

香港期貨交易所有限公司

(香港交易及結算所有限公司全資附屬公司)

HONG KONG FUTURES EXCHANGE LIMITED

(A wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited)

通告 CIRCULAR

Subject: New Bundled Incentive Program for Physically Settled USD and CNH Gold Futures

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The Hong Kong Futures Exchange Limited (“the Exchange”) is pleased to announce new incentive programs from the “Product Launch Date” (to be announced in a separate circular in due course) to 29 December 2017 (Day session) (both dates inclusive) for market participants to support the liquidity development of the physically settled USD and CNH Gold Futures¹ (“Gold Futures”).

The Exchange offers the new bundled incentive programs for the physically settled USD and CNH Gold Futures (each an “Eligible Product”; together an “Eligible Product Basket”). The Exchange may, at its sole discretion, add other commodities products to be approved by the Securities and Futures Commission (SFC) to the Eligible Product list in the future.

Bundled Liquidity Providing Incentive Program

Eligible Products:

Liquidity Provider (“LP”) incentives and obligations are measured per Eligible Product; while Proprietary Trader (“PT”) incentives and volume commitments are measured per Eligible Product Basket, comprising the physically settled USD and CNH Gold Futures.

¹ Reference is made to the circular dated 5 May 2017 regarding the “Introduction of the Physically Settled USD and CNH Gold Futures and Registration for Briefing Session” ([MKD/CLM/001/17](#)).

Eligible applicants:

- a. LP - an Exchange Participant (“EP”) who performs liquidity providing activities by itself or by way of a liquidity providing arrangement with its client, and commits to meet the LP obligations in the selected Eligible Products assigned by the Exchange; and
- b. PT - an EP who trades through its House Account or any client represented by an EP who trades through an Individual Client Account, and commits to meet the minimum threshold of aggregate clearing volume per month in the Eligible Product Basket assigned by the Exchange.

Details of the LP and PT obligations are set forth in **Attachment I**.

Incentives:

Upon fulfilment of its obligations, each LP or PT will be offered rebates up to a maximum amount per month for the following items:

- Cross-product trading fee in Hang Seng Index (HSI) Futures, H-shares Index (HHI) Futures and USD/CNH (CNH) Futures;
- Market data (securities/derivatives) fee; and
- Hosting services fee.

In addition, each LP will be granted waiver for OAPI sub-licence fees up to a maximum amount per month.

Details are as follows:

Category	Maximum Incentives per month (in HK\$)				
	Combinations of:				Max Total per month
	Cross-Product Trading Fee Rebate	Market Data Fee Rebate	Hosting Services Fee Rebate	OAPI Sub-licence Fee Waiver ²	
Type 1 LP	Up to \$89,600 in total			Up to \$10,400 per month (i.e. 4 OAPIs)	\$100,000
Type 2 LP	Up to \$44,800 per month in total			Up to \$5,200 per month (i.e. 2 OAPIs)	\$50,000
Type 1 PT	Up to \$100,000 in total			N/A	\$100,000
Type 2 PT	Up to \$50,000 in total				\$50,000
Type 3 PT	Up to \$25,000 in total				\$25,000
Type 4 PT	Up to \$10,000 in total				\$10,000

LPs / PTs can choose a combination of Eligible Products / Eligible Product Basket, subject to the cap of aggregated rebates available of trading fee, market data fee and hosting services fee. Details of cross-product trading fee rebate are as follows:

Product	HSI Futures*	HHI Futures*	CNH Futures ³
Trading Fee Rebate Per Contract	HK\$6.5 (i.e. 65% rebate)	HK\$2.5 (i.e. 71% rebate)	RMB 3 (i.e. 37% rebate)

*Note: Clearing volumes of HSIF and HHIF which have been claimed for trading fee discount by options market makers (MMs) are not entitled for further trading fee rebate.

An example to illustrate the fee rebate calculation is included under **Attachment II**.

Quota allocation:

The maximum quota to be assigned by the Exchange will be 15 Type 1 LPs (or a mix of different types of LPs whereby the aggregate maximum incentives per month, calculated in accordance with the table set out above, is equivalent to that for 15 Type 1 LPs) in total for all Eligible Products, and 12 Type 1 PTs (or a mix of different types of PTs whereby the aggregate maximum incentives per month, calculated in accordance with the table set out above, is equivalent to that for 12 Type 1

² Currently HK\$2,600 per month for 1 OMnet Application Programming Interface (OAPI) connection with 5 transactions per second (TPS)

³ The trading fee rebate for CNH Futures will be converted to HK dollars based on the foreign exchange rate at the time of the payment calculation.

PTs) in total for the Eligible Product Basket. As the quota will be limited, the Exchange will allocate the quota depending on the Exchange's business plan at the time of selection and the applicant's indications of commitment.

The Exchange will select LPs / PTs based on the applicant's additional commitments on each Eligible Product / Eligible Product Basket. If more than one applicant indicates the same commitment, the Exchange will consider the applicant's performance at the Exchange in the past.

Should the LPs/ PTs fail to meet their commitments for a month, they will not be entitled to any fee rebates or any fee waiver will be subject to charge back for the month. If they fail to meet their commitments for two consecutive months, their appointments may be subject to termination by the Exchange. Any new quotas released will be re-assigned to unselected applicants in the bidding process, according to the level of commitments that the LPs/ PTs had indicated.

