

## **REGULATIONS FOR TRADING CURRENCY OPTIONS CONTRACTS**

### **INTERPRETATION**

001 These Regulations may be cited as the Regulations for trading Currency Options Contracts (hereinafter referred to as the "Regulations").

002 The Exchange Rules and the Clearing House Rules (referred to collectively as the "Rules") including the definitions, rules of interpretation and administrative provisions shall apply for the purposes of these Regulations. Unless specifically provided otherwise, the terms and expressions set out below shall have the meanings attributed to them herein. In the event of any conflict or inconsistency between the Rules (other than these Regulations) and these Regulations, including the Contract Specifications (which form part of these Regulations), the Regulations shall in all cases prevail.

"Cabinet Trade"	an option that is executed at a price prescribed by the Exchange as the Minimum Fluctuation;
"Contract Month"	the month and year in which an option expires;
"Contract Size"	for any Currency Options Contract, the size so designated in the applicable Contract Specifications;
"Contracted Value"	the Options Premium multiplied by the Contract Size or, if different, the value as specified in the applicable Contract Specifications;
"Currency Option" or "option"	an Option Contract on a given currency at a specified exchange rate;
"Currency Options Contract"	an Exchange Contract subject to these Regulations;
"Currency Options Market"	a Market subject to these Regulations;
"Expiry Day"	the only Business Day on which a Currency Option can be exercised subject to Rule 901 of the Exchange Rules and as specified in the Contract Specifications;
"Final Settlement Day"	the Final Settlement Day as specified from time to time in the Contract Specifications of the relevant Currency Options Contract;

“Final Settlement Value”	the value of a Currency Option as specified in Regulations 014 to 017 for cash settled contracts and in Regulations 021 to 024 for Physical Delivery Contracts;
“Holder”	an HKCC Participant which holds a long option position;
“Maximum Fluctuation”	the maximum allowable movement in the price of any Currency Options Contract per trading session above or below the last Closing Quotation or such other reference price as may be specified by the Exchange from time to time;
“Minimum Fluctuation”	the minimum allowable movement in the price of any Currency Options Contract as specified in the Contract Specifications;
“Official Settlement Price”	the price as determined by the Clearing House and calculated in accordance with the Contract Specifications;
“Option Premium”	the price at which an option is bought or sold excluding any commissions, trading fees and applicable levies;
“Settlement Currency”	<p>(a) in respect of any Currency Options Contract which is a cash settled contract, the currency in which the Currency Options Contract shall be settled, as specified in the Contract Specifications; and (b) in respect of any Currency Options Contract which is a Physical Delivery Contract:</p> <ul style="list-style-type: none"> <li>(i) in the case of the Holder of a call option or Writer of a put option, the Settlement Currency shall be the currency in which the Currency Options Contract shall be settled by the Holder of a call option or the Writer of a put option; and</li> <li>(ii) in the case of the Writer of a call option or the Holder of a put option, the Settlement Currency for final settlement shall be the currency underlying the Currency Options Contract which shall be delivered by</li> </ul>

the Writer of a call option or the Holder of a put option and the Settlement Currency for payment of Clearing House margin, variation adjustment and any other form of margin or fees which may be imposed by the Clearing House or the Exchange shall be the currency in which the Currency Options Contract is traded;

- “Spot Month Options Contract” in a given month: (i) on day(s) prior to and “Spot Month” and on the Expiry Day of that month, a Spot Month Currency Option refers to a Currency Option with an Expiry Day in that same given month; and (ii) on the day after the Expiry Day of that month, a Spot Month Currency Option refers to a Currency Option with an Expiry Day in the immediately following month; and Spot Month shall be construed accordingly;
- “Tick Value” the value of the Minimum Fluctuation multiplied by the Contract Size or, if different, the value as specified in the applicable Contract Specifications;
- “Trading Hours” such period or periods, approved by the Board, within a Trading Day in which trading in any or all Currency Options Contracts occurs, as specified in the Contract Specifications;
- “Underlying Currency” in respect of any Currency Options Contract which is a Physical Delivery Contract, the currency underlying the Currency Options Contract which shall be delivered by the Writer of a call option or the Holder of a put options; and
- “Writer” an HKCC Participant which holds a short option position.

