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Hong Kong Exchanges and Clearing Limited is the recognised controller of The Stock Exchange of Hong Kong Limited, Hong Kong Futures Exchange Limited and Hong Kong Securities Clearing Company Limited

通告 CIRCULAR

事項

Subject: **Introduction of Tailor-Made Combination Function on Genium INET Platform**

查詢

Enquiry: **HKATS Hotline 2211 6360**

Reference is made to the circular (ref: DMD/134/13) dated 21 August 2013. Hong Kong Exchanges and Clearing Limited (“HKEx”) plans to upgrade the Hong Kong Futures Automated Trading System (“HKATS”) from Release 19.1 to Genium INET Platform in the fourth quarter of 2013. A new combination trade facility, the Tailor-Made Combination function, will be introduced along with Genium to replace the Bulletin Board and Non-standard Combination functions in Release 19.1. The Tailor-Made Combination function possesses enhanced features that improve the efficiency of combination trade on HKATS.

Benefits of Tailor-Made Combination Function

- **Ease of Trading** – users can create combinations with up to a maximum of 4 legs and place limit orders with the net prices of the combinations
- **Auto-Matching** – orders for Tailor-Made Combinations will be ranked and matched by HKATS automatically according to price/time priority
- **Ability to Send Quote Requests** – users can send quote requests for Tailor-Made Combinations to induce trading interests
- **An Efficient Combination Trade Facility** – for options rollovers, options strategies and delta hedging

Applicable Products

Tailor-Made Combination is applicable to the following markets:

1. Hang Seng Index Futures and Options;
2. Mini-Hang Seng Index Futures and Options;
3. H-Shares Index Futures and Options; and
4. Stock Options

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Hong Kong Exchanges and Clearing Limited

Prescribed Strategies for Tailor-Made Combinations

The creation of Tailor-Made Combination is limited to strategies prescribed by the Exchange (See Attachment I). All prescribed strategies must be created in the exact form as stated in the definitions, i.e., from a buyer (long) perspective. Seller (short) of the strategy should otherwise place a sell order.

Any Tailor-Made Combination, its related order and trade will be deleted by the Exchange if the Tailor-Made Combination is not one of the prescribed strategies or is not created as described.

Maximum Number of Tailor-Made Combinations Listed on HKATS per Business Day

The aggregated maximum number of Tailor-Made Combinations that can be listed on HKATS is 8,000 per business day. A limit of 800 per underlying per business day is also imposed. The Exchange reserves the right to delete any Tailor-Made Combination listed on HKATS when either limit is reached or the Exchange determines that the Tailor-Made Combination is inappropriate.

Price Parameters for Error Trade Executed Through the Tailor-Made Combination Function of HKATS

The Tailor-Made Combination function is a replacement of the Bulletin Board function of HKATS. It will adopt the existing Price Parameters for Error Trade for Bulletin Board function determined by the Exchange under HKFE Rule 819B and Options Trading Rule 540. Please refer to Attachment II for the price parameters.

More details of Tailor-Made Combinations can be found in Chapter 3.5 of the HKATS User's Guide for Genium. Please refer to Attachment III for an extract of the chapter.

Exchange Participants should ensure that their staffs are fully aware of the trading mechanism of Tailor-Made Combinations. The Exchange will arrange two seminars for Exchange Participants to better understand its benefits and trading mechanism. The dates and enrollment details will be announced in due course.

For enquiries, please contact HKATS hotline at 2211 6360.

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This circular has been issued in the English language with a separate Chinese language translation. If there is any conflict in the circulars between the meaning of Chinese words or terms in the Chinese language version and English words in the English language version, the meaning of the English words shall prevail.

