

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 Physically Settled Options Contracts on Hang Seng Index Futures and Hang Seng China Enterprises Index Futures (revised)

Enquiry: – HKATS (Hotline¹: 2211-6360 E-mail: hkatssupport@hkex.com.hk)
– DCASS (Hotline: 2979-7222 E-mail: clearingpsd@hkex.com.hk)

Hong Kong Futures Exchange Limited (“the Exchange” or “HKFE”) plans to introduce Physically Settled Options on Futures Contracts (“OOF”) on Hang Seng Index (“HSI”) Futures and Hang Seng China Enterprises Index (“HSCEI”) Futures (collectively as “Proposed Contracts”) in late August 2021, subject to regulatory approvals and market readiness.

The introduction of OOF will bring a suite of new trading and risk management tools to Hong Kong. Given the differences in settlement mechanism of OOF and expiry date with the existing Options on Index Contracts (“OOI”) on HKFE platform, holders of OOF would be given a meaningful opportunity to possess and control a futures position prior to the settlement of the underlying futures contract. Introduction of OOF to the Hong Kong derivatives market would be able to broaden the product offering on the Hong Kong listed options platform and to complement the existing Hang Seng product suite on HKFE.

1. **Draft Contract Specifications**

The draft contract specifications of the Proposed Contracts are set out in Attachment I.

¹ 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

2. Proposed Trading Arrangements

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 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

The arrangements below are similar to that of the current OOI on HSI and HSCEI on HKFE:

- a. The block trade minimum volume threshold of the Proposed Contracts is 100 contracts;
- b. Please refer to Attachment II for the block trade permissible price range;
- c. Please refer to Attachment II for the error trade price parameter;
- d. In the same manner as the current OOI on HSI and HSCEI on HKFE, Trading Halt Mechanism ("THM") will be applied in the T+1 session by referencing the price of the THM Reference Contract (i.e. corresponding spot month futures).
- e. 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.

3. Clearing and Settlement Arrangements

- a. The OOF will follow the clearing and settlement arrangements of the current OOI on HSI and HSCEI on HKFE until the expiry.
- b. When the OOF is exercised on its expiry day, new trade of the underlying futures will be generated and shown in DCASS with below description in order to identify the newly created futures trade is arisen from OOF:

DCASS Module	Description
Trade History	TYPE = "New contract"
Clearing Information	When EVENT = "Exercise" or "Assignment"; Class = "New Contract"

- c. Upon the new trade of the underlying futures is generated, the newly created futures position arisen from exercise events will be updated to the Clearing Participants' ("CPs") position account immediately together with the existing futures position during the HKFE Clearing Corporation Limited ("HKCC") end of day processing². CPs can only conduct position adjustment for the newly created futures position after the HKCC end of day processing. These adjustments will be treated as the post trade of next clearing day.
- d. As the newly created futures position will be included in the calculation of the end of day margin requirement on the expiry day, CPs will need to arrange funding to settle the Variation Adjustment ("VA") and the Initial Margin ("IM") for such futures position by 9:15 a.m. on the next business day.
- e. Futures generated by exercise of the option on the expiry day shall not attract any trading fees.

4. Risk Management Arrangements

² The end of day processing at around 9 p.m.

Margin offset with existing HKFE products will be offered via inter-commodity spread in PRiME³. CPs can allocate the eligible positions to relevant account(s)⁴ in accordance with the Clearing House Procedures for margin offset claim purpose. Margin levels and margin offset parameters⁵ will be announced and an update of PC-SPAN Organisation Master File will be made available in due course. More details of the risk management arrangements will be provided in a separate HKCC circular in due course.

5. **Position Limit**

Before the sub-legislation of the Securities and Futures Ordinance (“SFO”) is to be amended in the future to include the combined position limit for the Proposed Contracts, EPs and their clients are required to observe **both** the existing statutory position limit under the SFO and the exchange position limit stipulated in the Contract Specifications under the HKFE Rules as follows:

- a. Statutory position limit as stipulated in the SFO:
 - i. 10,000 position delta for HSI Futures, HSI Options, Mini HSI Futures and Mini HSI Options in all Contract Months combined;
 - ii. 12,000 position delta for HSCEI Futures, HSCEI Options, Mini HSCEI Futures and Mini HSCEI Options in all Contract Months combined.
- b. Exchange position limit as stipulated in the Contract Specifications under the HKFE Rules:
 - i. 10,000 position delta for HSI Futures, HSI Options, HSI Futures Options, Hang Seng Gross Total Return Index Futures (“HSIGTRI Futures”), Hang Seng Net Total Return Index Futures (“HSINTRI Futures”), Mini HSI Futures, Mini HSI Options and Weekly HSI Options in all Contract Months and Contract Weeks combined;
 - ii. 12,000 position delta for HSCEI Futures, HSCEI Options, HSCEI Futures Options, Hang Seng China Enterprises Gross Total Return Index Futures (“HSCEIGTRI Futures”), Hang Seng China Enterprises Net Total Return Index

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

⁴ Client Offset Claim Account

⁵ Delta/Spread Ratio and Spread Credit Rate

Futures (“HSCEINTRI Futures”), Mini HSCEI Futures, Mini HSCEI Options and Weekly HSCEI Options in all Contract Months and Contract Weeks combined.

