

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: Enhancements for Volatility Control Mechanism (“VCM”) and Pre-Market Opening Session (“POS”) of the Derivatives Market

Enquiry: HKATS Hotline<sup>1</sup> Tel: 2211-6360

Hong Kong Futures Exchange Limited (“HKFE”) plans to enhance the VCM and POS of the derivatives market. These enhancements aim to better protect market integrity and the tentative launch date will be in Q2 2021.

### Enhancement for VCM

The VCM was launched in 2017 to protect the market from disorderliness caused by extreme price volatility. It is currently applied to the spot month and next calendar month contracts in the Hang Seng Index (“HSI”) Futures, Mini-Hang Seng Index (“MHI”) Futures, Hang Seng China Enterprises Index (“HHI”) Futures and Mini-Hang Seng China Enterprises Index (“MCH”) Futures (total 8 contracts). When VCM is in effect, a five-minute cooling-off period will be triggered if the price deviates for more than 5% from the last traded price five minutes ago. As VCM was new to Hong Kong when it was launched, a light-touch and simple model was adopted which only allows a maximum number of one trigger per trading session. Since the market is already familiar with the VCM model, HKFE plans to strengthen it by allowing multiple triggers per trading session to better safeguard market integrity. An overview of the VCM model is set forth in Attachment I.

### Enhancement for POS

POS allows the market to establish a fair opening price, the Calculated Opening Price (“COP”), before market opens. HKFE plans to enhance the POS by introducing a random cutoff mechanism

<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)

to the pre-opening session and the pre-open allocation session. This enhancement aims to deter the possible gaming strategy of manipulating the COP near the end of the auction process and also to encourage order input at an earlier stage. To facilitate the random cutoff, the pre-opening session will be shortened by one minute while the pre-open allocation session will be extended by one minute. It will be applied to the POS for both morning and afternoon sessions of the applicable markets<sup>2</sup>. An illustration of the cutoff mechanism is set forth in Attachment II.

Exchange Participants (“EPs”) are requested to note that the enhancements for VCM and POS will be implemented in Q2 2021 tentatively subject to market readiness. Additional implementation details will be announced in due course. EPs should also note the following information and activities in preparation for the launch of the two initiatives:

### **Preparation for the Rollout of the Enhancements**

EPs should refer to the briefing materials of the enhancements for [Volatility Control Mechanism](#) and [Pre-Market Opening Session](#) which have been posted on the HKEX website. To allow all EPs to get ready for the enhancements, these features are already enabled in OAPI testing environment. EPs are highly recommended to coordinate with, including but not limited to, your operations personnel, IT teams and vendors for the necessary evaluations, operational readiness and preparations towards the enhancements.

### **Briefing Sessions**

The Exchange will arrange 3 briefing sessions for EPs in February 2021. Details of the registration are provided below and confirmation with webinar details will be sent to successful registrants in due course.

<b>Date</b>	<b>Time</b>	<b>Format</b>	<b>Language</b>	<b>Registration</b>
1 <sup>st</sup> February 2021 (Monday)	4:30 pm - 5:30 pm	Webinar	Cantonese	<a href="#">Click here to register</a>
2 <sup>nd</sup> February 2021 (Tuesday)	4:30 pm - 5:30 pm	Webinar	English	<a href="#">Click here to register</a>
3 <sup>rd</sup> February 2021	4:30 pm - 5:30 pm	Webinar	Cantonese	<a href="#">Click here to register</a>

<sup>2</sup> POS is available for the trading of HSI, MHI, HHI and MCH futures contracts, MSCI Taiwan Index related futures contracts and Hang Seng TECH Index futures contracts

(Wednesday)				<a href="#">register</a>
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**Practice Session**