List of Prescribed Strategies for Tailor-Made Combinations

Strategy Types	Definitions
Call Calendar Spread	Sell a near month call and buy a far month call at the same strike
Put Calendar Spread	Sell a near month put and buy a far month put at the same strike
Risk Reversal	Buy a call and sell a put at lower strike of the same maturity
Call Spread	Buy a call and sell a call at higher strike of the same maturity
Put Spread	Buy a put and sell a put at lower strike of the same maturity
Call Diagonal	Sell a call in near month and buy a call in far month at a different strike
Put Diagonal	Sell a put in near month and buy a put in far month at a different strike
Synthetic Futures	Buy a call and sell a put at the same strike of the same maturity
Straddle	Buy a call and a put at the same strike of the same maturity
Strangle	Buy a put at lower strike and buy a call at higher strike of the same maturity
1 x 2 Ratio Call Spread	Buy a call and sell two calls at a same higher strike. All options involved have to be of the same maturity
1 x 2 Ratio Put Spread	Buy a put and sell two puts at a same lower strike. All options involved have to be of the same maturity
Call Ladder	Buy a call, sell a call at a higher strike and sell a call at an even higher strike. All options involved have to be of the same maturity
Put Ladder	Buy put, sell a put at a lower strike and sell a put at an even lower strike. All options involved have to be of the same maturity
Straddle versus Call	Buy a call and a put at the same strike and sell a call at a different strike. All options involved have to be of the same maturity

Strategy Types	Definitions
Straddle versus Put	Buy a call and a put at the same strike, sell a put at different strike. All options involved have to be of the same maturity
Call Butterfly	Buy a call, sell two calls at a same higher strike and buy a call at an even higher strike. All options involved have to be of the same maturity
Put Butterfly	Buy a put, sell two puts at a same higher strike and buy a put at an even higher strike. All options involved have to be of the same maturity
Iron Butterfly	Buy a put, sell a call and a put at a same higher strike and buy a call at an even higher strike. All options involved have to be of the same maturity
Call Condor	Buy a call, sell two calls at higher different strikes and buy a call at an even higher strike. All options involved have to be of the same maturity
Put Condor	Buy a put, sell two puts at higher different strikes and buy a put at an even higher strike. All options involved have to be of the same maturity
Iron Condor	Buy a put, sell a put at a higher strike, sell a call at a further higher strike and buy a call at an even higher strike. All options involved have to be of the same maturity
Box Spread	Buy a call and sell a put at the same strike, buy a put and sell a call at a same higher strike. All options involved have to be of the same maturity
Calendar Spread for Prescribed Strategies	Buy any two-legged prescribed combination in far month and sell the same combination in near month
Delta Neutral Combinations	Buy single call option, single put option, Call Spread, Put Spread, Straddle, Strangle, Ratio Spread or Risk Reversal while sell or buy the related underlying futures

Important Note

Except for Box Spread, all other strategy trades with the values of the positions at expiration independent of the value of relevant underlying instrument are not acceptable. An example is to buy a synthetic futures (buy a call option and sell a put option at a same strike) and simultaneously sell a futures. Any Tailor-Made Combination, its related order and trade will be deleted by the Exchange if the Tailor-Made Combination is not one of the prescribed strategies or is not created as described.

Special Attention on Negative Premiums

Exchange Participants are requested to note that negative premium may arise for a strategy even though it is created from a buyer (long) perspective.

Example:

According to the definition given in above table, a Risk Reversal strategy may be created as follow:

Buy 1 HSI22600H3 at 140
Sell 1 HSI22000T3 at 150

A premium of 10 points will be received for a buy order for this strategy, i.e. buying 1 contract of HSI22600H3 and selling 1 contract of HSI22000T3. In this case, the buy order should be entered with a price of -10 (negative premium). On the other hand, a sell order for this strategy, i.e. selling 1 contract of HSI22600H3 and buying 1 contract of HSI22000T3, should also be entered with a negative price of -10 indicating the intention of paying a premium of 10 points.

**Price Parameters for Error Trade Executed Through the Tailor-Made
Combination Function of HKATS**

The trade price of the Tailor-Made Combination trade is such that it exceeds whichever is the greater of:

- i. 30 ticks from the Notation/Reference Price of the Tailor-Made Combination trade concerned; or
- ii. 10 percent from the Notation/Reference Price of the Tailor-Made Combination trade concerned.

