

**Rules of the Exchange**

**CHAPTER 1**

**INTERPRETATION**

101. In these Rules, unless the context otherwise requires:-

“at-auction limit order” means –

- (a) a buy order or a sell order with a specified price input into the System during the order input period, no-cancellation period or random matching period of the Pre-opening Session for automatic order matching ~~during~~ at the end of the ~~order-random~~ matching period of the Pre-opening Session at the IEP calculated at the end of the ~~pre-order~~random matching period of the Pre-opening Session when the specified price is (in the case of a buy order) equal to or higher than such IEP, or (in the case of a sell order) equal to or lower than such IEP which, if wholly or partly unmatched at the end of the ~~order-random~~ matching period of the Pre-opening Session, would be converted to a limit order and carried forward to the Continuous Trading Session according to Rule 501I; or
- (b) a buy order or a sell order with a specified price input into the System during the order input period, no-cancellation period or random closing period of the Closing Auction Session, or an outstanding limit order treated as at-auction limit order and carried forward to the Closing Auction Session according to Rule 501L(4), for automatic order matching at the end of the random closing period of the Closing Auction Session at the IEP calculated at the end of the random closing period of the Closing Auction Session when the specified price is (in the case of a buy order) equal to or higher than such IEP, or (in the case of a sell order) equal to or lower than such IEP;

“at-auction order” means –

- (a) a buy order or a sell order with no specified price input into the System during the order input period, ~~no-cancellation period or random matching period or pre-order matching period~~ of the Pre-opening Session for automatic order matching ~~during at the end of the order-random~~ matching period of the Pre-opening Session at the IEP calculated at the end of the ~~pre-order~~ random matching period of the Pre-opening Session; or
- (b) a buy order or a sell order with no specified price input into the System during the order input period, no-cancellation period or random closing period of the Closing Auction Session for automatic order matching at the end of the random closing period of the Closing Auction Session at the IEP calculated at the end of the random closing period of the Closing Auction Session;

“automatic order matching”

means the automatic conclusion of transactions by the System based on the methodology or methodologies as determined by the Board from time to time, including:-

- (a) the methodology specified in Rule 517(1)(a) for automatic conclusion of transactions ~~during the order at the end of the random~~ matching period of the Pre-opening Session or at the end of the random closing period of the Closing Auction Session at the IEP calculated at the end of the ~~pre-order~~ random matching period of the Pre-opening Session or at the end of the random closing period of the Closing Auction Session, as the case may be;
- (b) the methodology specified in Rule 517(1)(b) for automatic conclusion of transactions during the Continuous Trading Session when the specified prices of buy orders and sell orders match;

“POS reference price”

in relation to an issue of securities on a trading day, means, unless otherwise determined by the Exchange, the previous closing price;

- “POS security” means an issue of securities prescribed by the Exchange as eligible for trading in the Pre-opening Session;
- “Pre-opening Session” or “POS” means from 9:00 a.m. to the commencement of the Morning Session as specified in Rule 501(1) on a trading day;
- “previous closing price” means the last recorded closing price of an issue of securities, subject to any adjustment made by the Exchange in the event of any corporate action event, entitlement event or change of capital structure of the issuer such as share sub-division, share consolidation, rights issue and bonus issue;
- “VCM reference price” in relation to any order for a VCM security input into the System at any time during the VCM monitoring period in the following trading sessions, means, unless otherwise determined by the Exchange, –
- (a) in the Morning Session:-
    - (i) the price of the transaction in that VCM security concluded by automatic order matching last recorded for this purpose 5 minutes (or such other time as the Exchange may prescribe from time to time) before the order. Such last recorded price shall be updated by the System at the end of each one minute interval during the Morning Session, or at such time, during such period and in such manner as the Exchange may from time to time determine; and
    - (ii) (if there have been no transaction in that VCM security in the Morning Session) the IEP of that VCM security calculated at the end of the ~~pre-order~~random matching period of the Pre-opening Session on that day; and
    - (iii) (if there is no such IEP) the recorded price of the first transaction of that VCM security concluded by automatic order matching in the Morning Session;
  - (b) in the Afternoon Session:-