If the SFC approves an EP and/or its client to hold excess positions in HSI Products⁶ or HSCEI⁷ Products, HKFE will adopt the same position delta for HSI Products, HSI TRI Products⁸, HSI Futures Options and Weekly HSI Options in all Contract Months and Contract Weeks combined or HSCEI Products, HSCEI TRI Products⁹, HSCEI Futures Options and Weekly HSCEI Options in all Contract Months and Contract Weeks combined. An EP and/or its clients can hold TRI Products¹⁰, Index Futures Options and Weekly Index Options exceeding the exchange position limit level of 10,000 delta or 12,000 delta, as the case may be provided that the aggregate positions (taking into account the different directions in offsetting the position limit) for HSI Products, HSI TRI Products, HSI Futures Options and Weekly HSI Options in all Contract Months and Contract Weeks combined or HSCEI Products, HSCEI TRI Products, HSCEI Futures Options and Weekly HSCEI Options in all Contract Months and Contract Weeks combined are within the exchange position limit or the revised higher exchange position limit which has reflected the excess positions approved by the SFC.

The principles are illustrated as follows:

a. Compliance with the statutory position limit

Scenario	In compliance with the statutory position limit	Breaching the statutory position limit
Statutory position limit prescribed by the SFC	$\leq 10,000$ position delta in HSI Products in all	$> 10,000$ position delta in HSI Products in all

⁶ HSI Products: HSI Futures, HSI Options, Mini HSI Futures and Mini HSI Options

⁷ HSCEI Products: HSCEI Futures, HSCEI Options, Mini HSCEI Futures and Mini HSCEI Options

⁸ HSI TRI Products: HSI TRI Futures and HSI TRI Options

⁹ HSCEI TRI Products: HSCEI TRI Futures and HSCEI TRI Options

¹⁰ TRI Products: HSI TRI Products and HSCEI TRI Products

Scenario	In compliance with the statutory position limit	Breaching the statutory position limit
	Contract Months combined; or $\leq 12,000$ position delta in HSCEI Products in all Contract Months combined	Contract Months combined; or $> 12,000$ position delta in HSCEI Products in all Contract Months combined
Statutory position limit with SFC's approval of excess positions of up to 10,000 position delta in HSI Products or 12,000 position delta in HSCEI Products	$\leq 20,000$ position delta in HSI Products in all Contract Months combined; or $\leq 24,000$ position delta in HSCEI Products in all Contract Months combined	$> 20,000$ position delta in HSI Products in all Contract Months combined; or $> 24,000$ position delta in HSCEI Products in all Contract Months combined

- b. Exchange position limit as stipulated in the Contract Specifications under the HKFE Rules:

Scenario	In compliance with the exchange position limit	Breaching the exchange position limit
Exchange position limit prescribed by HKFE	$\leq 10,000$ position delta in HSI Products, HSI TRI Products, Weekly HSI Options and HSI Futures Options in all Contract Months and Contract Weeks combined; or $\leq 12,000$ position delta in HSCEI Products, HSCEI TRI Products, Weekly	$> 10,000$ position delta in HSI Products, HSI TRI Products, Weekly HSI Options and HSI Futures Options in all Contract Months and Contract Weeks combined; or $> 12,000$ position delta in HSCEI Products, HSCEI TRI Products, Weekly

Scenario	In compliance with the exchange position limit	Breaching the exchange position limit
	HSCEI Options and HSCEI Futures Options in all Contract Months and Contract Weeks combined	HSCEI Options and HSCEI Futures Options in all Contract Months and Contract Weeks combined
The revised higher exchange position limit which has reflected the excess positions (10,000 delta for HSI Products / 12,000 delta for HSCEI Products) approved by the SFC	$\leq 20,000$ position delta in HSI Products, HSI TRI Products, Weekly HSI Options and HSI Futures Options in all Contract Months and Contract Weeks combined; or $\leq 24,000$ position delta in HSCEI Products, HSCEI TRI Products, Weekly HSCEI Options and HSCEI Futures Options in all Contract Months and Contract Weeks combined	$> 20,000$ position delta in HSI Products, HSI TRI Products, Weekly HSI Options and HSI Futures Options in all Contract Months and Contract Weeks combined; or $> 24,000$ position delta in HSCEI Products, HSCEI TRI Products, Weekly HSCEI Options and HSCEI Futures Options in all Contract Months and Contract Weeks combined

More illustrations of Position Limit Calculation are set forth in Attachment III.

