HKEX 香港交易所

RMB Currency Products
Frequently Asked Questions (FAQ)

May 2018

Overview

1. What RMB currency products are offered by HKEX? What is the underlying currency pair for these products?

HKEX offers a diversified suite of RMB currency products contracts based on the exchange rates between RMB and other currencies. Our first RMB currency futures, USD/CNH futures, was launched in September 2012, as the world's first deliverable RMB currency futures product.

HKEX also offers cash-settled RMB currency futures – EUR/CNH futures, JPY/CNH futures, AUD/CNH futures and CNH/USD futures contracts. Complementary to the family of RMB currency futures, HKEX launched RMB currency options – USD/CNH options in March 2017.

The RMB currency products are financial instruments for managing RMB exchange rate risk exposure.

2. What are the trading hours of the RMB currency products? Does HKEX have any plan to extend the trading hours? What is the holiday schedule?

For RMB currency futures, the trading hours are 8:30 a.m. to 4:30 p.m. for day session and 5:15 p.m. to 01:00 a.m. (next day) for after-hours trading session. For RMB currency options, the trading hours are 9:00 a.m. to 4:30 p.m. for day session, with no after-hours trading session.

As part of the continual product enhancements, HKEX plans to extend the trading hours of the RMB currency products to overlap with the overseas markets in due course.

RMB currency products are traded according to Hong Kong holiday schedule.

3. What is the USD/CNY (HK) spot rate of Treasury Markets Association?

The USD/CNY(HK) spot rate of Treasury Markets Association (TMA) is the benchmark for market exchange rate of USD against CNY(HK). The USD/CNY(HK) spot rate is published at around 11:30 a.m. Hong Kong time each business day (excluding Saturdays) on TMA's website and by Thomson Reuters.

Please refer to the TMA's website for further details:
https://www.tma.org.hk/en_market_info.aspx.

4. What is the WM/Reuters Intra-Day Spot Rate?

The WM/Reuters Intra-Day Spot Rate was launched in 1994, and is generally recognised as the FX market benchmark[1]. The EUR/USD, JPY/USD and AUD/USD WM/Reuters Intra-Day Spot Rates are used for calculating the final settlement price for HKEX's EUR/CNH, JPY/CNH and AUD/CNH futures.

Please refer to the Reuters website for further details:
https://financial.thomsonreuters.com/en/products/data-analytics/market-data/financial-benchmarks/spot-rates.html

Product Usage

5. How can participants use RMB currency products to hedge their RMB-related risks?

HKEX's RMB currency futures and options together allow investors to deploy trading and hedging strategies under various market conditions – they can be utilised in bullish, bearish, range-bound or volatile markets.

Please refer to the product infosheets and related publications for some applications.
http://www.hkex.com.hk/Products/Listed-Derivatives/Foreign-Exchange/USD-CNH-Futures?sc_lang=en#&product=CUS

6. What is the user group of the RMB currency products?

RMB hedging demand increases amid the currency's increased two-way volatility, and a diverse and growing group of real users and RMB hedgers are more active in managing the RMB-related risks.

HKEX's RMB currency products, both futures and options, can be used by any individual or

[1] As cited by a report of the Financial Stability Board in 2014 http://www.fsb.org/wp-content/uploads/FX-Benchmarks-progress-report.pdf

institution that needs to manage foreign exchange risk exposure associated with RMB. The potential users of RMB currency products includes banks, fund managers (in particular QFIIs and QDIIs), companies with RMB related trading business and individual investors who want to gain or manage RMB exposures are the target.

7. Is there any participation restriction in HKEX's RMB currency products?

No - The contracts are traded on HKEX's derivatives market and offered by over 120 international, Mainland and local exchange participants (i.e. brokers). Any investors are able to trade the products via exchange participants.

Exchange participants are required to have USD (applicable for trading USD/CNH futures and options and CNH/USD futures) and/or RMB (applicable for trading all RMB currency products except CNH/USD futures) settlement capability in order to trade the RMB currency products market and offer these products to their clients.

8. How do HKEX's RMB currency futures compare to CNH deliverable forwards offered by banks?

Unlike CNH deliverable forwards which are traded over the counter ("OTC") facing a bilateral counterparty, HKEX's RMB currency futures contracts are standardised contracts traded in a central exchange market. Apart from high level of price transparency, the exchange acts as the buyer of all sellers and the seller of all buyers. The counterparty you are facing is always the exchange and therefore counterparty risk is reduced when comparing to trading OTC.

In the case of trading deliverable forwards in the OTC market, documentations like International Swaps and Derivatives Association ("ISDA") master service agreement and Credit Support Annex ("CSA") are commonly required. Such documentations are not required to trade in futures market and this greatly simplifies the documentation required to enter futures contract.