- (i) the price of a transaction in that VCM security concluded by automatic order matching last recorded for this purpose 5 minutes (or such other time as the Exchange may prescribe from time to time) before the order. Such last recorded price shall be updated by the System at the end of each one minute interval during the Afternoon Session, or at such time, during such period and in such manner as the Exchange may from time to time determine; and
- (ii) where (b)(i) above does not apply, then the recorded price of the first transaction of that VCM security concluded by automatic order matching in the Afternoon Session;

## **CHAPTER 5**

### **TRADING**

#### **Operational Trading Rules**

- 501E. (2) Each selling Exchange Participant shall input into the System details of a sale transaction in respect of the Extended Trading Securities within 15 minutes after the conclusion of the transaction, but before the close of trading for the Extended Trading Securities on a trading day for transactions concluded on that trading day. Any transactions in respect of the Extended Trading Securities not recorded in the System before the close of trading for the Extended Trading Securities as aforesaid shall be reported to the Exchange within the order input period, the no-cancellation period and the ~~pre-order~~random matching period of the Pre-opening Session or the first 15 minutes of the commencement of the Continuous Trading Session on the next trading day as transactions concluded on that trading day on which the reporting has been made provided that if there is no Continuous Trading Session on the next trading day for whatever reason, any such transactions not reported to the Exchange as aforesaid shall be reported to the Exchange not later than the first 15 minutes of the commencement of the first trading session of the next Continuous Trading Session as transactions concluded during the trading session on which the reporting has been made. This Rule shall apply to all transactions in respect of the Extended Trading Securities other than direct business transactions and transactions concluded by automatic order matching. A selling Exchange Participant which fails to comply with this Rule shall be liable to disciplinary action by the Board.

- 501F. (1) It is the duty of every Exchange Participant conducting direct business transactions in respect of the Extended Trading Securities within the Pre-opening Session, the trading hours stipulated in Rule 501(1), the Extended Morning Session and the Closing Auction Session to input details of such transactions into the System within the following time limits (or other time limits as the Exchange may from time to time determine):
- (i) in respect of direct business transactions which are ATS transactions, on a trade-by-trade basis immediately and in any case, within 1 minute after the conclusion of the transactions; and
  - (ii) in respect of all other direct business transactions, within 15 minutes after the conclusion of the transactions,

and in any event before the close of trading for the Extended Trading Securities on a trading day for transactions concluded on that trading day provided that no such duty exists for transactions concluded by automatic order matching. Any transactions in respect of the Extended Trading Securities not recorded in the System before the close of trading for the Extended Trading Securities as aforesaid shall be reported to the Exchange within the order input period, the no-cancellation period and the ~~pre-order~~random matching period of the Pre-opening Session or the first 15 minutes of the commencement of the Continuous Trading Session on the next trading day as transactions concluded on that trading day on which the reporting has been made provided that if there is no Continuous Trading Session on the next trading day for whatever reason, any such transactions not reported to the Exchange as aforesaid shall be reported to the Exchange not later than the first 15 minutes of the commencement of the first trading session of the next Continuous Trading Session as transactions concluded during the trading session on which the reporting has been made.

- (2) Direct business transactions in respect of the Extended Trading Securities conducted outside the trading hours for the Extended Trading Securities shall be reported within the first 15 minutes of the commencement of trading on the next trading session as transactions concluded during that trading session on which the reporting has been made provided that if the next trading session is a Pre-opening Session, such direct business transactions shall be reported within the order input period, the no-cancellation period and the ~~pre-order~~random matching period of that Pre-opening Session or the first 15 minutes of the commencement of trading on the first trading session of the next Continuous Trading Session as transactions concluded during the trading session on which the reporting has been made.

