

## REGULATIONS FOR TRADING STOCK FUTURES CONTRACTS

### INTERPRETATION

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

002 The Rules of the Exchange 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.

"Adjustment" for any Stock Futures Contract, an adjustment pursuant to Regulations 009-010G;

"Buyer" the HKCC Participant registered as the buyer of a Stock Futures Contract pursuant to the Clearing House Rules;

"Cash Settlement Value" for any Stock Futures Contract, the Final Settlement Price multiplied by the Contract Multiplier;

"Clearing House margin" the sums or collateral from time to time required by the Clearing House in order to cover an HKCC Participant's trading liabilities;

"Clearing House Procedures" the procedures prescribed by the Clearing House as from time to time in force;

"Clearing House Rules" the rules of the Clearing House from time to time in force;

"Closing Quotation" the quotation established by the Clearing House at the end of a Trading Session for any Stock Futures Contract according to procedures as prescribed from time to time;

"Contract Month" in respect of any Stock Futures Contract, the month and year by which that contract is so designated by the Board for cash settlement under these Regulations and in which cash settlement of that contract must be made in accordance with these Regulations;

"Contract Multiplier"	for any Stock Futures Contract, the number so specified in the Contract Specifications;
"Contract Specifications"	those terms and conditions of a Stock Futures Contract as from time to time specified by the Board pursuant to Regulations 004-005;
"Contracted Price"	for any Stock Futures Contract, the price at which a Stock Futures Contract is registered by the Clearing House;
"Contracted Value"	in respect of any Stock Futures Contract, the Contracted Price multiplied by the Contract Multiplier;
"Final Settlement Day"	in respect of any Stock Futures Contract, the first Trading Day after the Last Trading Day;
"Final Settlement Price"	the price as determined by the Exchange pursuant to Regulation 012A or 012B;
"HKATS"	the Exchange's automated trading system, as defined in the Rules;
"Hong Kong Stock Futures Contract"	means a Stock Futures Contract, the underlying stock of which is listed on The Stock Exchange of Hong Kong Limited;
"International Stock Futures Contract"	means a Stock Futures Contract other than a Hong Kong Stock Futures Contract;
"Large Open Position"	the number of open Exchange Contracts determined by the Board to be a Large Open Position pursuant to Rule 628 of the Rules of the Exchange;
"Last Trading Day"	the last day of trading for a Stock Futures Contract subject to the Rules and as specified in the Contract Specifications;
"Minimum Fluctuation"	the minimum allowable movement in the price of any Stock Futures Contract as specified in the Contract Specifications;
"Rules of the Exchange"	the rules of the Exchange in force from time to time;
"Seller"	the HKCC Participant registered as the seller of a Stock Futures Contract pursuant to the Clearing House Rules;

"Settlement Currency"	in respect of any Stock Futures Contract, the currency in which the Stock Futures Contract shall be settled, as specified in the Contract Specifications;
"Spot Month"	in a given month: (i) on day(s) prior to and on the Last Trading Day of that month, a Spot Month Stock Futures Contract refers to a Stock Futures Contract traded on such days that has a Last Trading Day in that same given month; and (ii) on the day after the Last Trading Day of that month, a Spot Month Stock Futures Contract refers to a Stock Futures Contract traded on such a day that has a Last Trading Day in the immediately following month;
"stock"	has the same meaning as “securities” in the Rules of The Stock Exchange of Hong Kong Limited;
"Stock Futures Contract"	an Exchange Contract subject to these Regulations;
"Stock Futures Market"	a Market subject to these Regulations; and
"Trading Hours"	such period or periods, approved by the Board, within a Trading Day in which trading in any or all Stock Futures Contracts occurs, as specified in the applicable Contract Specifications.

## **APPLICABLE RULES AND REGULATIONS**

003 Trading in Stock Futures Contracts shall be subject to and governed by the Rules and these Regulations.

## **CONTRACT SPECIFICATIONS**

004 The Board shall specify the following terms and conditions for each Stock Futures Contract:

- (a) Adjustments;
- (b) Contract Months;
- (c) Contract Multiplier;
- (d) Contracted Value;
- (e) Final Settlement Day;
- (f) Final Settlement Price;
- (g) Large Open Position;
- (h) Last Trading Day;
- (i) Minimum Fluctuation;
- (j) Position Limits;
- (k) Price Quotation;
- (l) Trading Days;
- (m) Trading Hours;

- (n) Settlement Currency; and
- (o) Commission Rate.

