

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 China (USD) Index Futures and MSCI China Net Total Return (USD) Index Futures Contracts

**Enquiry:** For technical enquiries:

– HKATS (Hotline<sup>1</sup>: 2211-6360 E-mail: [hkatssupport@hkex.com.hk](mailto:hkatssupport@hkex.com.hk))

– DCASS (Hotline: 2979-7222 E-mail: [clearingpsd@hkex.com.hk](mailto:clearingpsd@hkex.com.hk))

For business enquiries:

– Mr. Dick Fung (Tel: 2211-6320 E-mail: [dickfung@hkex.com.hk](mailto:dickfung@hkex.com.hk))

– Ms. Flora Lo (Tel: 2211-6137 E-mail: [floralo@hkex.com.hk](mailto:floralo@hkex.com.hk))

Reference is made to the circular (ref: [MKS/EQD/17/20](#)) dated 23 June 2020 regarding the introduction of MSCI Asia and Emerging Market Index Futures and Options Suite (“MSCI Suite”). Hong Kong Futures Exchange Limited (“the Exchange”) is pleased to announce to the introduction of the MSCI China (USD) Index Futures and MSCI China Net Total Return (“NTR”) (USD) Index Futures Contracts (“Proposed Contracts”) with tentative launch date on **22 November 2021 (Monday)** (“Launch Date”), subject to regulatory approval and market readiness. This follows the upcoming plan of MSCI to discontinue the MSCI China Free Index and substitute with the MSCI China Index. The two indices currently have identical index compositions and weightings.

Details of the contract specifications are set forth in Attachment I. The index methodology is set forth in Attachment II. Relevant rule amendments will be announced in due course.

<sup>1</sup> All calls to the HKATS hotline would be recorded. Please refer to the following link for HKEX privacy policy statement: [http://www.hkex.com.hk/eng/global/privacy\\_policy.htm](http://www.hkex.com.hk/eng/global/privacy_policy.htm)

## **Trading Arrangements for the Proposed Contracts**

### **Pre-Launch Arrangements**

To facilitate market participants in the trading and clearing of the Proposed Contracts, the following pre-launch arrangements will be made available one business day before the Launch Date:

- a. Trading codes will be displayed on HKATS, but the Proposed Contracts will not be tradable on that day; and
- b. Information relating to the Proposed 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 Launch Date is to assist Participants to estimate the margin requirements for trading on the Launch Date.

Please note that the margin requirements estimated using the RPF available on the business day before the Launch Date may not be the same as the actual amounts required on the Launch Date. Hong Kong Exchanges and Clearing Limited (“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 minimum block trade volume threshold is 25 contracts for MSCI China NTR (USD) Futures contracts and 50 contracts for MSCI China (USD) Futures contracts.
- b. Block trade permissible price range:  $\pm 3\%$  from reference price which will be applied in the T and T+1 sessions (see details in Attachment III).
- c. Error trade parameters:  $\pm 3\%$  from notation price<sup>2</sup> which will be applied in the T and T+1 sessions (see details in Attachment III).
- d. Volatility Control Mechanism and price limit will not be applied during T session.
- e. Price limit will be applied in the T+1 session. The price limit will be  $\pm 5\%$  from the last traded price of each contract month for the respective Proposed Contracts in the T Session. If there is no last traded price of a specific contract month during the T Session, the previous day’s

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<sup>2</sup> EPs that are original parties to a transaction on HKATS can file error trade claims to HKFE if the trades deviate from this error trade price parameter.

daily settlement price of the same contract month will be used as the reference price. For newly listed contract months, the reference price of the preceding contract month will apply.

- f. The maximum HKATS order size limit is 1,000 contracts. Exchange Participants (“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.

### **Transitional Arrangement for the Original Contracts**

Effective from the Launch Date of the Proposed Contracts, there will be no new contract months created on the existing contracts based on the MSCI China Free Index, namely:

- MSCI China Free NTR (USD) Index Futures,
- MSCI China Free (USD) Index Futures and
- MSCI China Free (USD) Index Options (collectively “Original Contracts”).