### **Pre-opening Session**

- 501G. (1) Unless otherwise determined by the Exchange, the Pre-opening Session shall comprise four periods in the following sequence:
- (i) the order input period which shall commence at 9:00 a.m. and end at 9:15 a.m.;

- (ii) the ~~pre-order matching~~no-cancellation period which shall commence at 9:15 a.m. and end at 9:20 a.m.;
  - (iii) the ~~order~~random matching period which shall commence at 9:20 a.m. and end at ~~9:28~~any time no later than 9:22 a.m.; and
  - (iv) the blocking period which shall commence at ~~9:28 a.m.~~the end of the random matching period and end at 9:30 a.m..
- (1A) The Exchange may prescribe from time to time in its absolute discretion a list of POS securities as eligible for trading in the Pre-opening Session. For the avoidance of doubt, the Exchange may from time to time include any securities in or exclude any securities from the list of POS securities.
- (1B) For the purpose of Rule 501(G)(3), unless otherwise determined by the Exchange,
- (a) the upper price limit means a price which is 15% (or such other percentage as the Exchange may from time to time determine) higher than the POS reference price, rounded down to the nearest spread; and
  - (b) the lower price limit means a price which is 15% (or such other percentage as the Exchange may from time to time determine) lower than the POS reference price, rounded up to the nearest spread.
- (2) During the order input period, ~~auction orders~~at-auction orders and at-auction limit orders each with a specified price that does not deviate more than 15% from the POS reference price may be input into the System provided that each short selling order input into the System during the Pre-opening Session shall be an at-auction limit order and in accordance with Rule 563D(1), 563D(5), 563D(6) or 563D(8). All orders input into the System during the order input period ~~and~~ may be amended or cancelled. An auction order that is amended in connection with a reduction in size shall not affect the time priority of the original auction order. An auction order that is amended in connection with specified price or an increase in size will result in the loss of time priority of the original auction order.
- (3) During the ~~pre-order matching~~no-cancellation period and the random matching period, only at-auction orders and at-auction limit orders each with a specified price:-
- (a) that does not deviate more than 15% from the POS reference price;
  - (b) (in respect of buy orders) within the range of the lower price limit and the higher of the highest bid price and the lowest ask price of the orders recorded in the System at the end of the order input period (if available);

- (c) (in respect of sell orders) within the range of the upper price limit and the lower of the lowest ask price and the highest bid price of the orders recorded in the System at the end of the order input period (if available); and
- (d) (in respect of short selling orders to be input into the System during the Pre-opening Session in accordance with Rule 563D(1) only) that is at or above the POS reference price (except where the Designated Security is a Market Making Security approved by the Commission to be excluded from the application of Regulation (15) in the Eleventh Schedule to these Rules),

may be input into the System but no order shall be amended or cancelled.

- (3A) The Exchange has the right to waive the application of Rule 501G(3), including but not limited to on the first day of trading of an issue of securities and upon the resumption of trading of an issue of securities from trading suspension.
  - (3B) The random matching period may end at any time, as determined automatically and randomly by the System, no later than 9:22 a.m.. For the avoidance of doubt, the random matching period in relation to all POS securities will end at the same time.
  - (4) ~~During the order~~ Commencing at the end of the random matching period, automatic order matching of the auction orders shall be conducted in accordance with Rule 517(1)(a) and no order shall be input into the System, amended or cancelled. All transactions so concluded based on the methodology specified in Rule 517(1)(a) ~~during the order matching period~~ shall be deemed to have been concluded at the ~~commencement~~ end of the ~~order-random~~ matching period.
  - (5) During the blocking period, the System shall be static for transition from the Pre-opening Session to the Continuous Trading Session and no order shall be input into the System, amended or cancelled.
  - (6) For the avoidance of doubt, if no POS reference price in respect of a POS security is available, the price limits or restrictions which are made with reference to POS reference price, as referred to in Rules 501G(2) and 501G(3), shall not apply to the orders for the POS securities, unless the Exchange otherwise determines.
- 501H. (2) If an IEP is calculated in accordance with Rule 501H(1) at the end of the ~~pre-order-random~~ matching period of the Pre-opening Session, at-auction orders and at-auction limit orders with specified prices at or better than such IEP shall be matched by automatic order matching at such IEP ~~during the order matching~~ commencing from the end of the random matching period of the Pre-opening Session based on the methodology specified in Rule 517(1)(a).

