Derivatives Market Block Trade Facility Education Seminar

Vincent Mak
Senior Vice President, Trading Operations
Timothy Hong
Associate, Trading Operations
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HKEX
香 港 交 易 所

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**Agenda**

01 | Objectives

- Recap and provide general guidance on Block Trade criteria in relation to Block Trade executions:

    1. Permissible Price Range ("PPR")

    2. Minimum Volume Threshold ("MVT")

    3. Block Trade Order Aggregation

- Highlights key enhancements on Block Trade Aggregation Rule effective on 8 June 2020

- Provide examples on Block Trade with regards to Minimum Volume Threshold and Block Trade Aggregation Rule

02 | Block Trade Criteria – Permissible Price Range

HKFE Rule 815A (5) / Third Schedule 2.5 of the Options Trading Rules:

The price at which a Block Trade is executed must be fair and reasonable. Price parameters and factors which may be taken into consideration when determining whether a price is fair and reasonable will be prescribed by the Board and notified to Exchange Participants from time to time. At all times, the Board has the absolute discretion to accept or reject an executed price for a Block Trade, and that determination shall be final and conclusive.
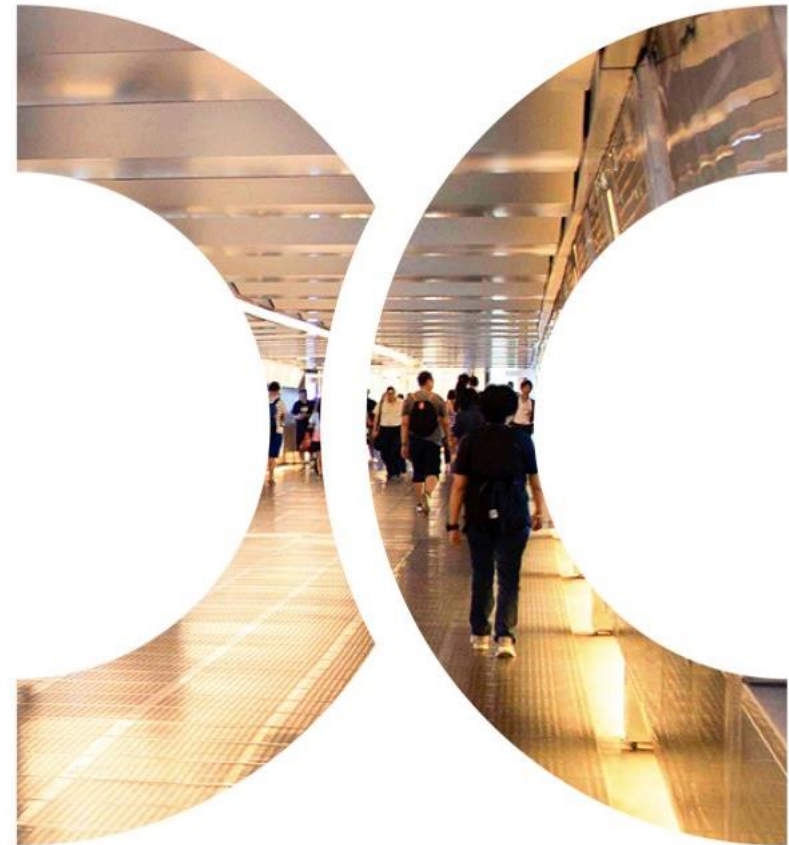
02 | Block Trade Criteria – Permissible Price Range

The Price Range[1] is determined in the following manners:

(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 the 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

Example				
(1) Price Range is determined by criteria (a)	Bid	Ask	High	Low
	100	150	250	50
	PPR: 50 - 250			
(2) Price Range is determined by criteria (b) where the midpoint of the prevailing bid/ask prices is taken as the reference price	Bid	Ask	High	Low
	340	360	-	-
	PPR: 315 - 385 (midpoint ±10% for short-dated index options)			
(3) Price Range is determined by criteria (b) when there is no prevailing price, quote from market makers will be obtained as reference price	Bid	Ask	High	Low
	-	-	-	-
	PPR: 405 - 495 Assuming quote from Market Makers is 440/460, reference price is take at midpoint which is 450 (±10% for short-dated index options)			

1. The Price Range of each product eligible for block trading is set out in the Block Trade Facility web corner.

03 | Block Trade Criteria – Minimum Volume Threshold

HKFE Rule 815A (2)(a):

