

REGULATIONS FOR TRADING STOCK INDEX OPTION CONTRACTS

INTERPRETATION

001 These Regulations may be cited as the Regulations for trading Stock Index Options (hereinafter referred to as the “Regulations”).

002 The Exchange Rules and the Clearing House Rules (referred to collectively as the “Rules”) including the definitions, rules of interpretation and administrative provisions shall apply for the purposes of these Regulations. Unless specifically provided otherwise, the terms and expressions set out below shall have the meanings attributed to them herein. In the event of any conflict or inconsistency between the Rules (other than these Regulations) and these Regulations, including the Contract Specifications (which form part of these Regulations), the Regulations shall in all cases prevail.

“Cabinet Trade” an option which is executed at a price prescribed by the Exchange as the Minimum Fluctuation;

“Contract Month” the month and year in which an option expires;

“Contract Multiplier” the cash value of one Index point or as otherwise specified by the Exchange from time to time and provided for in the Contract Specifications;

“Contract Week” the week, month and year in which an option expires;

“Contracted Price” has the same meaning as in the Regulations for Trading Stock Index Futures Contracts;

“Expiry Day” the only Trading Day on which a Stock Index Option can be exercised subject to Rule 901 of the Exchange Rules and as specified in the Contract Specifications;

“Final Settlement Day” the Final Settlement Day as specified from time to time in the Contract Specifications of the relevant Stock Index Option Contract;

“Final Settlement Value” the value of a Stock Index Option as specified in Regulations 012 to 015;

“Flexible Option” a Stock Index Option at the time of its creation (i) with a Contract Month other than that of a Short-dated Option or a Long-dated Option or (ii) with a Contract Month which is the same as that of a Short-dated

	Option or a Long-dated Option but with a Strike Price, in whole index points, not within the Strike Price Intervals of a Short-dated Option or a Long-dated Option specified in the Contract Specifications;
“Holder”	an HKCC Participant which holds a long option position;
“Long-dated Options”	Stock Index Options with Contract Months for Long-dated Options as specified in the Contract Specifications;
“Minimum Fluctuation”	the minimum allowable movement in the price of an option as specified by the Exchange in the Contract Specifications;
“Official Settlement Price”	the level of the underlying Index or futures, as the case may be, on exercise of the option as determined by the Clearing House and calculated in accordance with the Contract Specifications;
“Option Premium”	the price expressed in Index points at which an option is bought or sold excluding any commissions, trading fees and applicable levies;
“Short-dated Options”	Stock Index Options with Contract Months for Short-dated Options as specified in the Contract Specifications;
“Spot Month Option Contract” and “Spot Month”	in a given month : (i) on day(s) prior to and on the Expiry Day of that month, a Spot Month Stock Index Option refers to a Stock Index Option with an Expiry Day in that same given month; and (ii) on the day after the Expiry Day of that month, a Spot Month Stock Index Option refers to a Stock Index Option with an Expiry Day in the immediately following month; and Spot Month shall be construed accordingly;
“Spot Week”	in a given week, the Contract Week of a Weekly Contract whose Expiry Day is within that week, if any;
“Stock Index” or “Index”	an index (including sub-index) that indicates the relative level of prices, value or dividend of a number of stocks whose inclusion and relative representation in the index are determined by reference to certain

factors including the current market prices of the stocks and their market capitalisation or an index (including sub-index) that indicates the relative level of volatilities implied by a range of index options contracts;

“Stock Index Option” or “option”	an Option Contract on a Stock Index or an Option Contract on a Stock Index Futures Contract;
“Stock Index Option Market”	a Market subject to these Regulations; and
“Writer”	an HKCC Participant which holds a short option position.

STOCK INDEX

003 The method of compilation, computation and dissemination of the Stock Index must have been previously approved by the Exchange and the Commission; the level of the Stock Index must be regularly and broadly disseminated by a person approved by the Exchange and the Commission; and the underlying shares of a Stock Index must reflect a stock market, stock markets or a segment of a stock market, as the case may be, approved by the Exchange and the Commission.

CONTRACT SPECIFICATIONS

004 The terms and conditions for each option shall include, among other things:-

- a) Underlying Index/Index;
- b) Contract Multiplier;
- c) Contract Months or Contract Weeks;
- d) Trading Hours;
- e) Trading Method;
- f) Expiry Day;
- g) Option Premium;
- h) Cash value of a Cabinet Trade;
- i) Strike Prices;
- j) Exercise Style;
- k) Settlement on Exercise;
- l) Position Limits;
- m) Large Open Positions;
- n) Minimum Fluctuation; and
- o) Commission Rate.

