Operational Trading Procedures for Options Trading Exchange Participants

Chapter 3：Trading Functionalities

3.4 Notation of Contract Specifications

An options contract on HKATS is represented by the following:

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

where	<Class >	denotes the 3-character code allocated to an options class in HKATS
	<Strike>	denotes the 4-digit 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 and strike price is HK$10.00 is denoted as “HKY10.00U1” in HKATS.

Chapter 4：Market Making

4.12 Obligations of a Market Maker

The *Options Trading Rules* stipulate the obligations of a Market Maker.

~~A far out-of-the-money contract may have a value near zero. If a quote request is received on such a series, a Market Maker may choose not to quote for the bid side. However, a Market Maker is still obligated to quote for the sell side. This can be done by the Market Maker issuing a sell limit order with a limit price no greater than $0.10 and a quantity not less than the minimum quote quantity to that effect. All other regulations on quotes as stipulated in the Second Schedule of the *Options Trading Rules*, including minimum size, maximum response time and minimum duration, are still applicable to such a sell limit order.~~

Chapter 5： Client Services Support

5.8 Settlement of Client Premium

The *Options Trading Rules* requires that client premium be collected in cash promptly. The following are considered by the Exchange as cash settlement of client premium:

- cash receipt
- bank account transfer
- ~~HK$~~ a cheque drawn on a bank ~~in Hong Kong~~, not post-dated

Chapter 8: Special Events

8.3 Standard Adjustment Methodology

For each adjustment, there will be an adjustment ratio. In each case, the old exercise price of the option contract will be **multiplied** by this adjustment ratio to obtain the **adjusted exercise price**. The corresponding **adjusted contract size** is obtained by **dividing** the old contract value by the adjusted exercise price. The old contract value is simply the product of the old exercise price and the old contract size.

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

Figure 1: Standard Terms of Capital Adjustments

Event	**Adjusted Exercise Price (AEP) =**	**Adjusted Contract Size ((ACS) =**
Rights Issue 'A' new shares for 'B' old shares at ~~$~~C amount per share; where it closes at closing price ~~$~~S on the last trading day prior to ex-rights day	Old Exercise Price (OEP) times: B + (A*C/S) ---------------- A+B	OEP * Old Contract Size ------------------------- AEP
Bonus Issue 'A' new shares for 'B' old shares	Old Exercise Price (OEP) times: B --------------- A+B	OEP * Old Contract Size ------------------------- AEP
Share Consolidation X shares consolidate into Y shares	Old Exercise Price (OEP) times: X -- Y	OEP * Old Contract Size ------------------------- AEP
Share sub-division X shares sub-divided into Y shares	Old Exercise Price (OEP) times: X -- Y	OEP * Old Contract Size ------------------------- AEP

Other forms of Cash Distribution (CD), such as a special dividend, cash bonus or extraordinary dividend No capital adjustment unless CD is 2% or more of the share's closing price on the dividend announcement day. OD is ordinary cash dividend. The share closes at closing price S on the day prior to the ex-date.	Old Exercise Price (OEP) times: $\frac{S - OD - CD}{S - OD}$ Note: OD shall be deducted from S only if OD and CD have the same ex-date.	$\frac{OEP * \text{Old Contract Size}}{AEP}$
The shaded area is the "adjustment ratio"		

In cases where a cash or scrip alternative is offered, the adjustments will be based on the cash version of the payout. If the cash payment is in a ~~foreign~~ currency other than that in which the underlying securities are traded, it will be converted to that currency ~~Hong Kong Dollars~~ at the conversion ~~exchange~~ rate determined by SEOCH.

APPENDIX A: FEES & COSTS PAYABLE TO THE EXCHANGE

A2 Training Fees

Training Fees	Amount
Course fee (Part I) - Exchange Participant	HK$300
Course fee (Part II) - Exchange Participant	HK$300
Course fee (Part I) - non-Exchange Participant	HK$300
Course fee (Part II) - non-Exchange Participant	HK$300