Subject to Rule 815A(2A), an Exchange Participant (EP) shall not execute any order as a Block Trade unless that order meets the applicable Minimum Volume Threshold set forth below and the Exchange Participant has received instructions or has been specifically authorized to execute the order as a Block Trade:

Exchange Contracts	MVT (no. of contracts)
Stock Index Futures Note 3 (HSI, HHI Futures)	100
Stock Index Options Note 2 (HSI, HHI Options)	100

Note 1: For a single order involving a spread or a strategy combination except HIBOR strips, at least one of the legs of the spread or strategy combination must meet the Minimum Volume Threshold.
Note 2: For any order of Stock Index Options Contracts, all legs of a spread or a strategy combination that relate to Flexible Options must meet the Minimum Volume Threshold.
Note 3: Unless otherwise specified in the table

(For MVT of the rest specific Exchange Contracts, please refer to HKFE Rule 815A (2)(a))

Regulation 2.2 of Third Schedule of Options Trading Rules of SEHK

Subject to Regulation 2.3 of this Third Schedule, an Options Trading Exchange Participant shall not execute any order as a Block Trade unless that order meets the applicable Minimum Volume Threshold and the Options Trading Exchange Participant has received instructions or has been specifically authorized to execute the order as a Block Trade.

Exchange Contracts	MVT (no. of contracts)
Stock Options	500

03 | Examples on MVT – Single Order without Aggregation

Block Trade Types	Contracts	No. of Contracts	MVT
Single Leg	HSI Futures Apr 21	125 lots	• For one single leg, it **MUST** meet the MVT
Multiple Legs[2]	HSI Futures Apr 21	80 lots	• For multiple legs, at least one of the legs must meet the MVT[1] • In order for the Exchange to recognize these multiple legs as one single spread or strategy combination, EP must input **consistent** free text in the "Info" field[2] for each individual legs • In case of T4 block trades, **both EPs** must input **consistent** free text in the "Info" field[2] • If EP fails to input consistent free text or the "info" field[2] is left as blank, the Exchange will evaluate the legs as separate single leg block trade. Any leg that does not meet the MVT will be cancelled.
	HSI Call Options Apr 21	100 lots	

1. Please refer to Note 1 of HKFE Rule 815(2)(a)
2. Please refer to Section 2.2.1 of HKATS User's Guide

04 | Block Trade Criteria – Block Trade Order Aggregation

815A. (2A)   Block Trade Order Aggregation

An Exchange Participant cannot aggregate separate orders or combine separate orders to generate a spread or strategy combination Block Trade unless:

(a)   ~~at least one of the separate orders from either side meets the Minimum Volume Threshold; and~~(deleted)

(b)   ~~the~~in the case of a Block Trade ~~does not~~which involves Futures Contracts only, each separate order comprising the Block Trade satisfies the applicable Minimum Volume Threshold; and

(c)   in the case of a spread or strategy combination which involves Futures Contracts and/or Option Contracts, at least one of the separate orders comprising an option leg satisfies the applicable Minimum Volume Threshold; and

(d)   in the case of Stock Index Options Contracts, all legs of a spread or a strategy combination that relate to Flexible Options must meet the Minimum Volume Threshold, and

(e)   authorizations have been received by the Exchange Participant from Clients whose orders are being aggregated or combined.

HKFE Rule 815A (2A) : **BEFORE June 8, 2020**

- One of these requirements as stipulated under Rule 815A(2A) (b) of the HKFE Rules is that the Block Trade shall not only involve Futures contracts when orders are being aggregated

HKFE Rule 815A (2A): **EFFECTIVE on June 8, 2020**

- To increase operational efficiency of the EPs and remove any ambiguity that different EPs may have in their own interpretation of the Rule;

- Amendment of rule 815A (2A) took effect on June 8, 2020 that to allow Block Trade orders consisting of only futures contracts to be aggregated in the event that each separate order comprising the Block Trade meet the applicable MVT

1. There are no enhancements on Block Trade Order Aggregation for Options Trading Rules, for Block Trade Order Aggregation for Stock Options, please refer to Regulation 2.2A of Third Schedule of Options Trading Rules of SEHK

Contracts	Trade Execution (No. of contracts)	Fulfill MVT Requirement at Execution	Order (No. of contracts)				Fulfill BT Aggregation Rule
			Order 1	Order 2	Order 3	Order 4	
HSI Futures Apr 21	250 Lots	Fulfill	+200 Lots	-200 Lots	-50 Lots	+50 Lots	Breach
HSI Futures May 21	250 Lots		-200 Lots	+200 Lots	+50 Lots	-50 Lots	

Rules Implications

	Each Futures leg meets the MVT requirement[1] of its respective product under Rule 815A(2)(a) Therefore, **comply** with MVT requirement at execution	Order 3 and Order 4 of **Futures only** Block Trade do not meet the MVT requirement of its respective product. **Breach** of Block Trade Aggregation Rule under Rule 815A(2A) (b).