005 Contract Specifications for Stock Index Options may be changed from time to time by the Exchange Board in consultation with the Commission. Exchange

Participants shall be given notice of a change in the Contract Specifications prior to implementation of the change.

TRADING

- 006 The Stock Index Option Market shall be open for trading on every Trading Day subject to the Exchange Rules. Trading Hours shall be as prescribed by the Exchange Board from time to time.
- 007 (a) Trading in Stock Index Options shall cease at the close of Trading Hours on the applicable Expiry Day or at such other times as specified by the Exchange Board.
- (b) Trading in Short-dated and Long-dated Options shall be subject to applicable Rules, Regulations and Procedures, including the requirements relating to Market Makers specified in applicable Procedures.
- (c) (deleted)
- 008 All disputes as to bids, offers, acceptances or withdrawals during trading sessions shall be governed by the Exchange Rules.

OFFICIAL SETTLEMENT PRICE

- 009 The Exchange shall, in conjunction with the Clearing House, announce the Official Settlement Price as soon as practicable after it has been determined.
- 010 The Official Settlement Price of a Stock Index Option shall be a number determined by the Clearing House in accordance with the Contract Specifications.
- 011 If, in the opinion of the Chief Executive, circumstances are developing or have developed which are capable of preventing calculation of the Official Settlement Price of an Index, or which may render an Official Settlement Price unrepresentative of the level of prices at which the shares comprising the Index are traded during the Expiry Day, of the cumulated dividends of such underlying shares on the Trading Day following the Expiry Day or of the 30-day implied volatility of the underlying options on the Expiry Day, then the Chief Executive, after consultation with the Commission, may either on his own or in conjunction with the Clearing House take such steps as he deems appropriate to enable the Official Settlement Price to be determined.

SETTLEMENT ON EXERCISE

- 012 The Holder of a Call Option shall have the following rights in respect of each Call Option held:-

- I) in respect of a Call Option whose underlying is a Futures Contract:
 - a) if, on the relevant Expiry Day, the Strike Price of the Call Option is less than the Official Settlement Price, the Call Option shall be deemed to be exercised by the Holder. No overriding instructions would be accepted. Upon exercise, the Holder will be assigned a long position in the underlying Futures Contract with the same Contract Month and with a Contracted Price which is equal to the Strike Price of the Call Option; or
 - b) if, on the relevant Expiry Day, the Strike Price of the Call Option is greater than, or equal to, the Official Settlement Price, then the Call Option shall be deemed to have expired worthless.

- II) in respect of a Call Option whose underlying is not a Futures Contract:
 - a) if, on the relevant Expiry Day, the Strike Price of the Call Option is less than the Official Settlement Price, the Call Option shall be deemed to be exercised by the Holder.

The Holder shall be entitled to receive the Final Settlement Value from the Clearing House which shall be equal to the difference between the Official Settlement Price and the Strike Price of the Call Option, multiplied by the Contract Multiplier; or

- b) if, on the relevant Expiry Day, the Strike Price of the Call Option is greater than, or equal to, the Official Settlement Price, then the Call Option shall be deemed to have expired worthless.

013 The Writer of a Call Option shall have the following obligations in respect of each Call Option written:-

- I) in respect of a Call Option whose underlying is a Futures Contract:
 - a) if, on the relevant Expiry Day, the Strike Price of the Call Option is less than the Official Settlement Price, the Writer will be assigned a short position in the underlying Futures Contract with the same Contract Month and with a Contracted Price which is equal to the Strike Price of the Call Option; or
 - b) if, on the relevant Expiry Day, the Strike Price of the Call Option is greater than, or equal to, the Official Settlement Price, then the Call Option shall be deemed to have expired worthless and the Writer shall have no further obligation in respect of that option.

- II) in respect of a Call Option whose underlying is not a Futures Contract:

- a) if, on the relevant Expiry Day, the Strike Price of the Call Option is less than the Official Settlement Price, the Writer shall pay to the Clearing House the Final Settlement Value which shall be equal to the difference between the Official Settlement Price and the Strike Price of the Call Option, multiplied by the Contract Multiplier; or
- b) if, on the relevant Expiry Day, the Strike Price of the Call Option is greater than, or equal to, the Official Settlement Price, the Call Option shall be deemed to have expired worthless and the Writer shall have no further obligation in respect of that option.

