

Guidelines for Trajectory Cross for the Hong Kong Market

Morgan Stanley Hong Kong Securities Limited (“**MSHK**”) is licensed by the Securities and Futures Commission (“**SFC**”), to conduct, *inter alia*, the regulated activity of providing automated trading services in Hong Kong (“**Type 7 Regulated Activity**”).

These alternative liquidity pool (“**ALP**”) guidelines (“**Guidelines**”) provide guidance on the operation of Trajectory Cross. MSHK is obligated under Paragraph 19 of the Code of Conduct for Persons Licensed by or Registered with the SFC (“**ALP Guidelines**”) to provide a copy of these Guidelines to users of Trajectory Cross and to persons placing or originating an order to Trajectory Cross for the first time.

Trajectory Cross is a dark pool operated by MSHK to cross algorithmic client/agency and principal orders¹, with the aim to improve execution performance by crossing opposite algorithmic orders with overlapping schedules at optimal durations. Orders of different users within Trajectory Cross will not be aggregated.

Trajectory Cross trading infrastructure is located in Morgan Stanley’s data centers in Hong Kong.

Eligible Users

Clients, traders and sales traders of Morgan Stanley and its affiliates can participate in Trajectory Cross.

In accordance with the ALP Guidelines, Trajectory Cross shall only be made available to users who are “qualified investors”, including those who are ultimately responsible for originating the instruction in relation to orders placed or executed within Trajectory Cross. “Qualified investors” include users who are classified as either:

- (a) a person within the meaning of paragraphs (a) to (i) of the definition of “professional investor” contained in section 1 of Part 1 of Schedule 1 of the Securities and Futures Ordinance; or
- (b) a person within the meaning of sections 4, 6 (other than a person referred to in section 6(b)(ii)) or 7 of the Securities and Futures (Professional Investor) Rules.

In relation to clients who do not have a direct relationship with Hong Kong licensed entities of Morgan Stanley, MSHK will treat such clients as eligible users if they satisfy corresponding investor categorization requirements in the United Kingdom (in the case of clients with a direct relationship with Morgan Stanley & Co. International plc) or the United States (in the case of clients with a direct relationship with Morgan Stanley & Co. LLC), or Germany (in case of clients with a direct relationship with Morgan Stanley Europe SE).

¹ The use of “principal order” in these Guidelines corresponds to “proprietary order” as defined under the ALP Guidelines, of which an order is for:

- (1) The account of the licensee [i.e. MSHK] trading as principal;
- (2) The account of any user of Trajectory Cross, which is a company within the same group of companies as the licensee, trading as principal;
- (3) Any account in which the licensee, or any user of Trajectory Cross which is a company within the same group of companies as the licensee, has an interest; or
- (4) The account of any employee or agent of the licensee or of any user of Trajectory Cross which is a company within the same group of companies as the licensee;

For the avoidance of doubt, client facilitation orders are to be considered proprietary orders.

Operating Hours and Eligible Orders

MSHK will only conduct transactions on Trajectory Cross during the Morning Session and Afternoon Session of the Continuous Trading Session of The Stock Exchange of Hong Kong Limited (the “SEHK”) over securities which are listed on the SEHK. Crossing will not be carried out on Trajectory Cross during other trading sessions of the SEHK. MSHK may be restricted from crossing certain securities and may suspend crossing in Trajectory Cross during the abovementioned operating hours under anomalous conditions, including periods of expected or actual market volatility. Short sell orders are not supported in Trajectory Cross.

Trajectory Cross accepts day orders from certain Morgan Stanley algorithms, at market or with limit prices.

Trajectory Cross does not send outbound Indications of Interest (“IOI”) to solicit order flow. MSHK does not employ a maker-taker pricing model nor does it provide rebates to solicit order flow with respect to Trajectory Cross.

Execution Methodology and Transaction Pricing

Orders will be executed on Trajectory Cross at optimal durations taking into consideration the overlapping schedule of algorithmic orders and it will price executions at the interval VWAP (volume weighted average price) of the cross duration.

Trajectory Cross accepts both odd lot and mixed lot orders, but only the round lot portion of mixed lot orders are eligible to be matched in Trajectory Cross. Odd lots will continue to be traded outside of Trajectory Cross.

Participants, User Priority and Client Order Handling

Participants

For clients whose orders are transacted within Trajectory Cross, their orders may interact with other agency and principal orders subject to elections made by clients as detailed below.

User Priority

Trajectory Cross will prioritize agency orders over principal orders in each crossing round and will determine matches based on the following sequence: size of a crossing round, size of orders within a crossing round and time, as illustrated below.

To ensure that agency orders retain priority over all principal orders, Trajectory Cross’s matching algorithm requires that all open and eligible agency orders are matched before principal orders are matched. In other words, a principal order may be matched, in whole or in part, only if insufficient eligible agency order size is available for matching the contra-side interest.

Trajectory Cross aims to maximize the aggregate matched quantity of each crossing round. Within each crossing round, in determining matches based on size of the orders; Trajectory Cross will maximize possible matching quantity for each match. If there are multiple possible matched outcomes within a crossing round, priority will be given to equal-sized pairs where the matched quantity is the same on both sides of an order. For possible matches with same matching priority after considering the above rules, the matches will be crossed in the order in which they enter the crossing round.

