Dear Sir/Madam,

Consultation Draft of the Administrative Measures for Programme Trading on Securities and Futures Markets

The Alternative Investment Management Association ("AIMA")\(^1\) and the Managed Funds Association ("MFA")\(^2\) share the China Securities Regulatory Commission’s ("CSRC") interest in ensuring that securities and futures markets are fair, efficient, liquid and robust, and serve the interests of the real economy. We understand the CSRC’s concerns with recent market volatility and support the CSRC’s commitment to bolstering investor confidence and the integrity of the Chinese markets. We therefore appreciate the CSRC’s concern in establishing regulations to address programme trading in China to maintain orderly, efficient, and fair markets.

AIMA and MFA represent sophisticated private investment managers with activities and investors located in all important financial centres in the world. As industry representatives, we work closely with regulators on issues concerning programme trading in the United States,

\(^1\) Founded in 1990, the Alternative Investment Management Association is the global representative of the hedge fund industry. Our membership is corporate and comprises over 1,500 firms (with over 9,000 individual contacts) in more than 50 countries. Members include hedge fund managers, fund of hedge funds managers, prime brokers, legal and accounting firms, investors, fund administrators and independent fund directors. AIMA’s manager members collectively manage more than $1.5 trillion in assets.

\(^2\) Managed Funds Association represents the global alternative investment industry and its investors by advocating for sound industry practices and public policies that foster efficient, transparent and fair capital markets. MFA, based in Washington, DC, is an advocacy, education and communications organization established to enable hedge fund and managed futures firms in the alternative investment industry to participate in public policy discourse, share best practices and learn from peers, and communicate the industry’s contributions to the global economy. MFA members help pension plans, university endowments, charitable organizations, qualified individuals and other institutional investors to diversify their investments, manage risk and generate attractive returns. MFA has cultivated a global membership and actively engages with regulators and policy makers in Asia, Europe, North and South America, and many other regions where MFA members are market participants.
the European Union and key Asian financial centres. We have appreciated the opportunity to meet with CSRC representatives in the past, and would like to offer our support as the Chinese authorities seek to update their regime governing programme trading.

Our members invest in markets around the world, and many members have been pleased to be able to invest in Chinese companies through the relatively new Shanghai-Hong Kong Stock Connect program. We believe that our members as well as other global investors can play a helpful role in supporting China’s capital markets, bringing additional capital into China’s securities and futures markets. As investors, we expect market participants to comply with legal and regulatory requirements, and we rely on regulators and exchanges to oversee and enforce market regulations, and to prosecute market manipulation and fraud.

Over the past 40 years, as financial markets have employed ever more advanced technology, investors too have come to rely heavily on technology and computers. In our members’ experience, investors have benefited from these developments as transactions costs have fallen and market liquidity has improved. Nevertheless, regulators across all continents have been updating and adapting their rules to address new issues that arise from the extensive use of technology and automated trading.

As the CSRC develops its own regulatory standards, we encourage the deployment of targeted and proportionate requirements for each category of market participant in the programme trading process – investors, brokers and exchanges. In general, the Associations believe that marketplace risks may be effectively addressed in two primary ways. First, by safeguarding market utilities, like the exchanges, and ensuring that they operate as intended. Second, by requiring brokers-dealers, as the gateways to the markets, to have financial and regulatory risk management controls to reduce risks associated with market access. We strongly believe that such a framework optimizes investor protection, the maintenance of fair and orderly markets and the economically efficient execution of securities transactions. We also believe from a practical and regulatory standpoint that such a framework would be more manageable to implement and enforce; and that such approach would be consistent with the CSRC’s goal of strengthening supervision of programme trading, while also permitting international investors to have regulated access to Chinese markets.

As you know, the European Union and United States are also working to implement effective and proportionate regulation of programme trading. In this regard, the European approach under the recently enacted Markets in Financial Instruments Directive legislation has focused on appropriately tailored systems and real-time risk controls maintained by: (i) all investment firms that operate programme trading systems; (ii) the brokers that provide direct electronic access to securities and futures exchanges; and (iii) the exchanges themselves. The U.S. approach also
focuses on the regulation of key market utilities, such as exchanges and clearing houses, as well as broker-dealers that provide direct electronic access, but also requires investment firms to have appropriate controls and oversight.

Our members look forward to engaging with you to better understand how you intend to implement certain aspects of the new program trading rules, such as how “programme trading” is interpreted under Article 2 and Article 19. For example, computers are used to perform a wide range of functions in the investment and trading process, and as such, additional guidance in the interpretation of the scope of “programme trading” under Article 2, for example, whether it intends to capture the deployment of algorithms to generate investment advice that do not involve automated execution from offshore, would be very important to market participants. Similarly, we believe it will be important to clarify the extent to which Article 19 applies when accessing securities or futures markets through highly supervised mechanisms such as the Qualified Foreign Institutional Investor program or the Stock Connect program, as well as onshore-offshore collaboration efforts where the investment advice of offshore investment algorithms is subject to human examination prior to execution.

We provide these suggestions in the interests of supporting rules that would help to promote stability, efficiency and fairness in Chinese securities and futures markets. We look forward to continuing a dialogue with you and to share our experience on this subject, both during the period of initial implementation, and as you evaluate the effectiveness of these rules in the coming years. Please do not hesitate to contact Jiri Kroll (jkrol@aima.org), Deputy Chief Executive Officer and Global Head of Government Affairs of AIMA, or Kher Sheng Lee (kslee@aima.org), Deputy Global Head of Government Affairs and Head of APAC Government Affairs of AIMA, or Stuart J. Kaswell, Executive Vice President and Managing Director, MFA, at (202) 730-2600, for further information.

/s/  
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