

REGULATIONS FOR TRADING OPTIONS ON STOCK FUTURES CONTRACTS

INTERPRETATION

001 These Regulations may be cited as the Regulations for trading Options on 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 Options on Stock Futures Contract, an adjustment pursuant to Regulations 009-010G;

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

"Cabinet Trade" an option which is executed at a price prescribed by the Exchange as the Minimum Fluctuation;

"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 Options on Stock Futures Contract according to procedures as prescribed from time to time;

"Contract Month" the month and year in which an option expires;

"Contract Specifications" those terms and conditions of an Options on Stock Futures Contract as from time to time specified by the

Board pursuant to Regulations 004-005;

"Contracted Value"	in respect of any Options on Stock Futures Contract, the Option Premium multiplied by the Contract Multiplier of the underlying Stock Futures Contract;
"Expiry Day"	the Trading Day on which an Options on Stock Futures Contract can be exercised subject to Rule 901 of the Rules of the Exchange and as specified in the Contract Specifications;
"Final Settlement Day"	in respect of any Options on Stock Futures Contract, the first Trading Day after the Expiry Day;
"Final Settlement Value"	the value of an Option on Stock Futures Contract as specified in Regulation 014;
"HKATS"	the Exchange's automated trading system, as defined in the Rules;
"Holder"	an HKCC Participant which holds a long option position;
"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;
"Minimum Fluctuation"	the minimum allowable movement in the price of any Options on Stock Futures Contract as specified in the Contract Specifications;
"Official Settlement Price"	the price of the underlying Stock Futures Contract on exercise of the option 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;
"Options on Stock Futures Contract" or "option"	an Exchange Contract subject to these Regulations;
"Options on Stock Futures Market"	a Market subject to these Regulations;
"Rules of the Exchange"	the rules of the Exchange in force from time to time;

"Settlement Currency"	in respect of any Options on Stock Futures Contract, the currency in which the Options on 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 Expiry Day of that month, a Spot Month Options on Stock Futures Contract refers to an Options on Stock Futures Contract traded on such days that has an Expiry Day in that same given month; and (ii) on the day after the Expiry Day of that month, a Spot Month Options on Stock Futures Contract refers to an Options on Stock Futures Contract traded on such a day that has an Expiry Day in the immediately following month;
"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; and
"Writer"	an HKCC Participant which holds a short option position.

APPLICABLE RULES AND REGULATIONS

003 Trading in Options on 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 Options on Stock Futures Contract:

- (a) Adjustments;
- (b) Cabinet Trade;
- (c) Contract Months;
- (d) Contracted Value;
- (e) Exercise Style;
- (f) Expiry Day;
- (g) Final Settlement Day;
- (h) Large Open Position;
- (i) Minimum Fluctuation;
- (j) Option Premium;
- (k) Position Limits;
- (l) Price Quotation;
- (m) Settlement Currency;
- (n) Settlement on Exercise;

- (o) Strike Prices;
- (p) Trading Days;
- (q) Trading Hours;
- (r) Underlying Contract; and
- (s) Commission Rate.

005 Contract Specifications for Options on 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 Options on 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 Options on 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 Options on 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 Options on 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 Final Settlement Value of such Options on Stock Futures Contracts.

007 Subject to the Rules of the Exchange, trading in Options on Stock Futures Contracts in a given Contract Month shall cease at the close of Trading Hours on the Expiry 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 an Options on Stock Futures Contract as soon as practicable after trading of the underlying share of its underlying Stock Futures Contract is suspended in the stock market on which the underlying share is listed. 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 Options on Stock Futures Contracts.

008 All disputes in relation to Options on 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 sub-division 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 an Options on Stock Futures Contract will be changed unless an appropriate Adjustment is made to the Contract Specifications of the Options on Stock Futures Contract. Adjustments to the Strike Price of an Options on Stock Futures Contract will keep the Options on 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 Options on Stock Futures Contracts. 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 an Options on Stock Futures Contract. They are entitlement events and corporate action events.
- (b) Special events like distribution in specie, offering of shares in another company, bonus warrants, 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 or bonus issue.
- (b) For an ordinary cash dividend (whether or not it is offered with a scrip

alternative) or a cash bonus, the Exchange will not perform any capital adjustment on an Options on Stock Futures Contract unless the value of the payment is 5 per cent or more of the share's closing price on the day of the announcement.

- (c) For rights issues and bonus issues, 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 cash dividend, the Exchange will conduct a combined capital adjustment only if the cash dividend in isolation is 5 per cent or more of the share's closing price on the day of the announcement.

Corporate Action Events

- 010B (a) Corporate action events usually take the form of share sub-division and share consolidation.
- (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 Options on Stock Futures Contracts. The decision as to whether or not an Adjustment will be made to the Contract Specifications of existing Options on Stock Futures Contracts, 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 Strike Price of the Options on Stock Futures Contract will be multiplied by this adjustment ratio to obtain the adjusted Strike Price.