9. What is the impact of recent regulatory changes in the OTC space?

New rules in Europe (EMIR[2]) and the United States (CFTC[3]) are affecting existing OTC

[2] European market infrastructure regulation ("EMIR") is the regulatory technical standards pursuant to Article 11 European Market Infrastructure Regulation (EU) No. 648/2012 of the European Parliament and of the Council.
[3] Commodity Exchange Act of the U.S. Commodity Futures Trading Commission ("CFTC").

participants. From 1 March 2017, all in-scope counterparties (primarily financial entities and systemically important non-financial entities) with uncleared OTC portfolios must exchange variation margin daily. This requirement is relatively new for many users of OTC products, and the requirement to exchange initial margin is being made mandatory in stages over time towards full implementation by September 2020.

RMB exchange-traded derivatives provide capital efficiency to investors as a result of their comparative advantages in various aspects vis-à-vis the OTC market. See the table below as comparison between exchange-traded RMB derivative products and OTC products.

Comparison between RMB exchange-traded derivatives products and RMB OTC derivatives products		
Item	**RMB OTC derivatives**	**RMB exchange-traded derivatives**
Price transparency	Relatively less transparent — Need to contact each counterparty to get the price	Highly transparent —prices are available on the HKEX website for free, and through information vendors and trading platforms of brokers
Counterparty credit risk	Bilateral without central clearing, facing counterparty credit risk of each counterparty	Central clearing and acting as the counterparty for both sides of transaction, facing only counterparty credit risk of HKCC
Collateral Arrangement	Need to negotiate collateral arrangements with each counterparty	List of acceptable collaterals is published on HKEX website
Settlement risk	RMB is not an eligible currency in CLS[4], therefore cannot utilise the CLS system for payment netting	Payment is made to HKCC on a net basis per settlement currency

Trading Arrangements

10. What is the market making arrangements for RMB currency products?

HKEX has appointed market makers / liquidity providers for the RMB currency products contract to provide two-way liquidity for the contract. For USD/CNH futures, market makers provide continuous two-way prices with a maximum quote spread from 20 pips (0.0020).

The different types of market makers of RMB currency products include Chinese and regional banks, securities firms and international liquidity providers.

[4] Continuous Linked Settlement System — a global clearing and settlement system for cross-border FX transactions.

Refer to the market making arrangements for further details
http://www.hkex.com.hk/Products/Listed-Derivatives/Market-Maker-Program/Market-Maker-Obligations-and-Incentives?sc_lang=en

11. How do participants execute block trade?

HKATS's Block Trade Facility allows participants to execute a large-sized order with price and execution certainly, and reduction of counter-party risk through central clearing. The minimum block trade volume threshold for RMB currency futures and options is 50 contracts.

Please refer to HKEX website for block trade procedures, and contact 2840 3524 or FICD@hkex.com.hk for execution enquiry.

12. How do investors perform calendar rolling?

Calendar spread combos have been used actively in futures trading, especially approaching the end of each calendar month for calendar rolling purposes. Calendar spread execution can also be adopted for trading applications, such as to pre-position for a flattening/steepening of forward curve ahead of different volatility scenario.

Investors can utilise the standardised calendar spread combinations (combos) offered on HKATS. Each calendar combo is the simultaneous purchase and/or sale of two different calendar months with the same underlying. Calendar combos offer 40% reduction in margin requirements. Calendar combos can be facilitated by price makers through on-screen or block-trade execution.

HKEX offers a full suite of 45 calendar spreads for USD/CNH futures, covering any pair of the 10 listed contract months, effective from 19 June 2018.

13. Where can we access real-time data of the products?

The real-time market prices are available on the HKEX website (http://www.hkex.com.hk/Products/Listed-Derivatives/Foreign-Exchange/), via information vendors (see access codes) and trading platforms of EPs.

Margining and Collateral Management

14. What are the margin levels of RMB currency products?

Traded on margin basis, the RMB currency products provide capital efficiency, and reduce market funding costs for trading the products. The margin level of each product is regularly reviewed with reference to historical price volatilities, current and anticipated market conditions. Please refer to current margin levels at http://www.hkex.com.hk/eng/market/rm/rm_dcrm/riskdata/margin_hkcc/HKCC_Margin_Levels_Eng.xlsx

Exchange Participants should set the margin level of each RMB currency product according to each client's individual circumstances. Investors are reminded that the margin levels may change from time to time due to the change of market conditions and should consult their respective Exchange Participants for the latest margin levels.

