

**Rules, Regulations and Procedures of Hong Kong Futures Exchange Limited**

**CHAPTER VIII**

**TRADING ARRANGEMENTS - PRACTICES AND SYSTEMS**

Execution of Block Trades

815A. (2) Minimum Volume Threshold

- (a) Subject to Rule 815A(2A), an Exchange Participant shall not execute any order as a Block Trade unless that order meets the applicable Minimum Volume Threshold set forth below and the Exchange Participant has received instructions or has been specifically authorized to execute the order as a Block Trade:

<b>Exchange Contract</b>	<b>Minimum Volume Threshold (no. of contracts)</b>
Stock Index Futures	100
Stock Index Options	100**
Stock Futures	100
Options on Stock Futures	100
HIBOR Futures (other than HIBOR strips)	80*
HIBOR strips	20
EFN Futures	200
Gold Futures	100

\* *For a single order involving a spread or a strategy combination except HIBOR strips, at least one of the legs of the spread or strategy combination must meet the Minimum Volume Threshold.*

\*\* *For any order of Stock Index Options Contracts, all legs of a spread or a strategy combination that relate to Flexible Options must meet the Minimum Volume Threshold*

(2A) Block Trade Order Aggregation

An Exchange Participant cannot aggregate separate orders or combine separate orders to generate a spread or strategy combination Block Trade unless:

- (a) at least one of the separate orders from either side meets the Minimum Volume Threshold; and
- (b) the Block Trade does not involve Futures Contracts only; and
- (c) in the case of a spread or strategy combination, at least one of the separate orders comprising an option leg satisfies the applicable Minimum Volume Threshold; and

(d) in the case of Stock Index Options Contracts, all legs of a spread or a strategy combination that relate to Flexible Options must meet the Minimum Volume Threshold, and

(e) authorizations have been received by the Exchange Participant from Clients whose orders are being aggregated or combined.

(5) Execution Price

The price at which a Block Trade is executed may or may not be the prevailing market price, but must fall within one of the following price or price ranges:

- (a) between whichever is the highest and whichever is the lowest of (i) the highest traded price of the futures contract month or option series of the Block Trade Contract concerned for the day up to the time the Block Trade is executed (“Highest Traded Price”); (ii) the lowest traded price of the futures contract month or option series of the Block Trade Contract concerned for the day up to the time the Block Trade is executed (“Lowest Traded Price”); (iii) the prevailing bid price; and (iv) the prevailing ask price available;

A Special Block Trade Margin may be required from an Exchange Participant if the executed price of a Block Trade is not considered fair and reasonable, if a significant deviation exists between the executed price and the prevailing market price or the theoretical price determined by the Clearing House, or if the Block Trade is executed at such a price that an intra-day variation adjustment would have been triggered had the trade been executed or as if it has been executed as a normal trade in the Central Orderbook.

815D. All orders of Stock Index Options Contracts that are Flexible Options must be entered into HKATS through the Block Trade Facility. With the exception of those falling into a specified price or price ranges set forth in Rule 815 A(5), all orders must be executed in the prescribed manner and meet the criteria laid down in Rule 815A and such other criteria as may be prescribed by the Board and notified to Exchange Participants from time to time.

**APPENDIX B – FEES**

*HKATS-related fees*

On-behalf-of processing

- |  |                     |
|--|---------------------|
| (i) bulk deletions involving more than 20 orders | 1,000/bulk deletion |
| (ii) transactions other than bulk deletions      | 50/transaction      |

Flexible Options Creation Fee	\$2,000/option series for the creation
Creation of option series in Flexible Option	of more than 20 option series per calendar month per Exchange Participant, excluding those option series that result in a trade executed by the Exchange Participant on the same trading day of its creation

## **REGULATIONS FOR TRADING STOCK INDEX OPTIONS CONTRACTS**

### **INTERPRETATION**

“Flexible Option” a Stock Index Option at the time of its creation (i) with Contract Months other than a Short-dated Option or a Long-dated Option or (ii) with the same Contract Month of a Short-dated Option or a Long-dated Option but with a Strike Price, in whole index points, not within the Strike Price Intervals of a Short-dated Option and a Long-dated Option specified by the Exchange in the Contract Specifications.

