Chapter 3：Trading Functionalities

The trading functionalities offered by HKATS and the procedural steps for executing those functionalities are set out in the *HKATS User's Guide* and the *HKATS Risk Functions User's Guide*.

3.0   HKATS Risk Controls and Functions

Options Trading Exchange Participants shall have arrangements in place to ensure that all orders transmitted to HKATS are subject to Prescribed Risk Controls and other appropriate risk controls and functions.

3.1   Central Orderbook

HKATS will maintain a Central Orderbook for each option series.

Orders that cannot be matched at the going market price, or any unmatched portion of an order, will be stored in the Central Orderbook. Options Trading Exchange Participants are advised to regularly refresh the data shown in the Central Orderbook even though the Central Orderbook will be automatically updated by the central database. As there may be differences between the central database and the local orderbooks of Options Trading Exchange Participants due to the time lag caused by data transmission between the central database and Options Trading Exchange Participants' local database, Options Trading Exchange Participants should check their order information in the Price Information Window and the Orderbook Window. Options Trading Exchange Participants should immediately report any discrepancies found to the Exchange via the HKATS Hotline at 2211 6360.

The Price Depth Window of HKATS displays the five best bid and offer prices of an option series as recorded in the Central Orderbook. The aggregate size of orders at each price is also displayed. HKATS can also display market depth down to 250 price queues for each option series.

3.1A   Trade Record

An Options Trading Exchange Participant can check details of its trades using the Order History Window and the Trade History Window. The Order History Window shows trade information of an Options Trading Exchange Participant's login users.

An Options Trading Exchange Participant should also check the Trade History Window for details of trades executed by it. Information shown in the Trade History Window is retrieved from the central system at login and is updated on a real-time basis.

Upon an Options Trading Exchange Participant noticing any discrepancy between the Order History Window and the Trade History Window, it is required to report the discrepancy to the Exchange via the HKATS Hotline immediately.

3.2   [Repealed]

3.3   Class Codes

Each option class will be allocated a unique 3 to 5 - letter class code by the Exchange. The same class code will be adopted by HKATS and DCASS for the same underlying stock.

In the event that the contract specifications of an option class need to be adjusted as a result of capital adjustment, HKATS will assign a new class code for the adjusted option class unless otherwise determined by the Exchange. New options classes generated after the capital adjustment may carry a different class code. Exchange Participants will be notified from time to time of any class codes or new class codes that are allocated by HKATS and DCASS for an option class via DCASS, the Market

Messages Window of HKATS, e-mail, HKEX website or such other means deemed appropriate by the Exchange.

3.4 Notation of Contract Specifications

An options contract on HKATS with a monthly expiry is represented by the following:

<Class ><Strike><Month><Year>

where   <Class >   denotes the 3 to 5-character code allocated to an options class in HKATS

        <Strike>   denotes the strike price with 2 decimal places

        <Month>   denotes the 1-character expiry month code

        <Year>   denotes the 1-digit contract year code.

For example, a put option on a stock of which the class code is HKZ and adjusted class code is HKY after one capital adjustment, and of which the expiry is in September 2021 and strike price is HK$10.00 is denoted as "HKY10.00U1" in HKATS.

An options contract on HKATS with a weekly expiry is represented by the following:

<Class ><Strike><Month><Year><Weekly><Expiry day>

where   <Class>   denotes the 3 to 5-character code allocated to an options class in HKATS

        <Strike>   denotes the strike price with 2 decimal places

        <Month>   denotes the 1-character contract month code

        <Year>   denotes the 1-digit contract year code

        <Weekly>   the 1-character "W" denotes that the options contract is a weekly option

        <Expiry day>   denotes the 2-digit expiry day.

For example a put option on a stock of which the class code is HKZ and of which the expiry is on 25 September 2023 and strike price is HK$10.00 is denoted as "HKZ10.00U3W25" in HKATS.

Appendix B sets out the detailed contract specifications.

3.5 Error Trades / Large-Scale Error Trades

If a trade takes place on HKATS at a level which deviates from the Price Parameters, an original party to the trade may lodge a claim, in accordance with *Options Trading Rule 540*, with the Exchange that it is an Error Trade. If the Error Trades claimed by an Options Trading Exchange Participant are of such magnitude or complexity that any claim in respect of such Error Trades may have to be handled in accordance with *Options Trading Rule 540A* as a Large-Scale Error Trade, the Exchange may in its absolute discretion determine if the claim should be handled as a Large-Scale Error Trade and if so, the Exchange will entertain such claim in accordance with *Options Trading Rule 540A*.

Important: There is a handling charge levied for each claim to correct an Error Trade regardless of whether the claim is approved by the Exchange. The Exchange may entertain an Error Trade claim as a Large-Scale Error Trade claim in accordance with *Options Trading Rule 540A*. The handling charge may exceed any financial benefit of handling the Error Trade / Large-Scale Error Trades. See Appendix A.