005 Contract Specifications for Stock Futures Contracts may be changed from time to time by the Board in consultation with the Commission. Exchange Participants shall be given notice of any changes in the Contract Specifications prior to their implementation.

## **TRADING**

006 (a) The Stock Futures Market shall be open for trading on every Trading Day subject to the Rules of the Exchange and Regulation 007. Trading Hours shall be as prescribed by the Board from time to time.

(b) Trading in Stock Futures Contracts shall be carried out through HKATS in accordance with the Rules of the Exchange, these Regulations and the applicable Procedures.

(c) All bids and offers for Stock Futures 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.

(d) Trading in Stock Futures Contracts shall be conducted in and confined to Exchange Contracts for the delivery, by cash settlement on the Final Settlement Day, of an amount in the Settlement Currency equal to the difference between the Cash Settlement Value and the Contracted Value of such Stock Futures Contracts.

007 Subject to the Rules of the Exchange, trading in Stock Futures Contracts in a given Contract Month shall cease at the close of Trading Hours on the Last Trading Day or at such other times as specified by the Board. Unless otherwise determined by the Exchange, the Exchange will, by notice to Exchange Participants using the Market Messages Window of HKATS and/or such other means as it considers appropriate, suspend trading of a Stock Futures Contract as soon as practicable after trading of the underlying stock is suspended in the stock market on which the underlying stock is listed. If the trading of the underlying stock has been suspended for three months or more, or if a shareholders' resolution is passed and the relevant regulatory authority's approval is granted for the privatization of the issuer of the underlying stock, the Chief Executive, in consultation with the Commission, may discontinue the trading of the Stock Futures Contract. No action shall lie against and no liability of whatsoever nature and howsoever arising, whether in contract, tort or otherwise, shall be incurred by the Exchange directly or indirectly in connection with any such suspension of Stock Futures Contracts.

008 All disputes in relation to Stock Futures Contracts shall be dealt with in accordance with the Rules.

## **ADJUSTMENTS**

### ***Capital Adjustments***

- 009 (a) Adjustments to the share price are a common phenomenon arising naturally in the market when a company announces a share subdivision or a share consolidation or makes changes to its capital structure by way of rights issues, bonus issues, cash dividend payments etc. This adjustment occurs naturally in the market place as soon as the share trades ex-entitlement or the corporate action takes effect.
- (b) The value of a Stock Futures Contract on those shares will be changed unless an appropriate Adjustment is made to the Contract Specifications of the Stock Futures Contract. Adjustments to the Contracted Price and the Contract Multiplier of a Stock Futures Contract will keep the Stock Futures Contract value unchanged before and after the ex-entitlement day or the corporate action effective day.
- (c) The Exchange is responsible for determining the Adjustments to be made to the Contract Specifications of existing Stock Futures Contracts on those shares. The Exchange generally refers to the processes surrounding this as “capital adjustments”.

### ***Circumstances Which May Give Rise to Capital Adjustment***

- 010 (a) The procedures below consider two common types of events in which standard Adjustments will be made to the Contract Specifications of a Stock Futures Contract. They are entitlement events and corporate action events.
- (b) Special events like offering of shares in another company, change of domicile etc., which are not common entitlement or corporate events and standard Adjustments, may be dealt with by the Chief Executive in consultation with the Commission. Under such circumstances, the Chief Executive in consultation with the Commission, on a case by case basis, will decide whether an Adjustment is needed, and if so, the Adjustment method.