(Positive denotes buy orders and negative denotes sell orders)

1. MVT for HSI Futures and Options: 100 contracts

Contracts	Trade Execution (No. of contracts)	Fulfill MVT Requirement at Execution	Order (No. of contracts)				Fulfill BT Aggregation Rule
			Order 1	Order 2	Order 3	Order 4	
HSI Futures Apr 21	200 Lots	Fulfill	+200 Lots	-200 Lots	N/A	N/A	Breach
HSI Futures May 21	250 Lots		-200 Lots	+200 Lots	+50 Lots	-50 Lots	

Rules Implications		
	Each Futures leg meets the MVT requirement[1] of its respective product under Rule 815A(2)(a) Therefore, **comply** with MVT requirement at execution	Order 3 and Order 4 of **Futures only** Block Trade do not meet the MVT requirement of its respective product. **Breach** of Block Trade Aggregation Rule under Rule 815A(2A)(b).

(Positive denotes buy orders and negative denotes sell orders)

1. MVT for HSI Futures and Options: 100 contracts

Contracts	Trade Execution (No. of contracts)	Fulfill MVT Requirement at Execution	Order (No. of contracts)			Fulfill BT Aggregation Rule
			Order 1	Order 2	Order 3	
HSI Futures Apr 21	150 Lots	Fulfill	+90 Lots	+60 Lots	-150 Lots	Breach

Rules Implications		
	The only Futures leg meets the MVT requirement[1] of its respective product under Rule 815A(2)(a) Therefore, **comply** with MVT requirement at execution	Order 1 and Order 2 of **Futures only** Block Trade do not meet the MVT requirement of its respective product. **Breach** of Block Trade Aggregation Rule under Rule 815A(2A)(b).

(Positive denotes buy orders and negative denotes sell orders)

1. MVT for HSI Futures and Options: 100 contracts

Contracts	Trade Execution (No. of contracts)	Fulfill MVT Requirement at Execution	Order (No. of contracts)				Fulfill BT Aggregation Rule
			Order 1	Order 2	Order 3	Order 4	
HSI Futures Apr 21	400 Lots	Fulfill	+200 Lots	+200 Lots	-300 Lots	-100 Lots	Fulfill

	Rules Implications	
	The only Futures leg meets the MVT requirement[1] of its respective product under Rule 815A(2)(a) Therefore, **comply** with MVT requirement at execution	Each separate order of **Futures only** Block Trade has fulfilled the MVT requirement of its respective product. **Comply** with Block Trade Aggregation Rule under Rule 815A(2A)(b) since the rule amendment made on 8 Jun 2020

(Positive denotes buy orders and negative denotes sell orders)

1. MVT for HSI Futures and Options: 100 contracts

Contracts	Trade Execution (No. of contracts)	Fulfill MVT Requirement at Execution	Order (No. of contracts)			Fulfill BT Aggregation Rule
			Order 1	Order 2	Order 3	
HSI Futures Apr 21	100 Lots	Fulfill	-100 Lots	+25 Lots	+75 Lots	Breach
HSI Call Option Apr 21	80 Lots		+80 Lots	-20 Lots	-60 Lots	
HSI Put Option Apr 21	80 Lots		-80 Lots	+20Lots	+60 Lots	

Rules Implications	
One of the legs meets the MVT requirement of its respective product under Rule 815A(2)(a) Therefore, **comply** with MVT requirement at execution[1]	None of the separate orders of any Options leg meet the MVT requirement of its respective product. **Breach** of Block Trade Aggregation Rule under Rule 815A(2A)(c)

(Positive denotes buy orders and negative denotes sell orders)

1. The Block Trade has compiled with the MVT requirement only on the basis of the single order involving a spread or a strategy combination except HIBOR strips, at least one of the legs of the spread or strategy combination must meet the MVT

Contracts	Trade Execution (No. of contracts)	Fulfill MVT Requirement at Execution	Order (No. of contracts)			Fulfill BT Aggregation Rule
			Order 1	Order 2	Order 3	
HSI Futures Apr 21	100 Lots	Fulfill	+100 Lots	-100 Lots	N/A	Fulfill[2]
HSI Call Option Apr 21	100 Lots		-100 Lots	+50 Lots	+50 Lots	

	Rules Implications	
	Both Futures and Options legs have meet the MVT requirement[1] of its respective product under Rule 815A(2)(a) Therefore, **comply with** MVT requirement at execution	At least one of the orders comprising the option leg has fulfilled the MVT requirement of its respective product. **Comply** with Block Trade Aggregation Rule under Rule 815A(2A)(c).

