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Hong Kong Exchanges and Clearing Limited is a recognized exchange controller under the Securities and Futures Ordinance which is the controller of The Stock Exchange of Hong Kong Limited, Hong Kong Futures Exchange Limited, Hong Kong Securities Clearing Company Limited, The SEHK Options Clearing House Limited, HKFE Clearing Corporation Limited and OTC Clearing Hong Kong Limited.

## 通告 CIRCULAR

Subject: Launch of Volatility Control Mechanism (“VCM”) in Derivatives Market

Enquiry: HKATS Hotline<sup>1</sup> 2211 6360

Reference is made to the circular (Ref: [MO/DT/124/16](#)) dated 13 November 2016. Hong Kong Exchanges and Clearing Limited (“HKEX”) has completed necessary analysis and follow-up for the resolution of the technical issue identified. HKEX is pleased to announce that the VCM in the derivatives market will be launched on **Monday, 16 January 2017**.

Exchange Participants (“EPs”) are reminded to use the correct OAPI and OMD-D program version and configurations along with the rollout of the VCM in the derivatives market.

For further details of the VCM model and mechanism including determination of the VCM reference price and arrangement for adverse weather etc., please refer to the document “Trading Mechanism of Volatility Control Mechanism (VCM) in the Derivatives Market” available at the [VCM web corner](#). The VCM related system parameters are listed in **Appendix 1** for easy reference.

### **Connectivity Session (14 January 2017)**

A connectivity session is scheduled on **Saturday, 14 January 2017 between 4:00 p.m. and 6:30 p.m.** EPs are recommended to verify their CLICK Workstations and/or OAPI programs can be connected to HKATS using the infrastructure, network connection and PC settings which have been verified in the previous Market Rehearsal for the VCM. EPs are advised to fill in the enrolment form as set out in **Appendix 2** and return it to HKEX by 10 January 2017 for enrolment.

<sup>1</sup> All calls to the HKATS hotline would be recorded. Please refer to the following link for HKEX privacy policy statement: [http://www.hkex.com.hk/eng/global/privacy\\_policy.htm](http://www.hkex.com.hk/eng/global/privacy_policy.htm)

**Stabilization Period (16 – 27 January 2017)**

Following the rollout of VCM in Derivatives Market, there will be a two-week Stabilization Period spanning from 16 January 2017 to 27 January 2017, both days inclusive. During the Stabilization Period, in the extremely unlikely situation that the upgraded VCM software encounters irreparable incidents, HKEX may, as the last resort, trigger a fallback procedure to revert to the previous version of HKATS in order to resume the trading and clearing services for the derivatives market. All emergency announcements will be made through Market Messages, Exchange News Systems (“ENS”) and other available communication channels. Please note that the fallback arrangement will only be applicable during the Stabilization Period. A detailed fallback arrangement is set out in **Appendix 3**.

For any enquiries, please contact HKATS hotline at 2211 6360.

Sanly Ho  
Head  
Derivatives Trading  
Markets Division

*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.*

**VCM parameters in Derivatives Market**

<b>Parameters</b>	<b>Descriptions</b>	<b>Prescribed Parameters</b>
<b>VCM Applicable Exchange Contracts</b>	VCM Exchange Contract which are subject to the VCM	- Spot month and the next calendar month contracts of Hang Seng Index Futures, Mini Hang Seng Index Futures, Hang Seng China Enterprises Index Futures and Mini Hang Seng China Enterprises Index Futures (total of 8 contracts)
<b>VCM Reference Price</b>	The reference price for the purpose of calculating the price limits	- The preceding last traded price as of 5 minutes ago, taken for each 1 second interval  - When no eligible transaction of the VCM Exchange Contract was traded in the preceding 5 minutes, the last traded price of the eligible transaction of that VCM Exchange Contract will be taken as a VCM Reference Price
<b>VCM Percentage</b>	The percentage above and below the reference price to determine the price limits	- $\pm 5\%$ from VCM Reference Price
<b>Prescribed Trading Session</b>	The trading session which shall be subject to VCM monitoring	- VCM monitoring is applied in morning and afternoon trading sessions, except for Pre-Market Opening Periods and After-Hours Futures trading session  - First 15 minutes of both morning and afternoon trading sessions are excluded  - Last 20 minutes of the afternoon trading session (in case of half day trading, the last 20 minutes of the morning session) are excluded so that no cooling off periods will be triggered in the last 15 minutes