### ***Entitlement Events***

- 010A (a) Entitlement events generally take the form of a dividend payment, cash bonus, rights issue, bonus issue of shares, bonus issue of warrants or spin-off (with entitlement).
- (b) Generally, the Exchange will not perform any capital adjustment on a Stock Futures Contract for an ordinary cash dividend (whether or not it is offered with a scrip alternative). For any other forms of cash

distribution described by a company, such as a cash bonus, special dividend or extraordinary dividend, the Exchange will not perform any capital adjustment on a Stock Futures Contract unless the value of the payment is 2 per cent or more of the share's closing price on the day of the announcement. Under exceptional circumstances, the Exchange reserves its right to consider making capital adjustments on a case by case basis as it deems appropriate, after consultation with the Commission. For example, an exceptional circumstance may include a dividend payment described as a special dividend but which in essence is a regular payment arising from the normal course of business or an exceptionally large ordinary cash dividend payment involving a return of capital.

- (c) For rights issues, bonus issue of shares, bonus issue of warrants and spin-off, the Exchange will perform a capital adjustment irrespective of its size in relation to the underlying market price.
- (d) In the case of a combined entitlement event, for example, a bonus issue plus a simultaneous special dividend, the Exchange will conduct a combined capital adjustment only if the special dividend in isolation is 2 per cent or more of the share's closing price on the day of the announcement.

### ***Corporate Action Events***

- 010B (a) Corporate action events may take the form of share sub-division, share consolidation, merger and privatisation.
- (b) The Exchange will always perform a capital adjustment irrespective of the corporate action's effect on the underlying market price.

### ***Capital Adjustment Announcement***

- 010C As soon as the company makes an announcement which may require a capital adjustment, the Exchange will determine what effect it will have on the corresponding Stock Futures Contracts. The decision as to whether or not an Adjustment will be made to the Contract Specifications of existing Stock Futures Contracts on the relevant underlying stock, and the nature of that Adjustment, will be announced no later than the tenth Trading Day after the company announcement is made.

### ***Standard Adjustment Methodology***

- 010D For each Adjustment, there will be an adjustment ratio. In each case, the old Contracted Price of the Stock Futures Contract will be multiplied by this adjustment ratio to obtain the adjusted Contracted Price. The corresponding adjusted Contract Multiplier is obtained by dividing the old Contracted Value by the adjusted Contracted Price, unless otherwise specified. The old

Contracted Value is simply the product of the old Contracted Price and the old Contract Multiplier.

The following table describes the rules for all the standard capital adjustment events.

Event	Adjusted Contracted Price (ACP) =	Adjusted Contract Multiplier (ACM) =
<p><b>Rights Issue</b></p> <p>‘A’ new shares for ‘B’ old shares at C per share; where it closes at S on the last trading day prior to ex-rights day.</p>	<p>Old Contracted Price (OCP) times<sup>1</sup>:</p> $\frac{B + (A * C / S)}{A + B}$	$\frac{OCP * \text{Old Contract Multiplier}}{ACP}$
<p><b>Bonus Issue of Shares</b></p> <p>‘A’ new shares for ‘B’ old shares.</p>	<p>Old Contracted Price (OCP) times:</p> $\frac{B}{A + B}$	$\frac{OCP * \text{Old Contract Multiplier}}{ACP}$
<p><b>Bonus Issue of Warrants</b></p> <p>W is the theoretical value of bonus warrant entitlement per share one day prior to ex-date<sup>2</sup>.</p> <p>OD is ordinary cash dividend.</p> <p>The share closes at closing price S on the last trading day prior to the ex-date.</p>	<p>Old Contracted Price (OCP) times:</p> $\frac{S - OD - W}{S - OD}$ <p>Note: OD shall be deducted from S only if OD and the bonus warrants have the same ex-date.</p>	$\frac{OCP * \text{Old Contract Multiplier}}{ACP}$

