Explanatory Notes for Application for Registration as Designated Stock Futures Hedging Short Selling Participant and Application for Registration as Stock Futures Hedging Participant

General Information

1. Applicants should note that applications that are not accompanied by all the required forms and documents stated in these notes will not be processed and such applications will be returned to the applicants.

2. Application forms are available at the web-site of Hong Kong Exchanges and Clearing Limited at www.hkex.com.hk.

3. Please read carefully all the information provided in this Explanatory Note(s) before completion of the application forms.

4. Stock Futures Hedging Short Selling may only be conducted by an exchange participant of The Stock Exchange of Hong Kong Limited ("SEHK") which is registered with SEHK as a Designated Stock Futures Hedging Short Selling Participant ("DSFHSSP") for the account of an exchange participant of Hong Kong Futures Exchange Limited ("HKFE") which is a market maker in the Stock Futures Market of HKFE and which has designated the DSFHSSP to conduct Stock Futures Hedging Short Selling on its behalf.

5. A market maker in the Stock Futures Market wishing to be exempt from the "Tick Rule"[1] in relation to Stock Futures Hedging Short Selling must be registered with HKFE as a Stock Futures Hedging Participant ("SFHP").

6. Applicant using broker supplied system ("BSS") to conduct Stock Futures Hedging Transaction ("SFHT") may be required to conduct the relevant BSS testing to demonstrate its BSS readiness in conducting SFHT.

Documents Required for the Application(s)

	Application Type	Required Document
1.	Designated Stock Futures Hedging Short Selling Participant	Form 14 (Application for Registration as Designated Stock Futures Hedging Short Selling Participant)
2.	Stock Futures Hedging Participant	Form 14A (Application for Registration as Stock Futures Hedging Participant)

Order Input Requirements for DSFHSSP

1. A DSFHSSP shall enter the transaction indicator and the short sale indicator for a SFHT into the OTP-C.

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[1] Meaning the requirement under the Rules of SEHK that short selling of a security on SEHK must not be made below certain price as specified under the Rules of SEHK, and "Tick Rule Exemption" shall be construed accordingly.

2.   Stock Futures Hedging Short Selling could be made on SEHK below the best current ask price (during the Continuous Trading Session) or the CAS reference price (during the Closing Auction Session).

3.   Order input formats

   (i)   Below is a summary of the input formats for DSFHSSP using BSS to conduct SFHT:

   a.   For each buy or sell order of a SFHT, a DSFHSSP shall fill in the first 3 spaces of the reference field [i.e. 58 (Text)] with an indicator "FFF".   "FFF" is the specific transaction indicator assigned by SEHK for SFHT.

   b.   For a sell order which is not a short sell, a DSFHSSP is required to specify the value in the tags/fields below and "FFF" is required to be input in the reference field.

OCG-C Messages for SFHT	OCG-C Binary Field and Value	OCG-C FIX Tag and Value	Description
- New Board Lot Order - Amend Order	Side=2	54(Side)=2	2=Sell
	Text=FFF	58(Text)=FFF	Reference field

   c.   For a short sell order without claiming Tick Rule Exemption, a DSFHSSP is required to specify the value in the tags/fields below and "FFF" is required to be input in the reference field.

OCG-C Messages for SFHT	OCG-C Binary Field and Value	OCG-C FIX Tag and Value	Description
- New Board Lot Order - Amend Order	Side=5	54(Side)=5	5=Sell Short
	Text=FFF	58(Text)=FFF	Reference field

   d.   For a short sell order claiming Tick Rule Exemption, a DSFHSSP is required to specify the value in the tags/fields below and "FFF-[the HKATS Trading Group][2]" in the reference field.

OCG-C Messages for SFHT	OCG-C Binary Field and Value	OCG-C FIX Tag and Value	Description
- New Board Lot Order - Amend Order	Side=5	54(Side)=5	5=Sell Short
	Order Restrictions=6	529(Order Restrictions)=6	6= Acting as Market Maker or Specialist in underlying of a derivative security
	Text=FFF-*[the HKATS Trading Group][2]*	58(Text)=FFF-*[the HKATS Trading Group][2]*	Reference field

   e.   For a buy order, the short sell field is not required.   However, "FFF" is still required to be input in the reference field.

OCG-C Messages for SFHT	OCG-C Binary Field and Value	OCG-C FIX Tag and Value	Description
- New Board Lot Order - Amend Order	Side=1	54(Side)=1	1=Buy
	Text=FFF	58(Text)=FFF	Reference field

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[2]   See the additional order input requirements for SFHT in paragraph 4 below.   DSFHSSP shall include the relevant HKATS Trading Group as required under such paragraph 4 in the reference field.

