

LARGE SCALE ERROR TRADE FREQUENTLY ASKED QUESTIONS

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The FAQ will be updated from time to time and is subject to change

What are the purposes for introducing Large-Scale Error Trade (LET) Rules?

The new LET procedures aims to enhance the Exchange's ability to handle LET in a timely manner. Under the new LET procedures, the Exchange will consider factors, such as the number of trades, counterparties, and contract series involved, to determine whether the claim should be handled as a LET claim. A model for quicker Notation/Reference Price determination by theoretical prices on outright options contracts will be used to facilitate the identification of related error trades and affected counterparties. With the adoption of the LET procedures, it will provide a higher certainty and transparency to the market in the event of a LET.

What shall Exchange Participants do in order to make a LET claim?

According to HKFE Rule 819B and SEHK Options Trading Rule (OTR) 540, Exchange Participant shall provide the necessary trade information as prescribed in the HKFE Circular [MO/DT/103/17](#) and the SEHK Circular [MO/DT104/17](#) and make a claim no later than the prescribed time limit.

If the Error Trades claimed by an 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 HKFE Rule 819BA or SEHK OTR 540A ("Large-Scale Error Trades"), the Exchange will broadcast an alert on HKATS as soon as practicable that such trades may be subject to a Large-Scale Error Trade claim.

The Exchange will evaluate **the trades in question and other related trades** (whether the Exchange Participant which has initiated the relevant claims is a party to the trades or not) using the Large-Scale Error Trade notation prices/ reference prices and the price parameters applicable to Large-Scale Error Trades (the "Large-Scale Error Trade Price Parameters"), both as prescribed by the Exchange and notified to Exchange Participants from time to time.

How does the Exchange determine whether the claim should be handled as a LET claim?

The Exchange will take into account all relevant factors to determine, in its absolute discretion, whether a claim should be handled as a LET claim. However, the Exchange has provided the following criteria for Exchange Participant as a reference:

Large-Scale Error Trade claims should satisfy, but not limited to, the criteria set forth below:

1. The number of trades involved ≥ 100
2. The number of contract series involved ≥ 15
3. The number of counterparties involved ≥ 5

Generally, the Exchange may apply the following approach in determining whether a case will be handled in accordance with the Large-Scale Error Trade Rules:

1. where all three criteria are met or where the number of involved trades is ≥ 500 , the Large-Scale Error Trade Rules will typically apply;
2. where only one or two criteria is/are met, the case will be handled on a case by case basis and the Exchange's decision will be announced as soon as practicable; and
3. where none of the criteria is met, the Exchange will not normally apply the Large-Scale Error Trade Rules unless it determines otherwise in its absolute discretion based on the relevant factors in a particular case.

How do Exchange Participants know the number of involved counterparties in a LET event?

Exchange Participants cannot retrieve such information from HKATS. The Exchange takes into account all relevant factors including but not limited to this criterion to determine, in its absolute discretion, if a claim should be handled as a Large-Scale Error Trade event or not.

What if a claim does not satisfy the criteria for LET?

In the event that the Exchange determines that a claim should not be handled as a Large-Scale Error Trade claim, the Exchange will broadcast a further alert on HKATS that the claim will not be handled as a Large-Scale Error Trade claim, and the procedures under normal error trade shall apply instead.

To make a claim under the normal Error Trade Handling Procedures, Exchange Participants shall ensure that the necessary information in the format indicated is either submitted to the Exchange together with the claim or separately but in any event no later than the prescribed time for making a claim. For details of Error Trade Claims in the Derivative Market, please refer to the circulars below:

1. HKFE MO/DT/103/17 - https://www.hkex.com.hk/-/media/HKEX-Market/Services/Circulars-and-Notices/Participant-and-Members-Circulars/HKFE/2017/MO_DT_103_17_e.pdf
2. SEHK MO/DT/104/17 - https://www.hkex.com.hk/-/media/HKEX-Market/Services/Circulars-and-Notices/Participant-and-Members-Circulars/SEHK/2017/MO_DT_104_17_e.pdf

What would happen if an unclaimed trade falls into the cancellation range?

Unless otherwise determined by the Exchange at its sole discretion, all trades which took place on HKATS at a level which deviated from the Large-Scale Error Trade Price Parameters and within such time period as may be determined by the Exchange shall be cancelled (whether the trades have been claimed as Error Trades by an Exchange Participant or not).

How does Exchange Participants know when there is a large-scale error trade?

Exchange Participants will be noticed by HKATS Market Message. For cancelled trades by Large-Scale Error Trade Rules, cancelled trade details will be posted on HKEX website at

“Broadcast Channel for LET Cancelled Trade Details” under “[Large-Scale Error Trade Handling Procedures](#)” .