6. Trading Information

The access codes of information vendors for the Proposed Contracts will be available on HKEX's website (<http://www.hkex.com.hk>) in due course.

7. **Market Education**

The Exchange will arrange two online briefing sessions in July 2021 to provide an overview of the Proposed Contracts and the launch plan. Interested Participants should register for the briefings through the links below on or before 26 July 2021 and nominate no more than 4 staff to attend. Confirmation will be sent to successful registrants.

Date	Time	Format	Language	Link for Registration
27 July 2021 (Tuesday)	4:30 p.m. – 5:15 p.m.	Webinar	English	Click here to register
27 July 2021 (Tuesday)	5:30 p.m. – 6:15 p.m.	Webinar	Cantonese	Click here to register

8. **Participants' Readiness**

Participants are required to notify their staff and all interested clients the details of the Proposed Contracts. Please ensure that their trading, clearing, and back office systems, including OAPI program and other operational arrangements are ready in order for a smooth operation upon the introduction, specifically to the options exercise event. 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.

To ensure smooth implementation, Participants who plan to participate in the trading and clearing upon the launch of the Proposed Contracts are required to complete successfully in the Readiness Test scheduled on 7 August 2021. Please register by enrolling in the [form](#) on or before 2 August 2021.

Sanly Ho
Co-Head
Trading Operations
Markets Division

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

Draft Contract Specifications

<p>Contract Specifications For Hang Seng Index Futures (HSIF) Options</p>

The following Contract Specifications shall apply to the Hang Seng Index Futures Option Contract:-

Underlying	Hang Seng Index Futures traded on the Exchange
Contract Multiplier	HK\$50 per Index point*
Contract Months	<p>For Short-dated Options: Spot Month, the next three calendar months and the next three calendar quarter months (i.e. quarter months are March, June, September and December)</p> <p>For Long-dated Options: the three months of June and December plus the next three months of December following the Contract Months specified for Short-dated Options</p>
Trading Hours (Hong Kong time)	<p>9:15 a.m. – 12:00 noon (morning trading session) 1:00 p.m. – 4:30 p.m. (afternoon trading session) 5:15 p.m. – 3:00 a.m. (after-hours trading session)</p> <p>There is no afternoon or after-hours trading session on the eves of Christmas, New Year and Lunar New Year. The trading hours of the morning trading session on those three days shall be 9:15 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>9:15 a.m. – 12:00 noon (morning trading session) 1:00 p.m. – 4:00 p.m. (afternoon trading session)</p> <p>There shall be no afternoon or after-hours trading session if the Expiry Day falls on Christmas Eve, New Year's Eve or Lunar New Year's Eve</p>
Trading Method	The Exchange's Automated Trading System (HKATS)
Expiry Day	The third Friday of the Contract Month and if it is not a Business

	Day, the Expiry Day shall be the preceding Business Day
Last Trading Day	Same as the Expiry Day
Option Premium	Option Premium is quoted in whole Index points
Contracted Value	Option Premium multiplied by the Contract Multiplier
Strike Prices	Strike Prices shall be set as follows:

<u>HSIF (Index points)</u>	<u>Intervals</u>
<i>Short-dated Options</i>	
Below 5,000	50
At or above 5,000 but below 20,000	100
At or above 20,000	200
<i>Long-dated Options</i>	
Below 5,000	100
At or above 5,000 but below 20,000	200
At or above 20,000	400

On any Business Day, new consecutive Strike Prices may be set for, or added to, each Short-dated Option Contract (other than the Spot Month Option Contract on or after the 5th Business Day preceding the Expiry Day) such that at all times there will be Strike Prices representing not less than 10% above, at, and not less than 10% below the at-the-money Strike Price of the Option Contract. On any Business Day in a given month, the at-the-money Strike Price of each Short-dated Option Contract shall be the previous Business Day's Closing Quotation (as defined in the Clearing House Rules) of (i) the Spot Month HSIF Contract for any day prior to the Expiry Day; and (ii) the next month HSIF Contract for any day on or after the Expiry Day, rounded off to the nearest Strike Price, unless the Closing Quotation is precisely midway between two Strike Prices in which case it shall be rounded off to the lower Strike Price

For Long-dated Options, Strike Prices shall be set or added in the same manner as for Short-dated Options except that there shall at all times be Strike Prices representing 20% above, at and 20% below the at-the-money Strike Price, rounded off to the nearest Strike Price, unless the 20% is precisely midway between two Strike Prices in which case it shall be rounded off to the lower Strike Price

