

20 May 2016



**HKATS RISK FUNCTIONS
INFORMATION FOR RISK LIMIT
SETTING AND REVIEW**

HKEX
香港交易所

Agenda

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Milestone Achieved

2

Risk Limits Setup and Review

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Reminders and What's Next

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Q & A



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Progress Update:

- HKATS Risk Functions (PTRM) successfully rolled out on 11 April 2016
- 100% system uptime and >95% log-on rate
- No block-out reported

Thank you for your supports and co-operations

Questions from Participants:

- When should we set our risk limits?
- How to set those risk limits?
- Do we need to report to HKEX on our limit setup?

Participants are required to complete their risk limit settings by the end of the “Calibration Period” (i.e. 11-Oct 2016)



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A recap on PTRM and the Risk Limits

PTRM as a complementary risk control system to Participants, and is not intended to replace other risk management tools or procedures that should have been put in place by Participants

Participants have responsibility to set and review their own risk limits based on their risk appetite and business needs

Risk limits are required to be a reasonable reflection of the risk inherent in the trading activities of the Participants



Considerations When Setting Risk Limits

Risk Limits	Considerations
Max. Order Rate <ul style="list-style-type: none">• Order Rate Limit• Order Rate Period	<ul style="list-style-type: none">➤ 1 risk counter per PTLG, orders will be counted on aggregate basis➤ Count single-side order (MO31) and double-side quote (MO37)➤ Total Transaction Per Second (TPS) of the subject PTLG
Max. Order Size	<ul style="list-style-type: none">➤ Different settings for different underlying futures, calls and puts (up to 200 product types/classes per PTLG)➤ Not applicable to standard combinations (e.g. calendar spreads), Tailor-Made Combinations (TMCs) and block trades (BT)➤ Cap at the Central Order Size Limits➤ Order size set to “0” means no order will be accepted on that particular product type/class
Max. Intraday Exposure <ul style="list-style-type: none">• Gross Futures Long/Short• Net Futures Long/Short• Gross Options Long/Short• Net Options Long/Short <ul style="list-style-type: none">• Futures Coefficient• Options Coefficient	<ul style="list-style-type: none">➤ Different settings for Futures and Options➤ Daily trading volume for different PTLG➤ Outstanding good-till-cancel (GTC) orders will consume the limit at start of day➤ Gross/Net trading strategy➤ Change in margin levels (e.g. holiday margin increase)➤ Business plan (e.g. potential increment on clientele)➤ Order-to-trade ratio



Tools Available to Help the Risk Limit Monitoring and Review

PTRM GUI and Email Group

- *Real time notification of events including blocks, warnings and breaches*

Daily Maximum Limit Utilization Report

- *To show the maximum utilization rates of Maximum Order Rate Limit and Maximum Intraday Exposure Limits*
- *Available for download via DCASS terminal on the next business day*

Daily Audit Report

- *To log the daily activities of each PTLG (e.g. change in limits, alert /breach notifications, block/unblock actions)*
- *Available for download via DCASS terminal on the next business day*

Unit Margin Rate (UMR) File

- *To show the margin levels (in HK\$ equivalent) of each Futures and Options contract*
- *Available for download via HKEX web site each business day before market open*
 - http://www.hkex.com.hk/eng/market/rm/rm_dcrm/riskdata/Documents/UMR_PTRM.zip

Risk Limits Review

By Participant

- ✓ Assessments have been made to the trading activities;
- ✓ Utilization Reports have been reviewed as a reference to determine the risk limits;
- ✓ The risk limits have been reviewed and approved by the authorized person(s) who is/are responsible for the internal risk controls of the company;
- ✓ Risk Limit Managers are familiarized with the operations of HKATS Risk Functions GUI; and
- ✓ Customers have been informed about HKATS Risk Functions in derivatives market and the possible scenarios of order rejections and cancellations.