A3 Trading Expenses

For Hong Kong dollar-denominated option classes

Fee Type	Charge Scale
Trading Tariff	
a. Contract Premium > HK$0.01	
(I) For Tier 1 Stocks	
Non-Market Maker	HK$3 per contract side
Market Maker	
1. which has responded to 70 percent or more quote requests in a month	HK$1.50 per contract side
2. which has responded to less than 70 percent of quote requests in a month	HK$3 per contract side
3. which has provided continuous quotes in the assigned option series for 70 percent or more of the trading hours in a month	HK$1.50 per contract side
4. which has provided continuous quotes in the assigned option series for less than 70 percent of the trading hours in a month	HK$3 per contract side
(II) For Tier 2 Stocks	
Non-Market Maker	HK$1 per contract side
Market Maker	
1. which has responded to 70 percent or more quote requests in a month	HK$0.80 per contract side
2. which has responded to less than 70 percent of quote requests in a month	HK$1 per contract side
3. which has provided continuous quotes in the assigned options series for 70 percent or more of the trading hours in a month	HK$0.80 per contract side
4. which has provided continuous quotes in the assigned option series for less than 70 percent of the trading hours in a month	HK$1 per contract side
b. Contract Premium = HK$0.01 (Cabinet Trade)	~~$0~~Nil

For RMB-denominated option classes

Fee Type	Charge Scale
Trading Tariff	
a. Contract Premium > RMB0.01	
(I) For Tier 1 Stocks	
Non-Market Maker	RMB2.50 per contract side
Market Maker	
1. which has responded to 70 percent or more quote requests in a month	RMB1.30 per contract side
2. which has responded to less than 70 percent of quote requests in a month	RMB2.50 per contract side

3. which has provided continuous quotes in the assigned option series for 70 percent or more of the trading hours in a month	RMB1.30 per contract side
4. which has provided continuous quotes in the assigned option series for less than 70 percent of the trading hours in a month	RMB2.50 per contract side
(II) For Tier 2 Stocks	
Non-Market Maker	RMB0.90 per contract side
Market Maker	
1. which has responded to 70 percent or more quote requests in a month	RMB0.70 per contract side
2. which has responded to less than 70 percent of quote requests in a month	RMB0.90 per contract side
3. which has provided continuous quotes in the assigned options series for 70 percent or more of the trading hours in a month	RMB0.70 per contract side
4. which has provided continuous quotes in the assigned option series for less than 70 percent of the trading hours in a month	RMB0.90 per contract side
b. Contract Premium = RMB0.01 (Cabinet Trade)	Nil

A4 HKATS-Related Charges

Fee Type	Fee
CLICK or OAPI sub-license fee	HK$1,750 per month per CLICK or OAPI
Installation or termination of CLICK workstations	HK$800 per workstation
Access to the testing environment	HK$100 per day or part thereof provided that no access fee will be charged for the first 5 business days
Performance of login test or transaction test outside of the hours from 9 a.m. to 6 p.m.	HK$1,000 per day or part thereof regardless of test results
OAPI certification	HK$2,000 per test regardless of test results
Resetting of password or reissuing of password notification letter	HK$200 per user per occurrence

A5 Emergency Costs

Service	Costs	Remarks
Rentals for CLICK workstations in SOS centre	HK$1,000 per day or part thereof	Inclusive of a telephone set. Subject to availability.
Re-Print of reports	HK$5 per page up to HK$1,000 per report	Subject to availability.
On-Behalf-Of processing except bulk deletion	HK$50 per accepted and executed transaction	1. Inclusive of Printed Trade Confirmation. 2. Exclusive of trading and clearing tariff.
On-Behalf-Of processing for bulk deletion	HK$1,000	This includes deletion of more than 20 orders in one class or in all classes.
Error Trade	HK$3,000 payable by the party which initiated the claim	

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APPENDIX B: OPTIONS CONTRACT SPECIFICATIONS

B1 Options Contracts

The Chief Executive may, in consultation with the Commission, introduce an option class for trading from time to time. The options traded at the Exchange are conventional, American style put and call options on selected stocks which are listed on the Exchange, with physical delivery on exercise. Exchange Participants shall be notified of the introduction of any option classes accordingly.

A stock is eligible to be an underlying stock of an option class if it has been listed on the SEHK for a period of either:

a) 60 consecutive trading days during which dealing in the shares of the stock has not been suspended; or

b) not more than 70 consecutive trading days comprising 60 trading days during which dealing in the shares of the 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 (or an equivalent amount) except where the public float capitalisation of the stock exceeds HK$10 billion (or an equivalent amount), in which case the requirements set forth in paragraphs (a) and (b) above may be exempted.

B5 Strike Price Intervals

The intervals between strike prices are as shown below.

