

香港期貨交易所有限公司

(香港交易及結算所有限公司全資附屬公司)

HONG KONG FUTURES EXCHANGE LIMITED

(A wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited)

通告 CIRCULAR

Subject: Introduction of RMB Currency Options – USD/CNH Options

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Hong Kong Futures Exchange (the “Exchange” or “HKFE”) is pleased to announce that the Securities and Futures Commission (SFC) has approved the introduction of RMB Currency Options – USD/CNH Options contracts. The trading of the RMB Currency Options – USD/CNH Options will commence tentatively in the **first quarter of 2017**, subject to market readiness.

Complementary to HKEX’s existing RMB Currency Futures suite, the RMB Currency Options enable investors to hedge against RMB volatility amid the ongoing RMB liberalisation process and policy development to a market-driven framework. Market participants can efficiently and flexibly hedge RMB exposure against different market conditions of RMB currency rate through a variety of options strategies.

Contract Specifications

Key features of the RMB Currency Options – USD/CNH Options are as follows.

	USD/CNH Options		
HKATS Code	CUS		
Contract Size	USD 100,000		
Price Quotation	Amount of RMB per USD		
Options Premium	4 decimal places (i.e. 0.0001)		
Tick Value	RMB 10		
Strike Prices	Strike intervals will be set at 0.05		
Official Settlement Price	USD/CNY (HK) Spot Rate published by Hong Kong Treasury Markets Association (TMA) at or around 11:30 a.m. on the Expiry Day		
Settlement on Exercise	Physical delivery on exercise (refer to Attachment I)		
		Holder	Writer
	Call Options	Payment of the Final Settlement Value in RMB	Delivery of US dollars
	Put Options	Delivery of US dollars	Payment of the Final Settlement Value in RMB

Exercise Style	European style
Contract Months	Spot month, the next three calendar months and the next four calendar quarter months
Final Settlement Day	Third Wednesday of the Contract Month
Expiry Day	Two Hong Kong Business Days prior to the Final Settlement Day
Trading Hours (Hong Kong Time)	9:00 a.m. to 4:30 p.m. (Trading hours on the Expiry Day are from 9:00 a.m. to 11:00 a.m.)
Exchange Fee	RMB 8 per contract (Waived for the first 6 months)
Exercise Fee	RMB 8 per contract
Commission Levy	Nil
Position Limit	For the USD/CNH Futures Contract, CNH/USD Futures Contract and USD/CNH Option Contract combined, a position delta of 8,000 long or short in all Contract Months combined provided that <ul style="list-style-type: none"> - Position delta for the Spot Month USD/CNH Futures Contract and the Spot Month USD/CNH Option Contract combined during the five Hong Kong Business Days up to and including the Expiry Day shall not exceed 2,000 long or short; and - The position for CNH/USD Futures Contract shall not at any time exceed 16,000 net long or short contracts in all Contract Months combined
Large Open Positions	500 open contracts in any one series
Holiday Schedule	Follows the Hong Kong holiday schedule

Details of the contract specifications are set forth in Attachment II for reference. Relevant rule amendments relating to the USD/CNH Options, USD/CNH Futures and CNH/USD Futures will be announced via a separate circular.

Large Open Positions and Position Limit

Effective from the commencement date, the Position Limits of the USD/CNH Futures and CNH/USD Futures will be amended consequential on the introduction of the USD/CNH Options. Please refer to Attachment III for further details.

Open Contracts as of Last Trading Day for the Spot Month USD/CNH Futures and Expiry Day for the Spot Month USD/CNH Options that exceeded the Large Open Positions shall be reported to the HKFE.

Trading Arrangements

Pre-Launch Arrangements

Pre-launch arrangements for the RMB Currency Options – USD/CNH Options will be announced in due course.

Maximum Order Size

Please note that the USD/CNH Options contracts will have a maximum order size limit on HKATS of 1,000 contracts. Exchange Participants (“Participants”) are required to submit their request to HKEX for setting up their own order size limits based on their business needs and risk management requirements.

