

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: Appointment of Primary Market Makers and Finalised Trading Arrangements for Physically Settled Option Contracts on Hang Seng Index Futures and Hang Seng China Enterprises Index Futures

Enquiry: HKATS (Hotline¹: 2211-6360 Email: hkatssupport@hkex.com.hk)

The Exchange is pleased to announce the appointment of the following Primary Market Makers (“PMMs”) for the period from 23 August 2021 to 30 June 2022:

Product	Primary Market Maker
Hang Seng Index Futures (HSIF) Options	1. ABN AMRO Clearing Hong Kong Limited
	2. Akuna Hong Kong Limited
	3. Citadel Securities (Hong Kong) Limited
Hang Seng China Enterprises Index Futures (HHIF) Options	1. ABN AMRO Clearing Hong Kong Limited
	2. Akuna Hong Kong Limited
	3. Citadel Securities (Hong Kong) Limited

PMM is required to provide continuous quotes in not less than 100 option series for at least 90% of the trading hours in T Session and respond to at least 70% of the quote requests issued for short-dated expiry months in T Session for each option contract. Details of PMM obligations are specified in Attachment I.

The exchange trading fees including HSIF Options and HHIF Options are shown in Attachment II.

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

The trading of the HSIF Options and HHIF Options will commence on 23 August 2021. Participants should be aware of the following key areas in preparation for the product launch and the finalised trading arrangements before engaging in trading or offering physically-settled Options on Futures products to clients.

Key areas to note

- Ensure systems (including front office and back office systems) and operational readiness and complete a Readiness Test successfully in the HKEX testing environment
- Necessary measures taken to ensure the end users/clients understand the settlement mechanism and risk involved in the new product (e.g. Client-facing staff / clear client interface and client education).
- Thorough and effective communication made to the clients prior to offering, specifically, on the differences between Options on Index and Options on Futures products.
- Similar to all physically-settled options, an option position holder should be aware that the final P&L of such position would be affected by the price of the underlying asset.
- There may be cases where the delivered position will incur immediate mark-to-market gain/loss (the price of delivered position may not be the same as official settlement price).
- Participants who do not wish positions to settle into futures could opt to square their positions before expiry or consider the cash-settled Options on Index.
- Participants should closely monitor and manage their risk at all times.

Arrangement on pre-launch date

Exchange Participants (“EPs”) are reminded that the trading codes of option contracts (PHS and PHH) will be displayed on HKATS on the pre-launch date (20 August 2021). Thereby, EPs could conduct necessary internal production system verification, if applicable, to confirm their readiness to trade the new contracts on 23 August 2021. EPs could also set up their own HKATS Pre-Trade Risk Management (PTRM) parameters on 20 August 2021.

SFC Commission Levy Exemption

The Commission Levy will be exempted for the first six months upon launch of the HSIF Options and HHIF Options. Participants are advised to inform their clients of the Commission Levy exemption accordingly.

Contract	From 23 August 2021 to 22 February 2022 (T Session)	From 22 February 2022 (T+1 Session) onwards
HSIF Options	Nil	HKD 0.54
HSCEIF Options	Nil	HKD 0.54

Block Trade Permissible Price Range²

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 Physically Settled Options 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 Parameters²

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
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 Parameters²

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

² There amendment was made to circular MO/DT/159/21.

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
Other months of Options on Futures	between the daily settlement price of the Options contract month under evaluation relative to the daily settlement price of the spot month 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

Sanly Ho
Co-Head
Trading Department
Operations 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

Primary Market Maker Obligations

Table A – Continuous Quotes (CQ)

Assigned CQ series		100 series (chosen from series selection pool below)	
Option series selection pool:			
Contract Month	Series	Call Series	Put Series
Spot month	Nearest Out-of-the-money	15	15
	Nearest In-the-money	2	2
Second calendar month	Nearest Out-of-the-money	15	15
	Nearest In-the-money	2	2
Third calendar month	Nearest Out-of-the-money	15	15
	Nearest In-the-money	2	2
Fourth calendar month	Nearest Out-of-the-money	15	15
	Nearest In-the-money	2	2
First calendar quarter month	Nearest Out-of-the-money	15	15
	Nearest In-the-money	2	2
Second calendar quarter month	Nearest Out-of-the-money	15	15
	Nearest In-the-money	2	2
Third calendar quarter month	Nearest Out-of-the-money	15	15
	Nearest In-the-money	2	2
Total		238	
Minimum Quote Size		See Table C below	
Maximum Bid/Offer Spread			
Minimum Trading Hours		90% of trading hours in T Session in a month	

