

Paragraph	SFC Rule	Schedule 7 Section	Summary of requirement	Daiwa statement/comment
Paragraph 18.7	Risk Management – Internet Trading and DMA	2.1.1(b)	Post trade monitoring in place to reasonably identify any order instructions/transactions that may have been manipulative or abusive in nature	Systems are implemented to monitor several key market abuse/risk indicators (as defined by the Compliance department) and reports are generated daily. Daiwa HK has regular post trade monitoring that is performed by the Compliance Department. The compliance team works with front office to identify/ resolve any alerts that are raised.
Paragraph 18.7	Risk Management – Internet Trading and DMA	2.1.2	Licensed or registered person, upon identification of any suspected manipulative or abusive trading activities, take immediate steps to prevent such activities	Upon identification of any suspected manipulative or abusive trading activities, it will be escalated to Senior Management. Daiwa shall make appropriate reporting to local regulator (whenever necessary). Daiwa confirms that suspicious activities will be investigated immediately and, if necessary, these activities will be stopped.

18.8 – Minimum client requirements: DMA

Paragraph	SFC Rule	Schedule 7 Section	Summary of requirement	Daiwa statement/comment
Paragraph 18.8	Minimum client requirements - DMA		Firms should establish minimum client requirements for DMA services and assess whether client meets them before granting access	Daiwa notifies its Electronic Trading clients of the SFC regulations and the corresponding obligations of the client under those regulations. As part of this notification, Daiwa includes information on Daiwa's DMA and Algo services, and also includes an Algo services training pack for those clients that use Daiwa's algo offerings. Daiwa also offers training to clients on the use of the algo platform. For new clients, Daiwa will discuss client's understanding of algo strategies and previous experience before enabling trading and will assist with and closely monitor the first few algo orders.
Paragraph 18.8	Minimum client requirements - DMA	2.2	Further details on client requirements	No further details.

18.9 – Qualification: algorithmic trading

Paragraph	SFC Rule	Schedule 7 Section	Summary of requirement	Daiwa statement/comment
Paragraph 18.9	Qualification – algo trading		Firm should establish and implement effective policies and procedures to ensure that persons (a) involved in design/development of algos, and (b) approved to use algos, are suitably qualified	<p>All front-office staff - sales, sales/traders, dealers who advise on, or have access to use, algos for trading purposes receive training and have access to documentation on the algo strategies available and the regulatory issues involved. Most trading staff have 5+ and many 10+ years of experience.</p> <p>IT support and systems development and testing staff will also receive similar training on the regulatory issues. For new IT hires, there is a rigorous interview and testing process.</p> <p>Where Daiwa makes use of 3rd party vendors and service providers, Daiwa is satisfied and in possession of satisfactory documentation and representation of compliance with regulations and that the staff assigned to support Daiwa are adequately knowledgeable and qualified. Where such services are provided in locations outside Hong Kong, Daiwa has obtained representation that the service provider is fully compliant with local regulations in that location.</p>
Paragraph 18.9	Qualification – algo trading	3.1.1	Licensed or registered person ensure that the design and development of its algorithmic trading system and trading algorithms are supported by persons adequately qualified and trained to understand the compliance and regulatory issues which may arise	<p>All Daiwa front-office staff - sales, sales/traders, dealers who advise on, or have access to use, algos for trading purposes receive training and have access to documentation on the algo strategies available.</p> <p>Training is classroom based on the use of Daiwa's algorithms and covering:</p> <ul style="list-style-type: none"> - algorithm usage - regulatory and compliance issues on algorithmic usage - algorithm trading characteristics and execution behavior - market impact and risks to market integrity - regulatory constraints <p>Additionally, ET desk staff are readily available to provide further assistance and direction as required.</p> <p>Front-office IT support staff and algo development staff will receive the same training as above.</p> <p>Further support and advice is available, as required, to Daiwa front-office staff from the appropriate design and development team.</p>