Block Trade Volume Threshold and Permissible Price Range

The block trade volume threshold for the USD/CNH Options contracts will be 50 contracts. The block trade permissible price range is 10% for price over or equal to 0.4000, and 0.0400 for price below 0.4000.

Error Trade Price Parameters and Procedures

The price parameter for the purpose of the error trade rules under HKFE Rule 819B is 10% for notation price over or equal to 0.4000, and 0.0400 for notation price below 0.4000. The error trade procedures are set forth in Attachment IV for reference.

Liquidity Provider Program

The Exchange invites applications of liquidity providers for the RMB Currency Options – USD/CNH Options. Liquidity Provider incentives include: 1) certain trading fee rebate; and 2) certain connection subsidies. Interested parties should contact Ms. Rina Ku (RinaKu@hkex.com.hk) or Mr. Frederick Yim (FrederickYim@hkex.com.hk) for further information.

Promotional Support for Exchange Participants

Promotional Materials

The Exchange can provide promotional items, such as electronic banners and printed promotional materials, to support Participants in promoting the RMB Currency Options business. Participants who are interested in promoting the new product shall contact Ms. Ting Wang (Email: WangTing@hkex.com.hk; Tel: 2211-6123).

Joint Promotional Program

The Exchange will be launching a joint promotional program to support EPs to educate their staff and clients on the USD/CNH Options. The Exchange will select a number of participating EPs (“Participating EPs”) to receive the following support from the Exchange for:

- i. Cost Sponsorship to conduct Marketing Activities - A cost sponsorship with maximum amount of HK\$50,000 for each selected Participating EP to conduct the marketing activities as outlined in a marketing proposal that must be submitted by the Participating EP;
- ii. Promotional Materials – Free copies of promotional materials, including electronic banners and printed promotional materials, will be provided to Participating EPs for the promotional efforts and distribution during public seminar(s) and marketing event(s); and
- iii. Speaker – The Exchange will provide a representative to speak at public seminar(s) and in-house training organised by selected Participating EPs.

The criteria for granting of the cost sponsorship for Participating EPs are as follows:

- i. A Participating EP must submit a detailed marketing proposal for review;
- ii. The USD/CNH options must be the primary theme in any marketing activities;
- iii. The cost sponsorship will be granted in accordance to the actual expenses in each marketing item outlined in the marketing proposal and declared by the Responsible Officer of Participating EPs;
- iv. The number of attendees / participants in the marketing activity. The target number of attendees is at least 100 for public seminars.

Interested parties should contact Ms. Rina Ku (RinaKu@hkex.com.hk) or Mr. Frederick Yim (FrederickYim@hkex.com.hk) for further information.

Clearing and Settlement Arrangements

To be eligible for clearing and settlement of the USD/CNH Options, Clearing Participants need to arrange for RMB and USD settlement capability by setting up RMB and USD account with any one of the Settlement Banks appointed by HKFE Clearing Corporation Limited (HKCC) and to maintain relevant mandates in such form as prescribed by HKCC.

Clearing Participants are requested to ensure that these bank accounts are in active status and ready for cash settlement. Non-Clearing Participants should contact their General Clearing Participants to ascertain their eligibility of clearing the RMB Currency Options – USD/CNH Options.

Risk Management Arrangements

Margin levels and update of PC-SPAN Organization Master File for the RMB Currency Options – USD/CNH Options will be announced in due course.

Disclaimer

Participants are required to draw their client's attention to the disclaimer set forth in Attachment V before they facilitate any trades in the RMB Currency Options – USD/CNH Options.

Trading Information

The access codes of information vendors of USD/CNH Options will be available on HKEX's website (<http://www.hkex.com.hk/FX>) in due course.

Exchange Participants' Readiness

Participants are required to notify their staff and all interested clients of the details of the RMB Currency Options. Please ensure that their trading and back office systems are ready in order for a smooth operation upon the introduction of RMB Currency Options. In addition, staff should be fully aware of the above and should exercise caution when dealing with RMB Currency Options contracts and when advising their clients.