For the purpose of determining a Notation/Reference Price:

- i. the Exchange shall base on the average of the prices of the previous match and the next match occurring that trading day in that Tailor-Made Combination trades or if this fails to reflect a fair price or such prices are not available, the Exchange may consult up to 3 independent market practitioners who have no interest in the trade to arrive at a valid Notation/Reference Price; or
- ii. if the market practitioners cannot provide a fair price of the Tailor-Made Combination trades concerned, the Exchange shall obtain the Notation/Reference Price* of each individual leg consisted of the Tailor-Made Combination trades in accordance with the Error Trades Rules for the respective HKFE product or Stock Options executed through the Central Order book, then the Exchange shall calculate the fair price of the Tailor-Made Combination trades concerned.

Parameters may be revised by HKEx in which case Participants will be notified before the change takes effect.

***Notation Price for Futures and Stock Index Options Contracts**

1. The notation price for futures contracts shall be obtained in the following order:
 - i. last traded price within 5 minutes prior to the Error Trade;
 - ii. the mid-point of the best bid/ask price immediately prior to the Error Trade;
 - iii. last settlement price; or
 - iv. the difference of notation prices between the related outright contracts (calendar spread only).

2. Determination of the notation price of the Stock Index Option Contracts will be based on the followings:
 - i. The average of the prices of the previous match and the next match in that option series occurring reasonably close to the time of error trade. If this average price fails to reflect a fair price, the notation price will be determined on the basis of item (ii) below.
 - ii. The reasonable bid and offer prices available around the time of error trade, unless in the sole discretion of the Exchange, this fails to reflect a fair price, in which case the Exchange may consult up to 3 independent market practitioners who have no interest in the trade in order to arrive at a valid notation price.

Notwithstanding the foregoing, the Exchange shall have absolute discretion in determining the notation price.

3. Notwithstanding the above, the Chief Executive of HKFE or his designee may adopt such other price to be the notation price as he considers appropriate, taking into account the market conditions prevailing at the time of the Error Trade.

***Reference Price for Stock Options Contracts**

Determination of the Reference Price will be based on the average of the prices of the previous match and the next match occurring that trading day in that option series unless in the sole discretion of the Exchange, this fails to reflect a fair price, in which case the Exchange may consult up to 3 independent options market practitioners who have no interest in the trade in order to arrive at a valid Reference Price. Notwithstanding the foregoing, the Exchange shall have absolute discretion in determining the Reference Price.

Chapter 3.5 of the HKATS User's Guide for Genium

3.5 Tailor-Made Combination

3.5.1 General Features of Tailor-Made Combination

The Tailor-Made Combination (TMC) function allows users to define and place limit orders for futures and options strategies. TMC series are valid on the business day that they are created only and will be deleted by the end of the day. Users may combine future and/or option contracts of the same underlying in a Tailor-Made Combination. Currently, HSI, HHI, MHI Futures and Options as well as stock options are available for the construction of TMC.

Once a TMC is created via the Enter Tailor-Made Combination window, it can be traded as a normal market series. Users can view the TMC in the Price Information window and place bid and ask into the series via the Enter Order window. Both TMC series and outstanding orders of TMC will be removed at the end of each business day.

TMC cannot be executed against outright series and unlike standard combinations, there is no bait order generation for TMC. Standard combinations and capital adjusted series cannot be defined as legs, and contract size of each leg must be identical for any TMC.

3.5.2 Criteria for the Creation of Tailor-Made Combination

Prescribed Strategies

The Exchange will notify Exchange Participants from time to time a list of prescribed strategies for TMC. Only prescribed strategies are allowed to be created. These prescribed strategies must also be created in the exact form as described, i.e. from a buyer (long) perspective. Any TMC, its related order and trade will be deleted by the Exchange if the TMC is not one of the prescribed strategies or is not created as described.

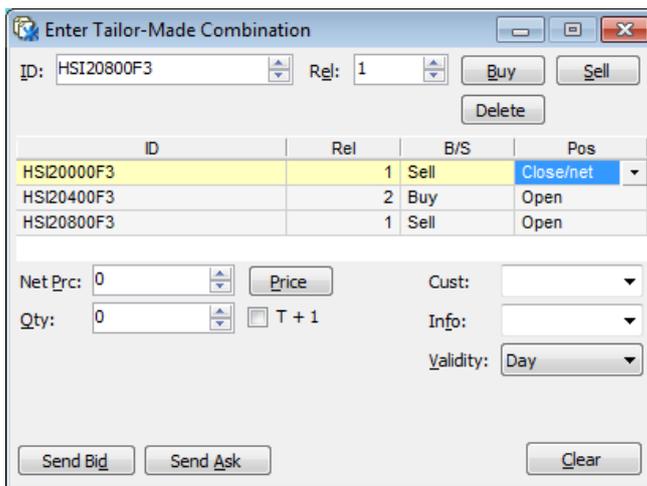
Maximum Number of Tailor-Made Combinations Listed on HKATS per Business Day