<b>Duration of Cooling-off Period</b>	The duration of cooling-off period when VCM is triggered	- 5 minutes
<b>Maximum Number of Triggers for Cooling-off period</b>	The maximum number of times that a cooling-off period will be triggered	<ul style="list-style-type: none"><li>- Maximum 1 VCM cooling off period trigger per contract per trading session (i.e. morning and afternoon trading session)</li> <li>- No VCM monitoring after 1 trigger in each trading session</li></ul>

Connectivity Session Enrolment Form for the Launch of VCM in Derivatives Market

To: Derivatives Trading, Markets Division  
Hong Kong Exchanges and Clearing Limited

Email: [ClickSupport@hkex.com.hk](mailto:ClickSupport@hkex.com.hk)  
Fax No.: 2509 0724 or 2877 0017  
HKATS Hotline: 2211 6360

From: Participant Name: \_\_\_\_\_

We will participate in the connectivity session between 4:00 p.m. and 6:30 p.m. on Saturday, 14 January 2017. The contacts for the connectivity session are as follows:

	Name	Phone no.	Mobile no.	Email
1				
2				

- Completed form should be returned by fax at 2509-0724 or 2877-0017 or email to [ClickSupport@hkex.com.hk](mailto:ClickSupport@hkex.com.hk) **on or before Tuesday, 10 January 2017.**
- Exchange Participants are advised to keep the completed enrolment form for record.
- There is no order input session during the connectivity session.

Please note the HKEX privacy policy statement below:  
[http://www.hkex.com.hk/eng/global/privacy\\_policy.htm](http://www.hkex.com.hk/eng/global/privacy_policy.htm)

## **Fallback Arrangement**

The fallback procedures are only applicable during the stabilization period, i.e., the first two weeks after the launch of VCM in Derivatives Market from 16 to 27 January 2017, both days inclusive. In the event of any critical issues arising, HKEX will investigate the cause and try to rectify the situation by all available means. In case that it is necessary to fallback, HKEX will switch HKATS to the previous version internally and inform Exchange Participants (“EPs”) upon the completion of the switching process. The fallback procedures are estimated to take about 3 hours to complete. Subject to the triggering time of the fallback procedures, the trading and clearing services may be suspended for remaining trading hours of the day.

### **1. Communication channels in case of fallback**

EPs will be informed once the fallback decision is made and upon completion of the switching process. The fallback schedule, estimated resumption time of the previous HKATS version and the opening schedules of all markets will be communicated through Market Messages, Exchange News System (“ENS”) and other available communication channels.

### **2. Participants’ arrangement**

Once the fallback is completed, EPs shall use current version of CLICK Workstations, OAPI programs and DCASS Terminals<sup>2</sup> to login again. There will be no change in the login IDs and passwords due to the fallback. Existing login IDs and passwords shall be used.

The supplementary Pre-Trade Risk Management Systems in Derivatives Market will only be resumed on the next Trading Day after the fallback of VCM completes.

### **3. Actions to be taken after fallback**

#### *i) Establishment of Connections to HKATS*

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<sup>2</sup> There is no version change on CLICK Workstations and DCASS Terminals due to the launch of VCM in Derivatives Market

Once fallback has been completed, HKEX will immediately notify all EPs. All EPs should login HKATS with current version of their CLICK Workstations and / or OAPI programs and verify if all the fields under the “Status” column in the Information Feed Status window are “ON”.

After logging on to HKATS, EPs should check information through the Market Messages window to retrieve the following information from HKEX:

- Schedule of market openings
- Notice of any special arrangement for trading on HKATS; and
- Other important market information

*ii) Validation of trades executed*

In order to ensure the accuracy of information for trades that were executed prior to and after the fallback, EPs should validate all trades upon fallback completion via their CLICK Workstations, OAPI programs and DCASS Terminals.

**Order book will be emptied after the fallback** with no outstanding order after logging in by CLICK Workstations or OAPI programs.

**4. Enquiries**

For any enquiries about the fallback procedures, EPs can contact the HKATS hotline at 2211-6360.

**5. Checklist for Fallback**

Items to be checked		√
1.	Pay attention to Market Messages and Exchange News for the possible fallback announcements made by HKEX	
2.	Upon resumption of HKATS after the fallback, Participants should use existing usernames and passwords to login HKATS with the current software version using CLICK Workstations and/ or OAPI programs and DCASS Terminals	
3.	After logging on to HKATS, Participants should validate all trades executed before fallback	