Paragraph	SFC Rule	Schedule 7 Section	Summary of requirement	Daiwa statement/comment
Paragraph 18.9	Qualification – algo trading	3.1.2	Licensed or registered person ensure that the person approved to use its algorithmic trading system has a good understanding of a) the operation and b) the compliance and regulatory issues which may arise from the use of the algorithmic trading system and trading algorithms	<p>See above - 3.1.1.</p> <p>Classroom based training will be provided, on request, to clients on the use of Daiwa's algorithms and covering:</p> <ul style="list-style-type: none"> - algorithm usage - algorithm trading characteristics and execution behavior - market impact and risks to market integrity - regulatory constraints <p>As mentioned previously, Daiwa also offers training to clients on the use of the algo platform. For new clients, Daiwa will discuss client's understanding of algo strategies and previous experience before enabling trading and will assist with and closely monitor the first few algo orders.</p> <p>Further support and advice is always available through your usual Daiwa contact.</p>
Paragraph 18.9	Qualification – algo trading	3.1.3	Where necessary, the licensed or registered person should provide training on: the use and operation of the algorithmic trading system; each of the trading algorithms contained in the algorithmic trading system including: its trading characteristics and execution behavior; the potential market impact and risks to market integrity; and whether it is appropriate to use a particular trading algorithm under certain market conditions in the execution of certain orders in light of the regulatory requirements	<p>See above - 3.1.1, 3.1.2.</p> <p>Classroom based training can be provided, on request, to clients on the use of Daiwa's algorithms and covering:</p> <ul style="list-style-type: none"> - algorithm usage - algorithm trading characteristics and execution behavior - market impact and risks to market integrity - regulatory constraints <p>Training documentation will be provided to all clients that request training.</p> <p>Material changes to the platform are rolled out in phases, starting with internal users before rollout to clients. Training and guidance is offered and/or provided to internal and client users prior to the rollout of the changes into production.</p> <p>Further support and advice is available through your usual Daiwa contact.</p>

Paragraph	SFC Rule	Schedule 7 Section	Summary of requirement	Daiwa statement/comment
Paragraph 18.9	Qualification – algo trading	3.1.4	Licensed or registered person should ensure that the person approved to use its algorithmic trading system is timely informed and, where necessary, is provided with the training in respect of any changes to the design and development of its algorithmic trading system and trading algorithms	<p>Daiwa will maintain the original training documents and information on the algo services provided by Daiwa. This documentation will be updated where there are any new services offered or where there is any material change that affects the behavior or characteristics of the algos or the risk checks associated with the algos.</p> <p>Daiwa will distribute this internally to all staff involved with the use and support of algo services.</p> <p>Daiwa will also inform clients of material changes to the services offered. Where 3rd party services are used, Daiwa will procure its 3rd party vendors to inform Daiwa of any changes by giving advance notice if possible.</p> <p>Where requested, Daiwa will provide training to clients on the new or changed services.</p> <p>Material changes to the platform are rolled out in phases, starting with internal users before rollout to clients. Training and guidance is offered and/or provided to internal and client users prior to the rollout of the changes into production.</p> <p>Daiwa does reserve the right to make, without notification, minor amendments or bug-fixes that do not fundamentally affect the behavior of the algo services.</p>
Paragraph 18.9	Qualification – algo trading	3.1.5	Licensed or registered person should ensure that the person approved to use its algorithmic trading system is provided with up-to-date documentation for operating its algorithmic trading system (including on the risk, supervisory and compliance controls)	<p>Documentation is maintained and updated regularly. Daiwa maintains documentation for internal training and support purposes and documentation for distribution to clients.</p> <p>As stated in 3.1.4, any material changes (i.e. any change that is determined by the management team, including trading and IT, to have a potential impact to users) will be communicated to Daiwa staff, and Daiwa Algo users and clients.</p> <p>As mentioned previously, changes are rolled out in phases and both internal and client users will be informed in advance of any material change including the distribution of updated documentation.</p> <p>Documentation will be reviewed when material changes are made. Otherwise documents are reviewed in line with internal audit and policy requirements.</p>

