HKEx 香港交易所

編號
Ref. No.: DMD/034/11
日期
Date: 11 March 2011

香港聯合交易所有限公司
(香港交易及結算所有限公司全資附屬公司)
The Stock Exchange of Hong Kong Limited
(A wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited)

通告 CIRCULAR

事項
Subject: Introduction of Synthetic Futures Trading in Stock Options Market

查詢
Enquiry: Mr. Gary Lui 2211-6405

Exchange Participants are requested to note that standard combination trading function will be introduced for trading synthetic futures strategy in selected option classes in the stock options market on 9 May 2011 (Effective Date), subject to SFC's approval of the proposed amendments to the Operational Trading Procedures for Options Trading Exchange Participants of the Stock Exchange.

A synthetic futures strategy is a stock option combination, which consists of two option legs. The buyer of synthetic futures is to buy a call option and sell a put option with the same underlying, strike price and expiry date, whereas the seller of synthetic futures is to sell a call option and buy a put option with the same features. Economically, the payoff of synthetic futures at expiration is similar to equity holding.

Investors can make use of synthetic futures to gain or hedge the delta exposure of their stock options portfolio. Once synthetic futures are executed, the option contracts comprising the trade will be recorded in the individual option series and can be margined with other stock options portfolio on a net basis under SEOCH.

The standard combination trading function allows investors to price combination trades as packages and reduces execution risk. In addition, HKATS can automatically generate derived orders, "Bait Orders", based on the bid/ask prices of each individual options series under the combination and the price of the order for the combination. Prices of these derived orders will be automatically adjusted according to bid/ask price movements in the individual series and the order for the combination.

Operational Arrangements

At the inception, the operational arrangements for synthetic futures series will be as follows:

香港中環港景街一號國際金融中心一期12樓
12/F, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong
電話 Tel: + 852 2522 1122 傳真 Fax: +852 2295 3106 網址 Website: www.hkex.com.hk 電郵 E-mail: info@hkex.com.hk

1. Option Classes with Synthetic Futures Series - Synthetic futures series will be introduced in the following five option classes:

   a. China Construction Bank Corporation (CCB)
   b. China Life Insurance Company Limited (CLI)
   c. China Mobile Limited (CHT)
   d. Hong Kong Exchanges and Clearing Limited (HEX)
   e. HSBC Holdings Plc. (HKB)

   The Exchange might introduce synthetic futures series in other option classes, subject to market demand.

2. Addition of New Synthetic Futures Series - On the Effective Date, one at-the-money synthetic futures series will be available for trading in the spot month. The at-the-money strike price is the closing price of the underlying security rounded off to the nearest strike price, unless the closing price is precisely midway between two strike prices in which case it shall be rounded off to the lower strike price. To facilitate rollover activities, the Exchange will introduce new at-the-money synthetic futures series in the next expiry month on the fifth trading days before the expiry day of the spot month contract. The Exchange has the discretion to introduce any other new synthetic futures series at any time.

3. Naming Standard for Synthetic Futures Series - The series naming standard for synthetic futures will be as follows: Underlying Code + Strike Level + Contract Month and Year Code of Put + "/" + Contract Month and Year Code of Call + "SY". For example: Buy "HKB90.00Q1/E1SY" represents sell HSBC Put and buy HSBC call expiring in May 2011 with strike price at $90.00.

4. Price Quotations in Synthetic Futures Series - The bid/ask prices of synthetic futures series can be quoted in positive or negative terms. The quotation will be positive when the buyer/seller of synthetic futures series is to pay/receive an option premium. Conversely, the quotation will be negative when the buyer/seller of synthetic futures series is to receive/pay an option premium (see example in the Appendix).

5. Block Trade and Bulletin Board Trade in Synthetic Futures Series - Synthetic futures series cannot be used for entering block trade or bulletin board trade, but Participants may still execute synthetic futures strategy by entering orders in the option legs individually.

6. Error Trade in Synthetic Futures Series - Existing Error Trade Rules will apply to individual option legs in the synthetic futures strategy.

7. Unusual Prices - When an order for synthetic futures series is matched with another order on the same synthetic futures directly, the executed price of each individual leg may be unusual if there is no prevailing bid, ask or last traded for both legs. Both parties involved may request for a change of deal price as per current arrangement for unusual prices.

Inform Your Staff and Clients

Participants should notify all clients regarding the details of the operational arrangements for synthetic futures series. Please ensure that your systems can support trading of synthetic futures series and ensure a smooth operation, if you are prepared to offer synthetic futures series trading for your clients. In addition, all your staff should be fully aware of the operational arrangements for synthetic futures series and should exercise caution when dealing with synthetic futures series and when advising your clients.

P C Wong
Vice President
Trading Division (Derivatives)

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.

Appendix

Price Quotation of Synthetic Futures

It is the convention that the bid/ask price is quoted in positive term when the buyer is to pay option premium and the seller is to receive option premium. Since the synthetic futures trading involves buying and selling the different options legs, the buyer/seller of synthetic futures may not always be the option premium payer/receiver. To reflect the situation, the bid/ask price of synthetic futures will be quoted in negative term when the buyer/seller is option premium receiver/payer instead.

The following is an example to illustrate the idea:

Option Series	Bid	Ask
Stock A $95.00 May Call	0.23	0.27
Stock A $95.00 May Put	3.64	3.77

Buyer of Synthetic Futures
When an investor wants to bid Stock A $95.00 May Synthetic Futures, he is in fact bidding a Stock A $95.00 May Call and asking a Stock A $95.00 May Put at the same time. If executed, the overall transactions will be:

– Pay $0.23 (buy Call)
– Receive $3.77 (sell Put)

➢ Buyer to receive option premium of $3.54

Seller of Synthetic Futures
When an investor wants to ask Stock A $95.00 May Synthetic Futures, he is in fact asking a Stock A $95.00 May Call and bidding a Stock A $95.00 May Put at the same time. If executed, the overall transactions will be:

– Receive $0.27 (sell Call)
– Pay $3.64 (buy Put)

➢ Seller to pay option premium of $3.37

Therefore, the implied Bid/Ask Quote of Stock A $95.00 May Synthetic Futures shall be:

Option Series	Bid	Ask
Stock A $95.00 May Synthetic Futures	- 3.54	- 3.37