- (3) If no IEP is calculated at the end of the ~~pre-order~~random matching period of the Pre-opening Session in accordance with Rule 501H(1), there will be no automatic order matching ~~during the order~~commencing from the end of the random matching period of the Pre-opening Session and the auction orders (if any) shall be dealt with in accordance with Rule 501I as with auction orders which remain wholly or partly unmatched at the end of the ~~order~~random matching period of the Pre-opening Session.

501I. At the end of the ~~order-random~~ matching period of the Pre-opening Session when automatic order matching is completed, all auction orders which remain wholly or partly unmatched shall be cancelled and deleted from the System automatically except for those at-auction limit orders the specified price of each of which does not deviate 9 times or more from the nominal price at that time. Such at-auction limit orders shall be converted to limit orders at the input specified price and carried forward to the Continuous Trading Session of the same trading day for automatic order matching. The order entry time of such converted limit orders shall be the time the at-auction limit orders were originally entered into the System. If there is no Continuous Trading Session on that trading day for whatever reason, such at-auction limit orders shall be cancelled and deleted from the System at the end of that trading day.

#### **Termination of terminal activities**

502. All terminal activities (except enquiries) shall, unless otherwise determined by the Board, be terminated:
- (a) at the ~~commencement of the order matching~~end of the random matching period for the Pre-opening Session;
  - (b) at the end of the Morning Session for the Morning Session if it is not followed immediately by the Closing Auction Session;
  - (c) at the end of the Closing Auction Session; and
  - (d) at such time or times as may be determined by the Chief Executive in consultation with the Chairman and the Commission.

#### **Trading of automatch stocks during the Pre-opening Session and the Closing Auction Session**

502D. All automatch stocks which are POS securities shall be eligible for trading during the Pre-opening Session and all automatch stocks which are CAS securities shall be eligible for trading during the Closing Auction Session unless otherwise determined by the Board. The Board has absolute discretion at any time to determine the eligibility of any issue of securities for trading during the Pre-opening Session and the Closing Auction Session. Notwithstanding any other provisions contained in these Rules, in the event that any issue of securities is determined by the Board to be not eligible for trading during the Pre-opening Session or the Closing Auction Session, there shall be



no terminal activities relating to such issue of securities during the Pre-opening Session or the Closing Auction Session.

- 520(2). Any transactions not recorded in the System before the end of trading on a trading day shall be reported to the Exchange within the order input period, the no-cancellation period and the pre-order random matching period of the Pre-opening Session, or within the first 15 minutes of the commencement of the Continuous Trading Session on the next trading day as transactions concluded on that trading day on which the reporting has been made provided that if there is no Continuous Trading Session on the next trading day for whatever reason, any such transactions not reported to the Exchange as aforesaid shall be reported to the Exchange not later than the first 15 minutes of the commencement of the first trading session of the next Continuous Trading Session as transactions concluded during the trading session on which the reporting has been made.

### **Review and Rejection**

523. Each buying Exchange Participant shall review details of the transactions as recorded in its favour in the System and reject any erroneous input as soon as it discovers an error but not later than:
- (a) the commencement end of the order random matching period in respect of transactions inputted into the System during the Pre-opening Session;
  - (b) the end of the Morning Session in respect of transactions inputted into the System during the Morning Session;
  - (c) the end of the Afternoon Session in respect of transactions inputted into the System during the Afternoon Session; and
  - (d) the end of the Closing Auction Session in respect of transactions inputted into the System during the Closing Auction Session.