For both Short- and Long-dated Options, Strike Prices shall be

set on a temporary basis at other intervals as may from time to time be determined by the Chief Executive in consultation with the Commission or at other intervals as may from time to time be determined by the Board in consultation with the Commission. The Exchange reserves the right to introduce new or delete existing Strike Prices at any time

Exercise Style

European Style options which may only be exercised on Expiry Day

Settlement on Exercise

Physical Delivery on Exercise. Exercise results in a long position in the HSIF Contract with the same Contract Month for a Holder of a Call Option or a Writer of a Put Option and a short position in the HSIF Contract with the same Contract Month for a Holder of a Put Option or a Writer of a Call Option, with a Contracted Price which is equal to the Strike Price of the Option. All in-the-money options are automatically exercised upon expiry. No overriding instructions would be accepted

Official Settlement Price

The Official Settlement Price for HSIF Options shall be a number, rounded down to the nearest whole number, determined by the Clearing House and shall be the average of the quotations of the HSIF Contract of the same Contract Month, taken at five (5) minute intervals from 9:30 a.m. – 12:00 noon and 1:00 p.m.– 4:00 p.m. on the Expiry Day of the HSIF Options**. The Chief Executive of the Exchange has the power under the Regulations for Trading Stock Index Option Contracts to determine the Official Settlement Price under certain circumstances

Position Limits

Position delta for Hang Seng Index Options, Hang Seng Index Futures Options, Hang Seng Index Futures, Mini-Hang Seng Index Futures, Mini-Hang Seng Index Options, Hang Seng Index (Gross Total Return Index) Futures, Hang Seng Index (Net Total Return Index) Futures and Weekly Hang Seng Index Options combined of 10,000 long or short in all Contract Months and Contract Weeks (where applicable) combined, provided the position delta for Mini-Hang Seng Index Futures or Mini-Hang Seng Index Options shall not at any time exceed 2,000 long or short in all Contract Months combined, per Exchange Participant for the Exchange Participant's own behalf. For this purpose, (i) the position delta of one Mini-Hang Seng Index Futures Contract will have a value of 0.2 and the position delta of one Mini-Hang Seng Index Option Contract will be one-fifth of the position delta of the corresponding series in the Hang Seng Index Option Contract; and (ii) the position delta of one Hang Seng Index (Gross Total Return Index) Futures Contract and one Hang Seng

Index (Net Total Return Index) Futures Contract will be based on their contract value ratios versus Hang Seng Index Futures and will be announced by the Exchange from time to time; and

Position delta for Hang Seng Index Options, Hang Seng Index Futures Options, Hang Seng Index Futures, Mini-Hang Seng Index Futures, Mini-Hang Seng Index Options, Hang Seng Index (Gross Total Return Index) Futures, Hang Seng Index (Net Total Return Index) Futures and Weekly Hang Seng Index Options combined of 10,000 long or short in all Contract Months and Contract Weeks (where applicable) combined, provided the position delta for Mini-Hang Seng Index Futures or Mini-Hang Seng Index Options shall not at any time exceed 2,000 long or short in all Contract Months combined, per Client. For this purpose, (i) the position delta of one Mini-Hang Seng Index Futures Contract will have a value of 0.2 and the position delta of one Mini-Hang Seng Index Option Contract will be one-fifth of the position delta of the corresponding series in the Hang Seng Index Option Contract; and (ii) the position delta of one Hang Seng Index (Gross Total Return Index) Futures Contract and one Hang Seng Index (Net Total Return Index) Futures Contract will be based on their contract value ratios versus Hang Seng Index Futures and will be announced by the Exchange from time to time

Large Open Positions

500 open contracts, in any one series, per Exchange Participant for the Exchange Participant's own behalf; and

500 open contracts, in any one series, per Client

Minimum Fluctuation

One Index point

Trading Fee
(per contract per side)

Exchange Fee HK\$10.00

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

Cabinet Trade

No Exchange Fee is payable. Commission Levy and Investor Compensation Levy are applicable

Exercise Fees

Options that are exercised on Expiry Day shall attract an Exercise Fee of HK\$10.00 per contract

Contracts not exercised will be deemed to have expired worthless

and will not attract an Exercise Fee

Commission Rate

Negotiable

* Same as the HSIF Contract

** The quotation for each five-minute period shall be taken according to the following sequence: (1) the last traded price of the underlying HSIF Contract within the five-minute period; and if not available, (2) when both bid and offer prices are available, the mid-price of the last highest bid and lowest offer prices on the order book of the underlying HSIF Contract; and if no bid or offer price is available, (3) the index level of the Hang Seng Index as disseminated by the index provider at the end of the five-minute period, as adjusted by the premium or discount calculated on the previous Business Day. The premium or discount is computed by taking the difference between the daily Closing Quotation of the underlying HSIF Contract (as determined by the Clearing House pursuant to the Clearing House Rules) and the closing price of the Hang Seng Index