18.10 – Testing: algorithmic trading

Paragraph	SFC Rule	Schedule 7 Section	Summary of requirement	Daiwa statement/comment
Paragraph 18.10	Testing – algo trading		Licensed or registered person should ensure that the algo trading system and algos are adequately tested to ensure they operate as designed	<p>Daiwa follows internal software development lifecycle management policies and procedures that are based on industry standard methodologies (agile and waterfall). Projects where systems are implemented and/or developed by Daiwa must follow these project management procedures. Where Daiwa buys systems from vendors and implements/integrates with Daiwa systems must also follow the same project management procedures. Part of the project management process is the functional and non-functional testing as determined by the requirements before the system can be implemented for production use.</p> <p>All deployments and changes to production systems must follow the internal change management procedures that require demonstration of adequate test results (including automated functional testing, manual testing, regression testing and user testing where this is applicable) and sign off from the end users and stakeholders.</p> <p>Where Daiwa uses 3rd party services Daiwa will perform appropriate due diligence to ensure that the services provided have been tested to the extent required by the regulations. Where appropriate, Daiwa has documentation (incl. test scenarios and plans) and representation from the service providers that the service provision is in compliance with these regulations and that the service has been tested in line with the regulatory requirements. Where such services are provided in locations outside Hong Kong, Daiwa has obtained representation that the service provider is fully compliant with local regulations in that location.</p>
Paragraph 18.10	Testing – algo trading	3.2.1	Licensed or registered person should adequately test the algo system and algos (including modifications) so as to be satisfied as to the matters in (a) – (c) below as designed	See above.
Paragraph 18.10	Testing – algo trading	3.2.1(a)	That they will operate as designed	Daiwa's software development lifecycle management procedures ensure that systems deployed to production must be tested with testing scenarios covering functional requirements, non-functional (eg. resiliency, security, etc.) requirements and negative test cases.

Paragraph	SFC Rule	Schedule 7 Section	Summary of requirement	Daiwa statement/comment
Paragraph 18.10	Testing – algo trading	3.2.1(b)	That their design and development have taken into account i) foreseeable extreme market circumstances and ii) the characteristics of different trading sessions such as auctions and continuous trading	Specifically, with regard to algo services, Daiwa endeavors to test all market circumstances including extreme conditions and different market sessions using market simulators where available as well as working directly with the exchange's testing environment, subject to the availability of testing services that are provided by the individual market or exchange. Stress testing and testing of extreme conditions is conducted for each major release - usually twice a year.
Paragraph 18.10	Testing – algo trading	3.2.1(c)	That their deployment would not interfere with the operation of a fair and orderly market	Internal software development lifecycle and change management policies dictate that the deployment process must be tested and practiced before a system or change is deployed to production. After deployment, the change is tested in production to the extent possible within a production environment. Additionally, Daiwa has implemented pre-trade risk controls (see sections above and below) to stop or pause orders that are erroneous or breaching set limits. Also implemented is a post-trade surveillance system to identify potential market abuse and manipulation activities.
Paragraph 18.10	Testing – algo trading	3.2.2	Licensed or registered person should test regularly for the system's ability to handle sizable trading volume and for the algo's ability to execute orders without interfering with the operation of a fair and orderly market	Daiwa's software development lifecycle management, requirements analysis and testing procedures must account for current and expected future system capacity. Any major or material changes to the system will require capacity to be re-assessed and tested - this is usually done twice a year. Production systems are continuously monitored by the IT support and operations team to ensure that they are performing within set limits. In the event that limits are breached, Daiwa will take appropriate action to review the capacity and update as necessary. Where Daiwa uses 3rd party services Daiwa will perform appropriate due diligence to ensure that the services provided have been tested to the extent required by the regulations. Where appropriate, Daiwa has documentation (incl. test scenarios and plans) and representation from the service providers that the service provision is in compliance with these regulations and that the service has been tested in line with the regulatory requirements. Where such services are provided in locations outside Hong Kong, Daiwa has obtained representation that the service provider is fully compliant with local regulations in that location.

18.11 – Risk management: algorithmic trading

Paragraph	SFC Rule	Schedule 7 Section	Summary of requirement	Daiwa statement/comment
Paragraph 18.11	Risk Management – Algorithmic trading		Licensed or registered person should have controls that are reasonably designed to ensure (a) integrity of its algo trading system and algos, and (b) its system and algos operate in the interest of the integrity of the market	<p>As previously mentioned in S2.1.1, Daiwa has:</p> <ul style="list-style-type: none"> - pre-trade risk controls on DMA and algo orders to stop erroneous orders or orders breaching financial controls. - fat-finger controls to stop erroneous orders. - post trade surveillance to identify market abuse. <p>For post-trade surveillance, Daiwa uses an industry standard, widely used and respected vendor platform for identifying suspicious trading activities.</p> <p>Daiwa is compliant with local regulations in each of the markets that Daiwa provides access to. The exact controls applied will be dependent on the local market regulations and controls.</p>
Paragraph 18.11	Risk Management – Algorithmic trading	3.3.1(a)(i)	Licensed or registered person should have controls that are reasonably designed to monitor and prevent orders that may be erroneous	<p>Pre-trade controls.</p> <p>Credit checks. Electronic orders are subject to automated credit checks. Thresholds are set to alert traders if limits are being approached and orders are rejected if limits are breached. There is a documented approval, authorization and change control process controlled by the Risk department for any temporary or permanent changes to these credit limits.</p> <p>Market impact checks. Electronic orders are checked to ensure that received orders are within preset limits from the current market price and that the execution of such orders will not move the market price outside of set limits. Orders that breach these limits are rejected or directed to an error queue for manual handling.</p> <p>Per order checks. Fat finger checks are in place to limit the max value and/or size of any single order.</p> <p>These controls are in place for all markets but will differ significantly in their implementation on each market. However, Daiwa will ensure that controls are appropriate for each market and in full compliance with local regulations for each market.</p>