(ii) **Below is a summary of the input formats for DSFHSSP using the New Securities Trading Device ("NSTD") to conduct SFHT:**

Orders		"SS" Indicator	First 3 digits in "Ref" field
(A)	Short Sell		
	- Downtick[3]	F	*FFF-[the HKATS Trading Group]*[2]
	- Non-downtick	Y	FFF
(B)	Buy	N	FFF
(C)	Long Sell	N	FFF

4. Additional order input requirements for SFHT

In addition to the above requirement to fill in first 3 spaces of the reference with an indicator "FFF", a DSFHSSP is required to specify in the reference field the HKATS Trading Group (i.e. the alphabets of the HKATS Username) of the SFHP or (if a market making arrangement is in place), the corporate entity under a market making arrangement with the SFHP.

For example, if the HKATS Trading Group of the market maker/ corporate entity of the SFHP is "AAAMA", a DSFHSSP shall input "FFF-AAAMA" (with dash in between) as the reference indicator.

5. DSFHSSP must comply with these input requirements and other regulations set out in the Fifteenth Schedule of the Rules of SEHK.

Maximum Hedging Limit

1. SFHP shall, and shall procure that the DSFHSSP which it has designated to conduct SFHT on SEHK on its behalf shall, ensure that, at all times, the extent to which the Tick Rule Exemption may be claimed by a DSFHSSP in respect of Stock Futures Hedging Short Selling of shares underlying a particular Stock Futures Contract conducted for the account of each SFHP shall be subject to a maximum hedging limit.

2. Calculation of the maximum hedging limit

The maximum hedging limit for each Stock Futures Contract equals 1.1 multiplied by the number of contracts held by the SFHP in the Stock Futures Contract which are not hedged by an offsetting transaction multiplied by the Contract Multiplier of the Stock Futures Contract. A position in Stock Futures Contract which is not hedged would not be carried forward for more than 1 business day for in the calculation of the maximum hedging limit.

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[3] Downtick short sell order means order at price below the best current ask price (during the Continuous Trading Session) or the CAS reference price (during the Closing Auction Session).

A worked example
Example 1

Day 1	Number of contract held in the Stock Futures Contract
a) Total buy transactions on Stock Futures Contract for the trading day	= 100
b) Maximum hedging limit	= 100 x 1.1 x 1000 (contract multiplier) = 110,000 shares
c) Number of shares eligible for claiming Tick Rule Exemptions on Day 1	= 110,000 shares
d) Number of shares short-sold with Tick Rule Exemptions	= 80,000 shares (within limit)
e) Total long position carry forward to the next trading day (Day 2) *(See Notes below)*	= 100,000 shares - 80,000 shares = 20,000 shares (20 contracts)
Day 2	
a) Total long position carry forward from Day 1	= 20,000 shares (20 contracts)
b) Total buy transactions on Stock Futures Contract for the trading day	= 31,000 shares (31 contracts)
c) Maximum hedging limit	= 51 x 1.1 x 1000 (contract multiplier) = 56,100 shares
d) Number of shares short-sold with Tick Rule Exemptions	= 16,000 shares (within limit)
e) Total long position carry forward to the next trading day (Day 3) *(See Notes below)*	= 31,000 shares (see note)

Example 2

Day 1	Number of contract held in the Stock Futures Contract
a) Total buy transactions on Stock Futures Spot month Contract for the trading day	= 100
b) Maximum hedging limit	= 100 x 1.1 x 1000 (contract multiplier) = 110,000 shares
c) Number of shares eligible for claiming Tick Rule Exemptions on Day 1	= 110,000 shares

d) Number of shares short-sold with Tick Rule Exemptions	= 0 shares (within limit)
e) Total long position carry forward to the next trading day (Day 2) *(See Notes below)*	= 100,000 shares (100 contracts)
Day 2	
a) Total long position carry forward from Day 1	= 100,000 shares (100 contracts)
b) Total buy transactions on Stock Futures Contract for the trading day	= 0 shares (0 contracts)
c) Maximum hedging limit	= 100 x 1.1 x 1000 (contract multiplier) = 110,000 shares
d) Number of shares short-sold with Tick Rule Exemptions	= 0 shares (within limit)
e) Total long position carry forward to the next trading day (Day 3) *(See Notes below)*	= 0 shares
Day 3 (Expiry Day)	
a) Total long position carry forward from Day 2	= 0 shares (0 contracts)
b) Total number of Stock Futures Spot month Contract expired for the trading day	= 100,000 shares (0 contracts)
c) Maximum hedging limit	=0*1.1*1000 =0 Shares
d) Number of shares short-sold with Tick Rule Exemptions	= 1,000 shares (out-of-limit)
e) Total long position carry forward to the next trading day (Day 3) (See Notes below)	= 0 shares (see note)

Notes:

1) All positions in such Stock Futures Contract which are not hedged by offsetting transaction will be considered as having been reported to HKFE and will be carried forward to the next Business Day for the calculation of the maximum hedging limit unless otherwise notified by the SFHP to HKFE in writing.

2) Under no circumstances shall a position in Stock Futures Contract which is not hedged be carried forward for more than one Business Day for the calculation of the maximum hedging limit.