Where the Last Trading Day falls on Christmas Eve, New Year's Eve or Lunar New Year's Eve, the Official Settlement Price shall be the average of the quotations of the HSIF Contract of the same Contract Month, taken at five (5) minute intervals from 9:30 a.m. – 12:00 noon

Where trading of the underlying HSIF Contract is not available due to typhoon, Extreme Conditions, black rainstorm warnings or otherwise during part of a trading day, the Official Settlement Price shall be the average of all available quotations of the HSIF Contract taken at five (5) minute intervals during such trading day

<p>Contract Specifications For Hang Seng China Enterprises Index Futures (HSCEIF) Options</p>

The following Contract Specifications shall apply to the Hang Seng China Enterprises Index Futures Option Contract:-

Underlying	Hang Seng China Enterprises Index Futures traded on the Exchange
Contract Multiplier	HK\$50 per Index point*
Contract Months	<p>For Short-dated Options: Spot Month, the next three calendar months and the next three calendar quarter months (i.e. quarter months are March, June, September and December)</p> <p>For Long-dated Options: the three months of June and December plus the next three months of December following the Contract Months specified for Short-dated Options</p>
Trading Hours (Hong Kong time)	<p>9:15 a.m. – 12:00 noon (morning trading session) 1:00 p.m. – 4:30 p.m. (afternoon trading session) 5:15 p.m. – 3:00 a.m. (after-hours trading session)</p> <p>There is no afternoon or after-hours trading session on the eves of Christmas, New Year and Lunar New Year. The trading hours of the morning trading session on those three days shall be 9:15 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>9:15 a.m. – 12:00 noon (morning trading session) 1:00 p.m. – 4:00 p.m. (afternoon trading session)</p> <p>There shall be no afternoon or after-hours trading session if the Expiry Day falls on Christmas Eve, New Year's Eve or Lunar New Year's Eve</p>
Trading Method	The Exchange's Automated Trading System (HKATS)
Expiry Day	The third Friday of the Contract Month and if it is not a Business Day, the Expiry Day shall be the preceding Business Day

Last Trading Day	Same as the Expiry Day
Option Premium	Quoted in whole Index points
Contracted Value	Option Premium multiplied by the Contract Multiplier
Strike Prices	Strike Prices shall be set as follows:

<u>HSCEIF (Index points)</u>	<u>Intervals</u>
<i>Short-dated Options</i>	
Below 5,000	50
At or above 5,000 but below 20,000	100
At or above 20,000	200
<i>Long-dated Options</i>	
Below 5,000	100
At or above 5,000 but below 20,000	200
At or above 20,000	400

On any Business Day, new consecutive Strike Prices may be set for, or added to, each Short-dated Option Contract (other than the Spot Month Option Contract on or after the 5th Business Day preceding the Expiry Day) such that at all times there will be Strike Prices representing not less than 10% above, at, and not less than 10% below the at-the-money Strike Price of the Option Contract. On any Business Day in a given month, the at-the-money Strike Price of each Short-dated Option Contract shall be the previous Business Day's Closing Quotation (as defined in the Clearing House Rules) of (i) the Spot Month HSCEIF Contract for any day prior to the Expiry Day; and (ii) the next month HSCEIF Contract for any day on or after the Expiry Day, rounded off to the nearest Strike Price, unless the Closing Quotation is precisely midway between two Strike Prices in which case it shall be rounded off to the lower Strike Price

For Long-dated Options, Strike Prices shall be set or added in the same manner as for Short-dated Options except that there shall at all times be Strike Prices representing 20% above, at and 20% below the at-the-money Strike Price, rounded off to the nearest Strike Price, unless the 20% is precisely midway between two Strike Prices in which case it shall be rounded off to the lower Strike Price

For both Short- and Long-dated Options, Strike Prices shall be set on a temporary basis at other intervals as may from time to

time be determined by the Chief Executive in consultation with the Commission or at other intervals as may be determined by the Board in consultation with the Commission. The Exchange reserves the right to introduce new or delete existing Strike Prices at any time

Exercise Style

European Style options which may only be exercised on Expiry Day

Settlement on Exercise

Physical Delivery on Exercise. Exercise results in a long position in the HSCEIF Contract with the same Contract Month for a Holder of a Call Option or a Writer of a Put Option and a short position in the HSCEIF Contract with the same Contract Month for a Holder of a Put Option or a Writer of a Call Option, with a Contracted Price which is equal to the Strike Price of the Option. All in-the-money options are automatically exercised upon expiry. No overriding instructions would be accepted

Official Settlement Price

The Official Settlement Price for HSCEIF Options shall be a number, rounded down to the nearest whole number, determined by the Clearing House and shall be the average of the quotations of the HSCEIF Contract of the same Contract Month, taken at five (5) minute intervals from 9:30 a.m. – 12:00 noon and 1:00 p.m.– 4:00 p.m. on the Expiry Day of the HSCEIF Options**. The Chief Executive of the Exchange has the power under the Regulations for Trading Stock Index Option Contracts to determine the Official Settlement Price under certain circumstances