Paragraph	SFC Rule	Schedule 7 Section	Summary of requirement	Daiwa statement/comment
Paragraph 18.11	Risk Management – Algorithmic trading	3.3.1(a)(ii)	Licensed or registered person should have controls that are reasonably designed to monitor and prevent orders interfering with the operation of a fair and orderly market	<p>'Disruption of a fair and orderly market' is when large or erroneous orders move the price of a stock excessively or when order placement or trading patterns are undertaken to deliberately shift prices in a direction beneficial to a specific party.</p> <p>Daiwa's pre-trade controls are reasonably designed to monitor and prevent the generation and/or passing of orders that may cause disruption of a fair and orderly market. For more detail, please see above 3.3.1(a)(i).</p> <p>Additionally, Daiwa has trade surveillance operations in place to monitor the trading activities of clients using algo and DMA services through Daiwa Hong Kong systems. Any order or trading pattern that indicates potential manipulation or abusive trading activities will be investigated and, if necessary, referred to the appropriate regulatory body.</p>
Paragraph 18.11	Risk Management – Algorithmic trading	3.3.1(b)	Licensed or registered person should have controls that are reasonably designed to protect itself and its clients from being exposed to excessive financial risk	<p>The algo trading system has pre-trade controls in place that are reasonably designed to protect itself and its clients from being exposed to excessive financial risk.</p> <p>Daiwa assesses risk client based on the client category, type/markets being traded and client requirements - credit limits are then set accordingly at a level suitable to the client and within Daiwa's risk appetite.</p>
Paragraph 18.11	Risk Management – Algorithmic trading	3.3.2(a)	Licensed or registered person should regularly conduct post-trade reviews to identify suspicious market manipulative or abusive activities;	<p>Compliance Post Trade Surveillance. Daiwa HK has regular post trade monitoring that is performed by the Compliance Department. The compliance team works with front office to identify/resolve any alerts that are raised.</p> <p>Several key market abuse/risk indicators are reviewed and monitored regularly by Compliance. Suspicious trading activities or potential market misconduct identified will be raised and discussed with account manager or trading staff and, if necessary, escalated to management, head office and reported to the appropriate authorities.</p>
Paragraph 18.11	Risk Management – Algorithmic trading	3.3.2(b)	Licensed or registered person should regularly conduct post-trade reviews to identify market events or system deficiencies such as unintended impact on the market which call for further risk control measures	<p>Systems are implemented to monitor several key market abuse/risk indicators and reports are generated daily.</p> <p>Daiwa HK has regular post trade monitoring that is performed by the Compliance Department. The compliance team works with front office to identify/ resolve any alerts that are raised.</p> <p>Several key market abuse/risk indicators are reviewed and monitored regularly by Compliance. Suspicious trading activities or potential market misconduct identified will be raised and discussed with account manager or trading staff and, if necessary, escalated to management, head office and reported to the appropriate authorities. Depending on the nature of the issue,</p>

Paragraph	SFC Rule	Schedule 7 Section	Summary of requirement	Daiwa statement/comment
				Daiwa will take appropriate action (e.g. increased surveillance/monitoring or disconnection of the client) as recommended by internal Compliance and/or relevant Regulatory Authority.
Paragraph 18.11	Risk Management – Algorithmic trading	3.3.3	Licensed or registered person should, upon identification of any suspected market manipulative or abusive trading activities, take immediate steps to prevent these activities from continuing	Daiwa has internal policies and procedures covering trading activities. Additionally, Daiwa monitors trading and has automated checks in place to highlight any potentially abusive trading activity. All staff is responsible for diligence relevant to their role. Any suspicious activity must be reported to Compliance and line management. Upon investigation by Compliance, the issue may be escalated further to senior firm management and the board as well as the relevant regulatory authority.