The aggregated maximum number of Tailor-Made Combinations that can be listed on HKATS is 8,000 per business day. A limit of 800 per underlying per business day is also imposed. The Exchange reserves the right to delete any Tailor-Made Combination listed on HKATS when either limit is reached or the Exchange determines that the Tailor-Made Combination is inappropriate.

3.5.3 Enter Tailor-Made Combination Window

The Enter Tailor-Made Combination window is designed for the creation of new TMC series. Users need to determine the futures and/or options series legs, and their corresponding ratios in the TMC series. An active order must be submitted at the same time as the creation of the TMC. Users can place orders into existing TMC via the Enter Order window.

The Enter Tailor-Made Combination window may be opened from the Orders Menu or the Quick Menu (via right mouse click) or the toolbar icon.



This window is intended for TMC order entries. For standard combinations, users should use the Enter Order window or Execute Order window. (Refer to Appendix 2 – Combination).

To obtain information about combinations that are defined as standard combinations, users may refer to the Instrument Explorer window under the Market menu. (Refer to Section 2.2 – Instrument Explorer).

Window Items - Enter Tailor-Made Combination Window

<i>Item</i>	<i>Description</i>
ID	Specifies the instrument identity. If an instrument series is selected in the Price Information window, its ID will be displayed as default in the Enter Tailor-Made Combination window. Users may enter an instrument series manually or use the arrows. Standard combinations cannot be defined as legs in any TMC series.
Rel	Specifies the relative ratio between legs in the combination. This is the least common denominator and must be equal to or less than 4. Hence a 3-leg TMC with relative ratios of 2,4,2 would have its relative ratios decrease to 1,2,1 when the order is placed since it should be expressed as the least common denominator. A 3-leg TMC with relative ratios of 1,5,2 will be rejected as the relative ratio must be less than 4.

Buy/Sell	Specifies to buy or sell the instrument in the ID field.
Delete	Enables users to delete the highlighted instruments series from the combination.
Net Price	Displays the calculated market price when the [Price] button is pressed. The quantity must be specified before calculating the price. Users may also manually input or use the arrows to specify a price. Quantity must be specified before calculating the price. If users press the [Price] button after manually input a price into the Net Price field, the calculated result will overwrite the number in the Net Price field.
Qty	Specifies quantity of the whole basket in relation to the Rel field, which is the number of times the user wishes to trade the combination. If Rel is 2 and the quantity is 10, a total of 20 contracts of the specific instrument will be placed.
T+1	An order with T+1 attribute will remain active in all sessions including T+1 Session. Otherwise it will be inactivated during T+1 Session. TMC is only applicable to T Session until further notice from the Exchange, hence checking/unchecking this field will have no effect on the validity of the order.
Cust	Specifies the customer's account.
Info	Specifies free text information if applicable.
Validity	Specifies validity of the order as Rest of Day (Day), Fill or Kill (FoK) or Fill and Kill (FaK) Validity is set to Day by default.
Send Bid	Send a bid order to the market.
Send Ask	Send an ask order to the market.

Creation of Tailor-Made Combination Series

1. Open the Enter Tailor-Made Combination window from the Orders menu, Quick Menu (via right mouse click) or the toolbar icon.
2. Specify one of the instruments that should be a part of the combination in the ID field. If user has selected an instrument in the Price Information window before opening the Enter Tailor-Made Combination window, series name of this instrument will be displayed in the ID field.
3. Specify the relative ratio as the least common denominator of the legs in the Rel field. For instance, a 3-leg TMC with relative ratios of 2,4,2 would have its relative ratios decreased to 1,2,1 when the order is placed. In which case, price and quantity would also be adjusted accordingly.
4. Click the **[Buy]** or **[Sell]** button depending on whether this particular leg shall be bought or sold as part of the TMC.