## **CONTRACT SPECIFICATIONS**

- 003 The terms and conditions for each Currency Options Contract shall include, among other things:
- (a) Commission Rate;
  - (b) Contract Months;
  - (c) Contract Size;
  - (d) Contracted Value;
  - (e) Exercise Style;
  - (f) Expiry Day;
  - (g) Final Settlement Day;
  - (h) Large Open Positions;
  - (i) Minimum Fluctuation;
  - (j) Official Settlement Price;
  - (k) Option Premium;
  - (l) Position Limits;
  - (m) Price Quotation;
  - (n) Settlement on Exercise;
  - (o) Strike Price;
  - (p) Tick Value;
  - (q) Trading Hours; and
  - (r) Trading Method.
- 004 Contract Specifications for Currency Options Contracts may be changed from time to time by the Board in consultation with the Commission. Exchange Participants shall be given notice of a change in the Contract Specifications prior to implementation of the change.

## **TRADING**

- 005 Bids and offers for Currency Options Contracts shall be expressed in terms of a number in multiples of the Minimum Fluctuation. The Minimum Fluctuation shall be as prescribed in the Contract Specifications from time to time.
- 006 Trading in Currency Options Contracts shall be carried out through HKATS in accordance with the Rules, these Regulations and the applicable Procedures.
- 007 The Currency Options Market shall be open for trading in Currency Options Contracts on every Trading Day subject to the Exchange Rules. Trading hours shall be as prescribed by the Board from time to time.
- 008 Subject to the Exchange Rules, trading in Currency Options Contracts shall cease at the close of trading hours on the applicable Expiry Day or at such other times as specified by the Board.
- 009 All disputes as to bids, offers, acceptances or withdrawals during trading sessions shall be governed by the Exchange Rules.

## **OFFICIAL SETTLEMENT PRICE**

- 010 The Exchange shall, in conjunction with the Clearing House, announce the Official Settlement Price as soon as practicable after it has been determined.
- 011 Subject to Regulation 012, the Official Settlement Price of a Currency Options Contract shall be determined by the Clearing House in accordance with the Contract Specifications.
- 012 If, in the opinion of the Chief Executive, circumstances are developing or have developed which are capable of preventing the calculation of an Official Settlement Price, or which may render an Official Settlement Price unrepresentative of the level of exchange rate of the underlying currency at the close of trading on the Expiry Day, then the Chief Executive, after consultation with the Commission, may either on his own or in conjunction with the Clearing House take such steps as he deems appropriate to enable the Official Settlement Price to be determined.

## **CASH SETTLEMENT ON EXERCISE**

- 013 The obligations and rights of the Holder and the Writer under a Currency Options Contract which is a cash settled contract are as specified in Regulations 014 to 017.
- 014 The Holder of a Call Option shall have the following rights in respect of each Call Option held:
- (a) if, on the relevant Expiry Day, the Strike Price of the Call Option is less than the Official Settlement Price, the option shall be deemed to be exercised by the Holder.

The Holder shall be entitled to receive the Final Settlement Value from the Clearing House, which shall be equal to the difference between the Official Settlement Price and the Strike Price of the Call Option, multiplied by the Tick Value and divided by the Minimum Fluctuation; or

- (b) if, on the relevant Expiry Day, the Strike Price of the Call Option is greater than, or equal to, the Official Settlement Price, then the option shall be deemed to have expired worthless.
- 015 The Writer of a Call Option shall have the following obligations in respect of each Call Option written:
- (a) if, on the relevant Expiry Day, the Strike Price of the Call Option is less than the Official Settlement Price, the Writer shall pay to the Clearing House the Final Settlement Value, which shall be equal to the difference between the Official Settlement Price and the Strike Price of the Call Option, multiplied by the Tick Value and divided by the Minimum Fluctuation; or

- (b) if, on the relevant Expiry Day, the Strike Price of the Call Option is greater than, or equal to, the Official Settlement Price, the Call Option shall be deemed to have expired worthless and the Writer shall have no further obligation in respect of that option.
- 016 The Holder of a Put Option shall have the following rights in respect of each Put Option held:
  - (a) if, on the relevant Expiry Day, the Strike Price of the Put Option is greater than the Official Settlement Price, the option shall be deemed to be exercised by the Holder.