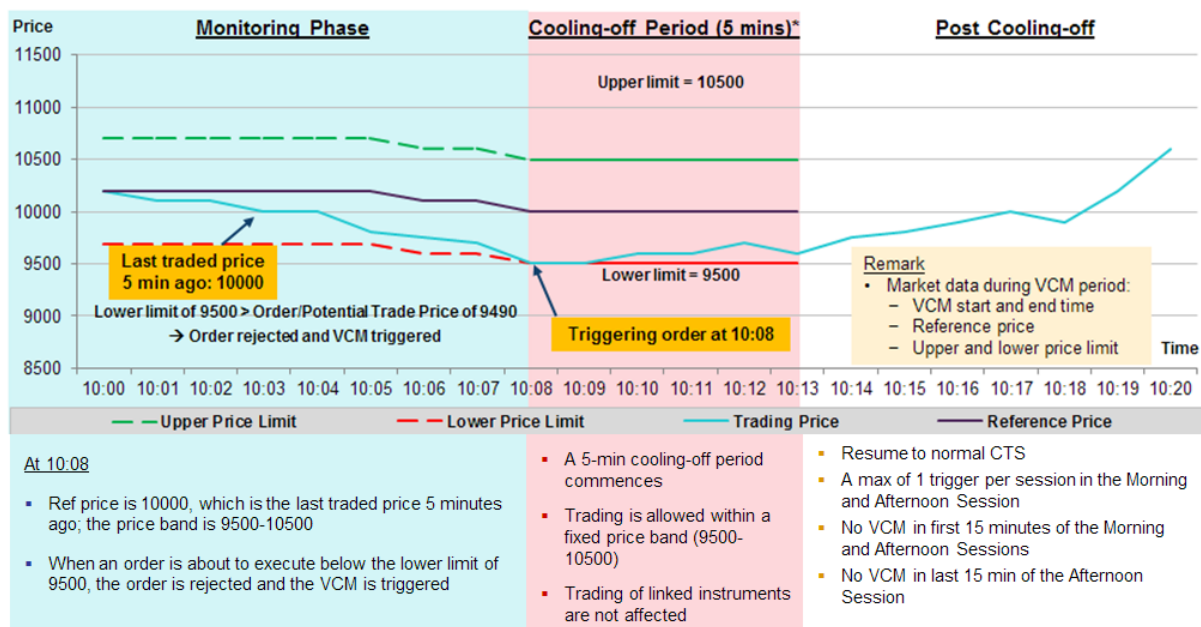
A Practice Session will be arranged for EPs to familiarize themselves with the enhancements for VCM and POS. Details of the Practice Session will be further announced.

For any enquiries, please contact the HKATS Hotline at 2211 6360 or email to [HKATSupport@hkex.com.hk](mailto:HKATSupport@hkex.com.hk).

Sanly Ho  
Co-Head  
Trading Operations  
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*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.*

**Overview of VCM Model**



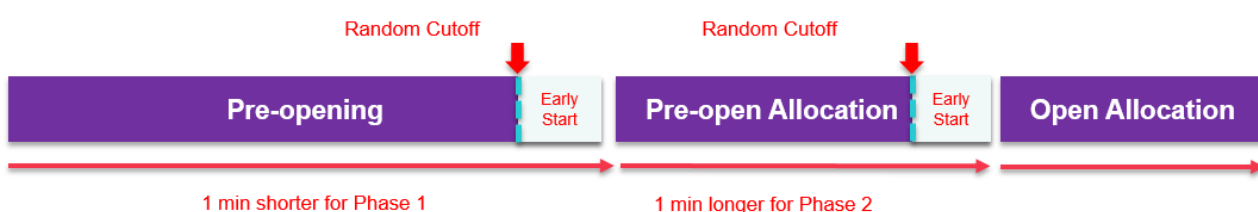
**Attachment II**

**Enhancement to POS**

*Current Mechanism*



*Enhanced Mechanism with Random Cutoff*



**New Schedules of Enhanced POS**

Products	Session	Time
MSCI Taiwan Index-related futures contracts	Pre-Opening	8:30 a.m. – up to 8:40 a.m. (random cutoff start from 8:39 a.m.)
	Pre-Open Allocation	After cutoff – up to 8:43 a.m. (random cutoff start from 8:42 a.m.)
	Open Allocation	After cutoff – 8:45 a.m.
HSI, MHI, HHI, MCH futures contracts and Hang Seng TECH Index futures contracts	Pre-Opening	<u>Morning Session</u> 8:45 a.m. – up to 9:10 a.m. (random cutoff start from 9:09 a.m.)
		<u>Afternoon Session</u> 12:30 p.m. – up to 12:55 p.m. (random cutoff start from 12:54 p.m.)

	Pre-Open Allocation	<p><u>Morning Session</u> After cutoff – up to 9:13 a.m. (random cutoff start from 9:12 a.m.)</p> <p><u>Afternoon Session</u> After cutoff – up to 12:58 p.m. (random cutoff start from 12:57 p.m.)</p>
	Open Allocation	<p><u>Morning Session</u> After cutoff – 9:15 a.m.</p> <p><u>Afternoon Session</u> After cutoff – 1:00 p.m.</p>