

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: Introduction of the 5-year China Ministry of Finance Treasury Bond Futures

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Hong Kong Futures Exchange Limited (the "Exchange" or "HKFE") is pleased to announce that the Securities and Futures Commission ("SFC") has approved the introduction of the 5-year China Ministry of Finance Treasury Bond ("MOF T-Bond") Futures contracts. The trading of the MOF T-Bond Futures contracts will commence on 10 April 2017 ("Commencement Date").

The MOF T-Bond Futures contract introduces an offshore interest rate risk management tool in the RMB fixed income space based on a benchmark of onshore Chinese government bonds. Being the first of its kind in the offshore market, it aims to address the growing interest rate risk management demand from international investors, in anticipation of further development and internationalisation of the Chinese bond market.

### **Contract Specifications**

Key features of the MOF T-Bond Futures contract are as follows.

	MOF T-Bond Futures Contract
HKATS Code	HTF
Underlying Bond	Onshore 5-year China Ministry of Finance Treasury Bonds with 3% coupon rate and annual coupon payment
Contract Size	RMB 500,000
Contract Months	The two nearest quarter months (where quarter months are March, June, September and December)
Price Quotation	As a percentage of the Contract Size, quoted to 3 decimal places
Minimum Fluctuation	0.002 percent of the Contract Size, which is equivalent to RMB 10
Trading Hours (Hong Kong time)	9:00 a.m. - 12:00 noon (morning trading session) and 1:00 p.m. - 4:30 p.m. (afternoon trading session)

	<b>MOF T-Bond Futures Contract</b>
	There is no afternoon trading session on the eves of Christmas, New Year and Lunar New Year. The trading hours on those three days shall be 9:00 a.m. – 12:00 noon
Position Limits	20,000 net contracts in all Contract Months combined, per Exchange Participant for the Exchange Participant's own behalf; and  20,000 net contracts in all Contract Months combined per Client
Large Open Positions	1,000 open contracts in any one Contract Month, per Exchange Participant for the Exchange Participant's own behalf; and  1,000 open contracts in any one Contract Month per Client
Settlement Method	Cash settled contract for difference
Settlement Currency	RMB
Final Settlement Day	The second Hong Kong Business Day after the Last Trading Day
Last Trading Day	The second Friday of the Contract Month  If it falls on a Hong Kong or Mainland China public holiday, the Last Trading Day will be the preceding Hong Kong Business Day which is also a business day in Mainland China
Final Settlement Price	The Final Settlement Price for 5-Year MOF T-Bond Futures contracts shall be a number, rounded up to the nearest 3 decimal places if the figure in the fourth decimal place is 5 or above and rounded down to the nearest 3 decimal places if it is below 5, determined by the Clearing House and shall be the onshore 5-Year China MOF T-Bond basket reference price provided by China Central Depository & Clearing Co., Ltd. at approximately 6:00 p.m. on the Last Trading Day
Exchange Fee (per contract per side)	RMB 5.00
Settlement Fee	RMB 5.00 per contract on final settlement
Commission Levy	RMB 0.50 <sup>1</sup> , subject to the initial six-month exemption, i.e. from 10 April 2017 to 9 October 2017, pursuant to the Securities and Futures (Levy) Order

<sup>1</sup> The RMB equivalent of HK\$0.54 per contract at the exchange rate determined by the HKFE from time to time

Details of the contract specifications are set forth in Attachment I for reference. Relevant rule amendments relating to the MOF T-Bond Futures contracts will be announced via a separate circular.

### **Bond Basket and Pricing Determination**

China Central Depository & Clearing Co., Ltd. (“ChinaBond”) shall, in accordance with the procedures and methodologies provided by HKFE, determine the bond universe, bond basket and calculate the Daily Reference Price of each bond basket for each futures contract.

The date of basket determination is defined as 5 working days before the listing date of the futures contract. Bonds in the bond universe shall fulfill the following conditions:

- Issued by the China Ministry of Finance;
- RMB denominated;
- Tradable in China interbank bond market;
- With fixed coupon rates annually; and
- With the remaining term to maturity of no less than 4 years (including the 4th year) and no more than 7 years (excluding the 7th year) as of the Last Trading Day of the futures contract

ChinaBond selects bonds from the bond universe to construct the bond basket. The bonds selected as the bond basket constituents must be in the top 3 most liquid issues based on ChinaBond’s Relative Liquidity Measure (as defined in the methodology) as of the date of basket construction. ChinaBond will calculate and send the Daily Reference Price of the bond basket and MOF T-Bond Futures to HKFE on each working day from the listing day till the Last Trading Day. Please refer to HKEX’s website (<http://www.hkex.com.hk/mofff>) for further details of the bond basket and reference price calculation methodology.

