

香港期貨交易所有限公司

(香港交易及結算所有限公司全資附屬公司)

HONG KONG FUTURES EXCHANGE LIMITED

(A wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited)

通告 CIRCULAR

Subject: Introduction of MSCI AC Asia ex Japan Net Total Return Index Futures

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Hong Kong Futures Exchange Limited ("the Exchange" or "HKFE") is pleased to announce the introduction of the MSCI AC Asia ex Japan Net Total Return Index ("MSCI AxJ") Futures ("MSCI AxJ Futures") contract. The tentative launch date will be on **Monday, 11 June 2018** ("**Commencement Date**"), subject to regulatory approval.

The MSCI AxJ, compiled by MSCI Limited ("MSCI"), is a well-established benchmark representing Asia regional (excluding Japan) equity market performance. Introduced in January 2001, the MSCI AxJ currently comprises securities from two developed markets (Hong Kong and Singapore) and nine emerging markets (Mainland China, India, Indonesia, Korea, Malaysia, Pakistan, the Philippines, Taiwan and Thailand). With 646 constituent stocks, it covers approximately 85% of the freefloat-adjusted market capitalisation in each market and the total freefloat-adjusted index market capitalisation is USD 4,748 billion¹. The index is calculated in a net total return form (i.e. reinvestment of net dividend payout into the index portfolio). There are 11 ETFs linked to MSCI AxJ, of which one (Stock Code: 3010) is listed and traded on the Stock Exchange of Hong Kong Limited.

The constituent list and vendor codes for the MSCI AxJ can be found at the respective MSCI website links: <https://www.msci.com/constituents> and <https://www.msci.com/ticker-codes>. The calculation methodology and top 10 constituents are set forth in Attachment I.

The introduction of the MSCI AxJ Futures contract aims to meet the trading and hedging needs of investors who have exposure to large and mid-cap companies in developed and emerging Asian

¹ Source: MSCI Monthly Factsheet, as of 30 March 2018

markets (ex-Japan) in a cost effective manner. Asset managers and banks can make use of MSCI AxJ Futures contract for cash equitisation and to manage market, settlement and liquidity risks while avoiding cross zone trading issues.

A. Contract Specifications

Key features of the MSCI AxJ Futures contract are as follows.

Items	Key Contract Terms
Underlying Index	MSCI AC Asia ex Japan Net Total Return Index (USD)
HKATS Code	MXJ
Trading Currency	USD
Contract Multiplier	USD 100 per index point
Contract Months	The nearest five calendar quarter months (i.e. quarterly months are March, June, September and December)
Minimum Fluctuation	0.01 index point (or USD 1)
Trading Hours (Hong Kong Time)	8:30 a.m. – 4:30 p.m. (Day Session); 5:15 p.m. – 1:00 a.m. (AHT Session)
Trading Hours on Last Trading Day (Hong Kong Time)	8:30 a.m. – 4:30 p.m.
Settlement Method	Cash settled contract for difference
Last Trading Day (LTD)	The 3 rd Friday of the contract month; if it falls on a HK public holiday, LTD will be the preceding Business Day which is also a business day in HK
Final Settlement Day	The 2 nd HK business day after the 3 rd Friday
Final Settlement Price	Official closing value of the Underlying Index on the 3 rd Friday
Exchange Fee	USD 0.5 per contract per side
Cash Settlement Fee	USD 0.5 per contract per side on final settlement
Commission Levy	USD 0.07 ² per contract. The Commission Levy will be exempted for the first six months of trading, i.e. from 11 June 2018 to 10 December 2018. Participants are advised to inform their clients of the exemption of Commission Levy.
Position Limit	110,000 net contracts long or short for all contract months combined
Large Open Position	500 open contracts, in any one contract month
Holiday Schedule	Follows Hong Kong public holiday schedule

Details of the contract specifications are set forth in Attachment II. Relevant rule amendments will be announced via a separate circular.

