ALP Guidelines for MS POOL 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 ("**ALP Guidelines**") provide guidance on the operation of MS POOL. MSHK is obligated under Paragraph 19 of the Code of Conduct for Persons Licensed by or Registered with the SFC ("**ALP Regulations**") to provide a copy of these ALP Guidelines to users of MS POOL and to persons placing or originating an order to MS POOL for the first time.

MS POOL is a continuous dark crossing pool operated by MSHK to cross client/agency and principal orders[1] at or between the best prevailing bid / offer price offered by The Stock Exchange of Hong Kong Limited (the "**SEHK**"). Orders of different users within MS POOL will not be aggregated.

MS POOL 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 MS POOL.

In accordance with the ALP Regulations, MS POOL 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 MS POOL. "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).

Operating Hours and Eligible Orders

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[1] The use of "principal order" in the ALP Guidelines corresponds to "proprietary order" as defined under the ALP Regulations, 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 MS POOL, 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 MS POOL 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 MS POOL 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.

MSHK will only conduct transactions on MS POOL during the Morning Session and Afternoon Session of the Continuous Trading Session of the SEHK over securities which are listed on the SEHK. Crossing will not be carried out on MS POOL during other trading sessions of the SEHK. MSHK may be restricted from crossing certain securities and may suspend crossing in MS POOL during the abovementioned operating hours under anomalous conditions, including periods of expected or actual market volatility. Short sell orders are not supported in MS POOL.

MS POOL accepts day orders from users, at market or with limit prices, which may also be designated with a peg instruction. MS POOL does not accept immediate or cancel ("**IOC**") orders from users.

MS POOL 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 MS POOL.

Execution Methodology and Transaction Pricing

MS POOL accepts orders at full or half the SEHK standard tick sizes. An order's effective price is used for the purpose of evaluating price priority.

For buy orders, when a user's limit price is:
▪ at or above the midpoint, the effective price is capped at the midpoint.
▪ below the midpoint, the effective price is the user's limit price rounded down to the nearest standard SEHK tick size.

For sell orders, when a user's limit price is:
▪ at or below the midpoint, the effective price is capped at the midpoint.
▪ above the midpoint, the effective price is the user's limit price rounded up to the nearest standard SEHK tick size.

MS POOL uses direct exchange market data feeds to determine the best bid and offer. MS POOL crosses orders at or within the best bid / offer, attempting midpoint execution or as close to midpoint as possible, within the user's limit price. If MS POOL cannot cross at the midpoint, it will cross eligible orders at the standard SEHK tick sizes. If there is no bid and offer price, or only one side exists on the SEHK, orders will not be crossed.

MS POOL accepts mixed lot orders but only executes the round lot portion of mixed lot orders.

Participants, User Priority and Client Order Handling

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

MS POOL employs price / category / size / time order matching priority, which encourages size and deemphasizes speed (rather than prioritizing time over size). For these purposes, the price used will be the effective price described above. Orders received at the same effective price will then be prioritized by category, order size, before being matched in the time sequence they were received. Agency orders with the same effective price as or better price than a principal order would have higher priority than the principal order, even if the principal order is larger in size or is received before the agency orders. Within the different categories, orders are prioritized in the following sequence: agency, agency professional trader, principal, and principal professional trader. A user will be categorized by MSHK as a "professional trader" by the nature and frequency of that user's activities (or, for a new user, its anticipated activities) in MS POOL. The

primary factor used to determine whether a user is a professional trader is the user's average message count.

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

- Do not cross (i.e. do not cross in MS POOL)
- Do not cross with principal orders*
- Do not cross with orders of professional traders (users classified as "professional traders" may not opt out from crossing with orders of other "professional traders")
- Do not cross beyond day high or day low*
- Cross at midpoint or better only
- Cross only at the best bid or the best offer for buys and sells respectively
- Minimum cross size (note: the minimum fill quantity constraint applies to every execution in MS POOL, except when the remainder of the order is less than the minimum fill quantity, in which case MS POOL will execute that quantity.)

    *this option is not available on a per order basis

MSHK does not provide preferential access to MS POOL or to categories of flow in MS POOL for a fee. Orders in MS POOL from other brokers with which MSHK has a mutual access agreement do not receive preferential treatment. MSHK does not charge different rates for access to different types of order flow.

Order Routing and Order Cancellation

MS POOL may be accessed directly. Access to MS POOL is also available via NightVision (Morgan Stanley's algorithm for accessing non-displayed liquidity), NightOwl (Morgan Stanley's algorithm for accessing both displayed and non-displayed liquidity) and other Morgan Stanley selected algorithmic strategies. All eligible SEHK bound orders including algorithmic slices pass through MS POOL en route to the SEHK for execution. Any order cancellation requests will be processed in the sequence of time received.

Controls

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

For professional traders, MS POOL execution quality is monitored using an execution performance measurement framework. The performance measurement framework includes several metrics, including but not restricted to order resting time, pre-trade momentum, post-trade reversion, order size and price improvement.

MS POOL 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 MS POOL 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 MS POOL, and are the primary contacts for any possible outages on MS POOL's 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 MS POOL:

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 MS POOL, SEHK bound orders will continue to be routed to the SEHK or worked in the algorithmic trading engine per users' instructions. For orders solely resting in MS POOL, i.e. orders that do not route to the SEHK but only stay within the MS POOL order book for crossing opportunities, these orders can be cancelled back to the users upon identifying system outages, or remain in the crossing engine based on users' instruction. If required, MS POOL's 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 MS POOL 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 Regulations to provide the SFC with a report on the ten largest users by volume within MS POOL 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 best bid and best ask price of 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 MS POOL may not match the market price in the public market.

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