<p><b>Share Consolidation</b></p> <p>X shares consolidate into Y shares.</p>	<p>Old Contracted Price (OCP) times:</p> $\frac{X}{Y}$	<p>OCP * Old Contract Multiplier</p> $\frac{\text{-----}}{\text{ACP}}$
<p><b>Share Sub-division</b></p> <p>X shares sub-divided into Y shares.</p>	<p>Old Contracted Price (OCP) times:</p> $\frac{X}{Y}$	<p>OCP * Old Contract Multiplier</p> $\frac{\text{-----}}{\text{ACP}}$
<p><b>Merger (Shares+Cash)</b></p> <p>Y shares in new company and Z amount of cash for every X shares in old company; where it closes at closing price S on the last trading day.</p>	<p>Old Contracted Price (OCP) times:</p> $\frac{X-Z/S}{Y}$	<p>OCP * Old Contract Multiplier</p> $\frac{\text{-----}}{\text{ACP}}$
<p><b>Merger (Shares Only)</b></p> <p>Y shares in new company for X shares in old company.</p>	<p>Old Contracted Price (OCP) times:</p> $\frac{X}{Y}$	<p>OCP * Old Contract Multiplier</p> $\frac{\text{-----}}{\text{ACP}}$
<p><b>Privatisation / Merger (Cash Only)</b></p>	<ul style="list-style-type: none"> <li>• The Exchange will announce a Last Day of Dealing (“LDD”) on the contracts, which is subject to conditions of the offer being satisfied.</li> <li>• Contracts will be cash-settled based on the share offer price/cancellation price immediately after the LDD if the offer has become unconditional.</li> </ul>	
<p><b>Spin-off<sup>3</sup> (with Entitlement)</b></p> <p>E is the value of the entitlement of the spin-off calculated using VWAP<sup>4</sup> on its first trading day.</p>	<p>Old Contracted Price (OCP) times:</p> $\frac{S}{S + E}$	<p>If S/S+E is equal to or above the Exchange’s prescribed limit<sup>5</sup></p> <p>OCP * Old Contract Multiplier</p> $\frac{\text{-----}}{\text{-----}}$



<p>S is the value of the share calculated using VWAP<sup>4</sup> on E's first trading day.</p>		<p style="text-align: center;">ACP</p> <p>If S/S+E is below the Exchange's prescribed limit<sup>5</sup></p> <p style="text-align: center;">Old Contract Multiplier ----- the Exchange's prescribed limit<sup>5</sup></p>
<p><b>Other forms of Cash Distribution (CD), such as a special dividend, cash bonus or extraordinary dividend</b></p> <p>No capital adjustment unless CD is 2% or more of the share's closing price on the dividend announcement day.</p> <p>OD is ordinary cash dividend.</p> <p>The share closes at closing price S on the last trading day prior to the ex-date.</p>	<p>Old Contracted Price (OCP) times:</p> $\frac{S - OD - CD}{S - OD}$ <p>Note: OD shall be deducted from S only if OD and CD have the same ex-date.</p>	<p>OCP * Old Contract Multiplier ----- ACP</p>

<sup>1</sup> Adjustment will only be made if the adjustment ratio is smaller than 1.

<sup>2</sup> The theoretical value is determined by HKCC based on such pricing parameters from such market makers as it may consider appropriate.

<sup>3</sup> No capital adjustment will be made in respect of any preferential offering arising from a spin-off as entitlement will not be extended to all shareholders. Adjustments in respect of spin-offs which do not involve the listing of the relevant company's shares will be considered on a case-by-case basis.

<sup>4</sup> The Volume Weighted Average Price (VWAP) is determined by calculating the summation of the value of each transaction (i.e. price multiplied by number of shares traded) and then dividing it by the total shares traded for the day.

<sup>5</sup> The Exchange's prescribed limit shall be such adjustment ratio floor value as may be prescribed by the Exchange from time to time.

In cases where a cash or scrip alternative is offered, the capital adjustments will be based on the cash version of the payout. If the cash payment is in a currency which is not the Settlement Currency, it will be converted to the Settlement Currency at the exchange rate determined by the Clearing House.

### ***Effective Day of Capital Adjustment***

- 010E (a) The Adjustment will take effect on the ex-date of the entitlement event or on the effective date of the corporate action event.
- (b) For entitlement events, the capital adjustment process will be

conducted before the trading session immediately following the last day the share is traded cum-entitlement.

- (c) The capital adjustment process conducted by the Exchange for stock splits and consolidations will occur before the corporate action effective date announced by the issuer of the underlying securities.

### *Effect of Capital Adjustment*

010F The following describes how existing Contract Specifications, open positions and settlement are being treated under the capital adjustment process of the Exchange:

- (a) Adjustment of Contract Specifications for Existing Stock Futures Contracts

Using the adjustment ratio (see table above), the Contracted Price and Contract Multiplier of all existing Stock Futures Contracts on the relevant underlying stock are adjusted. As a result of rounding, the adjusted Contract Multiplier may result in odd lots as well as fractional shares.