² The USD equivalent of HKD 0.54 per contract at the exchange rate determined by the HKFE from time to time

B. Trading Arrangements

Pre-Launch Arrangements

To facilitate market participants in the trading and clearing of the MSCI AxJ Futures contracts, the following pre-launch arrangements will be made available on Friday, 8 June 2018 (i.e. one business day before the Commencement Date):

- a. Trading codes will be displayed on HKATS, but the contracts will not be tradable on that day; and
- b. Information relating to the MSCI AxJ Futures contracts will be generated in the risk parameter files ("RPF"), clearing and open interest reports.

The purpose of the generation of RPF one business day before the Commencement Date is to assist Participants to estimate the margin requirements for trading on the Commencement Date.

Please note that the margin requirements estimated using the RPF available on the business day before the Commencement Date may not be the same as the actual amounts required on the Commencement Date. Hong Kong Exchanges and Clearing Ltd. ("HKEX") and its subsidiaries accept no liability whatsoever for any loss or damage arising from or in connection with the use of the information contained in such RPF. Participants who wish to use the above-mentioned RPF are reminded to update the PC-SPAN Organisation Master File.

Other Trading Arrangements

- a. The contract months available for trading on the Commencement Date are the calendar quarter months from September 2018 to September 2019.
- b. The maximum HKATS order size limit is 1,000 contracts. EPs are required to submit their request to HKFE for setting up their own order size limits based on their business needs and risk management requirements.
- c. The price parameter for the purpose of the error trade rules under HKFE Rule 819B is 3% from notation price (see details in Attachment III).

- d. The block trade volume threshold is 50 contracts and the block trade permissible price range is 3% (see details in Attachment III).

C. Clearing and Settlement Arrangements

To be eligible for clearing and settlement of the MSCI AxJ Futures contracts, Clearing Participants (“CP”) of HKFE Clearing Corporation Limited (“HKCC”) need to arrange for USD settlement capability by setting up a USD account with any one of the Settlement Banks appointed by the HKCC and to maintain relevant mandates in such form as prescribed by HKCC.

CPs are requested to ensure that these bank accounts are in active status and ready for cash settlement. Non-Clearing Participants should contact their General Clearing Participants to ascertain their eligibility of clearing the contracts.

D. Risk Management Arrangements

Margin levels will be announced and update of PC-SPAN Organisation Master File will be made available in due course.

E. Trading Information

The access codes of information vendors for the MSCI AxJ Futures contracts will be available on HKEX’s website (<http://www.hkex.com.hk>) in due course.

F. Six-month Fees Holiday and Commission Levy Exemption

The Trading Fee will be waived for all accounts for the first six months of trading from the Commencement Date to 10 December 2018, both dates inclusive, excluding the after-hours trading session on 10 December 2018.

The Commission Levy will be exempted for the first six months of trading from the Commencement Date to 10 December 2018, both dates inclusive, excluding the after-hours trading session on 10 December 2018.

EPs are advised to inform their clients of the Exchange Fee holiday and exemption of Commission Levy accordingly.

G. Liquidity Provider Program

The Exchange invites applications of Liquidity Provider (LP) for the MSCI AxJ Futures contracts under the Bundled Liquidity Providing Incentive Program. LP will be required to provide continuous quotes as follow:

Items	Continuous Quote Obligations
Assigned Contract Months	All contract months
Minimum Percentage of Trading Hours	70% of trading hours in T session in a month; or 50% of trading hours in T+1 session in a month
Maximum Bid / Offer Spread	0.35% of bid price for the nearest quarter month and 2.0% of bid price for the remaining quarter months
Minimum Quote Size	5 contracts

Upon fulfilment of its obligations, each LP will be offered rebates up to a maximum of HK\$100,000 per month in: a) cross-product trading fee rebates in Hang Seng Index Futures, Hang Seng China Enterprises Index Futures and USD/CNH Futures; b) market data (securities/derivatives) fee rebates; c) hosting services fee rebates; and d) OAPI license fee waiver. Details are set out in the circular dated 15 December 2017 regarding “Incentive Programs for Equity Derivatives Products in 2018” ([MKD/EQD/30/17](#)).