Application Procedure

The new incentive programs are now open for application. Interested applicants should contact Ms. Jennifer Chan (JenniferChan@hkex.com.hk), Ms. Rina Ku (RinaKu@hkex.com.hk), or Ms. Iris Hui (IrisHui@hkex.com.hk) for program details on or before **15 June 2017 Noon**. The application deadline will be on **19 June 2017 Noon**. The appointment of LPs / PTs will be announced in due course.

Huang Hao
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Market Development
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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.

Obligations of Liquidity Provider (LP) and Proprietary Trader (PT)

a. Obligations of LP

LP will be required to meet at least the following obligations:

Commodities Futures	Type of LP	Minimum LP Quoting Obligations				
		Type	Contract Months	Quote Size	Maximum Bid/Offer Spread	Minimum % of Trading Hours Coverage
Physically settled USD Gold Futures and/ or physically settled CNH Gold Futures	Type 1	Continuous quotes (CQ)	Spot, and next 2 calendar months; and the next Jun and Dec contracts	3 contracts	At least Spot, next 2 calendar months, and next June and Dec contracts: 3 ticks (Optional) Other calendar months: 5 ticks	70% of trading hours in a month*
	Type 2					50% of trading hours in a month*

*either T or T+1 session

Priority will be given to applicants who indicate higher commitments in terms of the spread and quote size for each product they apply for in the application form. However, final obligations assigned will be the same for LPs in the same Eligible Product in order to maintain a level-playing field. The Exchange will take into account the majority and the lowest bidding level among the selected applicants in determining the obligations for performance monitoring.

Incentives will not be given to an LP who fails to meet its obligations of that month. In addition, if an LP fails to fulfill the obligations for two consecutive calendar months, its appointment may be subject to early termination.

b. Obligations of PT

PT will be required to meet a minimum threshold of aggregate clearing volume per month per Eligible Product Basket as follows:

Type of PT	Volume Obligations (Based on Clearing Volume)
Type 1	1,000 contracts
Type 2	750 contracts
Type 3	500 contracts
Type 4	250 contracts

Priority will be given to applicants who indicate higher commitments in terms of clearing volume for each Eligible Product Basket they apply for in the application form. However, final obligations assigned will be the same for PTs of the same type in order to maintain a level-playing field. The Exchange will take into account the majority and the lowest bidding levels among the selected applicants in determining the obligations for performance monitoring.

The Exchange will determine a PT's volume traded solely based on the clearing volume in the House Account of the EP, the Individual Client Account of the client trading through the EP or other account as assigned by the Exchange. Incentives will not be given to a PT who fails to meet its obligations of that month. In addition, if a PT fails to meet the volume requirements for two consecutive calendar months, its appointment may be subject to early termination.

Example of Fee Rebate and Waiver Calculation for LP:

Assuming an LP has signed up and met the quoting obligations for the following products under the incentive program in a given month, its maximum incentives per month and entitlement of actual fee rebate/ waiver for that month will be as follows:

	Products	LP Type	Max Incentives Per Month (HK\$)			Fee Rebate / Waiver Entitlement (HK\$)					
			Fee Rebate <i>(trading fee/ market data fee/ hosting services fee)</i>	Fee Waiver <i>(OAPI sub- licence fee)</i>	Total	Fee Rebate ⁴				Fee Waiver	Total
						Cross-product trading fee	Market data fee	Hosting services Fee	Sub-total	OAPI sub-licence fee	
						<i>Assume LP traded 20,000 HSI Futures and is eligible for \$6.5 fee rebate per contract. Total HSIF fee rebate is:</i>	<i>Assume actual fee payable by LP is:</i>	<i>Assume actual fee payable by LP is:</i>		<i>Assume LP has 12 OAPIs (\$2,600 each)</i>	
						\$130,000	\$100,000	\$50,000		\$31,200	
1	USD Gold Futures	Type 1	\$89,600	\$10,400	\$100,000	\$43,333 ⁵	\$33,333	\$12,933	\$89,600	\$10,400	\$100,000
2	Hang Seng ML Bank Index Futures	Type 1	\$89,600	\$10,400	\$100,000	\$43,333	\$33,333	\$12,933	\$89,600	\$10,400	\$100,000
3	RMB Currency Futures Basket	Type 2	\$44,800	\$5,200	\$50,000	\$21,667	\$16,667	\$6,467	\$44,800	\$5,200	\$50,000
4	CNH Options	Type 2	\$44,800	\$5,200	\$50,000	\$21,667	\$16,667	\$6,467	\$44,800	\$5,200	\$50,000
	Total		\$268,800	\$31,200	\$300,000	\$130,000	\$100,000	\$38,800⁶	\$268,800	\$31,200	\$300,000

⁴ Fee rebate will be calculated in the following order: (i) HSI Futures trading fee; (ii) HHI Futures trading fee; (iii) CNH Futures trading fee; (iv) market data fee; and (v) hosting services fee.

⁵ Each fee rebate/waiver will be pro-rated based on the maximum incentives amount in each product.

e.g Cross-product HSI Futures trading fee rebate for LP in USD Gold Futures = $\$130,000 \times \$89,600 \div \$268,800 = \$43,333$ (rounded to the nearest integer.)

⁶ LP paid \$50,000 hosting services fee but will only receive \$38,800 rebate as the aggregated fee rebate has exceeded the cap already