### **Direct Business**

526. (1) (a) It is the duty of every Exchange Participant conducting direct business transactions within the Pre-opening Session, the trading hours stipulated in Rule 501(1) and the Closing Auction Session to input details of such transactions into the System within the following time limits (or other time limits as the Exchange may from time to time determine):
- (i) in respect of direct business transactions which are ATS transactions, on a trade-by-trade basis immediately and in any case, within 1 minute after the conclusion of the transactions; and
  - (ii) in respect of all other direct business transactions, within 15 minutes after the conclusion of the transactions,

and in any event not later than

- (i) 15 minutes from the commencement of the Morning Session in respect of transactions concluded during the Pre-opening Session,
- (ii) the end of the Morning Session in respect of transactions concluded during the Morning Session and (where the Morning Session is immediately followed by the Closing Auction Session) the end of the Closing Auction Session in respect of transactions in CAS securities concluded in the Morning Session;
- (iii) the end of the Afternoon Session in respect of transactions concluded during the Afternoon Session and (where the Afternoon Session is immediately followed by the Closing Auction Session) the end of the Closing Auction Session in respect of transactions in CAS securities concluded in the Afternoon Session; and
- (iv) the end of the Closing Auction Session in respect of transactions in CAS securities concluded in the Closing Auction Session.

provided that no such duty exists for transactions concluded through automatic order matching.

- (b) Any transactions not recorded in the System before the end of trading of the relevant securities on a trading day shall be reported to the Exchange within the order input period, the no-cancellation period and the ~~pre-order~~random matching period of the Pre-opening Session, or within the first 15 minutes of the commencement of the Continuous Trading Session on the next trading day as transactions concluded on that trading day on which the reporting is made provided that if there is no Continuous Trading Session on the next trading day for whatever reason, any such transactions not reported to the Exchange as aforesaid shall be reported to the Exchange not later than the first 15 minutes of the commencement of the first trading session of the next Continuous Trading Session as transactions concluded during the trading session in which the reporting is made.
- (c) In respect of
  - (i) a direct business transaction relating to an issue of a Structured Product concluded for the account of the issuer of the Structured Product or its associates; or
  - (ii) a direct business transaction which is an ATS transaction,

the Exchange Participant shall, in addition to the above requirements, report to the Exchange in such manner, at such time or times and with such details as the Exchange shall from time to time determine.

- (2) Direct business transactions conducted outside the Pre-opening Session, –the trading hours stipulated in Rule 501(1) and the Closing Auction Session shall be reported within the first 15 minutes of the commencement of trading on the next trading session as transactions concluded during that trading session on which the reporting has been made provided that if the next trading session is a Pre-opening Session, such direct business transactions shall be reported within the order input period, the no-cancellation period and the ~~pre-order~~random matching period of that Pre-opening Session or the first 15 minutes of the commencement of trading on the first trading session of the next Continuous Trading Session as transactions concluded during the trading session on which the reporting has been made.
- (3) The price of every direct business transaction concluded during the Continuous Trading Session must be within the range of the lowest of twenty-four spreads below the previous closing price, the lowest bid and the lowest ask price up to the time of the transaction on the day and the highest of twenty-four spreads above the previous closing price, the highest bid and the highest ask price up to the time of the transaction on the day. This Rule 526(3) shall not apply to direct business transactions concluded during the Pre-opening Session or the Closing Auction Session.

### **Short Selling**

- 563D. (1) With the exception of Securities Market Maker Short Selling by a Securities Market Maker, Structured Product Liquidity Provider Short Selling by a Structured Product Liquidity Provider, Designated Index Arbitrage Short Selling by a Designated Index Arbitrage Short Selling Participant, Stock Futures Hedging Short Selling by a Designated Stock Futures Hedging Short Selling Participant, Structured Product Hedging Short Selling by a Structured Product Hedging Participant and Options Hedging Short Selling by a Market Maker or an Options Hedging Participant, short selling shall be limited to transactions in (a) Designated Securities which are also POS securities effected on the Exchange during the Pre-opening Session, (b) Designated Securities effected on the Exchange during the Continuous Trading Session and ~~(bc)~~ Designated Securities which are also CAS securities effected on the Exchange during the Closing Auction Session. For the avoidance of doubt, only at-auction limit orders may be input into the System as short selling orders during the Pre-opening Session and the Closing Auction Session. Exchange Participants engaged in short selling shall comply at all times with the Ordinance as amended from time to time, and the Regulations regarding short selling in the Eleventh Schedule to these Rules as approved by the Exchange from time to time.