In addition, there will be waiver of the Trading Fee for LP for trading the MSCI AxJ Futures contracts from the Commencement Date to 31 December 2018, both dates inclusive, excluding the after-hours trading session on 31 December 2018.

Interested parties should contact Ms. Montassya Hutaurok (MontassyaHutaurok@hkex.com.hk), Ms Rina Ku (RinaKu@hkex.com.hk) or Ms. Iris Hui (IrisHui@hkex.com.hk) for further information.

H. Promotional Support for EPs

The Exchange will provide promotional items to support EPs in promoting MSCI AxJ Futures business. Interested EPs can contact Mr. Justyn Ip by email (JustynIp@hkex.com.hk).

I. EPs' Readiness

EPs are required to notify their staff and all interested clients of the details of the MSCI AxJ Futures contracts. Please ensure that their trading and back office systems are ready in order for a smooth operation upon the introduction of MSCI AxJ Futures contracts. In addition, staff should be fully aware of the above and should exercise caution when dealing with the MSCI AxJ Futures contracts and when advising their clients.

Li Gang
Co-Head
Market Development Division

Att.

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.

Attachment I

Information of MSCI AxJ³

Calculation Methodology

The MSCI AxJ is based on the MSCI Global Investable Market Indexes (GIMI) Methodology – a comprehensive and consistent approach to index construction that allows for meaningful global views and cross regional comparisons across all market capitalization size, sector and style segments and combinations.

Items	Details
Index Purpose	Captures large and mid cap representation across 2 Developed Markets (Hong Kong and Singapore) and 9 Emerging Markets (Mainland China, India, Indonesia, Korea, Malaysia, Pakistan, the Philippines, Taiwan and Thailand)
Universe	The index covers approximately 85% of the free float-adjusted market capitalization in each market (Mainland China portion covers US-listed Mainland Companies; Mainland-listed B shares; HK-listed H shares, P chips and Red chips)
No. of Constituent	Variable (647) ⁴
Liquidity Requirement	12-mth Annualized Traded Value Ratio (ATVR) ⁵ ≥ 15% 3-mth ATVR ≥ 15% 3-mth Frequency of Trading ≥ 80%
Calculation Period	08:00am (Day T) to 05:30am (Day T+1) Daylight Saving Time: 08:00am (Day T) to 04:30am (Day T+1)
Real-time Index Dissemination Frequency	15 seconds
Official Closing Index Website	https://www.msci.com/end-of-day-data-regional
Official Closing Index Publish Time (HK Time)	Approximately 6:30 a.m. (Approximately 5:30 a.m. during Daylight Saving Time)
Regular Review	Quarterly (Feb, May, Aug & Nov) for addition and/or deletion of index constituents Semi-annual (May and Nov) for index rebalancing and the large and mid capitalization cutoff points are recalculated
Review Result Announcement	The results are announced at least two weeks in advance of their effective implementation dates as of the close of the last business day of Feb, May, Aug & Nov
Suspension Rule	Continuous index calculation whenever the constituent stocks are trading
Corporate Action Adjustment	Ongoing event-related changes to the indexes are the result of mergers, acquisitions, spin-offs, bankruptcies, reorganizations and other similar corporate events. They can also result from capital reorganizations in the form of rights issues, bonus issues, public placements and other similar corporate events that take place on a continuing basis. These changes generally are reflected in the indexes at the time of the event.