15. What is the "spot month charge" for USD/CNH futures and options?

A "spot month charge" is an additional charge imposed on the spot month physical delivery contract during the last four business days before the business day immediately preceding the final settlement day. The "spot month charge" for USD/CNH futures and options covers additional risk that may arise from physical delivery during the period leading up to the final settlement day. Clearing Participants should ensure that their back office systems can support the calculation of spot month charge as part of the margin calculation process.

16. How are RMB currency products margined? Are there any collateral management services provided?

Same as other HKFE products, HKCC calculates the margin requirements of its participants at the end of each trading day and following the market open of T Session[5] using PRiME, (**P**ortfolio **Ri**sk **M**argining System of HK**E**X), a SPAN[6] compatible margining algorithm that underpins the margining engine of DCASS.

[5] Only applicable for products with T+1 Session
[6] SPAN (Standard Portfolio Analysis of Risk) is a registered trademark of the Chicago Mercantile Exchange

Clearing Participant must fulfil its margin requirement by any acceptable cash and/or non-cash collateral. In September 2016, HKCC has enhanced its collateral policy by allowing each Clearing Participant to satisfy its RMB margin requirements by any acceptable cash collateral and/or non-cash collateral (where non-cash collateral could satisfy up to 50% of the RMB margin requirements only) up to a limit prescribed by HKCC. As such, investors can choose to fund its RMB margin requirements by non-RMB currencies e.g. HKD or USD. Any RMB margin requirements beyond such limit must be satisfied by cash in RMB. This flexible collateral policy significantly reduces investors' funding costs when trading RMB-denominated derivatives products. Clearing Participants still require settling fees and variation adjustment (i.e. mark-to-market loss) in RMB for RMB denominated derivatives. For details, please refer to the following link, http://www.hkex.com.hk/Services/Clearing/Listed-Derivatives/Overview/Collateral-Management?sc_lang=en.

Clearing and Settlement

17. What happens to the position holders in physically-settled contracts (such as USD/CNH futures and options); and cash-settled contracts (such as cash-settled RMB currency futures) on final settlement?

Prior to expiration, position holders can choose to close out expiring positions or roll over to other contract months; or otherwise hold the outstanding positions to expiry for final settlement.

On final settlement day, the following procedures apply to the position holders:-

- For the physically-settled **USD/CNH futures**, the contract will be settled on the final settlement day by principal exchange, i.e. contract size in US dollars versus final settlement value in RMB (contract size multiplied by *final settlement price*[7]). Delivery of US dollars will be made by short-position holder (i.e. seller); and payment of the RMB will be made by long-position holder (i.e. buyer). Please refer to the illustration of final settlement procedures on HKEX website.

- The physically-settled **USD/CNH options** are European style**,** with only "in-the-money"[8] options to be exercised at expiry. The contract will be settled on final settlement day by principal exchange, i.e. contract size in US dollars versus final settlement value in RMB (contract size multiplied by *strike price*). Delivery of US dollars will be made by *call option writer* or *put option holder*; and payment of the RMB will be made by the *call option holder* or *put option writer*. Please refer to the illustration of final settlement procedures on HKEX website.

	Holder	Writer
Call Options	Payment of the Final Settlement Value in RMB	Delivery of US dollars
Put Options	Delivery of US dollars	Payment of the Final Settlement Value in RMB

- For the cash-settled **EUR/CNH, JPY/CNH, AUD/CNH and CNH/USD futures**, the contract will be settled on the final settlement day by cash settlement for difference in the settlement

[7] For USD/CNH futures (options), final (official) settlement price is the USD/CNY (HK) spot rate published by the Treasury Market Association in Hong Kong at or around 11:30 a.m. on the Last Trading Day

[8] A call option is in-the-money if the official settlement price is greater than strike price. A put option is in-the-money if the strike price is greater than official settlement price.

currency.

18. When will these RMB currency futures and options be settled?

For USD/CNH futures and options, the final settlement day is set on the third Wednesday of the contract month (subject to any holiday arrangement), which follows international market convention of currency derivatives.

For cash-settled RMB currency futures, the final settlement day is set on the first business day prior to the third Wednesday of the contract month (subject to any holiday arrangement).

19. How should Exchange Participants or Clearing Participants handle principal exchange at expiration of USD/CNH futures and options?

Clearing Participants are required to set up USD and RMB clearing accounts with the HKCC in order to handle the principal exchange of USD/CNH futures and options. At contract expiration, Exchange Participants, Clearing Participants and their clients can obtain currency exchange services from their corresponding banks to meet the delivery obligations within the two business days from the last trading day to the final settlement day.

Brokers are advised to set up procedures to alert clients regarding the delivery obligations ahead of the last trading day and inform their clients on the settlement procedures upon contract expiration. If their clients are not intended to make or take delivery, brokers should advise their clients with outstanding positions in USD/CNH futures and options to close out expiring positions or roll over to other contract months on or before expiration.