In addition, effective from the Launch Date of the Proposed Contracts, trading of the Original Contracts in existing contract months **with no open interest** will be suspended. Trading of the Original Contracts in existing contract months **with open interest** will be continued for a transitional period, tentatively until the first quarter of 2022. After that, it is expected that trading in all contract months of the Original Contracts will be suspended.

Position holders in the MSCI China Free NTR (USD) Index Futures and MSCI China Free (USD) Index Futures who wish to migrate to the Proposed Contracts can close out their original positions during the transitional period and create new positions in the Proposed Contracts.

### **Clearing and Settlement Arrangements for the Proposed Contracts**

To be eligible for clearing and settlement of the Proposed Contracts, Clearing Participants (“CPs”) of the HKFE Clearing Corporation Limited (“HKCC”) need to arrange for USD settlement capability, including having an **active** USD bank account with any of the appointed settlement banks appointed 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 Proposed Contracts.

### **Risk Management Arrangement for the Proposed Contracts**

Margin offset among certain Contracts will be offered in PRiME<sup>3</sup>. CPs could allocate the eligible positions to relevant account(s)<sup>4</sup> in accordance with the Clearing House Procedures for margin offset claim purpose. Margin levels and margin offset parameters<sup>5</sup> for the Proposed Contracts will be announced and an update of PC-SPAN Organisation Master File will be made available in due course. Details of the risk management arrangements will be provided in separate HKCC circular in due course.

### **Information Vendor Access Code**

The access codes of information vendors for the underlying indices can be found in Attachment IV. The access codes of information vendors for the Proposed Contracts will be available on HKEX's website ([link](#)) in due course.

### **Incentive Programs**

Details of the incentive programs will be announced in due course.

### **SFC Commission Levy Exemption**

The Commission Levy for the Proposed Contracts will be exempted for the first six months of trading, i.e. tentatively from 22 November 2021 (Monday) to the close of T session on 20 May 2022 (Friday). Participants are advised to inform their clients accordingly.

Contracts	During six-month SFC commission levy exemption, i.e. tentatively from 22 November 2021 to 20 May 2022 (T Session)	After six-month SFC commission levy exemption, i.e. tentatively from 20 May 2022 (T+1 Session) onwards
MSCI China Net Total Return (USD) Index Futures	Nil	USD 0.07
MSCI China (USD) Index Futures	Nil	USD 0.07

<sup>3</sup> Please refer to section 2.7 of [PRiME Margining Guide](#) for details.

<sup>4</sup> Client Offset Claim Account

<sup>5</sup> Delta/Spread Ratio and Spread Credit Rate

**Participants' Readiness**

Participants are required to notify their staff and all interested clients of the details of the Proposed Contracts. In particular, the contract specifications of the Proposed Contracts such as the contract multiplier and the minimum fluctuations may be different from the Original Contracts.

Contracts	Original Contracts		Proposed Contracts	
	MSCI China Free NTR (USD) Index Futures	MSCI China Free (USD) Index Futures	MSCI China NTR (USD) Index Futures	MSCI China (USD) Index Futures
Market Code	161	168	161	168
HKATS Code	MCN	MCF	<b><u>CHN</u></b>	<b><u>CHI</u></b>
Commodity Code	5424	5481	<b><u>5447</u></b>	<b><u>5489</u></b>
Minimum Fluctuation (index points)	0.001	2.00	0.001	<b><u>0.02</u></b>
Contract Multiplier	USD 50	USD 5	USD 50	<b><u>USD 500</u></b>

Please ensure that all trading, clearing, and back office systems, including OAPI program and other operational arrangements are ready in order for a smooth operation upon the introduction. In addition, staff should be fully aware of the above and should exercise caution when dealing with the Proposed Contracts and when advising their clients.