3.6 Order Types

Options Trading Exchange Participants may place only Limit Orders in HKATS during trading hours. Options Trading Exchange Participants may also specify certain conditions in respect of Limit Orders, including "Rest-of-Day", "Until Expiry", "Specified Time", "Fill and Kill" and "Fill or Kill".

3.7 Limit Orders

Limit orders are orders which are to be matched at a specific limit price or better.

The following "validity times" can be applied to limit orders:

- Rest-of-Day: This is the default. If the entire order has not been matched or cancelled by the end of the trading day, that portion of the order which remains open will be automatically cancelled.

- Until Expiry: An order of this kind is valid up to execution, series expiry, or until the Options Trading Exchange Participant cancels it.

- Specified Time: An order of this kind is valid until market close of the date specified in the order, until execution, series expiry, or until cancelled by the Options Trading Exchange Participant, whichever is earliest.

- Fill and Kill: Orders of this kind attempt to match as much of the order as possible up to the specified quantity. The part of the order which has not been filled is cancelled immediately.

- Fill-or-Kill: Orders of this kind are either filled immediately for the full quantity or, if this is not possible, cancelled entirely.

A limit order capable of being stored in the Central Orderbook (a limit order which does not have either a "Fill-or-Kill" or "Fill and Kill" condition attached) will remain in the Central Orderbook until one of the following events occurs:

1. The order is matched either fully or partially with an incoming order. Where the order is fully matched, it will be removed from the Central Orderbook, and where it is only partially matched, the outstanding part will be stored in the Central Orderbook until it is matched, cancelled or for the applicable period, as the case may be.

2. The Authorised User who input the limit order or another Authorised User of the same Options Trading Exchange Participant cancels the order or amends the order to the effect that the ranking priority will be affected.

3. The order is cancelled by the Exchange upon the request of the Options Trading Exchange Participant.

4. The order, and possibly all other orders, placed by the Options Trading Exchange Participant are cancelled by the Exchange in the event that misconduct is suspected.

5. HKATS automatically purges the order when its specified validity time expires, when its specified SMP ID is no longer valid for the relevant Options Trading Exchange Participant or in accordance with the SMP Instruction for its specified SMP ID.

6. HKATS automatically inactivates the order when all orders belonging to an Authorised User are inactivated due to a lost connection between the local trading workstation and the host computer.

7. HKATS automatically cancels the order if trading in the relevant option class is suspended.

8. The order and all other orders specifying a validity time of "Rest of Day" are cancelled by the Exchange where market conditions warrant such action.

3.8   [Repealed]

3.9   **Execution of Standard Combinations**

In the event an order for a spread or strategy combination listed in HKATS ("standard combination") is entered into HKATS, HKATS will automatically generate derived orders ("Bait Orders") based on the prevailing market price of each individual option series comprising the standard combination and the price of the order for the standard combination. Prices of these Bait Orders will be automatically adjusted according to price movement in the individual option series comprising the standard combination.

The ranking of Bait Orders shall be in accordance with the time the Bait Orders are generated. A Bait Order whose price is automatically adjusted according to the price movement and/or increase in quantity of the individual option series comprising the standard combination shall be treated as if the Bait Order were newly generated.

In the event an order for a standard combination is executed separately as Bait Orders in the individual option series, each stock options contract comprising the standard combination will be matched at the prevailing market price of the individual option series. Any matched contracts will be recorded in HKATS as separate trades in the individual option series.

In the event an order for a standard combination is executed in the standard combination market and not as Bait Orders in the individual option series, the executed price of the standard combination may not necessarily correspond with the prevailing market prices of the stock options contracts comprising the standard combination. The matched standard combination will be recorded in HKATS as separate trades in the individual option series.

3.9A   Creation, Execution, Deletion of Tailor-Made Combinations

Options Trading Exchange Participants can define and create a combination strategy ("Tailor-Made Combination") involving such Options Contracts and during such trading sessions as the Exchange may from time to time notify Options Trading Exchange Participants using the tailor-made combination function of HKATS. Once created, a Tailor-Made Combination can be traded like a normal market series.

Options Trading Exchange Participants shall ensure that the following criteria are satisfied when creating a Tailor-Made Combination:

- the Tailor-Made Combination is one of the strategy combinations prescribed by the Exchange;

- the number of option series ("legs") comprising the strategy is within the range prescribed by the Exchange;

- the ratio between these legs is within the range prescribed by the Exchange;

- the contract sizes of these legs must be identical;

- the Tailor-Made Combination is not at that time prescribed as a standard combination; and

- an active Order is submitted at the same time as the creation of the Tailor-Made Combination.

Tailor-Made Combinations created on a Business Day will not be carried forward to the next Business Day.

The executed price of a trade in a Tailor-Made Combination may not necessarily correspond with the prevailing market prices of the Options Contracts comprising the Tailor-Made Combination. The

matched trade in the Tailor-Made Combination will be recorded in HKATS as separate trades in the individual market series.