³ Source: MSCI website

- Calculation Methodology: <https://www.msci.com/index-methodology>
- MSCI Monthly Factsheet: <https://www.msci.com/documents/10199/27561c18-c30e-4d12-9321-5c83094e0d65>

⁴ As of 30 March 2018

⁵ The Annualized Traded Value Ratio (ATVR) is used to measure liquidity. MSCI uses ATVR as an investability criterion to determine the inclusion of securities into the MSCI Indexes. The ATVR is derived by Median Traded Value over Adjusted Market Capitalisation. Details can be found at: https://www.msci.com/eqb/methodology/meth_docs/MSCI_January2018_IndexCalcMethodology.pdf (Appendix II)

Top 10 Constituents

Company Name	Markets	Freefloat Adjusted Market Cap (USD Billion)	Index Weight (%)	Sector
Tencent Holdings	Mainland China	314.75	6.54	Info Tech
Alibaba Group	Mainland China	214.53	4.46	Info Tech
Samsung Electronics	Korea	211.48	4.40	Info Tech
Taiwan Semiconductor	Taiwan	207.56	4.31	Info Tech
AIA Group	Hong Kong	101.14	2.10	Financials
CCB	Mainland China	87.64	1.82	Financials
Baidu	Mainland China	69.20	1.44	Info Tech
ICBC	Mainland China	63.73	1.32	Financials
China Mobile	Mainland China	57.62	1.20	Telecom Services
Ping An Insurance	Mainland China	55.60	1.16	Financials

Information Vendor Access Code

Information Vendor	Access Code
Bloomberg	M1ASJ Index
Thomson Reuters	.MIAX000000NUS

Attachment II

Contract Specifications of MSCI AxJ Futures

<p>Contract Specifications For MSCI AC Asia ex Japan Net Total Return Index Futures</p>

The following Contract Specifications shall apply to the MSCI AC Asia ex Japan Net Total Return Index Futures Contract:

Underlying Index/Index	MSCI AC Asia ex Japan Net Total Return Index (the USD net total return index of that name compiled, computed and disseminated by MSCI Limited)
Trading Currency	U.S. dollars
Contract Multiplier	US\$100 per Index point
Contract Months	The nearest five calendar quarter months (i.e. quarterly months are March, June, September and December)
Minimum Fluctuation	0.01 Index point
Maximum Fluctuation	As prescribed by the Exchange from time to time
Contracted Price	The price at which an MSCI AC Asia ex Japan Net Total Return Index Futures Contract is registered by the Clearing House
Contracted Value	Contracted Price multiplied by the Contract Multiplier
Position Limits	<p>110,000 net contracts long or short across all Contract Months, per Exchange Participant for the Exchange Participant's own behalf; and</p> <p>110,000 net contracts long or short across all Contract Months, per Client.</p> <p>For the avoidance of doubt, the prescribed limits are applied on a net basis across all Contract Months. For the purposes of determining whether the prescribed limit is reached, long contracts are assigned a positive value of 1 and short contracts are</p>

	assigned a negative value of 1, regardless of their expiry date.
Large Open Positions	<p>500 open contracts, in any one Contract Month, per Exchange Participant for the Exchange Participant's own behalf; and</p> <p>500 open contracts, in any one Contract Month, per Client</p>
Trading Hours (Hong Kong time)	<p>8:30 a.m. – 4:30 p.m. (day trading session) 5:15 p.m. – 1:00 a.m. (after-hours trading session)</p> <p>There is no trading after 12:30 p.m. on the eves of Christmas, New Year and Lunar New Year. The trading hours on those three days shall be 8:30 a.m. – 12:30 p.m.</p> <p>There is no after-hours trading session if it is a bank holiday in both the United Kingdom and the United States.</p>
Trading Hours on Last Trading Day (Hong Kong time)	<p>8:30 a.m. – 4:30 p.m.</p> <p>There shall be no trading after 12:30 p.m. on the eves of Christmas, New Year and Lunar New Year. The trading hours on those three days shall be 8:30 a.m. – 12:30 p.m.</p>
Trading Method	The Exchange's Automated Trading System (HKATS)
Final Settlement Day	The second Business Day after the third Friday of the Contract Month
Settlement Method	Cash (U.S. dollar) settled contract for difference
Last Trading Day	The third Friday of the Contract Month and if it is not a Business Day, the Last Trading Day shall be the preceding Business Day
Final Settlement Price	The Final Settlement Price for MSCI AC Asia ex Japan Net Total Return Index Futures Contracts shall be a number, rounded up to the nearest 2 decimal places if the figure in the third decimal place is 5 or above and rounded down to the nearest 2 decimal places if it is below 5, determined by the Clearing House and shall be the official closing value of the MSCI AC Asia ex Japan Net Total Return Index on the third Friday of the Contract Month. The Chief Executive of