014 The Holder of a Put Option shall have the following rights in respect of each Put Option held:-

D) in respect of a Put Option whose underlying is a Futures Contract:

- a) if, on the relevant Expiry Day, the Strike Price of the Put Option is greater than the Official Settlement Price, the Put Option shall be deemed to be exercised by the Holder. No overriding instructions would be accepted. Upon exercise, the Holder will be assigned a short position in the underlying Futures Contract with the same Contract Month and with a Contracted Price which is equal to the Strike Price of the Put Option; or
- b) if, on the relevant Expiry Day, the Strike Price of the Put Option is less than, or equal to, the Official Settlement Price, then the Put Option shall be deemed to have expired worthless.

II) in respect of a Put Option whose underlying is not a Futures Contract:

- a) if, on the relevant Expiry Day, the Strike Price of the Put Option is greater than the Official Settlement Price, the Put Option shall be deemed to be exercised by the Holder.

The Holder shall be entitled to receive the Final Settlement Value from the Clearing House which shall be equal to the difference between the Strike Price of the Put Option and the Official Settlement Price, multiplied by the Contract Multiplier; or

- b) if, on the relevant Expiry Day, the Strike price of the Put Option is less than, or equal to, the Official Settlement Price, then the Put Option shall be deemed to have expired worthless.

015 The Writer of a Put Option shall have the following obligations in respect of each Put Option written:-

- D) in respect of a Put Option whose underlying is a Futures Contract:
- a) if, on the relevant Expiry Day, the Strike Price of the Put Option is greater than the Official Settlement Price, the Writer will be assigned a long position in the underlying Futures Contract with the same Contract Month and with a Contracted Price which is equal to the Strike Price of the Put Option; or
 - b) if, on the relevant Expiry Day, the Strike Price of the Put Option is less than, or equal to, the Official Settlement Price, then the Put Option shall be deemed to have expired worthless and the Writer shall have no further obligation in respect of that option.

II) in respect of a Put Option whose underlying is not a Futures Contract:

- a) if, on the relevant Expiry Day, the Strike Price of the Put Option is greater than the Official Settlement Price, the Writer shall pay to the Clearing House the Final Settlement Value which shall be equal to the difference between the Strike Price of the Put Option and the Official Settlement Price, multiplied by the Contract Multiplier; or
- b) if, on the relevant Expiry Day, the Strike Price of the Put Option is less than, or equal to, the Official Settlement Price, the Put Option shall be deemed to have expired worthless and the Writer shall have no further obligation in respect of that option.

016 The Final Settlement Value shall be determined in accordance with the calculations specified in Regulations 012 to 015 above where applicable and all margin payments and variation adjustments made to, received from or owed to, the Clearing House prior to and including Expiry Day, shall be set off against the amount owing to or by the HKCC Participant.

017 All rights of a Holder and obligations of a Writer of Stock Index Options shall, unless such Stock Index Options are Physical Delivery Contracts, be satisfied by cash settlement by or with the Clearing House on the Final Settlement Day in accordance with the Clearing House Rules.

COMMISSIONS AND LEVIES

018 The rate of commission for Stock Index Options shall be negotiable between an Exchange Participant and its Client unless otherwise specified in the Contract Specifications.

019 Every Stock Index Option shall be subject to an Exchange Fee which shall become immediately payable to the Exchange upon registration of the contract with the Clearing House. The Exchange Fee shall be paid to the Exchange through the Clearing House and shall be set by the Exchange Board from time

to time.

- 020 All levies required to be paid pursuant to the Ordinance in consequence of trading in Stock Index Options shall be paid to the Exchange through the Clearing House in such manner as the Exchange shall, in consultation with the Commission, prescribe from time to time.

MARGIN AND VARIATION ADJUSTMENTS

- 021 Clearing House margin, additional margin and variation adjustments shall be set, collected or distributed in respect of Stock Index Options in accordance with the Rules.