The Exchange may from time to time prescribe a maximum number of Tailor-Made Combinations that can be listed on HKATS on a Business Day and a throughput rate for each HKATS connection to create Tailor-Made Combinations to protect the integrity of HKATS and to ensure the proper operation of the Markets.

The Exchange may at any time at its sole discretion limit the number of Tailor-Made Combinations an Options Trading Exchange Participant may create on a Business Day by notice to the Options Trading Exchange Participant.

The Exchange reserves the right to delete any Tailor-Made Combination listed on HKATS and cancel any Order for that Tailor-Made Combination at any time if:

(i)   the Tailor-Made Combination does not satisfy the criteria as prescribed in 3.9A;

(ii)   there is no active Order for the Tailor-Made Combination;

(iii)   the total number of Tailor-Made Combinations listed on HKATS exceeds the maximum number prescribed and notified to Options Trading Exchange Participants by the Exchange from time to time;

(iv)   the Tailor-Made Combination is created by an Options Trading Exchange Participant which has exceeded the limit imposed on it under 3.9A; or

(v)   the Exchange determines that the Tailor-Made Combination is inappropriate.

Any trade in a Tailor-Made Combination that is not created in accordance with the criteria as prescribed in 3.9A will not be considered as a valid trade by the Exchange and, notwithstanding any provisions of the *Options Trading Rules* or the *Clearing Rules*, will not be registered or cleared by SEOCH. In the event that an Options Trading Exchange Participant has been notified by the Exchange that a Tailor-Made Combination trade is invalid on the Business Day during which the Tailor-Made Combination trade is executed, the Exchange in conjunction with SEOCH will, without being required to give further notice to the Options Trading Exchange Participant, delete the invalid Tailor-Made Combination trade from the Options System as if the Tailor-Made Combination trade had never been executed. 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 or SEOCH directly or indirectly in connection with the deletion of any invalid Tailor-Made Combination trade.

3.10   Order Allocation

An Options Trading Exchange Participant must specify the account to which an order is to be allocated at the time the order is entered into HKATS. A Client Account is designated "A1" and House Accounts are designated "P1" and "M1" by HKATS.

Where an Options Trading Exchange Participant holds a Market Maker permit in any one or more option classes, all orders entered by it with an invalid account will, upon matched, be allocated to its House Account which is designated as "M1" by HKATS. For an Options Trading Exchange Participant which does not hold any Market Maker permit, all such orders with an invalid account will, upon matched, be allocated to its Client Account. Options Trading Exchange Participants can however request to change the default account for holding such trades.

3.10A Order Amendment and Cancellation

An order in a stock options contract entered into the Central Orderbook on behalf of a client or an Options Exchange Participant and designated a particular order number may be amended or cancelled provided that the amendment or cancellation is made in compliance with the instructions of that client or Options Exchange Participant, as the case may be, in respect of that particular order.

Options Trading Exchange Participants may amend, cancel or inactivate orders resident in the Central Orderbook ("Valid Orders") only during trading hours and the pre-trading period of 30 minutes before the opening of each trading session.

A Valid Order that is amended in connection with a reduction in size, a change in the duration of validity, or modification of optional "free" text information shall not affect the time priority of the original Valid Order.

A Valid Order that is amended in connection with price or an increase in size will result in the loss of time priority of the original Valid Order if the amendment is made during trading hours. These amendments are not allowed to be made during the 30-minute pre-trading period.

In emergency situations where an Options Trading Exchange Participant loses connection to HKATS and wishes to delete any of its orders in the order book, it can request the Exchange to delete such orders on its behalf, subject to a charge (See Appendix A).

3.11 Trade and Integrated Clearing Process

Unless otherwise specified in these procedures, the *Clearing Rules* or the *Operational Clearing Procedures*, after a trade is validly created and successfully transmitted to DCASS, it is immediately registered with DCASS.

The *Operational Clearing Procedures* set out the details of how the clearing functions work.

3.12 Message Broadcast

The Exchange can send emergency and other short messages to Options Trading Exchange Participants via the Market Messages Window of HKATS. Please see 3.13A for more information about the Market Messages Window.

3.13 [Repealed]

3.13A Market Messages Window of HKATS

The Exchange will also release messages to Options Trading Exchange Participants via the Market Messages Window of HKATS. Messages posted on the Market Messages Window may relate to other products traded on HKATS. Options Trading Exchange Participants should read each message carefully to see whether or not it relates to stock options.

Since the Exchange will make use of this window to announce important notices and information to Options Trading Exchange Participants, Options Trading Exchange Participants should keep this window open at all times.

3.14 [Repealed]

3.15 Block Trades

Options Trading Exchange Participants may execute orders as a Block Trade provided that they are executed in the prescribed manner and the criteria laid down in the Third Schedule to the *Options*

Trading Rules, as may from time to time be revised by the Chief Executive thereunder, are satisfied. Any Block Trade which is not executed in the prescribed manner or does not satisfy any prescribed criteria will not be considered as a valid trade by the Exchange and will not be registered or cleared by SEOCH.