

DERIVATIVES MARKET BLOCK TRADE FACILITY FREQUENTLY ASKED QUESTIONS

Updated: 19 October 2021

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

Question 1: When will the Exchange Participant know if the Block Trade submitted have passed all the criteria? Is there a time window that the Exchange will notify the related Exchange Participant?

Answer: According to HKFE Rule 1215 and Options Trading Rules (OTR) 513, the Exchange will endeavor to notify the Exchange Participants of any issue concerning the Block Trade within 30 minutes of its execution by the Exchange Participant. The 30-minute time period is on a best effort basis. Any decision on declaring a block trade invalid shall be final and conclusive.

Question 2: If the Exchange Participants have submitted a strategy of 6 legs, where one of the legs of the strategy does not satisfy the Permissible Price Range, what will happen to the entire strategy?

Answer: Provided **ALL** 6 legs of the Block Trade submitted to HKATS were inserted with a consistent free text in the “Info” field, the Exchange will evaluate the Block Trade as a 6 legged Block Trade Strategy.

As one of the legs does not satisfy with the Permissible Price Range (“PPR”), the entire strategy (all 6 legs) will not be registered with or cleared by the Clearing House.

Question 3: How should the Permissible Price Range be determined if a series does not have Bid/Ask/Day High/Day Low values on the screen

Answer: The Exchange Participant can send a quote request to obtain quotes from Market Makers. Otherwise, the Exchange Participant can call HKATS Hotline at 2211 6360 for assistance. The Exchange may consider all relevant factors to determine a fair and reasonable Permissible Price Range.

Question 4: Is there a list of Market Makers/Liquidity Providers who can provide quotes to determine the Permissible Price Range of a series for Block Trade?

Answer: The list of Market Makers/Liquidity Providers are provided in their respective Product Page.

For Example: [https://www.hkex.com.hk/Products/Listed-Derivatives/Equity-Index/Hang-Seng-Index-\(HSI\)/Hang-Seng-Index-Futures?sc_lang=en#&product=HSI](https://www.hkex.com.hk/Products/Listed-Derivatives/Equity-Index/Hang-Seng-Index-(HSI)/Hang-Seng-Index-Futures?sc_lang=en#&product=HSI)

Question 5: If a futures-only roll is submitted in one strategy as below:

Leg	Reporting Detail	Order 1	Order 2
Leg 1	100 lots of May 2021 HSI Futures at a price of 25000	+100 lots	-100 lots
Leg 2	50 lots of June 2021 HSI Futures at a price of 25010	-50 lots	+50 lots
Leg 3	50 lots of June 2021 HSI Futures at a price of 25011	-50 lots	+50 lots

Remark: Leg 2 and Leg 3 are split with equal weighting at different prices and reported as one strategy with Leg 1 for an average price of 25,010.5 in the June 2021 HSI Futures

Will this be allowed at execution?

Answer: Assuming the block trades satisfy the PPR requirement, they are valid Block Trades because:

1. This strategy does not involve any order aggregation as it involves one buyer and one seller only; and
2. One of the legs of the strategy combination meets the Minimum Volume Threshold ("MVT") (see note 1 of HKFE Rule 815A (2)(a))

In contrast, the following block trade aggregates 4 orders into one strategy. It violates the HKFE Rule 815A (2A)(b) (Order Aggregation Rule) as it involves Futures Contracts only, each separate order comprising the Block Trade must satisfy the MVT:

Leg	Reporting Detail	Order 1	Order 2	Order 3	Order 4
Leg 1	100 lots of May 2021 HSI Futures at a price of 25,000	+100 lots	-100 lots		
Leg 2	50 lots of June 2021 HSI Futures at a price of 25,010	-50 lots	+50 lots		
Leg 3	50 lots of June 2021 HSI Futures at a price of 25,011			-50 lots	+50 lots

Question 6: According to the Exchange Rules, a Block Trade must be executed immediately on HKATS via Block Trade Facility. Please define “immediately”, i.e. what is the time allowed for inputting a Block Trade after execution?

Answer: The time required for inputting a Block Trade into HKATS may vary among different Exchange Participants according to their business and/or operational models. The principle is that an Exchange Participant should not deliberately delay an input without a genuine business and/or operational need.

Question 7: If the Block Trade is executed at a price that deviates from the prevailing market price, will there be an extra deposit required from the Exchange Participant?

Answer: According to HKFE Rule 815A (5) and Third Schedule of the Options Trading Rules - 2.5.2, a Special Block Trade Margin may be required from an Exchange Participant if the executed price of a Block Trade is not considered fair and reasonable, if a significant deviation exists between the executed price and the prevailing market price or the theoretical price determined by the Clearing House, or if the Block Trade is executed at such a price that an intra-day variation adjustment would have been triggered had the trade been executed.

Question 8: What kind/format of authorization would the Exchange consider as valid for Order Aggregation? Is the consent required from all parties that have order(s) being combined?

Answer: According to HKFE Rule 815A(2A)(e) / Third Schedule of the Options Trading Rules - 2.2A.3, in the case of Block Trade Order Aggregation, authorizations are required by the Exchange Participants from Clients whose orders are being aggregated or combined.

Exchange Participants are strongly advised to keep record of the proof of authorization obtained from the concerned Clients whose orders are being aggregated or combined.

Authorization from **ALL** Clients whose Block Trade orders are being aggregated or combined must be obtained.

Question 9: In the situation where a mistake was made in a reported Block Trade, could the Exchange Participant requests to cancel the Block Trade?

Answer: The Exchange will cancel invalid Block Trades only as defined in HKFE Rule 815 and Third Schedule of the Options Trading Rules. When a Block Trade or a Block Trade strategy is validly reported and accepted according to the relevant exchange rules, Exchange Participants cannot make a request to cancel it. Validly reported and accepted Block Trades by HKFE or the SEHK will only be cancelled if such Block Trades are subject to Special Block Trade Margin but the subsequent Special Block Trade Margin cannot be satisfied as defined in HKCC Procedures 2.8A or SEOCH Operational Clearing Procedures 9.8.

Question 10: What are the consequences of non-compliance with the Aggregation Rule?

Answer: For any non-compliance with the Aggregation Rule, HKFE/SEHK as the case may be, will consider the nature and specific circumstance of the case that resulted the non-compliance. In the cases where the non-compliance was resulted from genuine mistakes or errors (for example, Exchange Participant fails to execute a client's order by any omission on its part or erroneously executes a client's order such that the resulting trade differs in quantity, contract month or position from that specified by the client), HKFE/SEHK may take enforcement actions against the Exchange Participant, including, among others, issuance of compliance reminder or compliance advice to the Exchange Participant at the first time of its non-compliance and reserve the right to take further disciplinary actions should there be any repeated cases of non-compliance on the part of the Exchange Participant.

Pursuant to HKFE Rule 815C and the Third Schedule of the Options Trading Rules - 5, if the Chief Executive of HKFE is of the opinion that any of the prescribed criteria are not properly followed by an Exchange Participant, including any improper aggregation of orders, or there are any other improper acts or practices in connection with any execution of Block Trades by the Exchange Participant, the Chief Executive may by notice to the Exchange Participant prohibit the Exchange Participant from using the Block Trade Facility or impose such restrictions or additional criteria as he may consider appropriate on its use.

Any Block Trade which is executed in breach of such notice will not be considered as a valid trade by the Exchange and will not be registered or cleared by the Clearing House.