The Holder shall be entitled to receive the Final Settlement Value from the Clearing House, which shall be equal to the difference between the Strike Price of the Put Option and the Official Settlement Price, multiplied by the Tick Value and divided by the Minimum Fluctuation; or
  - (b) if, on the relevant Expiry Day, the Strike price of the Put Option is less than, or equal to, the Official Settlement Price, then the option shall be deemed to have expired worthless.
- 017 The Writer of a Put Option shall have the following obligations in respect of each Put Option written:
  - (a) if, on the relevant Expiry Day, the Strike Price of the Put Option is greater than the Official Settlement Price, the Writer shall pay to the Clearing House the Final Settlement Value, which shall be equal to the difference between the Strike Price of the Put Option and the Official Settlement Price, multiplied by the Tick Value and divided by the Minimum Fluctuation; or
  - (b) if, on the relevant Expiry Day, the Strike Price of the Put Option is less than, or equal to, the Official Settlement Price, the Put Option shall be deemed to have expired worthless and the Writer shall have no further obligation in respect of that option.
- 018 The Final Settlement Value shall be determined in accordance with the calculations specified in Regulations 014 to 017 above and all margin payments and variation adjustments made to, received from or owed to, the Clearing House prior to and including Expiry Day, shall be set off against the amount owing to or by the HKCC Participant.
- 019 All rights of a Holder and obligations of a Writer of Currency Options shall be satisfied by cash settlement by or with the Clearing House on the Final Settlement Day in accordance with the Clearing House Rules.

## **PHYSICAL DELIVERY ON EXERCISE**

- 020 The obligations and rights of the Holder and the Writer under a Currency Options Contract which is a Physical Delivery Contract are as specified in Regulations 021 to 024.
- 021 The Holder of a Call Option shall have the following obligations and rights in respect of each Call Option held:
- (a) if, on the relevant Expiry Day, the Strike Price of the Call Option is less than the Official Settlement Price, the option shall be deemed to be exercised by the Holder.  
  
The Holder shall be liable to pay to the Clearing House the Final Settlement Value in the Settlement Currency, which shall be equal to the Strike Price multiplied by the Contract Size and shall be entitled to receive the Underlying Currency of the Currency Options Contract according to the Contract Size; or
  - (b) if, on the relevant Expiry Day, the Strike Price of the Call Option is greater than, or equal to, the Official Settlement Price, then the option shall be deemed to have expired worthless.
- 022 The Writer of a Call Option shall have the following obligations and rights in respect of each Call Option written:
- (a) if, on the relevant Expiry Day, the Strike Price of the Call Option is less than the Official Settlement Price, the Writer shall be liable to deliver to the Clearing House the Underlying Currency of the Currency Options Contract according to the Contract Size and shall be entitled to receive from the Clearing House the Final Settlement Value in the Settlement Currency, which shall be equal to the Strike Price multiplied by the Contract Size; or
  - (b) if, on the relevant Expiry Day, the Strike Price of the Call Option is greater than, or equal to, the Official Settlement Price, the Call Option shall be deemed to have expired worthless and the Writer shall have no further obligation in respect of that option.
- 023 The Holder of a Put Option shall have the following obligations and rights in respect of each Put Option held:
- (a) if, on the relevant Expiry Day, the Strike Price of the Put Option is greater than the Official Settlement Price, the option shall be deemed to be exercised by the Holder.

The Holder shall be liable to deliver to the Clearing House the Underlying Currency of the Currency Options Contract according to the Contract Size and shall be entitled to receive from the Clearing House the Final Settlement Value in the Settlement Currency, which

shall be equal to the Strike Price multiplied by the Contract Size; or

- (b) if, on the relevant Expiry Day, the Strike price of the Put Option is less than, or equal to, the Official Settlement Price, then the option shall be deemed to have expired worthless.