Strike Price **~~HK $~~ (amount in the Currency of the Contract)**	**Interval Group A** **~~HK$~~(amount in the Currency of the Contract)**	**Interval Group B** **~~HK$~~(amount in the Currency of the Contract)**
From 0.01 and up to ~~$~~2	~~$~~0.10	~~$~~0.05
Above ~~$~~2 and up to ~~$~~5	~~$~~0.20	~~$~~0.10
Above ~~$~~5 and up to ~~$~~10	~~$~~0.50	~~$~~0.25
Above ~~$~~10 and up to ~~$~~20	~~$~~1.00	~~$~~0.50
Above ~~$~~20 and up to ~~$~~50	~~$~~2.00	~~$~~1.00
Above ~~$~~50 and up to ~~$~~100	~~$~~5.00	~~$~~2.50
Above ~~$~~100 and up to ~~$~~200	~~$~~5.00	~~$~~2.50
Above ~~$~~200 and up to ~~$~~300	~~$~~10.00	~~$~~5.00
Above ~~$~~300 and up to ~~$~~500	~~$~~20.00	~~$~~10.00

B7 Tick Size

The tick size, or minimum price fluctuation, of the stock option premium is ~~HK$0.01~~ one minimum price fluctuation for all premium level.

B11 Tier Levels

All option classes are classified into two tiers. Different trading tariffs are applicable to Tier 1 and Tier 2 option classes as specified in Appendix A. Unless otherwise expressly specified by the Exchange, the tier level of an option class is determined by the nominal value* of one board lot of the underlying stock fixed before introduction of the option class. An option class with a nominal value above HK$20,000 (or an equivalent amount) will be classified as Tier 1 and an option class with a nominal value of HK$20,000 (or an equivalent amount) or less will be classified as Tier 2.

Any determination of a tier level for a new option class will be notified to Options Trading Exchange Participants via HKATS, email or such other means as the Exchange considers appropriate.

* The nominal value will be determined according to the closing price of the underlying stock one trading day before the consultation with the Commission. When the underlying stock has no prior trading on the Exchange, the offer price per share of the public offering of the underlying stock (exclusive of brokerage, Transaction Levy and Investor Compensation Levy) will be used and in the event that the offer price is not available, the lowest offer price of the indicative offer price range stated in the prospectus will be used.

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Form OP301

To: THE STOCK EXCHANGE OF HONG KONG LIMITED
(a wholly owned subsidiary of Hong Kong Exchanges and Clearing Ltd)

DERIVATIVES MARKET

10/F One International Finance Centre
1 Harbour View Street
Central, Hong Kong

Hotline : 2211 6360
Fax: 2509 0724 / 2877 0017

REQUEST FOR ON-BEHALF-OF PROCESSING

Particulars of Exchange Participant

Mnemonic / Firm ID	Participant Name

Contact Person

Name	Tel	Fax
Position	E-mail	

Details

Type of Transaction Processed	Number of Orders

Fee

Bulk deletions involving more than 20 orders: HK$1,000 per bulk deletion
Transactions other than bulk deletions: HK$50 per transaction

Total Fee: HK$__________

Authorized Signature

Date

Name of Signatory

Form OP302

To: THE STOCK EXCHANGE OF HONG KONG LIMITED

(a wholly owned subsidiary of Hong Kong Exchanges and Clearing Ltd)

DERIVATIVES MARKET

10/F One International Finance Centre
1 Harbour View Street
Central, Hong Kong
(Ref: DMDO)

Hotline : 2211 6360
Fax: 2509 0724 / 2877 0017

REQUEST FOR RENTAL OF CLICK WORKSTATION IN SOS CENTRE

Particulars of Exchange Participant

Mnemonic / Firm ID	Participant Name

Contact Person

Name	Tel	Fax
Position	E-mail	Mobile

Details

Authorized Person(s) working at the SOS Centre

Name	HKID No.

Reason for rental of CLICK workstation in SOS Centre		
No. of workstations requested		
Date	Time	

Fee

HK$1,000 per workstation per day

__________________________ ____________________

Authorized Signature
with company chop

Date

____

Name of Signatory

Form OP401

TO: **THE STOCK EXCHANGE OF HONG KONG LIMITED**

10/F, One International Finance Centre **Fax:** **2509 0724**
1 Harbour View Street **2877 0017**
Central, Hong Kong **Hotline:** **2211 6360**
(Ref: DMDO)

REPORT OF CLIENT DEFAULT

From:

Exchange Participant Name	Exchange Participant Firm ID
Defaulting Client (Beneficial Owner)	Date of Default