### **Trading Arrangements**

#### **Pre-Launch Arrangements**

To facilitate market participants in the trading and clearing of the MOF T-Bond Futures contracts, the following pre-launch arrangements will be made available on **Friday, 7 April 2017** (i.e. one business day before the Commencement Date):

- a. Trading codes of the MOF T-Bond Futures contracts will be displayed on HKATS, but the MOF T-Bond Futures contracts will not be tradable on that day; and
- b. Information relating to the MOF T-Bond Futures contracts will be generated in the risk parameter files, clearing and open interest reports.

#### **Trading Month Arrangement at Launch**

On the Commencement Date, the contract months of the MOF T-Bond Futures contracts available for trading are June 2017 and September 2017.

### **Maximum Order Size**

Please note that the MOF T-Bond Futures contracts will have a maximum order size limit on HKATS of 1,000 contracts. Exchange participants (“EPs” or “Participants”) are required to submit their request to HKEX for setting up their own order size limits based on their business needs and risk management requirements.

### **Block Trade Volume Threshold and Permissible Price Range**

The block trade volume threshold for the MOF T-Bond Futures contracts will be 50 contracts. The block trade permissible price range is 3%. Details of block trade permissible price range are set forth in Attachment II for reference.

### **Error Trade Price Parameters and Procedures**

The price parameter for the purpose of the error trade rules under HKFE Rule 819B is 3% from notation price. Details of error trade parameters are set forth in Attachment II for reference.

### **Liquidity Provider Program**

The Exchange invites applications of liquidity providers for the MOF T-Bond Futures. Liquidity Provider incentives include: 1) up to 80% discount of Exchange fee; and 2) up to one OAPI license fee waiver per Participant. Interested parties should contact Ms. Rina Ku ([RinaKu@hkex.com.hk](mailto:RinaKu@hkex.com.hk)) or Mr. Frederick Yim ([FrederickYim@hkex.com.hk](mailto:FrederickYim@hkex.com.hk)) for further information.

### **Promotional Support for Exchange Participants**

#### **Promotional Materials**

The Exchange can provide promotional items, such as electronic banners and printed promotional materials, to support Participants in promoting the MOF T-Bond Futures contracts business. Participants who are interested in promoting the new product should contact Ms. Ting Wang (Email: [WangTing@hkex.com.hk](mailto:WangTing@hkex.com.hk); Tel: 2211-6123).

#### **Joint Promotional Program**

The Exchange will be launching a joint promotional program to support Participants educate their staff and clients on the MOF T-Bond Futures. The Exchange will select a number of Participants (“Participating EPs”) to receive the following support from the Exchange for:

- i. Cost Sponsorship to conduct Marketing Activities - A cost sponsorship with maximum amount of HK\$50,000 for each selected Participating EP to conduct the marketing activities as outlined in a marketing proposal that must be submitted by the Participating EP;
- ii. Promotional Materials – Free copies of promotional materials, including electronic banners and printed promotional materials, will be provided to Participating EPs for the

- promotional efforts and distribution during public seminar(s) and marketing event(s); and
- iii. Speaker – The Exchange will provide a representative to speak at public seminar(s) and in-house training organised by selected Participating EPs.

The criteria for granting the cost sponsorship for Participating EPs are as follows:

- i. A Participating EP must submit a detailed marketing proposal for review;
- ii. The MOF T-Bond Futures contracts must be the primary theme in any marketing activities;
- iii. The cost sponsorship will be granted in accordance to the actual expenses in each marketing item outlined in the marketing proposal and declared by the Responsible Officer of Participating EPs;
- iv. The number of attendees / participants in the marketing activity. The target number of attendees is at least 100 for public seminars.

Interested parties should contact Ms. Rina Ku ([RinaKu@hkex.com.hk](mailto:RinaKu@hkex.com.hk)) or Mr. Frederick Yim ([FrederickYim@hkex.com.hk](mailto:FrederickYim@hkex.com.hk)) for further information.

### **Clearing and Settlement Arrangements**

To be eligible for clearing and settlement of the MOF T-Bond Futures contracts, Clearing Participants of HKFE Clearing Corporation Limited (“HKCC”) need to arrange for RMB settlement capability by setting up a RMB account with any one of the Settlement Banks appointed by the HKCC and to maintain relevant mandates in such form as prescribed by HKCC.

Clearing Participants are requested to ensure that these bank accounts are in active status and ready for cash settlement. Non-Clearing Participants should contact their General Clearing Participants to ascertain their eligibility of clearing the MOF T-Bond Futures contracts.

### **Risk Management Arrangements**

Margin levels and update of PC-SPAN Organization Master File for the MOF T-Bond Futures contracts will be announced in due course.

### **Trading Information**

The access codes of information vendors of the MOF T-Bond Futures contracts will be available on HKEX’s website (<http://www.hkex.com.hk/mofft>) in due course.

**Exchange Participants' Readiness**

Participants are required to notify their staff and all interested clients of the details of the MOF T-Bond Futures contracts. Please ensure that their trading and back office systems are ready in order for a smooth operation upon the introduction of MOF T-Bond Futures contracts. In addition, staff should be fully aware of the above and should exercise caution when dealing with the MOF T-Bond Futures contracts and when advising their clients.

