Appendix III

Principles for Direct Electronic Access

Pre-Conditions for DEA

(1) Minimum Customer Standards

Intermediaries should require DEA customers to meet minimum standards, including that:

- Each such DEA customer has appropriate financial resources,
- Each such DEA customer has appropriate procedures in place to assure that all relevant persons:
  - are both familiar with, and comply with, the rules of the market and
  - have knowledge of and proficiency in the use of the order entry system used by the DEA customer.

Market authorities should have rules in place that require intermediaries to have such minimum customer standards.

(2) Legally Binding Agreement

There should be a recorded, legally binding contract between the intermediary and the DEA customer, the nature and detail of which should be appropriate to the nature of the service provided. Each market should consider whether it is appropriate to have a legally binding contract or other relationship between itself and the DEA customer.

(3) Intermediary's Responsibility for Trades

An intermediary retains ultimate responsibility for all orders under its authority, and for compliance of such orders with all regulatory requirements and market rules.

In those jurisdictions where a DEA customer is permitted to sub-delegate its direct access privileges to another party (a "sub-delegatee"), the intermediary continues to be ultimately responsible for all orders entered under its authority by the sub-delegatee and should require the sub-delegatee to meet minimum standards set for DEA customers in general. There should be a recorded, legally binding contract between the DEA customer and the sub-delegatee, the nature and detail of which should be appropriate to the nature of the service provided.

Information Flow

(4) Customer Identification

Intermediaries should disclose to market authorities upon request and in a timely manner the identity of their DEA customers in order to facilitate market surveillance. In those jurisdictions where sub-delegation is permitted, the intermediary also has such responsibility to the market authorities with respect to any sub-delegatees.

(5) Pre and Post-Trade Information

Markets should provide member firms with access to relevant pre- and post-trade information (on a real time basis) to enable these firms to implement appropriate monitoring and risk management controls.

Adequate Systems and Controls

(6) Markets

A market should not permit DEA unless there are in place effective systems and controls reasonably designed to enable the management of risk with regard to fair and orderly trading including, in particular, automated pre-trade controls that enable intermediaries to implement appropriate trading limits.

(7) Intermediaries

Intermediaries (including, as appropriate, clearing firms) should use controls, including automated pre-trade controls, which can limit or prevent a DEA Customer from placing an order that exceeds a relevant intermediary's existing position or credit limits.

(8) Adequacy of Systems

Intermediaries (including clearing firms) should have adequate operational and technical capabilities to manage appropriately the risks posed by DEA.