

StoneX[®]

SFL Direct Electronic Access (DEA) Manual



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Applies to: StoneX Financial Ltd. (SFL) and associated clients

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1. 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 Manual sets out the responsibilities and obligations of clients that receive DEA from StoneX Financial Ltd (“SFL”)

In this 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 Manual should be read in conjunction with the current terms of business in place between SFL and its client.

2. Responsibilities of a DEA client of SFL

A DEA client of SFL 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 SFL currently offers DEA to can be found in Annex One and a list of key EU and UK laws and regulations in Annex Two;
- (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; and
- (c) observes robust security processes to protect SFL 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 SFL must:

- (a) monitor any orders submitted, pre and post trade and transactions made, on its behalf by anyone who acts for it;
- (b) if the DEA client uses, or intends to use, SFL's trading code to offer sub-delegated direct market access to its own clients:
 - a. inform SFL before offering such sub-delegation.
 - b. send a written document to its sub-delegation clients that explains their responsibilities when trading on SFL's trading code;
 - c. systematically monitor the activities of its own clients to ensure that they are compliant with the requirements of this Manual; and
- (c) inform SFL's Compliance Department as soon as practicable 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 SFL.

SFL's provision of DEA to a client is conditional upon the client fulfilling these responsibilities and under the terms of business, SFL reserves the right to decline to provide, suspend or withdraw DEA access should there be any breach of the above.

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

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

- (a) SFL'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.

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

Under the StoneX Financial Ltd Terms of Business, SFL reserves the right to decline to provide,

suspend or withdraw, DEA access from a client if:

- (a) it declines to provide the above mentioned information; or
- (b) the answers given in the FIA DEA Due Diligence Questionnaire (this document is sent out to all prospective DEA clients prior to SFL providing DEA access) 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 SFL then it does not need to notify SFL. 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.

4. 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. SFL 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) it 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

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://www.fia.org/articles/fia-compliance-committee-produces-block-trade-fundamentals-document>

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

ICE Futures Europe

Block

trades: https://www.theice.com/publicdocs/futures/ICE_Futures_Block_Trade_Policy.pdf

Position transfers: 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

5. 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. SFL 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 Three.

6. Potential consequences of breaching applicable laws and regulations

The consequences of breaching applicable laws and regulations can be severe and may include one or more of:

- prosecution for criminal or civil offences;
- disciplinary action taken by trading venues that can lead to large fines or lengthy trading bans;
- SFL withdrawing DEA functionality from a client; and/or
- SFL suspending or closing a client’s account, or otherwise putting certain restrictions on an account.

7. Contact details

A DEA client should contact SFL’s Central Surveillance Team if it has any questions about the contents of this Manual or wishes to make a notification to SFL as described in this Manual:

Email: sflcentralsurveillance@stonex.com

8. Annex One

Links to venue rulebooks

Venue	Link
Australian Securities Exchange	https://www2.asx.com.au/about/regulation/rules-guidance-notes-and-waivers
Bursa Malaysia	http://www.bursamalaysia.com/market/regulation/
Chicago Mercantile Exchange	https://www.cmegroup.com/rulebook/CME/
Eurex Exchange	https://www.eurex.com/exchange-en/resources/rules-regulations
Euronext	https://www.eurex.com/ex-en/rules-regs/eurex-rules-regulations
European Energy Exchange	https://www.eex.com/en/markets/trading-ressources/rules-and-regulations
Hong Kong Futures Exchange	https://www.hkex.com.hk/Services/Rules-and-Forms-and-Fees/Rules/Overview?sc_lang=en
ICE Futures Europe	https://www.theice.com/futures-europe/regulation
ICE Futures US	https://www.theice.com/futures-us/regulation
Johannesburg Stock Exchange	https://www.jse.co.za/services/market-regulation
London Metal Exchange	https://www.lme.com/en/about/Regulation
Norexco ASA	http://www.norexco.com/rules/
Singapore Exchange Limited	http://rulebook.sgx.com/
Tokyo Commodity Exchange	https://www.jpx.co.jp/english/rules-participants/rules/regulations/index.html

Please note that this is not a comprehensive list, if you trade or intend to trade on any other trading venue that is not listed above; you must comply with the necessary trading venue rules.

9. Annex Two

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

Law / regulation	Link
Criminal Justice Act 1993 Part V: Insider Dealing	https://www.legislation.gov.uk/ukpga/1993/36/part/V
ESMA market abuse materials	https://www.esma.europa.eu/regulation/trading/market-abuse
European Securities and Markets Authority short selling materials	https://www.esma.europa.eu/regulation/trading/short-selling
FCA market abuse materials	https://www.fca.org.uk/markets/market-abuse
FCA Market Conduct Handbook ("MAR")	https://www.handbook.fca.org.uk/handbook/MAR/1/1.html

Fourth Money Laundering Directive (EU) No. 849/2015)	https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32015L0849
Market Abuse Regulation (EU) No.596/2014	https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32014R0596
Markets in Financial Instrument Directive (EU) No. 65/2014	https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32014L0065
Markets in Financial Instruments Regulation (EU) No. 600/2014	https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014R0600
OFGEM REMIT materials	https://www.ofgem.gov.uk/electricity/wholesale-market/european-market/remit
Regulation on Wholesale Energy Market Integrity and Transparency (EU) No.1227/2011 (“REMIT”)	https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32011R1227
Short Selling Regulation (EU) No. 236/2012	https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32012R0236

10. Annex Three

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 Manual

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

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