While adjusted Stock Futures Contracts can still be traded, new standard Stock Futures Contracts will be introduced in accordance with the standard procedures for issuing new contracts. Therefore, in respect of Stock Futures Contracts on the relevant underlying stock, there will be some whose Contract Multipliers are standard and there will be others whose Contract Multipliers are adjusted.

- (b) Open Positions

The number of open positions in each old Stock Futures Contract will be transferred to the respective adjusted Stock Futures Contract. It should be noted that only the Contracted Price and Contract Multiplier are being adjusted and there will not be any changes to the number of open positions whatsoever after the Adjustment, unless there is a change in board lot size of the underlying stock.

- (c) Settlement of Adjusted Stock Futures Contracts

Adjusted Stock Futures Contracts shall be settled in cash on the Final Settlement Day in accordance with the Clearing House Rules.

### *Changes To Capital Adjustment Announced By Issuer*

010G If there is any change to a corporate action event announced by an issuer after the underlying stock has traded ex-all entitlements, the Chief Executive

will investigate and, in consultation with the Commission, determine any necessary further action.

## **FINAL SETTLEMENT PRICE**

- 011 The Exchange shall announce the Final Settlement Price as soon as practicable after it has been determined.
- 012A The Final Settlement Price of a Hong Kong Stock Futures Contract shall, subject to Regulation 013, be the official closing price of the underlying stock as quoted by SEHK on the Last Trading Day, rounded to the nearest cent, as published by the Exchange, provided that if no official closing price is available on the Last Trading Day due to events including but not limited to trading suspension of the underlying stock, the Final Settlement Price of a Hong Kong Stock Futures Contract shall be the last available official closing price of the underlying stock as quoted by SEHK before the Last Trading Day.
- 012B The Final Settlement Price of an International Stock Futures Contract shall, subject to Regulation 013, be the official closing price on the Last Trading Day of the underlying stock as quoted in the cash market on which the underlying stock is listed. The Exchange may determine the cash market to be used for determining the Final Settlement Price.
- 013 If, in the opinion of the Chief Executive, circumstances are developing or have developed which are capable of preventing calculation of the Final Settlement Price, or which may render a Final Settlement Price unrepresentative of the level of prices at which the underlying stock is traded during the Last Trading Day in the cash market, 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 Final Settlement Price to be determined including, but not limited to, the designation of the closing price of the relevant Spot Month contract as the Final Settlement Price.

## **CASH SETTLEMENT**

- 014 (a) The obligations of the Buyer and the Seller under a Stock Futures Contract are as follows:
- (i) If the Contracted Value is less than the Cash Settlement Value, the Seller shall be liable to pay to the Clearing House the difference between that Contracted Value and the Cash Settlement Value.
  - (ii) If the Contracted Value is greater than the Cash Settlement Value, the Buyer shall be liable to pay to the Clearing House the difference between that Contracted Value and the Cash

### Settlement Value.

- (b) The rights of the Buyer and the Seller under a Stock Futures Contract are as follows:
  - (i) If the Contracted Value is less than the Cash Settlement Value, the Buyer shall be entitled to receive from the Clearing House the difference between that Contracted Value and the Cash Settlement Value.
  - (ii) If the Contracted Value is greater than the Cash Settlement Value, the Seller shall be entitled to receive from the Clearing House the difference between that Contracted Value and the Cash Settlement Value.

015 The obligations and rights of the Buyer and the Seller shall be satisfied by cash settlement in the Settlement Currency by or with the Clearing House on the Final Settlement Day in accordance with the Clearing House Rules.

### **SETTLEMENT CURRENCY AND CONVERSION RATES**

015A In respect of any International Stock Futures Contract that is not settled in Hong Kong dollars and whose Settlement Currency is different from the currency in which the International Stock Futures Contract is traded, the amount required to be settled by an Exchange Participant on the Final Settlement Day shall be converted to the Settlement Currency equivalent. The conversion rate to be applied shall be the exchange rate obtained by the Clearing House at 9:00 a.m. on the Last Trading Day from such source as it shall consider appropriate.