Alexander Siu  
Co-head of Equities Product Development  
Markets Division

## Contract Specifications

Contracts	MSCI China Net Total Return (USD) Index Futures	MSCI China (USD) Index Futures
Underlying Index	MSCI China Net Total Return Index	MSCI China Index
HKATS Code	CHN	CHI
Trading Currency	USD	
Index Currency	USD	
Contract Multiplier	USD 50	USD 500
Minimum Fluctuation	0.001 index point	0.02 index point
Contract Months	Spot, next calendar month and the following 4 quarterly months	
Trading Hours	9:00am-4:30pm (T); 5:15pm-3:00am (T+1)	
Trading Hours on Last Trading Day ("LTD")	9:00am-4:30pm	
LTD	3rd Friday. If it falls on a Hong Kong public holiday, the LTD will be the preceding Hong Kong business day	The Hong Kong business day immediately preceding the last Hong Kong business day of the Contract Month, provided that it is a common business day on which all component stocks of index are open for trading. If the LTD is not a common business day, the LTD shall be the preceding Hong Kong business day which is a common business day.
Final Settlement Price ("FSP")	The FSP for MSCI China Net Total Return (USD) Index Futures Contracts shall be a number, rounded up to the nearest 3 decimal places if the figure in the fourth decimal place is 5 or above and rounded down to the nearest 3 decimal places if it is below 5, determined by the Clearing House and shall be the official closing value of the MSCI China Net Total Return Index on the third Friday of the Contract Month or, if MSCI Limited announces that there is an unexpected market closure event relating to the MSCI China Net Total Return Index, the final Unexpected Market Closure Index level of the MSCI China Net Total Return Index published by MSCI Limited after the third Friday of the Contract Month.	The FSP for MSCI China (USD) 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 China Index on the LTD of the Contract Month.
Final Settlement Day	1 Hong Kong business day after FSP is determined	
Large Open Position	500 open contracts in any one Contract Month	
Position Limit	53,000 net contracts long or short across all Contract Months	35,000 net contracts long or short across all Contract Months
Trading Fee	USD 0.60	USD 1.00
Settlement Fee	USD 0.60	USD 1.00
Commission Levy <sup>6</sup>	USD 0.07	USD 0.07

<sup>6</sup> The Commission Levy is collected in the trading currency equivalent to HKD 0.54 at the exchange rate determined by HKFE from time to time. There will be Commission Levy exemption for the first six months of trading from Launch Date.

**Index Methodology**

The MSCI China Index captures large and mid cap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings (e.g. ADRs). With 740 constituents, the index covers about 85% of this China equity universe. Currently, the index includes Large Cap A and Mid Cap A shares represented at 20% of their free float adjusted market capitalization.

**Top 10 Index Constituents**

Company	Float Adjusted Market Capitalization (USD Bn)	Index Weight (%)	Sector
Tencent Holding (CN)	341.22	12.75	Communication Services
Alibaba Group Holding (HK)	277.33	10.36	Consumer Discretionary
Meituan B	127.71	4.77	Consumer Discretionary
China Construction Bank H	68.93	2.58	Financials
JD.com ADR	62.77	2.35	Consumer Discretionary
Wuxi Biologics	58.54	2.19	Health Care
NIO A ADR	48.52	1.81	Consumer Discretionary
Ping An Insurance H	43.30	1.62	Financials
Baidu ADR	42.67	1.59	Communication Services
Pinduoduo ADR A	39.77	1.49	Consumer Discretionary

Source: MSCI, as of 30 September 2021

For more index information, please refer to MSCI's webpage ([factsheet](#) and [index methodology](#)).

**Block Trade Permissible Price Range**

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. The block trade permissible price range for the Contracts is 3%.

**Error Trade Parameters**

The price parameters for the purposes of the error trade rule under HKFE Rule 819B is 3% from notional price.

Note:

The notation price will be determined as follows:

- (a) The last traded price within 5 minutes prior to the error trade;
- (b) The mid-point of the best bid/ask price immediately prior to the error trade;
- (c) Last settlement price; or
- (d) 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.



**Information Vendor Access Code for Underlying Indices**

<b>Contracts</b>	<b>Underlying Index</b>	<b>Bloomberg Ticker</b>	<b>Refinitiv Ticker</b>
MSCI China Net Total Return (USD) Index Futures	MSCI China Net Total Return (USD) index	M1CN Index	.MICN00000NUS
MSCI China (USD) Index Futures	MSCI China (USD) Index	M3CN Index	.MICN00000PUS

**MSCI Disclaimer**

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