Julien Martin
Head
FIC Product Development
Market Development Division

Att.

This circular has been issued in the English language with a separate Chinese language translation. If there is any conflict in the circulars between the meaning of Chinese words or terms in the Chinese language version and English words in the English language version, the meaning of the English words shall prevail.

Physical Delivery on Exercise

- The Holder of a Call Option shall have the following obligations and rights in respect of each Call Option held:

- a) if, on the relevant Expiry Day, the Strike Price of the Call Option is less than the Official Settlement Price, the option shall be deemed to be exercised by the Holder.

The Holder shall be liable to pay to the Clearing House the Final Settlement Value in the Settlement Currency, which shall be equal to the Strike Price multiplied by the Contract Size and shall be entitled to receive the Underlying Currency of the Currency Options Contract according to the Contract Size; or

- b) if, on the relevant Expiry Day, the Strike Price of the Call Option is greater than, or equal to, the Official Settlement Price, then the option shall be deemed to have expired worthless.

- The Writer of a Call Option shall have the following obligations and rights in respect of each Call Option written:

- a) if, on the relevant Expiry Day, the Strike Price of the Call Option is less than the Official Settlement Price, the Writer shall be liable to deliver to the Clearing House the Underlying Currency of the Currency Options Contract according to the Contract Size and shall be entitled to receive from the Clearing House the Final Settlement Value in the Settlement Currency, which shall be equal to the Strike Price multiplied by the Contract Size; or

- b) if, on the relevant Expiry Day, the Strike Price of the Call Option is greater than, or equal to, the Official Settlement Price, the Call Option shall be deemed to have expired worthless and the Writer shall have no further obligation in respect of that option.

- The Holder of a Put Option shall have the following obligations and rights in respect of each Put Option held:

- a) if, on the relevant Expiry Day, the Strike Price of the Put Option is greater than the Official Settlement Price, the option shall be deemed to be exercised by the Holder.

The Holder shall be liable to deliver to the Clearing House the Underlying Currency of the Currency Options Contract according to the Contract Size and shall be entitled to receive from the Clearing House the Final Settlement Value in the

Settlement Currency, which shall be equal to the Strike Price multiplied by the Contract Size; or

- b) if, on the relevant Expiry Day, the Strike price of the Put Option is less than, or equal to, the Official Settlement Price, then the option shall be deemed to have expired worthless.
- The Writer of a Put Option shall have the following obligations and rights in respect of each Put Option written:
 - a) if, on the relevant Expiry Day, the Strike Price of the Put Option is greater than the Official Settlement Price, the Writer shall be liable to pay to the Clearing House the Final Settlement Value in the Settlement Currency, which shall be equal to the Strike Price multiplied by the Contract Size and shall be entitled to receive the Underlying Currency of the Currency Options Contract according to the Contract Size; or
 - b) if, on the relevant Expiry Day, the Strike Price of the Put Option is less than, or equal to, the Official Settlement Price, the Put Option shall be deemed to have expired worthless and the Writer shall have no further obligation in respect of that option.

Contract Specifications

Contract Specifications
For
US Dollar vs Renminbi (Hong Kong) (“USD/CNH”) Options

The following Contract Specifications shall apply to the USD/CNH Option Contract:

Contract Size	USD100,000
Contract Months	Spot month, the next three calendar months and the next four calendar quarter months (i.e. quarter months are March, June, September and December). The Chief Executive may, in consultation with the Commission, introduce additional Contract Months for trading from time to time as he considers appropriate
Price Quotation	RMB per USD
Tick Value	RMB 10
Trading Hours (Hong Kong time)	9:00 a.m. – 4:30 p.m. There is no trading after 12:30 p.m. on the eves of Christmas, New Year and Lunar New Year. The trading hours on those three days shall be 9:00 a.m. – 12:30 p.m.
Trading Hours on Expiry Day (Hong Kong time)	9:00 a.m.–11:00 a.m.
Trading Method	The Exchange’s Automated Trading System (HKATS)
Expiry Day	Two Hong Kong Business Days prior to the Final Settlement Day
Option Premium	Quoted in 4 decimal places
Contracted Value	Option Premium multiplied by the Contract Size
Strike Prices	Strike Prices shall be set at intervals of 0.05 On any business day, new consecutive Strike Prices may be set for, or added to, each Option Contract (other than the Spot Month Option Contract on or after