024 The Writer of a Put Option shall have the following obligations and rights in respect of each Put Option written:

- (a) if, on the relevant Expiry Day, the Strike Price of the Put Option is greater than the Official Settlement Price, the Writer shall be liable to pay to the Clearing House the Final Settlement Value in the Settlement Currency, which shall be equal to the Strike Price multiplied by the Contract Size and shall be entitled to receive the Underlying Currency of the Currency Options Contract according to the Contract Size; or
- (b) if, on the relevant Expiry Day, the Strike Price of the Put Option is less than, or equal to, the Official Settlement Price, the Put Option shall be deemed to have expired worthless and the Writer shall have no further obligation in respect of that option.

025 The Final Settlement Value shall be determined in accordance with the calculations specified in Regulations 021 to 024 above and all margin payments and variation adjustments made to, received from or owed to, the Clearing House prior to and including Expiry Day, shall be set off against the amount owing to or by the HKCC Participant.

026 All obligations and rights of a Holder and a Writer of Currency Options Contracts which is a Physical Delivery Contract shall be satisfied by delivery of the Underlying Currency or payment of the Final Settlement Value to or by the Clearing House on the Final Settlement Day in accordance with the Clearing House Rules.

## **SETTLEMENT CURRENCY AND CONVERSION RATES**

027 Where the currency in which a Currency Options Contract is traded is different from the Settlement Currency, the amount required to be settled by an Exchange Participant on the Final Settlement Day shall, where applicable, be converted to the Settlement Currency equivalent. The conversion rate to be applied shall be determined by the Clearing House in accordance with the Contract Specifications. If the rate is unobtainable, or circumstances have arisen or are threatened which will prevent the determination of the conversion rate in accordance with the Contract Specifications, the Clearing House may, in its discretion, adjust or otherwise determine the conversion rate.

028 The Clearing House will promptly announce these rates after they are determined. Exchange Participants must use these rates for conversions at the Client account level.



## **REGISTRATION**

- 029 All Exchange Participants trading in Currency Options Contracts shall comply with applicable Procedures. The Clearing House Rules shall govern the registration and clearing of Currency Options Contracts.

## **MARGIN AND VARIATION ADJUSTMENTS**

- 030 Clearing House margin, additional margin and variation adjustments shall be set, collected or distributed in respect of Currency Options Contracts in the Settlement Currency in accordance with the Rules.

## **COMMISSION AND LEVIES**

- 031 (a) The rate of commission for each Currency Options Contract shall be negotiable between an Exchange Participant and its Client.
- (b) Trading of Currency Options Contracts shall be subject to an Exchange fee which shall become immediately payable to the Exchange upon registration of each Contract with the Clearing House. The Exchange fee shall be paid to the Exchange through the Clearing House and shall be set by the Board from time to time.
- (c) Any levies required to be paid pursuant to the Ordinance or the Contract Specifications in consequence of trading in Currency Options Contracts shall be paid to the Exchange through the Clearing House in such manner as the Exchange shall, in consultation with the Commission, prescribe from time to time.

## **PAYMENT OF OPTION PREMIUM AND CLIENT ACCOUNTS**

- 032 A Client may, subject to the Rules, open and maintain with an Exchange Participant one of two types of account with respect to trading options. The two available account types are:
- (a) a Client cash account in which a Client may carry only long option positions in respect of which the full cash value of the Option Premium has been paid to the Exchange Participant on the day of the trade; and
- (b) at the discretion of the Exchange Participant, a Client margin account in which a Client may carry both long and short option positions in respect of which the Client has paid the applicable margin in accordance with the Rules. Notwithstanding the foregoing, a Client margin account may be established only when the Exchange Participant employs a margining system or methodology approved by the Exchange.

Both types of accounts shall be opened and maintained in accordance with the Rules.