5. Repeat step 2 to 4 for every instrument series required until the whole combination is constructed. A maximum of 4 legs may be entered.
6. Position of each leg can be changed to “Open” or “Close/Net” by clicking the right hand side of the Pos cell.
7. Enter the basket quantity intended to be traded in the Quantity field. The quantity is the number of times the user wishes to trade the TMC
8. Validity is set to Day by default. The validities FoK and FaK can be chosen after clicking on the Validity cell.
9. Specify the customer’s account in the Customer field, and add free text information into the Info field if any.
10. Users may enter a desired Net Price into the Net Prc field. Alternatively, users may click the [Price] button which will calculate the net price for a bid order of the combination using the prevailing market price of the outright series, and the calculated result will be shown in the Net Prc field. In the case where market price for any combo leg is not available and/or the prevailing quantity in the market is not enough for the TMC order, the system will report zero in the price field.
11. Click [**Send Bid**] or [**Send Ask**] as appropriate to place the TMC order into the market. TMC series are created in the view of the buyer, hence a bid order would be placed into the new TMC in the same manner as the legs inputted. If users wish to send an ask order instead, users should click the [**Send Ask**] button and the order sent would be the reverse of the legs inputted into the Tailor-Made Combination window.

To delete any series before sending the TMC order, simply highlight the series to be deleted and click the [**Delete**] button. Alternatively, users can click the [**Clear**] button to clear all information. TMC orders involving capital adjusted series cannot be placed due to difference in lot size for such series. An error message saying “premium specified in order is not allowed” will pop up should the relevant error message option is selected in the Preference window.

3.5.4 Bid and Ask Prices Calculation

Positive, negative and zero prices are allowed for TMC orders. If a bidder expects to pay premium for a TMC order, the buy order should be in positive figure and vice versa. The following table illustrates how the positive and negative signs correlate to the flow of premium between the buyer and the seller.

Bid	Ask
Positive Price = Pay Premium	Positive Price = Receive Premium
Bid	Ask
Negative Price = Receive Premium	Negative Price = Pay Premium

Example :

A TMC series, TMC_HSI_019 is created by user A with the following strategy:

- Buy 1 lot of HSI22200A3
- Sell 2 lots of HSI23000A3
- Buy 1 lot of HSI23400A3

If user A creates the above TMC and places 388 on the bid side at the same time, user B then places an ask order on the series, user B's strategy is equivalent to:

- Sell 1 lot of HSI22200A3
- Buy 2 lots of HSI23000A3
- Sell 1 lot of HSI23400A3

The above actions would result in the following payoff:

TMC_HSI_019

Original strategy defining the series TMC_HSI_019

	Bid		Ask
User A:		User B:	
Buy 1	HSI22200A3	Sell 1	HSI22200A3
Sell 2	HSI23000A3	Buy 2	HSI23000A3
Buy 1	HSI23400A3	Sell 1	HSI23400A3
Price =	388	Price =	388
Payoff when traded:		Payoff when traded:	
User A pays 388		User B receives 388	

Alternatively, user A can generate the same payoff by creating a TMC with an order on the sell side. User A would need to input the strategy as follows with net price -388 and press the **[Send Ask]** button:

- Sell 1 lot of HSI22200A3
- Buy 2 lots of HSI23000A3
- Sell 1 lot of HSI23400A3

The series TMC_HSI_020 would thus be created. Suppose user B then placed a bid order on the series with price -388.

The above actions would result in the following payoff:

		TMC_HSI_020		
		Bid	Ask	
Original strategy defining the series TMC_HSI_020	User B:		User A:	
	Sell 1	HSI22200A3	Buy 1	HSI22200A3
	Buy 2	HSI23000A3	Sell 2	HSI23000A3
	Sell 1	HSI23400A3	Buy 1	HSI23400A3
	Price =	-388	Price =	-388
	Payoff when traded:		Payoff when traded:	
User B receives 388		User A pays 388		

Important Note

All prescribed strategies must be created in the exact form as described, i.e. from a buyer (long) perspective. Seller (short) of the strategy should place a sell order. Any TMC, its related order and trade will be deleted by the Exchange if the TMC is not one of the prescribed strategies or is not created as described.