the 5th business day preceding the Expiry Day) such that at all times there will be Strike Prices representing not less than 10% above, at, and not less than 10% below the at-the-money Strike Price of the Option Contract. On any business day in a given month, the at-the-money Strike Price of each Option Contract shall be the previous business day's Closing Quotation (as defined in the Clearing House Rules) of (i) the Spot Month USD/CNH Futures Contract for any day prior to the Expiry Day; and (ii) the next month USD/CNH Futures Contract for any day on or after the Expiry Day, rounded off to the nearest Strike Price, unless the Closing Quotation is precisely midway between two Strike Prices in which case it shall be rounded off to the lower Strike Price

Strike Prices shall be set on a temporary basis at other intervals as may from time to time be determined by the Chief Executive in consultation with the Commission or at other intervals as may be determined by the Board in consultation with the Commission. The Exchange reserves the right to introduce new or delete existing Strike Prices at any time

Exercise Style European Style options which may only be exercised on Expiry Day

Settlement on Exercise Physical Delivery on Exercise. Delivery of US dollars or payment of the Final Settlement Value in RMB in accordance with the mechanism and provisions set forth in the Regulations for Trading Currency Options Contracts and the Clearing House Rules

	Holder	Writer
Call Options	Payment of the Final Settlement Value in RMB	Delivery of US dollars
Put Options	Delivery of US dollars	Payment of the Final Settlement Value in RMB

Final Settlement Day The third (3rd) Wednesday of the Contract Month. If it is not a Hong Kong Business Day, the Final Settlement Day shall be the next Hong Kong Business Day

Official Settlement Price USD/CNY(HK) Spot Rate published by the Hong Kong Treasury Markets Association at or around 11:30 a.m. on the Expiry Day

Position Limits For the USD/CNH Futures Contract, CNH/USD Futures Contract and USD/CNH Option Contract combined, a position delta of 8,000 long or short in all Contract

Months combined per Exchange Participant for the Exchange Participant's own behalf; and

For the USD/CNH Futures Contract, CNH/USD Futures Contract and USD/CNH Option Contract combined, a position delta of 8,000 long or short in all Contract Months combined per Client

The position delta equivalent of a CNH/USD Futures Contract to a USD/CNH Futures shall be calculated as follows:

Position Delta	Equivalent Position Delta
One short CNH/USD Futures Contract	0.5 of one long USD/CNH Futures Contract
One long CNH/USD Futures Contract	-0.5 of one long USD/CNH Futures Contract

Position delta for the Spot Month USD/CNH Futures Contract and the Spot Month USD/CNH Option Contract combined during the five Hong Kong Business Days up to and including the Expiry Day shall not exceed 2,000 long or short

Large Open Positions	500 open contracts in any one series per Exchange Participant for the Exchange Participant's own behalf; and 500 open contracts in any one series per Client
Minimum Fluctuation	RMB 0.0001 (4 decimal places)
Trading Fee (per contract per side)	Exchange Fee RMB 8.00 The amount indicated above is subject to change from time to time
Levies (per contract per side)	Commission Levy and Investor Compensation Levy are payable at the rate or of the amount prescribed from time to time pursuant to the Ordinance
Cabinet Trade	No Exchange Fee is payable. Commission Levy and Investor Compensation Levy are applicable
Exercise Fee	A fee of RMB 8.00 will be charged by the Exchange for each Option Contract exercised. Option Contracts not exercised shall be deemed to have expired worthless and will not be assessed an Exercise Fee
Commission Rate	Negotiable