Position Limits

Position delta for Hang Seng China Enterprises Index Options, Hang Seng China Enterprises Index Futures Options, Mini-Hang Seng China Enterprises Index Futures, Mini-Hang Seng China Enterprises Index Options, Hang Seng China Enterprises Index Futures, Hang Seng China Enterprises Index (Gross Total Return Index) Futures, Hang Seng China Enterprises Index (Net Total Return Index) Futures and Weekly Hang Seng China Enterprises Index Options combined of 12,000 long or short in all Contract Months and Contract Weeks (where applicable) combined, provided the position delta for Mini-Hang Seng China Enterprises Index Futures or Mini-Hang Seng China Enterprises Index Options shall not at any time exceed 2,400 long or short in all Contract Months combined, per Exchange Participant for the Exchange Participant's own behalf. For this purpose, (i) the position delta of one Mini-Hang Seng China Enterprises Index Futures Contract will have a value of 0.2 and the position delta of one Mini-Hang Seng China Enterprises Index Option Contract

will be one-fifth of the position delta of the corresponding series in the Hang Seng China Enterprises Index Option Contract; and (ii) the position delta of one Hang Seng China Enterprises Index (Gross Total Return Index) Futures Contract and one Hang Seng China Enterprises Index (Net Total Return Index) Futures Contract will be based on their contract value ratios versus Hang Seng China Enterprises Index Futures and will be announced by the Exchange from time to time; and

Position delta for Hang Seng China Enterprises Index Options, Hang Seng China Enterprises Index Futures Options, Mini-Hang Seng China Enterprises Index Futures, Mini-Hang Seng China Enterprises Index Options, Hang Seng China Enterprises Index Futures, Hang Seng China Enterprises Index (Gross Total Return Index) Futures, Hang Seng China Enterprises Index (Net Total Return Index) Futures and Weekly Hang Seng China Enterprises Index Options combined of 12,000 long or short in all Contract Months and Contract Weeks (where applicable) combined, provided the position delta for Mini-Hang Seng China Enterprises Index Futures or Mini-Hang Seng China Enterprises Index Options shall not at any time exceed 2,400 long or short in all Contract Months combined, per Client. For this purpose, (i) the position delta of one Mini-Hang Seng China Enterprises Index Futures Contract will have a value of 0.2 and the position delta of one Mini-Hang Seng China Enterprises Index Option Contract will be one-fifth of the position delta of the corresponding series in the Hang Seng China Enterprises Index Option Contract; and (ii) the position delta of one Hang Seng China Enterprises Index (Gross Total Return Index) Futures Contract and one Hang Seng China Enterprises Index (Net Total Return Index) Futures Contract will be based on their contract value ratios versus Hang Seng China Enterprises Index Futures and will be announced by the Exchange from time to time

Large Open Positions

500 open contracts in any one series per Exchange Participant for the Exchange Participant's own behalf; and

500 open contracts in any one series, per Client

Minimum Fluctuation

One Index point

Trading Fee
(per contract per side)

Exchange Fee

HK\$3.50

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
Cabinet Trade	No Exchange Fee is payable. Commission Levy and Investor Compensation Levy are applicable
Exercise Fee	Options that are exercised on Expiry Day shall attract an Exercise Fee of HK\$3.50 per contract Contracts not exercised will be deemed to have expired worthless and will not attract an Exercise Fee
Commission Rate	Negotiable

* Same as the HSCEIF Contract

** The quotation for each five-minute period shall be taken according to the following sequence: (1) the last traded price of the underlying HSCEIF Contract within the five-minute period; and if not available, (2) when both bid and offer prices are available, the mid-price of the last highest bid and lowest offer prices on the order book of the underlying HSCEIF Contract; and if no bid or offer price is available, (3) the index level of the Hang Seng China Enterprises Index as disseminated by the index provider at the end of the five-minute period, as adjusted by the premium or discount calculated on the previous Business Day. The premium or discount is computed by taking the difference between the daily Closing Quotation of the underlying HSCEIF Contract (as determined by the Clearing House pursuant to the Clearing House Rules) and the closing price of the Hang Seng China Enterprises Index

Where the Last Trading Day falls on Christmas Eve, New Year's Eve or Lunar New Year's Eve, the Official Settlement Price shall be the average of the quotations of the HSCEIF Contract of the same Contract Month, taken at five (5) minute intervals from 9:30 a.m. – 12:00 noon

Where trading of the underlying HSCEIF Contract is not available due to typhoon, Extreme Conditions, black rainstorm warnings or otherwise during part of a trading day, the Official Settlement Price shall be the average of all available quotations of the HSCEIF Contract taken at five (5) minute intervals during such trading day

Attachment II

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 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 Proposed Contracts is illustrated as below.