Client Order Handling

Given the forward-looking nature of the crossing rounds, certain assumptions are made regarding the forward-looking volume and price when determining eligible order quantity for each crossing round.

As a result, orders (or portions thereof) that may otherwise be eligible to cross in Trajectory Cross may not get executed in a crossing round. For example, where a limit order is priced close to the then-current market price for that security, Trajectory Cross may not consider all or a portion of that order as eligible for a crossing round. This applies irrespective of whether the order is an agency order or a principal order. An order, if arriving at a time after a crossing round has been initiated, will not be eligible to participate in the ongoing round. The order will be eligible for consideration at the next available crossing round.

Users have the ability to opt-out from Trajectory Cross entirely, or have the following order handling options for all orders participating in Trajectory Cross or on a per order basis:

- Do not cross (i.e. do not cross in Trajectory Cross)
- Do not cross with principal orders*
- Minimum cross size (note: the minimum fill quantity constraint applies to every execution in Trajectory Cross, except when the remainder of the order is less than the minimum fill quantity, in which case Trajectory Cross will execute that quantity.)

*this option is not available on a per order basis

MSHK does not provide preferential access to Trajectory Cross or to categories of flow in Trajectory Cross for a fee. MSHK does not charge different rates for access to different types of order flow.

Order Routing and Order Cancellation

Trajectory Cross cannot be accessed directly and can only be accessed indirectly via certain Morgan Stanley algorithms.

Any order cancellation requests will be processed in the sequence of time received. For Trajectory Cross, a cancellation request received in the middle of a crossing round will result in a pro-rated cross with the residual cancelled back to one counterparty and the balance of the order routed onto the original algorithm for the other counterparty.

Controls

MSHK has controls and procedures in place to ensure the fair and orderly functioning of Trajectory Cross, including appropriate development, testing and monitoring of Trajectory Cross.

Controls for Trajectory Cross include price deviation checks to ensure the execution pricing is within reasonable bounds compared to mid price and boundary checks.

Trajectory Cross is monitored in real-time by dedicated support teams within Institutional Securities Technology, Quality Assurance & Production Management, and Morgan Stanley Electronic Trading

(“MSET”). Access to the live order book of Trajectory Cross is restricted, except for members of these dedicated support teams, who will be immediately alerted in case of any issues with the technology infrastructure. These members support the operations of Trajectory Cross, and are the primary contacts for any possible outages on Trajectory Cross’ performance. They have administrative control to suspend crossing as and when required, and will engage other infrastructure teams where necessary.

Other divisions such as Operations, Risk Management and Legal & Compliance which serve a guardianship function may have access to relevant order flow information, but only on a need-to-know basis for carrying out their responsibilities.

Please refer to the below table for a summary of staff access to trading information related to Trajectory Cross:

Business / Infrastructure Unit	Department	Title	Reason for Access
Technology	Institutional Securities Technology	System Support	Application support
Technology	Quality Assurance & Production Management	User Support	Application support
Institutional Equity Division	Execution Services and Trading	Sales Traders / Traders / MSET Coverage	Account coverage / Client servicing / Order execution
Institutional Equity Division	MSET	Product Management / Strats	Product Management / Application Support
Institutional Equity Division	Business Unit Risk Management	Risk Managers	Risk assessment and management / Trade surveillance
Legal & Compliance Division	Legal & Compliance	Legal Coverage / Compliance Officers	Legal advice and compliance with regulations / Trade surveillance
Operations	Product Operations	Trade / Settlement Support	Booking and settlement

MSHK has also established controls to safeguard from potential conflicts of interest within the entity. Information barriers are in place to segregate information flow within the entity and to ensure client order and trading information will not be used inappropriately. Designated employees are required to comply with guidelines designed to mitigate conflicts that may arise as a result of their various responsibilities. There are also established escalation procedures in place to resolve conflicts and to ensure employees act in the best interests of clients.

Outage

In the event of an outage or unforeseen circumstance with respect to the operation of Trajectory Cross, the impact to Trajectory Cross orders is minimal as they will be routed to the SEHK or continued to be worked in the algorithmic trading engine per users’ instructions. If required, Trajectory Cross’ destinations will be made unavailable and the crossing engines will be disabled. Any open or unexecuted orders will be cancelled subsequent to review along with proper notification.

Reporting

All crosses within Trajectory Cross that are required to be reported to the SEHK are reported as direct business transactions with the appropriate labeling to identify them as ALP transactions. These transactions are identified by the “ALP” tag and are reported by MSHK to the SEHK.

On a monthly basis, MSHK is required by the ALP Guidelines to provide the SFC with a report on the ten largest users by volume within Trajectory Cross for the relevant month.

Potential Risks

ALPs offer investors many of the efficiencies associated with trading on the exchange market. However, there may be occasions where there is a time delay before the market data from the public market is reflected in the ALP crossing. This could be a result of, amongst others, checking the availability of potentially matching orders, or other technological interruption. In such event, there is a risk that the price matched in Trajectory Cross may not match the interval VWAP of the matching round.

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Additional information on the service discussed herein is available on request.

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