the Exchange has the power under the Regulations for Stock Index Futures Contracts to determine the Final Settlement Price under certain circumstances.

Trading Fee
(per contract per side)

Exchange Fee US\$0.50

The amount indicated above is subject to change from time to time.

Levies
(per contract per side)

Commission Levy and Investor Compensation Levy are payable at the rate or of the amount prescribed from time to time pursuant to the Ordinance.

Commission Rate

Negotiable

Attachment III

Error Trade Parameters for the MSCI AxJ Futures contract

The price parameters for the MSCI AxJ Futures contract for the purposes of the error trade rule under HKFE Rule 819B are as follows:

<u>Futures contract</u>	<u>from notional price</u>
MSCI AxJ Futures	3%

Note:

The notation price will be determined as follows:

1. The last traded price within 5 minutes prior to the error trade;
2. The mid-point of the best bid/ask price immediately prior to the error trade;
3. Last settlement price; or
4. The difference of notation prices between the related outright contracts (calendar spread only).

Notwithstanding the foregoing, the Exchange shall have absolute discretion in determining the notation price.

Block Trade Permissible Price Range for the MSCI AxJ Futures contract

With reference to the HKFE rule 815A (5), the price at which a block trade is executed must be fair and reasonable, and the revised permissible price range for block trades is determined in the following manner:

- (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 a 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. Price ranges for the MSCI AxJ Futures contract is as follows:

<u>Futures contract</u>	<u>Price range</u>
MSCI AxJ Futures	3%

Disclaimer

The MSCI AxJ Futures contracts are not sponsored, endorsed, sold or promoted by MSCI Inc. ("MSCI"), any affiliate of MSCI or any other party involved in, or related to, making or compiling the MSCI AxJ. The MSCI AxJ Futures contracts have not been passed on by MSCI, any of its affiliates or any other party involved in, or related to, making or compiling the MSCI AxJ as to their legality or suitability with respect to any person or entity. MSCI, its affiliates and any other party involved in, or related to, making or compiling the MSCI AxJ do not guarantee the originality, accuracy and/or completeness of the MSCI AxJ or any data included therein. Neither MSCI, any of its affiliates nor any other party involved in, or related to, making or compiling the MSCI AxJ makes any express or implied warranties, and expressly disclaims all warranties of merchantability and fitness for a particular purpose or use with respect to the MSCI AxJ Futures contract, the MSCI AxJ or any data included therein. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any other party involved in, or related to, making or compiling the MSCI AxJ have any liability for any direct, special, punitive, indirect, or consequential damages (including lost profits), even if notified of the possibility of such damages, claims, losses or expenses relating to any futures or options contracts or caused by any errors or delays in calculating or disseminating the MSCI AxJ. Neither MSCI, any of its affiliates nor any other party involved in, or related to, making or compiling the MSCI AxJ has any obligation to take the needs of the issuers of the MSCI AxJ Futures contracts, the owners of the MSCI AxJ Futures contracts or the Exchange into consideration in determining, composing or calculating MSCI AxJ. Neither MSCI, its affiliates nor any other party involved in, or related to, making or compiling the MSCI AxJ is responsible for or have participated in the determination of the timing of, prices at, or quantities of the MSCI AxJ Futures contracts to be issued or in the determination or calculation of any equation by which any of the MSCI AxJ Futures contracts are redeemable for cash.