PAYMENT OF OPTION PREMIUM AND CLIENT ACCOUNTS

- 022 A Client may, subject to the Rules, open and maintain with an Exchange Participant one of two types of account with respect to trading options. The two available account types are:

- a) a Client cash account in which a Client may carry only long option positions in respect of which the full cash value of the Option Premium has been paid to the Exchange Participant on the day of the trade; and
- b) at the discretion of the Exchange Participant, a Client margin account in which a Client may carry both long and short option positions in respect of which the Client has paid the applicable margin in accordance with the Rules. Notwithstanding the foregoing, a Client margin account may be established only when the Exchange Participant employs a margining system or methodology approved by the Exchange.

Both types of accounts shall be opened and maintained in accordance with the Rules.

APPROVAL TO CONDUCT BUSINESS IN STOCK INDEX OPTIONS

- 023
- a) Exchange Participants must seek approval from the Exchange in order to trade any Stock Index Options Contracts.
 - b) In respect of any Stock Index Options Contracts, the Exchange may, in its absolute discretion, grant or withhold such approval or grant its approval subject to such restrictions or conditions, or after granting such approval restrict or attach conditions, as it shall deem fit in view of the matters set out in sub-paragraph (c) and the decision of the Exchange shall be final and conclusive.
 - c) In the exercise of its discretion, the Exchange will take into account whether an Exchange Participant:-
 - i) (deleted)

- ii) is financially and operationally capable of fulfilling all obligations related to participation in the Stock Index Option Market;
- iii) has adequate internal control and risk management procedures in place; and
- iv) has installed the HKATS equipment to the satisfaction of the Exchange.

In applying for approval, every person shall follow the procedures prescribed by the Exchange from time to time.

DISCLAIMER

- 024 Every Exchange Participant shall ensure that prior to its accepting or carrying an account for trading in a Stock Index Option Market on behalf of any Client a disclaimer in the form prescribed by the Board from time to time is delivered to the Client.

DISCLOSURE REQUIREMENTS

- 025 No Exchange Participant may open or deal for an account trading Stock Index Options for a Client unless the Exchange Participant:-
- a) is approved by the Exchange to trade Stock Index Options; and
 - b) is approved to conduct Client business.
 - c) – e) (deleted)

- 026 (deleted)

POSITION LIMITS

- 027 (a) The Chief Executive may impose Position Limits on Exchange Participants and their Clients as provided for in the Exchange Rules and such Position Limits shall be specified in the Contract Specifications.
- (b) Subject to Rules 629(e) and 630(e), the Chief Executive may, on a case-by-case basis, increase, decrease or remove the Position Limits imposed pursuant to the Rules by giving notice in writing to the Clearing House, the Exchange Participant and the Commission.
- (c) The Chief Executive shall not be required to give any reasons for his decision to increase, decrease or remove the Position Limits pursuant

to the Rules.

- (d) Failure to comply with the Position Limits is governed by the Rules.
- (e) Subject to Rules 629(e) and 630(e), the Chief Executive may approve higher Position Limits for Market Makers.

Note: The Commission may also impose contract limits under the Ordinance.

LARGE OPEN POSITIONS

- 028 (a) The Exchange Board shall specify Large Open Positions in the Contract Specifications as provided for in the Exchange Rules.
- (b) Exchange Participants shall report Large Open Positions to the Chief Executive or the designated HKEX staff as required by the Rules and the Exchange Procedures.

SHORT OPTION POSITION RESTRICTIONS

- 029 The Exchange Board reserves the right to prohibit or restrict Exchange Participants from carrying short option positions in the Exchange Participant's own accounts or in the accounts of their Clients.

030 (deleted)

REGISTRATION

- 031 All Exchange Participants trading in Stock Index Options shall comply with applicable Procedures. The Clearing House Rules shall govern the registration and clearing of Stock Index Options.

NON-COMPLIANCE

- 032 An Exchange Participant which does not comply with these Regulations in any respect (including, without limitation, settlement with the Clearing House on the Final Settlement Day) shall be liable to disciplinary proceedings under the Exchange Rules.

LIQUIDITY PROVISION

- 033 Notwithstanding anything contained in the Rules, the Exchange may from time to time, in its absolute discretion, appoint Exchange Participants to provide liquidity for Stock Index Options Contracts in the Stock Index Option Market at any time and on such terms and conditions as the parties may agree. For the avoidance of doubt, the terms and conditions of any appointment, including the liquidity providing activities, the liquidity providing arrangements, the liquidity providing requirements, the Exchange fee concessions and/or other

incentives upon meeting the liquidity providing requirements, are subject to negotiation between the Exchange and the relevant Exchange Participant and may therefore vary among different appointments of different Exchange Participants.