Table B - Respond to Quote Requests (QR)

Minimum Response to QR Requirement	Respond to 70% of QR received in T Session in a month for all short-dated expiry contract months
Minimum Quote Size	See Table C below
Maximum Bid/Offer Spread	
Maximum Time Limit for Responding to QR	20 seconds
Minimum Display Time	20 seconds

Table C – Minimum Quote Size and Maximum Bid/Offer Spread

	Contract Month		Obligations
Minimum Quote Size (contracts)	Spot and the next 3 calendar expiry months		7
	The next 3 calendar quarter expiry months		5
Maximum Bid/Offer Spread	Spot and the next 3 calendar expiry months	Option Price: 1-750 points	10% of the bid price of the quote or 30 points, whichever is higher
		Option Price: > 750 points	75 points
	The next 2 calendar quarter expiry months following the 4 th calendar expiry month	Option Price: 1-750 points	15% of the bid price of the quote or 40 points, whichever is higher
		Option Price: > 750 points	115 points
	The 3rd calendar quarter expiry month following the 4 th calendar expiry month	Option Price: 1-750 points	20% of the bid price of the quote or 50 points, whichever is higher
		Option Price: > 750 points	150 points

Attachment II

Exchange trading fees

Contracts	Account	Amount¹
HSI Futures	House/Client a/c MM in HSI Options, HSIF Options, Mini-HSI Futures, Weekly HSI Options or Mini-HSI Options ²	10.00/Lot 3.50/Lot
HSI Options	House/Client a/c MM a/c MM in Mini-HSI Futures, HSIF Options, Weekly HSI Options or Mini-HSI Options ²	10.00/Lot 2.00/Lot 3.50/Lot
HSIF Options	House/Client a/c MM a/c MM in Mini-HSI Futures, HSI Options, Weekly HSI Options or Mini-HSI Options ²	10.00/Lot 2.00/Lot 3.50/Lot
Weekly HSI Options	House/Client a/c MM a/c MM in Mini-HSI Futures, HSI Options, HSIF Options or Mini-HSI Options ²	10.00/Lot 2.00/Lot 3.50/Lot
Mini-HSI Futures	House/Client a/c MM a/c MM in HSI Options, HSIF Options, Weekly HSI Options or Mini-HSI Options ²	3.50/Lot 0.50/Lot 1.00/Lot
Mini-HSI Options	House/Client a/c MM a/c MM in HSI Options, HSIF Options, Weekly HSI Options or Mini-HSI Futures ²	2.00/Lot 0.40/Lot 0.70/Lot
HSCEI Futures	House/Client a/c MM a/c MM in HSCEI Options, HSCEIF Options, Weekly HSCEI Options or Mini-HSCEI Options ²	3.50/Lot 0.50/Lot 1.00/Lot
HSCEI Options	House/Client a/c MM a/c MM in HSCEI Futures, HSCEIF Options, Weekly HSCEI Options or Mini-HSCEI Options ²	3.50/Lot 0.50/Lot 1.00/Lot
HSCEIF Options	House/Client a/c MM a/c MM in HSCEI Futures, HSCEI Options, Weekly HSCEI Options or Mini-HSCEI Options ²	3.50/Lot 0.50/Lot 1.00/Lot

Contracts	Account	Amount ¹
Weekly HSCEI Options	House/Client a/c	3.50/Lot
	MM a/c	0.50/Lot
	MM in HSCEI Futures, HSCEI Options, HSCEIF Options or Mini-HSCEI Options ²	1.00/Lot
Mini-HSCEI Futures	House/Client a/c	2.00/Lot
	MM in HSCEI Futures, HSCEI Options, HSCEIF Options, Weekly HSCEI Options or Mini-HSCEI Options ²	0.70/Lot
Mini-HSCEI Options	House/Client a/c	1.00/Lot
	MM a/c	0.20/Lot
	MM in HSCEI Options, HSCEIF Options, Weekly HSCEI Options or HSCEI Futures ²	0.35/Lot

¹ Unless otherwise specified, the amounts listed in this appendix are in HK dollars

² The number of contracts that are eligible for a reduction in Exchange Fees may be limited as specified in the Procedures relating to Stock Index Futures and Stock Index Options contained in the Rules