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

Event	Adjusted Strike Price (ASP) =
--------------	--------------------------------------

<p>Rights Issue</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 Strike Price (OSP) times:</p> $\frac{B + (A * C / S)}{A + B}$
<p>Bonus Issue</p> <p>'A' new shares for 'B' old shares</p>	<p>Old Strike Price (OSP) times:</p> $\frac{B}{A + B}$
<p>Share Consolidation</p> <p>X shares consolidate into Y shares</p>	<p>Old Strike Price (OSP) times:</p> $\frac{X}{Y}$
<p>Share Sub-division</p> <p>X shares sub-divided into Y Shares</p>	<p>Old Strike Price (OSP) times:</p> $\frac{X}{Y}$

<p>Dividend/Cash Distribution</p> <p>Dividend = D and D is not less than 5% of the share closing price on the dividend announcement day. The share closes at \$\$ on the day prior to the ex-dividend day.</p>	<p>Old Strike Price (OSP) times:</p> $\frac{S - D}{S}$
---	--

In cases where a cash or scrip alternative is offered, the Adjustment 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 Options on Stock Futures Contracts

Using the adjustment ratio (see table above), the Strike Price of all existing Options on Stock Futures Contracts on the relevant underlying stock are adjusted.

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

(b) Open Positions

The number of open positions in each old Options on Stock Futures Contract will be transferred to the respective adjusted Options on Stock Futures Contract. It should be noted that only the Strike Prices 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 of the Stock Futures Contract on which the option is based.

(c) Settlement of Adjusted Options on Stock Futures Contracts

Adjusted Options on 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 of the Stock Futures Contract on which the option is based has traded ex-all entitlements, the Chief Executive will investigate and, in consultation with the Commission, determine any necessary further action.

OFFICIAL SETTLEMENT PRICE

011 The Exchange shall announce the Official Settlement Price as soon as practicable after it has been determined.

012 The Official Settlement Price of an Options on Stock Futures Contract shall, subject to Regulation 013, be determined by the Clearing House in accordance with the Contract Specifications.

013 If, in the opinion of the Chief Executive, circumstances are developing or have developed which are capable of preventing calculation of the Official Settlement Price, or which may render an Official Settlement Price unrepresentative of the level of prices at which the underlying Stock Futures Contract is traded during 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

- 014 (a) The Holder of a Call Option shall have the following rights in respect of each Call Option held:-
- (i) 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 Contract Multiplier of the underlying Stock Futures Contract; or
- (ii) If, on the relevant Expiry Day, the Strike Price of the Call Option is greater than, or equal to, the Official Settlement Value, the option shall be deemed to have expired worthless.
- (b) The Writer of a Call Option shall have the following obligations in respect of each Call Option written:-
- (i) 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 Contract Multiplier of the underlying Stock Futures Contract; or
- (ii) 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 obligations in respect of that option.
- (c) The Holder of a Put Option shall have the following rights in respect of each Put Option held:-
- (i) 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 Contract Multiplier of the underlying Stock Futures Contract; or

- (ii) If, on the relevant Expiry Day, the Strike Price of the Put Option is less than, or equal to, the Official Settlement Price, the option shall be deemed to have expired worthless.
- (d) The Writer of a Put Option shall have the following obligations in respect of each Put Option written:-
- (i) 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 Contract Multiplier of the underlying Stock Futures Contract; or
 - (ii) 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.
- 014A The Final Settlement Value shall be determined in accordance with the calculations specified in Regulation 014 above and all margin payments and variation adjustments made to, received from or owed to, the Clearing House prior to and including the Expiry Day, shall be set off against the amount owing to or by the HKCC Participant.
- 015 The rights of a Holder and obligations of a Writer of an Options on Stock Futures Contract 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 Options on Stock Futures Contract that is not settled in Hong Kong dollars and whose Settlement Currency is different from the currency in which the Options on 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 Expiry 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 Options on Stock Futures Contracts shall comply with applicable Procedures. The Clearing House Rules shall govern the registration and clearing of Options on Stock Futures Contracts.

COMMISSIONS AND LEVIES

017 The rate of commission for each Options on 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 Options on Stock Futures Contract shall be subject to an Exchange fee which shall become immediately payable to the Exchange upon registration of the Options on 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.

019 All levies required to be paid pursuant to the Ordinance in consequence of trading in Options on 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 Options on Stock Futures Contracts in accordance with these Regulations, the Rules and the Clearing House Procedures. The Closing Quotation for each open position in Options on Stock Futures Contracts shall be determined by the Clearing House according to the Clearing House Procedures.

PAYMENT OF OPTION PREMIUM AND CLIENT ACCOUNTS

020A 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 open 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.

POSITION LIMITS

- 021 (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.

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 Options on 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 OPTIONS ON STOCK FUTURES CONTRACTS

- 023 (a) Exchange Participants must seek approval from the Exchange in order to trade Options on 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 Options on 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.

SHORT OPTION POSITION RESTRICTIONS

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

NON-COMPLIANCE

- 025 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.