015B 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**

016 All Exchange Participants trading in Stock Futures Contracts shall comply with applicable Procedures. The Clearing House Rules shall govern the registration and clearing of Stock Futures Contracts.

### **COMMISSIONS AND LEVIES**

017 The rate of commission for each Stock Futures Contract shall be negotiable between an Exchange Participant and its Client but shall not be less than any minimum rate of commission prescribed from time to time by the Board.

018 Every Stock Futures Contract shall be subject to an Exchange Fee which shall become immediately payable to the Exchange upon registration of the

Stock Futures Contract with the Clearing House. The Exchange Fee shall be set from time to time by the Board and shall be paid to the Exchange through the Clearing House.

- 018A (a) Hong Kong Stock Futures Contracts shall be classified into three tiers as follows with reference to their nominal values and the rate of Exchange Fee for each Hong Kong Stock Futures Contract will depend on the tier of the Stock Futures Contract:

<u>Hong Kong Stock Futures Contract</u>	<u>Nominal value per contract</u>
Tier 1	More than HK\$25,000 (or an equivalent amount)
Tier 2	More than HK\$10,000 and up to HK\$25,000 (or an equivalent amount)
Tier 3	Equal to or less than HK\$10,000 (or an equivalent amount)

- (b) Unless otherwise expressly specified by the Exchange, the nominal value of a Hong Kong Stock Futures Contract will be determined by the Exchange at its absolute discretion with reference to the prevailing official closing price of the underlying stock before introduction of such Hong Kong Stock Futures Contract. If the underlying stock has no prior trading on the Exchange, the nominal value shall be the final offer price (exclusive of brokerage, AFRC Transaction Levy payable pursuant to the Accounting and Financial Reporting Council Ordinance, and SFC Transaction Levy and Investor Compensation Levy payable pursuant to the Ordinance) under the initial public offering of the underlying stock, and if the final offer price has not been decided at the time of determination of the nominal value, the lowest price of the indicative offer price range stated in the prospectus or such other reference or indicative price as the Exchange may consider appropriate. The Exchange will review the nominal value of each Hong Kong Stock Futures Contract on an annual basis to adjust for any substantial changes due to market development or as and when there are capital adjustments to the underlying stock of the Hong Kong Stock Futures Contract.
- (c) The classification of the Hong Kong Stock Futures Contracts into the three tiers and the re-classification from time to time of any Hong Kong Stock Futures Contract will be notified to Exchange Participants via HKATS, email or such other means as the Exchange considers appropriate.

- 019 All levies required to be paid pursuant to the Ordinance in consequence of trading in Stock Futures Contracts shall be paid to the Exchange through the Clearing House as the Exchange shall, in consultation with the Commission, prescribe from time to time.

## **MARGIN AND VARIATION ADJUSTMENTS**

- 020 Margin, additional margin and variation adjustments (including Clearing House margin, Clearing House additional margin and Clearing House variation adjustment) shall be set, collected or distributed in respect of Stock Futures Contracts in accordance with these Regulations, the Rules and the Clearing House Procedures. The Closing Quotation for each open position in Stock Futures Contracts shall be determined by the Clearing House according to the Clearing House Procedures.

## **POSITION LIMITS**

- 021A (a) The Chief Executive shall impose position limits on Exchange Participants and their Clients as specified in the Contract Specifications and provided for in the Rules.
- (b) Subject to 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 Rules 629(e) and 630(e), the Chief Executive may approve higher position limits for Market Makers.
- 021B Without prejudice to the powers of the Chief Executive under Rules 629(a), 629(c), 630(a) and 630(c), the position limits currently applicable to Hong Kong Stock Futures Contracts are classified into 5 levels, namely 25,000, 20,000, 15,000, 10,000 and 5,000 net contracts, in all Contract Months combined. The applicable level of position limit of a Hong Kong Stock Futures Contract is determined by reference to the following methodology:

The position limit level applicable to a Hong Kong Stock Futures Contract is determined based on its contract-equivalent number and shall be calculated by reference to the market capitalization and liquidity of the underlying stock relating to that Hong Kong Stock Futures Contract.