## **APPROVAL TO CONDUCT BUSINESS IN CURRENCY OPTIONS**

- 033 (a) Exchange Participants must seek approval from the Exchange in order to trade any Currency Options Contracts.
- (b) In respect of any Currency Options Contracts, the Exchange may, in its absolute discretion, grant or withhold such approval or grant its approval subject to such restrictions or conditions, or after granting such approval restrict or attach conditions, as it shall deem fit in view of the matters set out in sub-paragraph (c) and the decision of the Exchange shall be final and conclusive.
- (c) In the exercise of its discretion, the Exchange will take into account whether an Exchange Participant:-
- (i) is financially and operationally capable of fulfilling all obligations related to participation in the Currency Options Market;
  - (ii) has adequate internal control and risk management procedures in place; and
  - (iii) has installed the HKATS equipment to the satisfaction of the Exchange.

In applying for approval, every person shall follow the procedures prescribed by the Exchange from time to time.

## **DISCLAIMER**

- 034 Every Exchange Participant shall ensure that prior to its accepting or carrying an account for trading in a Currency Options Market on behalf of any Client a disclaimer in the form prescribed by the Board from time to time is delivered to the Client.

## **DISCLOSURE REQUIREMENTS**

- 035 No Exchange Participant may open or deal for an account trading Currency Options for a Client unless the Exchange Participant:
- (a) is approved by the Exchange to trade Currency Options; and
  - (b) is approved to conduct Client business.

## **NON-COMPLIANCE**

- 036 An Exchange Participant which does not comply with these Regulations, the Rules and the applicable Procedures in any respect (including, without limitation, settlement with the Clearing House on the Final Settlement Day) shall be liable to disciplinary proceedings under the Exchange Rules.

## **LARGE OPEN POSITIONS**

- 037 (a) The Board shall specify Large Open Positions in the Contract Specifications as provided for in the Exchange Rules.
- (b) Exchange Participants shall report Large Open Positions to the Chief Executive or the designated Exchange staff as required by the Rules and the applicable Procedures.

## **POSITION LIMITS**

- 038 (a) The Chief Executive may impose Position Limits on Exchange Participants and their Clients as provided for in the Rules and such Position Limits shall be specified in the Contract Specifications.
- (b) Subject to Exchange Rules 629(e) and 630(e), the Chief Executive may, on a case-by-case basis, increase, decrease or remove the Position Limits imposed pursuant to the Rules by giving notice in writing to the Clearing House, the Exchange Participant and the Commission.
- (c) The Chief Executive shall not be required to give any reasons for his decision to increase, decrease or remove the Position Limits pursuant to the Rules.
- (d) Failure to comply with the Position Limits is governed by the Rules.
- (e) Subject to Exchange Rules 629(e) and 630(e), the Chief Executive may approve higher Position Limits for liquidity providers.

*Note: The Commission may also impose contract limits under the Ordinance.*

## **MAXIMUM FLUCTUATION**

- 039 The Chief Executive, after consultation with the Commission and the Board, may from time to time, specify a Maximum Fluctuation. Whenever a Maximum Fluctuation has been specified, trading can only occur at prices within the limit of the Closing Quotation from the last trading session or a reference price specified by the Exchange, plus or minus the Maximum Fluctuation.

## **SHORT OPTION POSITION RESTRICTIONS**

- 040 The Board reserves the right to prohibit or restrict Exchange Participants from carrying short option positions in the Exchange Participant's own accounts or in the accounts of their Clients.

## **LIQUIDITY PROVISION**

- 041 Notwithstanding anything contained in the Rules, the Exchange may from time to time, in its absolute discretion, appoint Exchange Participants to

provide liquidity for Currency Options Contracts in the Currency Options Market at any time and on such terms and conditions as the parties may agree. For the avoidance of doubt, the terms and conditions of any appointment, including the liquidity providing activities, the liquidity providing arrangements, the liquidity providing requirements, the Exchange Fee concessions and/or other incentives upon meeting the liquidity providing requirements, are subject to negotiation between the Exchange and the relevant Exchange Participant and may therefore vary among different appointments of different Exchange Participants.