Open Client Positions

SERIES/STOCK	LONG	SHORT

Client Collateral

Cash / Stock	Amount / Number of Shares

Margin Requirement ~~HK$~~ ______________ (currency / amount)

☐ Simplified Formula ☐ Risk Array Model

Actions to Take

____

____

Signature of
Responsible Officer ________________________ Date______________________
(Please affix company chop)

FOR EXCHANGE USE				
SIG. VERIFIED	CONFIRMED			

APPENDIX H: CLIENT MARGINING USING THE PRiME CALCULATION ALGORITHM

H1. Margin Required in Respect of Client, NCP or Options Broker Exchange Participant

Client positions allocated to the Client Account or client positions allocated to the House Account (i.e. affiliate positions) being margined by an Options Exchange Participant, open positions of an NCP being margined by a GCP and open positions of an Options Broker Exchange Participant being margined by an Options Trading Exchange Participant should be margined by using the PRiME Calculation Algorithm. If positions of a client are allocated to the Client Account, the client must be margined gross in the same way as SEOCH margins the Omnibus Client Account. However, the open positions of a particular client of an Options Exchange Participant can be margined net provided that:

i in the case of an Options Trading Exchange Participant which is a SEOCH Participant, it has maintained an Individual Client Account with SEOCH to record the open positions of a particular client on a net basis or, in respect of short open positions of a particular client which are eligible for margin offset, it has recorded such positions in a Client Offset Claim Account maintained by the Options Trading Exchange Participant with SEOCH;

ii in the case of an Options Trading Exchange Participant which is an NCP, it has requested its designated GCP to maintain an Individual Client Account with SEOCH to record the open positions of a particular client on a net basis or, in respect of short open positions of a particular client which are eligible for margin offset, it has requested its designated GCP to record such positions in a Client Offset Claim Account maintained by the designated GCP with SEOCH, and the designated GCP has maintained an Individual Client Account or a Client Offset Claim Account with SEOCH in that regard; or

iii in the case of an Options Broker Exchange Participant, it has requested the Options Trading Exchange Participant with whom it maintains an omnibus account to maintain with SEOCH an Individual Client Account to record the open positions of a particular client on a net basis or, in respect of short open positions of a particular client which are eligible for margin offset, to record such positions in a Client Offset Claim Account maintained by the Options Trading Exchange Participant with SEOCH, and the Options Trading Exchange Participant with whom it maintains an omnibus account has maintained an Individual Client Account or a Client Offset Claim Account with SEOCH in that regard.

In such case, that particular client of the Options Exchange Participant may be margined on a net basis.

Options Exchange Participants should margin their clients, NCPs or Options Broker Exchange Participants using the same algorithm as that employed by SEOCH but with a wider margin interval as prescribed by SEOCH. The corresponding Risk Parameters File will be provided by SEOCH to SEOCH Participants to facilitate their calculation of margin requirements.

In exceptional cases, an Options Exchange Participant may margin a client, NCP or Options Broker Exchange Participant using the same margin interval as SEOCH. To qualify for such margining, the Options Officer of the Options Exchange Participant must make a determination in writing that the financial resources and the margin payment arrangement made by the client, NCP or Options Broker Exchange Participant justify such treatment. The Options Exchange Participant must notify the Exchange in writing directly in respect of every such determination made.

H2. [Repealed]

H3. EXAMPLE

H3.1 Writing an uncovered out-of-the-money Call

An investor writes one uncovered HKZ Jun 50 Call. The Currency of the Contract is Hong Kong dollars ~~.~~ and the ~~The~~ lot size is 1,000 shares. The current premium is HK$5. The current market price of the underlying share, HKZ, is HK$48.

Basic Requirement

Current premium	HK$ 5,000	
+ 20% x HK$48,000	+ 9,600	
	14,600	
- Out-of-the-money amount		
i.e. (HK$50-HK$48)*1,000	- 2,000	
Margin required	HK$12,600	(i)

Minimum Requirement

Current premium	HK$ 5,000	
+ 10% x HK$48,000	+ 4,800	
Margin required	HK$ 9,800	(ii)

The margin required is the greater of (i) and (ii) i.e. HK$12,600.

H3.2 Writing an uncovered in-the-money Put

An investor writes one uncovered CHX Mar 60 Put. The Currency of the Contract is Hong Kong dollars. Its current premium is HK$11.00. The current market price of CHX is HK$50. The lot size is 500.