Product	Block Trade Permissible Price Range
Short-dated Options	If option price: > 300 index points: 10%; or ≤300 index points: 30 index points
Long-dated Options	If option price: > 300 index points: 30%; or ≤ 300 index points: 90 index points

Error Trade Parameters

The price parameters for the purposes of the error trade rule under HKFE Rule 819B is illustrated as below.

Product	Error Trade Parameters
Short-dated Options	If Notation Price: ≥ 300 index points: 10%; or < 300 index points: 30 index points

Product	Error Trade Parameters
Long-dated Options	If Notation Price: ≥ 300 index points: 20%; or < 300 index points: 60 index points

Determination of the notation price of the Physically Settled Option Contracts will be based on the followings:

- a. The average of the prices of the previous match and the next match in that option series occurring reasonably close to the time of error trade. If this average price fails to reflect a fair price, the notation price will be determined on the basis of item (b) below.
- b. The reasonable bid and offer prices available around the time of error trade, unless in the sole discretion of the Exchange, this fails to reflect a fair price, in which case the Exchange may consult up to 3 independent market practitioners who have no interest in the trade in order to arrive at a valid notation price.

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

Large-Scale Error Trade Parameters

The price parameters for the purposes of the error trade rule under HKFE Rule 819BA and 819BB is illustrated as below.

Product	Large-Scale Error Trade Parameters
Short-dated Options	If Notation Price: ≥ 300 index points: 20%; or < 300 index points: 60 index points
Long-dated Options	If Notation Price: ≥ 300 index points: 40%; or < 300 index points: 120 index points

Notation Price Determination

Theoretical price calculated with the following parameters:

- a. Implied Volatility (IV) from the latest Risk Parameter Files; and
- b. Underlying Futures price ^{note 1} at or immediate before the time of the options trade

Note 1: The Underlying Futures prices for respective options contract months are defined as follows:

From the Trading Day after the Last Trading Day of the underlying Futures to the Last Trading Day of Options on Futures

Options Contract Months	Underlying Futures Prices
Spot month of Options on Futures	Underlying spot month Futures price at or immediate before the time of the option trade
Other months of Options on Futures	Underlying spot month Futures price at or immediate before the time of the option trade plus previous day's rollover spread between the daily settlement price of the Option contract month under evaluation relative to the daily settlement price of the spot month Futures

From the Trading Day after the Last Trading Day of Options on Futures to Trading Day before the Last Trading Day of the underlying Futures

Options Contract Months	Underlying Futures Prices
Spot month of Options on Futures	Underlying spot month Futures price at or immediate before the time of the options trade plus previous day's rollover spread between the daily settlement price of the Options contract month under evaluation relative to the daily settlement price of the spot month Futures
Other months of Options on Futures	

On Last Trading Day of the underlying Futures

Options Contract Months	Underlying Futures Prices
Spot month of Options on Futures	Underlying spot next month Futures price at or immediate before the time of the options trade
Other months of Options on Futures	Underlying spot next month Futures price at or immediate before the time of the option trade plus previous day's rollover spread between the daily settlement price of the Options contract month under evaluation relative to the daily settlement price of the spot next month Futures

Attachment III

Illustrations of Position Limit Calculation

The following examples illustrate different scenarios which may or may not breach the position limit of HSI Products, HSI TRI Products, Weekly HSI Options and HSI Futures Options. Similar treatments will be applied to HSCEI Products, HSCEI TRI Products, Weekly HSCEI Options and HSCEI Futures Options.

Given:

- Statutory position limit under SFO: 10,000 position delta for HSI Products
- Exchange position limit under HKFE Rules: 10,000 position delta for HSI Products, HSI TRI Products, Weekly HSI Options and HSI Futures Options combined

Scenario 1: An EP without any excess position limit approved by the SFC

Case	Open Position Delta of HSI Products in All Contract Months Combined (A)	Open Position Delta of HSI Futures Options in All Contract Months Combined (B)	Open Position Delta of HSI TRI Products and Weekly HSI Options in all Contract Months and Contract Weeks Combined ¹¹ (C)	Aggregate Position Delta in all Contract Months and Contract Weeks Combined (A) + (B) + (C)	Within Statutory Position Limit of HSI Products	Within Exchange Position Limit of HSI Products, HSI TRI Products, Weekly HSI Options and HSI Futures Options Combined
a. Long or Short HSI Products Only						
1	+9,900	0	0	+9,900	Yes	Yes
2	-9,900	0	0	-9,900	Yes	Yes
3	+10,200	0	0	+10,200	No	No
4	-10,200	0	0	-10,200	No	No
b. Long or Short HSI Futures Options Only						
1	0	+9,900	0	+9,900	Yes	Yes
2	0	-9,900	0	-9,900	Yes	Yes
3	0	+10,200	0	+10,200	Yes	No
4	0	-10,200	0	-10,200	Yes	No
c. Long or Short HSI TRI Products and Weekly HSI Options Only						
1	0	0	+9,900	+9,900	Yes	Yes
2	0	0	-9,900	-9,900	Yes	Yes

¹¹ The position delta of one HSI TRI Futures or HSI TRI Futures equivalent to 3 and the position delta of one HSI Futures equivalent to 1.