(Positive denotes buy orders and negative denotes sell orders)

1. MVT for HSI Futures and Options: 100 contracts
2. If the block trade is submitted by 2 different EPs, the EP who aggregated the orders, i.e. Order 2 & 3 (where none of Order 2 or 3 fulfilled the relevant MVT requirements), must have confirmed that the counterparty is in compliance with Rule 815A(2A)(c). If necessary, the Exchange will require EP to submit satisfactory evidence accordingly

Contracts	Trade Execution (No. of contracts)	Fulfill MVT Requirement at Execution	Order (No. of contracts)				Fulfill BT Aggregation Rule
			Order 1	Order 2	Order 3	Order 4	
HSI Futures Apr 21	100 Lots	Fulfill	+100 Lots	N/A	-100 Lots	N/A	Breach
HSI Call Option Apr 21	100 Lots		-50 Lots	+50 Lots	+50 Lots	-50 Lots	

Rules Implications		
	Both Futures and Options legs have meet the MVT requirement[1] of its respective product under Rule 815A(2)(a) Therefore, **comply with** MVT requirement at execution	None of the separate orders comprising the Option leg meets the MVT requirement of its respective product. **Breach** of Block Trade Aggregation Rule under Rule 815A(2A)(c)

(Positive denotes buy orders and negative denotes sell orders)

1. MVT for HSI Futures and Options: 100 contracts

Contracts	Trade Execution (No. of contracts)	Fulfill MVT Requirement at Execution	Order (No. of contracts)				Fulfill BT Aggregation Rule
			Order 1	Order 2	Order 3	Order 4	
HSI Flexible Call Options Apr 21	200 Lots	Fulfill	+200 Lots	-200 Lots	N/A	N/A	Breach
HSI Flexible Call Options Apr 21	300 Lots		-200 Lots	+300 Lots	-50 Lots	-50 Lots	

	Rules Implications

	All flexible options legs have meet the MVT requirement[1] of its respective product under Rule 815A(2)(a) Therefore, **comply** with MVT at execution	Order 3 and Order 4 of **flexible options** Block Trade do not meet the MVT requirement of its respective product. **Breach** of Block Trade Aggregation Rule under Rule 815A(2A)(d).

(Positive denotes buy orders and negative denotes sell orders)

1. MVT for HSI Flexible Options: 100 contracts

Contracts	Trade Execution (No. of Contracts)	Fulfill MVT Requirement at Execution	Order (No. of contracts)				Fulfill BT Aggregation Rule
			Order 1	Order 2	Order 3	Order 4	
HSI Futures Apr 21	100 Lots	Fulfill	+50 Lots	+50 Lots	-90 Lots	-10 Lots	Fulfill
HSI Call Options Apr 21	200 Lots		-100 Lots	-100 Lots	+100 Lots	+100 Lots	

	Rules Implications	
	Both Futures and Options legs have meet the MVT requirement[1] of its respective product under Rule 815A(2)(a) Therefore, **comply with** MVT requirement at execution	At least one of the orders comprising the option leg has fulfilled the MVT requirement of its respective product. **Comply** with Block Trade Aggregation Rule under Rule 815A(2A)(c).

(Positive denotes buy orders and negative denotes sell orders)

1. MVT for HSI Futures and Options: 100 contracts

06 | Summary

Block Trade orders must be executed in such manner and must satisfy the criteria laid down in HKFE Rule 815A / Third Schedule of the Options Trading Rules and such other criteria as may be prescribed from time to time, including the following:

- Execution Price: the price must be fair and reasonable, i.e. within the Permissible Price Range (see slide 6)

- Volume: the Block Trade must satisfy the Minimum Volume Threshold (see slide 7)

- Aggregation Rule: if a Block Trade involves aggregation of separate orders, the Aggregation Rule must be followed (see slide 9)

(Please refer to Block Trade Facility Web Corner and respective Product Specification for details)

Enquiries

Enquiries:

HKATS Hotline: 2211 6360

Email: deriopt@hkex.com.hk