3.5.5 Treatment on Same or Reverse Strategies

Any attempt to enter a strategy that is the same as, or the reverse of, an existing tailor-made combination or standard combination, will be identified by the system.

Selecting the types of warning messages to appear

Should a reverse strategy be detected, a warning message will appear if the relevant warning message option is selected. Users can choose to switch on/off warning messages by checking/unchecking the option “Order registration” under the tab General in the Preference window.

From the warning message window, users can choose to cancel the order entry, or proceed to place an order into the existing TMC series or standard combination.

If the relevant warning message is inactivated, such order will be placed into the existing TMC or standard combination automatically.

Automatic adjustment in Price and Bid/Ask fields

In the case where a reverse strategy exists, the Price and Bid/Ask fields might be changed to perform the defined strategy through the existing reverse combination. For instance, if a user created a TMC by placing a bid in a buy-sell strategy, and later on another user wishes to place an ask order for a sell-buy strategy of the same series for the individual legs with the same relative ratios, the latter TMC order will be converted into a bid in the existing buy-sell strategy.

Example:

Similar to the example in section 3.5.3, the series TMC_HSI_019 is created by user A with the following strategy on the bid side, with price 388:

- Buy 1 lot of HSI22200A3
- Sell 2 lots of HSI23000A3
- Buy 1 lot of HSI23400A3

After this series is created, user C comes along and input the following strategy into the Enter Tailor-Made Combination window, with price -395 on the bid side:

- Sell 1 lot of HSI22200A3
- Buy 2 lots of HSI23000A3
- Sell 1 lot of HSI23400A3

The strategy inputted by user C is a reverse strategy of the TMC that user A has already created. A warning message will appear if the relevant function has been activated. The order will then be placed into the series TMC_HSI_019, at price 395 on the ask side, changed from the original price of -395. Possible order depth for the series is as follows:

Bid	Ask
User A; 1 lot @ 388	User C; 1 lot@ 395

3.5.6 Change Tailor-Made Combination Orders

1. Users may change the details of TMC orders via the Change Order window by double-clicking the order concerned from the Order Book window
2. The following changes can be made:
 - change of net price
 - change in quantity
 - modification of information in Cust field
 - modification of information in Info field
3. Users **cannot** change the instrument series of each leg, their relative ratios, as well as buy or sell position of each leg. If users would like to make such changes, they need to cancel the TMC order first, then create a new TMC series or enter a new TMC order with the desired changes.
4. Click [**Send Bid**] or [**Send Ask**] to confirm the changes. Users should beware that before clicking [**Send Bid**] or [**Send Ask**] to confirm changes, the original order is still open in the market.
5. Amendments of TMC orders are not allowed during the Pre-market Activities Session or Pre-market Opening Period.

3.5.7 Cancel Tailor-Made Combination Orders

As with other orders, users may cancel any TMC orders entered by other users in the same company. TMC orders can be cancelled by highlighting such orders in the Order Book window and press the **[Cancel]** button.

3.5.8 Execute Tailor-Made Combination Orders

TMC orders can be executed via the Enter Order window or the Execute Order window as described in sections 3.3 – Enter Order Window and 3.4 – Execute Order Window.

Once an order for a TMC series is executed, the trade can be found in the Company Trades window with the TMC's name shown under the ID column, whilst in Clearing Trades window and Ticker, the trade would be displayed separately as names of the individual series composing the TMC under the ID column. TMC trades can be identified in the above-mentioned windows by the deal source (DealSrc) TMC Combo E.

3.5.9 Post-trade Adjustment on Unusual Prices

If users wish to change the price of each individual leg comprising a TMC, post-trade adjustment can be performed on trades with unusual prices, subject to price constraints and agreement by counterparties.

The suggested prices should not fall outside the day high or the day low of the series, also it must be in the Exchange's discretion that the prices are representative of the market level. In determining the reasonable prices on option series in combination trades, theoretical prices and respective market prices will be taken into consideration. Counterparties must agree with the adjustments or the request will not be processed by the Exchange.

Users are required to fill in Form UPR and return it to the Exchange within 1 hour after the close of the relevant market for adjustment of executed prices.