Case	Open Position Delta of HSI Products in All Contract Months Combined (A)	Open Position Delta of HSI Futures Options in All Contract Months Combined (B)	Open Position Delta of HSI TRI Products and Weekly HSI Options in all Contract Months and Contract Weeks Combined ¹¹ (C)	Aggregate Position Delta in all Contract Months and Contract Weeks Combined (A) + (B) + (C)	Within Statutory Position Limit of HSI Products	Within Exchange Position Limit of HSI Products, HSI TRI Products, Weekly HSI Options and HSI Futures Options Combined
3	0	0	+10,200	+10,200	Yes	No
4	0	0	-10,200	-10,200	Yes	No
d. Same Direction						
1	+9,600	+200	+100	+9,900	Yes	Yes
2	-300	-8,600	-1,000	-9,900	Yes	Yes
3	+10,200	+200	+100	+10,500	No	No
4	-300	-9,200	-1,000	-10,500	Yes	No
e. Different Directions to Offset the Position Limit						
1	+9,900	-200	-100	+9,600	Yes	Yes
2	+300	-8,900	-1,000	-9,600	Yes	Yes
3	-300	+10,000	+200	+9,900	Yes	Yes
4	+300	-10,000	-200	-9,900	Yes	Yes
5	+10,500	-200	-100	+10,200	No	No
6	-300	+10,300	+200	+10,200	Yes	No
7	+10,500	-400	-200	+9,900	No	Yes

Scenario 2: The SFC has approved ABC Ltd. (EP) to hold excess positions (increasing the position delta from 10,000 to 20,000) in HSI Products. Accordingly, HKFE will adopt the same position delta (i.e. 20,000) for HSI Products, HSI TRI Products, Weekly HSI Options and HSI Futures Options in all Contract Months and Contract Weeks combined.

- Statutory position limit under SFO: 20,000 position delta for HSI Products
- Exchange position limit under HKFE Rules: 20,000 position delta for HSI Products, HSI TRI Products, Weekly HSI Options and HSI Futures Options combined

Case	Open Position Delta of HSI Products in All Contract Months Combined (A)	Open Position Delta of HSI Futures Options in All Contract Months Combined (B)	Open Position Delta of HSI TRI Products and Weekly HSI Options in all Contract Months and Contract Weeks Combined ¹² (C)	Aggregate Position Delta in all Contract Months and Contract Weeks Combined (A) + (B) + (C)	Within Statutory Position Limit of HSI Products	Within Exchange Position Limit of HSI Products, HSI TRI Products, Weekly HSI Options and HSI Futures Options Combined
a. Long or Short HSI Products Only						
1	+19,900	0	0	+19,900	Yes	Yes
2	-19,900	0	0	-19,900	Yes	Yes
3	+20,100	0	0	+20,100	No	No
4	-20,100	0	0	-20,100	No	No
b. Long or Short HSI Futures Options Only						
1	0	+19,900	0	+19,900	Yes	Yes
2	0	-19,900	0	-19,900	Yes	Yes
3	0	+20,100	0	+20,100	Yes	No
4	0	-20,100	0	-20,100	Yes	No
c. Long or Short HSI TRI Products and Weekly HSI Options Only						
1	0	0	+19,900	+19,900	Yes	Yes
2	0	0	-19,900	-19,900	Yes	Yes
3	0	0	+20,100	+20,100	Yes	No
4	0	0	-20,100	-20,100	Yes	No
d. Same Direction						
1	+19,600	+200	+100	+19,900	Yes	Yes
2	-300	-19,400	-200	-19,900	Yes	Yes
3	+20,100	+200	+100	+20,400	No	No
4	-300	-19,900	-200	-20,400	Yes	No
e. Different Directions to Offset the Position Limit						
1	+19,900	-200	-100	+19,600	Yes	Yes
2	+300	-19,700	-200	-19,600	Yes	Yes
3	+20,400	-100	-200	+20,100	No	No
4	+300	-20,000	-400	-20,100	Yes	No
5	+20,500	-400	-200	+19,900	No	Yes

¹² The position delta of one HSI TRI Futures or HSI TRI Futures equivalent to 3 and the position delta of one HSI Futures equivalent to 1.