## **ELEVENTH SCHEDULE**

### **SHORT SELLING REGULATIONS (“REGULATIONS”)**

- (5) A short selling order may ~~only~~ be input into the System during the Pre-opening Session, the Continuous Trading Session and the Closing Auction Session. An Exchange Participant which knows or is informed that an order to sell is a short sale shall:-
- (a) when passing the order to another Exchange Participant or any other person having access to the System (including but not limited to an employee of an Exchange Participant) with a view that he or it shall input the order into the System, inform him or it that the order is a short selling order;
  - (b) when inputting the order into the System, indicate such matters and in such manner as the Exchange shall from time to time determine, that the order is a short selling order.
- (15) A short sale of a Designated Security shall not be made on the Exchange below the POS reference price (during the Pre-opening Session), the best current ask price (during the Continuous Trading Session) or the CAS reference price (during the Closing Auction Session) except where the Designated Security is a Market Making Security approved by the Commission to be excluded from the application of this Regulation.

## **FIFTEENTH SCHEDULE**

### **DESIGNATED INDEX ARBITRAGE SHORT SELLING, STOCK FUTURES HEDGING SHORT SELLING, STRUCTURED PRODUCT HEDGING SHORT SELLING AND OPTIONS HEDGING SHORT SELLING REGULATIONS (“REGULATIONS”)**

#### **DESIGNATED INDEX ARBITRAGE SHORT SELLING**

- (11) Designated Index Arbitrage Short Selling could be made on the Exchange below the POS reference price (during the Pre-opening Session), the best current ask price (during the Continuous Trading Session) or the CAS reference price (during the Closing Auction Session).
- (16) An order involving Designated Index Arbitrage Short Selling may ~~only~~ be entered into the System during the Pre-Opening Session, the Continuous Trading Session and the Closing Auction Session. Each order effected on the Exchange relating to a Designated Index Arbitrage Transaction shall be entered into the System by a Designated Index Arbitrage Short Selling Participant with a specific transaction indicator assigned by the Exchange followed by a transaction nature indicator and a transaction reference number in the trade reference field (in sequential order). In addition, orders involving Designated Index Arbitrage Short Selling must be entered into the System with a specific short sale indicator in the short sale indicator field. The Designated Index Arbitrage Short Selling Participant shall ensure that the same

assigned transaction indicator, transaction nature indicator and transaction reference number are used by the relevant Designated Index Arbitrage Participant (as defined in the Rules of HKFE) when executing such parts of the Designated Index Arbitrage Transaction that correspond to such order on HKFE on its or its registered arbitrageur's behalf. It shall also ensure the same assigned transaction indicator, transaction nature indicator and transaction reference number are used when executing the purchase of TraHK Units as part of a Designated Index Arbitrage Transaction that correspond to the same sale order.

## **STOCK FUTURES HEDGING SHORT SELLING**

- (25) Stock Futures Hedging Short Selling could be made on the Exchange below the POS reference price (during the Pre-opening Session), the best current ask price (during the Continuous Trading Session) or the CAS reference price (during the Closing Auction Session).
- (29) An order involving Stock Futures Hedging Short Selling may ~~only~~ be entered into the System during the Pre-opening Session, the Continuous Trading Session and the Closing Auction Session. Each order effected on the Exchange as part of a Stock Futures Hedging Transaction shall be entered into the System by a Designated Stock Futures Hedging Short Selling Participant with a specific transaction indicator assigned by the Exchange in the trade reference field. In addition, orders involving Stock Futures Hedging Short Selling must be entered into the System with a specific short sale indicator in the short sale indicator field.

## **OPTIONS HEDGING SHORT SELLING**

- (46) Options Hedging Short Selling could be made on the Exchange below the POS reference price (during the Pre-opening Session), the best current ask price (during the Continuous Trading Session) or the CAS reference price (during the Closing Auction Session).
- (50) An order involving Options Hedging Short Selling may ~~only~~ be entered into the System during the Pre-opening Session, the Continuous Trading Session and the Closing Auction Session. An order involving Options Hedging Short Selling must be entered into the System with a specific short sale indicator in the short sale indicator field and in such manner as the Exchange shall from time to time determine.