Julien Martin  
Head  
FIC Product Development  
Market Development Division

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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.*

**Contract Specifications**

Contract Specifications  
For  
Five-Year Ministry of Finance Treasury Bond (“MOF T-Bond”) Futures

The following Contract Specifications shall apply to the Five-Year MOF T-Bond Futures Contract:

Underlying Bond	Onshore Five-Year China Ministry of Finance Treasury Bonds with 3% coupon rate and annual coupon payment
Contract Size	RMB500,000
Contract Months	The two nearest quarter months (where quarter months are March, June, September and December) The Chief Executive may, in consultation with the Commission, introduce additional Contract Months for trading from time to time as he considers appropriate
Price Quotation	As a percentage of the Contract Size, quoted to 3 decimal places
Minimum Fluctuation	0.002 percent of the Contract Size, which is equivalent to RMB10
Maximum Fluctuation	As prescribed by the Exchange from time to time
Contracted Price	The price at which the Five-Year MOF T-Bond Futures Contract is registered by the Clearing House
Contracted Value	Contracted Price multiplied by Contract Size divided by 100 (e.g. (101.000 x RMB500,000) / 100)
Trading Hours (Hong Kong time)	9:00 a.m. - 12:00 noon (morning trading session) and 1:00 p.m. - 4:30 p.m. (afternoon trading session)  There is no afternoon trading session on the eves of Christmas, New Year and Lunar New Year. The trading hours on those three days shall be 9:00 a.m. – 12:00 noon
Trading Hours on Last Trading Day (Hong Kong time)	9:00 a.m. - 12:00 noon (morning trading session) and 1:00 p.m. - 4:30 p.m. (afternoon trading session)  There is no afternoon trading session on the eves of Christmas, New Year and Lunar New Year. The trading hours on those three days shall be 9:00 a.m. – 12:00 noon

Trading Method	The Exchange's Automated Trading System (HKATS)
Position Limits	20,000 net contracts in all Contract Months combined, per Exchange Participant for the Exchange Participant's own behalf; and  20,000 net contracts in all Contract Months combined per Client
Large Open Positions	1,000 open contracts in any one Contract Month, per Exchange Participant for the Exchange Participant's own behalf; and  1,000 open contracts in any one Contract Month per Client
Settlement Method	Cash settled contract for difference
Settlement Currency	RMB
Final Settlement Day	The second Hong Kong Business Day after the Last Trading Day
Last Trading Day	The second Friday of the Contract Month  If it falls on a Hong Kong or Mainland China public holiday, the Last Trading Day will be the preceding Hong Kong Business Day which is also a business day in Mainland China
Final Settlement Price	The Final Settlement Price for Five-Year MOF T-Bond Futures Contracts shall be a number, rounded up to the nearest 3 decimal places if the figure in the fourth decimal place is 5 or above and rounded down to the nearest 3 decimal places if it is below 5, determined by the Clearing House and shall be the onshore Five-Year China MOF T-Bond basket reference price provided by China Central Depository & Clearing Co., Ltd. at approximately 6:00 p.m. on the Last Trading Day
Cash Settlement Value	Final Settlement Price multiplied by Contract Size divided by 100 (e.g. Final Settlement Price x (RMB500,000) / 100)
Trading Fee (per contract per side)	Exchange Fee <span style="float: right;">RMB5.00</span>  The amount indicated above is subject to change from time to time
Levies (per contract per side)	Commission Levy and Investor Compensation Levy are payable at the rate or of the amount prescribed from time to time pursuant to the Ordinance
Commission Rate	Negotiable



Attachment II

**Error Trade Parameters for the MOF T-Bond Futures contract**

The price parameters for the MOF T-Bond Futures contract for the purposes of the error trade rule under HKFE Rule 819B are as follows:

<u>Futures contract</u>	<u>from notation price</u>
Five-Year MOF T-Bond Futures	3%

Note:

The notation price will be determined as follows:

1. The average of the prices of the previous match and the next match in that contract month occurring reasonably close to the time of error trade. If this, in the opinion of the Exchange, fails to reflect a fair price, the notation price will be determined on the basis of item (2) below.
2. The reasonable bid and offer prices available around the time of error trade. If this, in the opinion of the Exchange, fails to reflect a fair price, the notation price will be determined on the basis of item (3) below.
3. The prices obtained by the Exchange from consulting 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.

**Block Trade Permissible Price Range for MOF T-Bond Futures**

With reference to the HKFE rule 815A(5), the price at which a block trade is executed must be fair and reasonable, and the revised permissible price range for block trades is determined in the following manner:

- (a) When the executed price is at or within the range of highest traded price, lowest traded price, bid and ask price of the contract; or
- (b) When the executed price is within a price range to both sides of a reference price obtained through prevailing market prices, or if necessary, determined as the theoretical values based on the prevailing underlying values. Price ranges for the MOF T-Bond Futures contract are as follows:

<u>Futures contract</u>	<u>Price range</u>
Five-Year MOF T-Bond Futures	3%