Attachment III

Position Limits for USD/CNH Futures and CNH/USD Futures

Effective from the Commencement Date, the Position Limits of the USD/CNH Futures and CNH/USD Futures will be amended as follows:

	USD/CNH Futures						
Position Limits	<p>For the USD/CNH Futures Contract, CNH/USD Futures Contract and USD/CNH Option Contract combined, a position delta of 8,000 long or short in all Contract Months combined per Exchange Participant for the Exchange Participant's own behalf; and</p> <p>For the USD/CNH Futures Contract, CNH/USD Futures Contract and USD/CNH Option Contract combined, a position delta of 8,000 long or short in all Contract Months combined per Client</p> <p>For this purpose, the position delta equivalent of a CNH/USD Futures Contract to a USD/CNH Futures Contract shall be calculated as follows:</p> <table border="1"> <thead> <tr> <th>Position Delta</th> <th>Equivalent Position Delta</th> </tr> </thead> <tbody> <tr> <td>One short CNH/USD Futures Contract</td> <td>0.5 of one long USD/CNH Futures Contract</td> </tr> <tr> <td>One long CNH/USD Futures Contract</td> <td>-0.5 of one long USD/CNH Futures Contract</td> </tr> </tbody> </table> <p>Position delta for the Spot Month USD/CNH Futures Contract and the Spot Month USD/CNH Option Contract combined during the five Hong Kong Business Days up to and including the Last Trading Day shall not exceed 2,000 long or short</p>	Position Delta	Equivalent Position Delta	One short CNH/USD Futures Contract	0.5 of one long USD/CNH Futures Contract	One long CNH/USD Futures Contract	-0.5 of one long USD/CNH Futures Contract
Position Delta	Equivalent Position Delta						
One short CNH/USD Futures Contract	0.5 of one long USD/CNH Futures Contract						
One long CNH/USD Futures Contract	-0.5 of one long USD/CNH Futures Contract						

	CNH/USD Futures
Position Limits	<p>For the USD/CNH Futures Contract, CNH/USD Futures Contract and USD/CNH Option Contract combined, a position delta of 8,000 long or short in all Contract Months combined per Exchange Participant for the Exchange Participant's own behalf; and</p> <p>For the USD/CNH Futures Contract, CNH/USD Futures Contract and USD/CNH Option Contracts combined, a position delta of 8,000 long or short in all Contract Months combined per Client</p>

For this purpose, the position delta equivalent of a USD/CNH Futures Contract to a CNH/USD Futures Contract shall be calculated as follows:

Position Delta	Equivalent Position Delta
One short CNH/USD Futures Contract	0.5 of one long USD/CNH Futures Contract
One long CNH/USD Futures Contract	-0.5 of one long USD/CNH Futures Contract

The position for CNH/USD Futures Contract shall not at any time exceed 16,000 net long or short contracts in all Contract Months combined

Attachment IV

Error Trade Price Parameter and Procedures for the RMB Currency Options

The price parameters for the RMB Currency Options – USD/CNH Options for the purpose of the error trade rule under HKFE Rule 819B are as follows:

Contract	From Notation Price
RMB Currency Options - USD/CNH Options	
i) if notation price \geq 0.4000	10%
ii) if notation price $<$ 0.4000	0.0400

Note:

The notation price of the RMB Currency Options - USD/CNH Options Contracts will be based on the followings:

- i The average of the prices of the previous match and the next match in that option series occurring reasonably close to the time of error trade. If this average price fails to reflect a fair price, the notation price will be determined on the basis of item (ii) below.
- ii The reasonable bid and offer prices available around the time of error trade, unless in the sole discretion of the Exchange, this fails to reflect a fair price, in which case the Exchange may consult up to 3 independent market practitioners who have no interest in the trade in order to arrive at a valid notation price.

Notwithstanding the foregoing, the Exchange shall have absolute discretion in determining the notation price.

Notwithstanding the above, the Chief Executive of HKFE or his designee may adopt such other price to be the notation price as he considers appropriate, taking into account the market conditions prevailing at the time of the Error Trade.

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