By HKEX

- HKEX will check the reasonableness of the risk limits set by Participants, making reference to:
 - Historical utilization
 - Past breach/alert records
 - Market conditions
- Justifications with supporting documents (e.g. risk control policy, financial positions and/or trading records of clients) may be required from Participants

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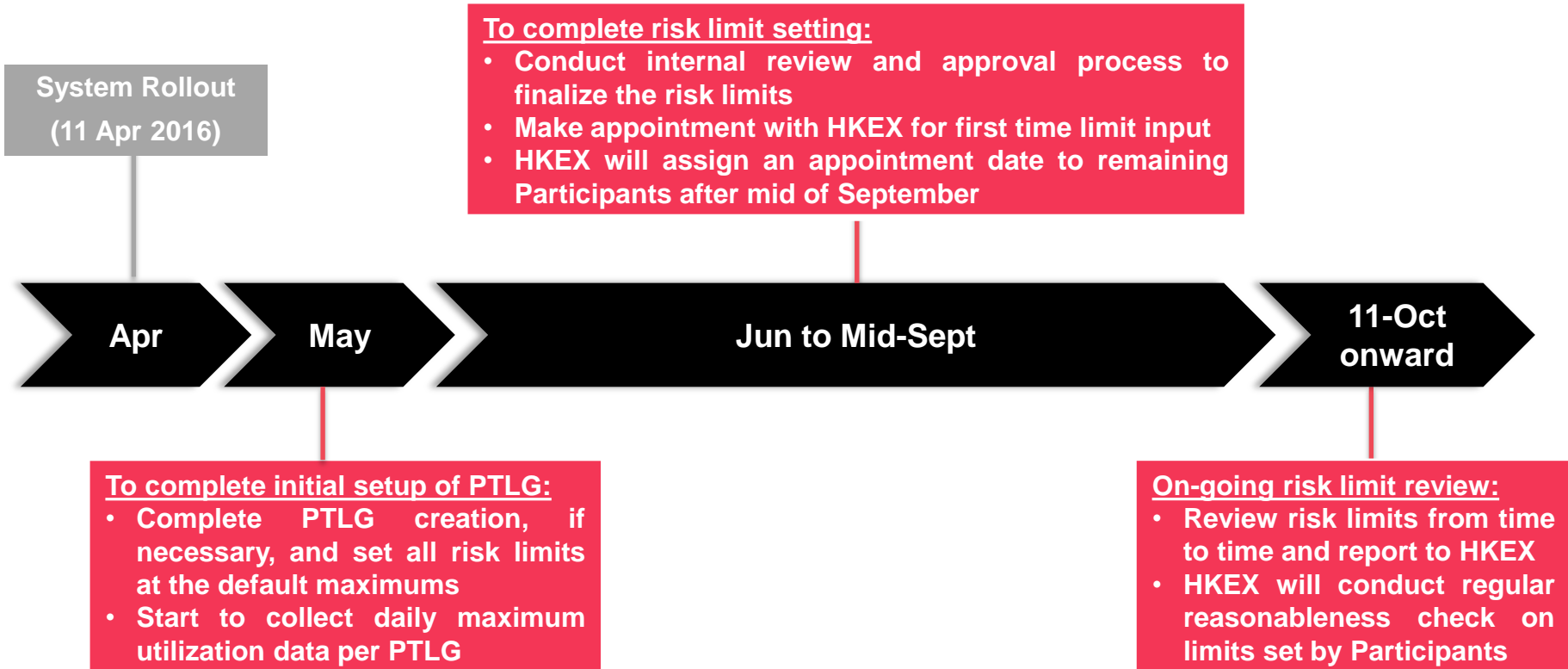


Reminders to Participants After Rollout

- ◆ Do login daily the HKATS Risk Functions GUI for monitoring or contingency use
- ◆ Do set up PTLG if necessary for utilization data per PTLG (if still not done yet)
- ◆ Do set “Order Rate Period” per PTLG at an early stage for capturing correct utilization data for the Order Rate counter. Order Rate Limit could be left at Maximum until data collection finished.
- ◆ Don’t put the dedicated GUI PC into “Sleep Mode” or “Screen Saver Mode” to avoid disconnection
- ◆ Make appointment with HKEX for the 1st time limit input before the end of Calibration Period
- ◆ Report the limit changes to HKEX on ad hoc or regular basis after the Calibration Period. Detail arrangements will be announced in due course.



What's Next?





Q & A