Basic Requirement

Current premium (500 x HK$11)	HK$ 5,500	
+ 20% x HK$25,000	+ 5,000	
	10,500	
- Out-of-the-money amount	- 0	
Margin required	HK$10,500	(i)

Minimum Requirement

Current premium	HK$ 5,500	
+ 10% x HK$25,000	+ 2,500	
Margin required	HK$ 8,000	(ii)

The margin required is the greater of (i) and (ii), i.e., HK$10,500.

H3.3 Writing a Covered Call

A client is considered to have written a covered call if he owns the underlying stock.

The number of shares held must not be less than the number of shares over which the call options are granted. Any options written in excess of the shares held will not be considered covered. The securities covering the option must have been lodged with SEOCH as coverage and must be deposited into the A1 account.

The writer of a covered call need not deposit margin for the option.

H3.4 Pending Stock Delivery

An investor is required to deliver 10 lots of stock HKZ at an exercise price of HK$100 as a result of assignment. The board lot size of HKZ is 1,000.

If the underlying price is HK$110, the margin required from him is the maximum of :

1. ((120% * HK$110) - HK$100) * 10 * 1,000 = HK$320,000
2. 0

which is HK$320,000.

If the underlying price is HK$83, the margin required from him is the maximum of :

1. ((120% * HK$83) - HK$100) * 10 * 1,000 = - HK$4,000
2. 0

which is HK$0.

H3.5 Pending Stock Receipt

An investor is required to pay for 10 lots of stock HKZ at an exercise price of HK$100 as a result of assignment. The board lot size of HKZ is 1,000.

If the underlying price of HKZ is HK$90, the margin required from him is the maximum of:

1. (HK$100 - (80% *90)) * 10 * 1,000 = HK$280,000
2. 0

which is HK$280,000.

If the underlying price is HK$127, the margin required from him is the maximum of:

1. (HK$100 - (80% * HK$127)) * 10 * 1,000 =- HK$16,000
2. 0

which is HK$0.

H3.6 Short a Straddle or a Strangle

An investor sells the following straddle on CHZ, with Hong Kong dollars as its Currency of the Contract and a board lot size of 100:

Sell 10 CHZ May 50 Puts
Sell 10 CHZ May 50 Calls

To determine the margin for the position, first calculate whether the short calls or short puts have the greater margin requirement.

If the current premium for the put is HK$3 and the call is HK$7, and CHZ is currently worth HK$52, then

Margin for Calls		Margin for Puts	
Current premium	HK$ 7,000	Current premium	HK$ 3,000
+ 20% x HK$52 x 10 x 100	+ 10,400	+ 20% x HK$52 x 10 x 100	+ 10,400
	17,400		13,400
- Out-of-the-money	- 0	- Out-of-the-money	- 2,000
Margin requirement	HK$17,400	Margin requirement	HK$ 11,400

The margin required for the calls is greater than that for the puts. Therefore, the put premium (HK$3,000) is added to the call margin (HK$17,400) resulting in a total margin requirement of HK$20,400.

H3.7 Short a Covered Spread

An investor writes the following covered spread:

Buy 10 HKZ Jul 50 Call
Sell 10 HKZ Jun 55 Call

The margin requirement is zero as the long is more in-the-money and expires later than the short.

H3.8 Short a Hedged Spread

An investor writes the following hedged spread on HKZ, with Hong Kong dollars as its Currency of the Contract and a board lot size of 1,000:

Sell 10 HKZ Jun 50 Call
Buy 10 HKZ Jul 55 Call

(1) Difference between the strike prices of the spread: HK$5*10*1,000 = HK$50,000

(2) If the current premium for the Jun 50 Call is HK$5, and the stock HKZ is now at HK$48, then by H3.1, the margin requirement on the short position alone is HK$12,600*10 = HK$126,000.

The margin requirement for a hedged spread is the lesser of (1) i.e. HK$50,000 and (2) i.e. HK$126,000, which is HK$50,000.

H3.9 Short an Unhedged Time Spread

An investor writes the following unhedged time spread on HKZ, with Hong Kong dollars as its Currency of the Contract and a board lot size of 1,000:

Sell 10 HKZ Jun 50 Call
Buy 10 HKZ Mar 55 Call

If the current premium for the Jun 50 Call is HK$5 and HKZ is now at HK$48, then the margin requirement is that for the short position alone, which, as given in H3.1, is HK$12,600*10 = HK$126,000.