<b>Contract-equivalent number (X)</b>	<b>Position limit</b>
25,000 contracts $\leq X$	25,000 contracts
20,000 $\leq X < 25,000$ contracts	20,000 contracts
15,000 $\leq X < 20,000$ contracts	15,000 contracts
10,000 $\leq X < 15,000$ contracts	10,000 contracts
$X < 10,000$ contracts	5,000 contracts

where:

$X = 5\%$  of the outstanding shares divided by the Contract Multiplier subject to the provisions set out below:

- (i) if 5% of the outstanding shares is less than 25 % of the stock's turnover for the previous six months (the "25% Threshold"), X shall be deemed to be equal to the 25% Threshold divided by the Contract Multiplier subject to (iii) below;
- (ii) if 5% of the outstanding shares is greater than 33 % of the stock's turnover for the previous six months (the "33% Threshold"), X shall be deemed to be equal to the 33% Threshold divided by the Contract Multiplier subject to (iii) below; and
- (iii) if X as calculated above is more than the Liquidity Threshold divided by the Contract Multiplier, it shall be deemed to be equal to the Liquidity Threshold divided by the Contract Multiplier. "Liquidity Threshold" means 1.34 % of the stock's turnover in the previous six months.

The Liquidity Threshold could be revised from time to time as deemed appropriate by the Exchange.

The position limits will be reviewed regularly on an annual basis to adjust for any substantial changes due to market development. The formula above will be applied to all Stock Futures Contracts at the end of November each year, and if revisions are required, the updated position limits will be announced in December in the same year, and they will take effect on the first Business Day of April in the next calendar year.

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

## **LARGE OPEN POSITIONS**

- 022 (a) The Board shall specify Large Open Positions in respect of Stock Futures Contracts as provided for in the Rules and the applicable Procedures. The Board shall specify such Large Open Positions in the Contract Specifications.
- (b) Exchange Participants shall report Large Open Positions to the Chief Executive or the designated HKEX staff as required by the Rules and the Exchange Procedures.

#### **APPROVAL TO CONDUCT BUSINESS IN STOCK FUTURES CONTRACTS**

- 023 (a) Exchange Participants must seek approval from the Exchange in order to trade Stock Futures Contracts.
- (b) The Exchange may, in its absolute discretion, grant or withhold such approval or grant its approval subject to such restrictions or conditions as it shall deem fit and the decision of the Exchange shall be final and conclusive.
- (c) In the exercise of its discretion, the Exchange will take into account, among other things, whether the Exchange Participant:-
- (i) has installed the HKATS equipment to the satisfaction of the Exchange;
  - (ii) (deleted)
  - (iii) is financially and operationally capable of fulfilling all obligations related to participation in the Stock Futures Market; and
  - (iv) has adequate internal control and risk management procedures in place.

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

024 (deleted)

025 (deleted)

#### **NON-COMPLIANCE**

- 026 An Exchange Participant which does not comply with these Regulations, the Rules and the applicable Procedures in any respect shall be liable to disciplinary proceedings under the Rules.



## **SELECTION CRITERIA**

### ***Hong Kong Stock Futures Contracts***

- 027 The Chief Executive may, in consultation with the Commission, introduce the trading of a Hong Kong Stock Futures Contract from time to time. Exchange Participants shall be notified of the introduction of any Hong Kong Stock Futures Contracts.
- 028 A stock is eligible to be an underlying stock of a Hong Kong Stock Futures Contract if it has been listed on the SEHK for a period of either:
- (a) 60 consecutive trading days during which dealing in the underlying stock has not been suspended; or
  - (b) not more than 70 consecutive trading days comprising 60 trading days during which dealing in the underlying stock has not been suspended, i.e. not more than 10 trading days of trading suspension during the 70 consecutive trading days; and

the public float capitalisation (i.e. stocks in the hands of the public pursuant to Chapter 8 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) of the stock is at least HK\$4 billion except where the public float capitalisation of the stock exceeds HK\$10 billion, in which case the requirements set forth in paragraphs (a) and (b) above may be exempted.

## **LIQUIDITY PROVISION**

- 029 Notwithstanding anything contained in the Rules, the Exchange may from time to time, in its absolute discretion, appoint Exchange Participants to provide liquidity for Stock Futures Contracts in the Stock Futures 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.