## **TRADING PROCEDURES FOR STOCK INDEX FUTURES AND STOCK INDEX OPTIONS TRADED ON THE AUTOMATED TRADING SYSTEM OF THE EXCHANGE (“HKATS”)**

### **CHAPTER 3**

#### **MARKET MAKERS IN STOCK INDEX FUTURES AND STOCK INDEX OPTIONS CONTRACTS**

##### *3.1 Application for a Market Maker Permit*

Upon granting a Market Maker permit in a Stock Index Options Contract and any subsequent approval thereunder, the Exchange shall assign the Market Maker (itself if applicable and each of its market making arrangements if any) with not less than twenty four (24) option series in the Stock Index Options Contract to be determined by the Exchange from time to time. In the case of a Stock Index Options Contract with both Short-dated and Long-dated Options, only option series in Short-dated Options will be assigned. In the case of a Market Maker permit being granted in the Mini-Hang Seng Index Option Contract and any subsequent approval granted thereunder, the Exchange shall assign the Market Maker (itself if applicable and each of its market making arrangement if any) with not less than 12 option series in the Mini-Hang Seng Index Option Contract, to be determined by the Exchange from time to time. A Market Maker permit shall not be applicable to Flexible Options and accordingly all obligations and procedures relating to any market making requirements shall not apply.

##### *3.3 Market Maker Incentives*

A Market Maker in a Stock Index Futures Contract or a Stock Index Options Contract shall also be entitled to pay a reduced Exchange Fee of an amount specified in Appendix B on transactions effected in other Stock Index Futures Contracts and Stock Index Options Contracts with the same underlying index provided that (i) the total number of other Stock Index Futures Contracts and Stock Index Options Contracts eligible for reduced Exchange Fees in any calendar month shall not exceed the volume of the Stock Index Futures Contract or the Stock Index Options Contract traded by the Market Maker in its capacity as such in that calendar month; (ii) for Market Makers in the Mini-Hang Seng Index Futures Contract or the Mini-Hang Seng Index Option Contract, the number of other eligible transactions in the Hang Seng Index Futures Contract and the Hang Seng Index Option Contract shall be multiplied by one-fifth; (iii) for Market

Makers in the Hang Seng Index Option Contract, the number of other eligible transactions in the Mini-Hang Seng Index Futures Contract and the Mini-Hang Seng Index Option Contract shall be multiplied by five; and (iv) for Market Makers in the Hang Seng China Enterprises Futures Contract or the Hang Seng China Enterprises Index Option Contract, the number of other eligible transactions in the Mini-Hang Seng China Enterprises Index Futures Contract shall be multiplied by five.

For the avoidance of doubt, since Market Maker permits are not applicable to option series in Flexible Options, Market Makers are not entitled to nor eligible for reduced Exchange Fees on transactions effected in any Flexible Options by a Market Maker.

## **CHAPTER 4**

### **DEALING FUNCTIONALITY**

#### *4.9 Creation, Execution and Suspension of Flexible Options*

- 4.9.1 From the time of the opening of the Stock Index Option Market till 30 minutes before the market close, Exchange Participants may request the Exchange to create any option series in Flexible Options in accordance with the criteria and procedures stipulated by the Exchange from time to time. The Exchange reserves the right to decline, in its absolute discretion, any request to make any option series available for trading.
- 4.9.2 Trading of Flexible Options shall be conducted through the Block Trade Facility. With the exception of falling into a specified price or price ranges required of Block Trades, all orders must be executed in the prescribed manner and meet the criteria laid down in Rule 815A and such other criteria as may be prescribed by the Board and notified to Exchange Participants from time to time.
- 4.9.3 The Chief Executive may from time to time prescribe a maximum number of requests made by an Exchange Participant for the creation of option series in Flexible Options to protect the integrity of HKATS and to ensure the proper operation of the Markets.
- 4.9.4 Without prejudice to the rights of the Exchange and the Chief Executive under Rules 807A(b), an Exchange Participant which acts in a manner that results in exceeding the maximum number of option series in Flexible Options created, excluding those series on which trades have been executed on the same trading day of their creation, shall be liable to pay to the Exchange such fees as specified in Appendix B to the Rules.
- 4.9.5 In the event that an option series in a Short-dated Option or Long-dated Option has the same Strike Price and Expiry Day as an option series of a Flexible Option, the relevant series of the Flexible Option shall be prohibited from further trading. The open positions of an option series in a Short-dated Option or Long-dated Option and its respective option series in a Flexible Option may be closed out by each other upon request from the Exchange Participant(s) concerned in accordance with the Clearing House Rules.

Contract Specifications  
For  
Hang Seng Index (HSI) Options

The following Contract Specifications shall apply to the Hang Seng Index (“HSI”) Option Contract\*\*:-

**Contract Months** (For Short-dated Options) Spot Month, the next two calendar months, the next three calendar quarter months (i.e. quarter months are March, June, September and December) and (for Long-dated Options) the next five months of June and December (see Note 1).

(For Flexible Options) Any calendar month up to the most distant month specified for Long-dated Options (see Note 2).

**Strike Prices** Strike Prices shall be set as follows:

<u>HSI (Index points)</u>	<u>Intervals</u>
<i>Short-dated Options</i>	
Below 2,000	50
At or above 2,000 but below 8,000	100
At or above 8,000	200
<i>Long-dated Options</i>	
Below 4,000	100
At or above 4,000 but below 8,000	200
At or above 8,000 but below 12,000	400
At or above 12,000 but below 15,000	600
At or above 15,000 but below 19,000	800
At or above 19,000	1,000

*Flexible Options*

Any Strike Price, in whole index points, that is within Strike Prices representing not more than 30% above and not less than 30% below the opening price of the Spot Month HSI Futures Contract or at other specified range as stipulated by the Exchange from time to time can be accepted for option series described under Note 2.

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 5<sup>th</sup> 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 HKCC Rules) of (i) the Spot Month HSI Futures Contract for any day prior to the Expiry Day; and (ii) the next month HSI Futures 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.

Note 1

After the Expiry Day in June and December respectively, a new Long-dated Option with a 3½-year term will be introduced and new Strike Prices will be set in the manner set forth under "Strike Prices" above.

Note 2

Trading may be conducted in Flexible Option with option series of any Contract Month and Strike Price within the parameters set forth above, provided that at the time of its creation the option series does not have the same Contract Month and Strike Price as any existing Short-dated or Long-dated Options. After its creation, all existing open positions established in Flexible Options shall be fully fungible with transactions in the respective Short-dated or Long-dated Options if they have the same Strike Price and Expiry Day as that of the Flexible Options.

- \* Same as the Hang Seng Index Futures Contract.
- \*\* The Hang Seng Index Option Contract and the Mini-Hang Seng Index Option Contract are fungible. Positions in these two Exchange Contracts will be netted automatically (in the case of House and Market Maker accounts) or may be closed out (in the case of Client account) in accordance with the Clearing House Rules.

Contract Specifications  
for  
Hang Seng China Enterprises Index (HSCEI) Options

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

**Contract Months** (For Short-dated Options) Spot Month, the next two calendar months, the next three calendar quarter months (i.e. quarter months are March, June, September, and December) and (for Long-dated Options) the next three months of June and December (see Note 1).

(For Flexible Options) Any calendar month up to the most distant month specified for Long-dated Options (see Note 2)

**Strike Prices** Strike Prices shall be set as follows:

<u>HSCEI (Index points)</u>	<u>Intervals</u>
<i>Short-dated Options</i>	
Below 2,000	50
At or above 2,000 but below 8,000	100
At or above 8,000	200
<i>Long-dated Options</i>	
Below 4,000	100
At or above 4,000 but below 8,000	200
At or above 8,000 but below 12,000	400
At or above 12,000 but below 15,000	600
At or above 15,000 but below 19,000	800
At or above 19,000	1,000

*Flexible Options*

Any Strike Price, in whole index points, that is within Strike Prices representing not more than 30% above and not less than 30% below the opening price of the Spot Month HSCEI Futures Contract or at other specified range as stipulated by the Exchange from time to time can be accepted for option series described under Note 2.

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 HKCC Rules) of (i) the Spot Month HSCEI Futures Contract for any day prior to the Expiry Day; and (ii) the next month HSCEI Futures 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.

Note 1

After the Expiry Day in June and December respectively, a new Long-dated Option with a 2½-year term will be introduced and new Strike Prices will be set in the manner set forth under "Strike Prices" above.

Note 2

Trading may be conducted in Flexible Options with option series of any Contract Month and Strike Price within the parameters set forth above, provided that at the time of its creation the option series does not have the same Contract Month and Strike Price as any existing Short-dated or Long-dated Options. After its creation, all existing open positions established in Flexible Options shall be fully fungible with transactions in the respective Short-dated or Long-dated Options if they have the same Strike Price and Expiry Day as that of the Flexible Options.

\* Same as the Hang Seng China Enterprises Index Futures Contract.