

香港聯合交易所有限公司

(香港交易及結算所有限公司全資附屬公司)

The Stock Exchange of Hong Kong Limited

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

通告 CIRCULAR

事項

Subject: Stock Options Revamp

查詢

Enquiry: Ms. Flora Lo 2211-6137 (on enhancement)/Mr. Justyn Ip 2211-6150 (on marketing)

The Exchange is pleased to announce that the following enhancement measures in the stock options market will take place with implementation dates as follows:

Enhancement Measures	Implementation Date
1. Introduction of a New Trading Fee Structure	2 May 2013
2. Introduction of Primary Market Maker Program	Q2, 2013
3. Micro-Structure Enhancements	
a. Introduction of the Fourth Calendar Month Contract	2 May 2013
b. Reduction of Minimum Trading Spread in Selected Options	After HKATS Upgrade to Genium INET Platform in Q4, 2013
4. Marketing Activities	
a. New Stock Options Corner on HKEx's Website	20 March 2013
b. Facebook Stock Options Game	25 March 2013
5. One-year Stock Options Market Data Fee Waiver	2 May 2013

1. Introduction of a New Trading Fee Structure

Effective from 2 May 2013, a new 3-Tier trading fee structure will be implemented to reduce transaction cost in trading stock options with small nominal value per contract. The new 3-Tier trading fee structure for house and client accounts as compared to the existing 2-Tier trading fee

香港交易及結算所有限公司
Hong Kong Exchanges and Clearing Limited

structure are set forth below:

Tier	Existing Trading Fee Structure		New Trading Fee Structure	
	Nominal Value of Option Class	House/Client	Nominal Value of Option Class	House/Client
1	> \$20,000	\$3.00	> \$25,000	\$3.00
2	≤ \$20,000	\$1.00	> \$10,000 – \$25,000	\$1.00
3	N/A	N/A	≤ \$10,000	\$0.50

Note: The new trading fee structure for stock options market makers is set forth in the section on introduction of primary market maker program.

In addition, a Tier level reassignment mechanism will be introduced to rationalize the trading fee of each option class with reference to their nominal values from time to time, which includes regular reassignment of Tier level in January each year and review upon capital adjustments due to corporate actions.

From the effective date, new Tier levels will be applied to 30 option classes, among which, 26 option classes will be benefited from trading fee reduction, while 4 option classes will have an increase in trading fee. The full list of option classes with their new tier levels is set forth in Attachment I for reference. The next regular Tier level reassignment will be implemented in January 2014.

2. Introduction of Primary Market Maker Program

The Exchange will introduce a new market maker type, Primary Market Maker (PMM), in the stock options market in Q2, 2013. The PMM program aims to improve the price visibility of the stock options market to facilitate investors' trading. The first phase of the PMM program will cover 5 active stock options representing over 20% of the current trading volume in stock options market (HSBC Holdings Plc, CNOOC Limited, China Mobile Limited, AIA Group Limited and China Life Insurance Company Limited).

PMMs will be required to provide continuous quotes in not less than 120 option series per option class for at least 80% of the trading hours per calendar month and respond to at least 80% of the quote requests in the option class with PMM permit. Upon fulfillment of PMM obligations, PMM will be entitled to additional trading fee discount.

The new trading fee schedule applicable to PMMs, market makers providing continuous quotes (CQMM), market makers responding to quote requests (QRMM) and house/client account is as follows:

Tier	Trading Fee Per Contract		
	House / Client	CQMM / QRMM	PMM
1	\$3.00	\$1.50	\$1.20
2	\$1.00	\$0.80	\$0.60
3	\$0.50	\$0.40	\$0.30

For each option class, the Exchange will grant a maximum of 5 PMM permits. The PMM permits will be granted to selected applicants through a bidding process, primarily based on their commitments on the obligation levels in terms of maximum market making spreads, minimum

quote sizes and committed percentage of trading hours in a calendar month to provide continuous quotes. The appointment of PMMs and their effective dates will be announced in due course.

3. Micro-Structure Enhancements

The Exchange will also implement the following micro-structure enhancements to facilitate trading:

a. Introduction of the Fourth Calendar Month Contract

Effective from 2 May 2013, the Exchange will introduce the fourth calendar expiry month contract in all stock option classes, which aims to facilitate trading of stock options close to 3-month maturity, which is common in the OTC market. Please refer to Attachment II for the details of the market making obligations relating to the new expiry month.

b. Reduction of Minimum Trading Spread in Selected Option Classes

The Exchange is planning to reduce the minimum trading spread for selected stock option classes with low underlying stock prices, such as Bank of China, China Construction Bank and Industrial and Commercial Bank of China, from HK\$0.01 to HK\$0.001 after HKATS upgrade to Genium INET platform in Q4, 2013 to improve their trading efficiency in terms of spread costs. The option classes will be selected on the basis of the following criteria:

- i. The underlying stock prices are consistently below \$10;
- ii. The underlying stocks and their options are actively traded; and
- iii. Market feedbacks support a reduced minimum trading spread in the option classes.

For smooth transition and to contain potential operational impact to Participants, new trading symbols for these selected option classes with reduced minimum trading spread will be introduced for trading in parallel to their outstanding contracts under old trading symbols. The outstanding contracts under the old trading symbols will be expired gradually without new option series and expiry months being introduced.

More technical and testing details will be released in due course. The Exchange will announce the list of selected option classes with reduced minimum trading spread after ascertaining Participants' readiness.

4. Marketing Activities

In addition to the enhancement initiatives, the Exchange is rolling out a series of market activities for stock options as follows:

a. New Stock Options Corner on HKEx's Website

The Exchange launched the HKEx Stock Options Corner on its website today with hyperlink as follows:

<http://www.hkex.com.hk/stockoptions/eng>

The Corner provides comprehensive stock options information including more than 10 options analytical and risk management tools to facilitate investors to access to stock options information easily. More details of these tools are set forth in Attachment III.

HKEx encourage information Exchange participants to hyperlink into HKEx Stock Options Corner (subject to application and approval). Please refer to the hyperlink policy of the HKEx website http://www.hkex.com.hk/eng/global/hyperlink_policy.htm and contact Mr. Justyn Ip at 2211-6150 for application form.

b. Facebook Stock Options Game

The Exchange will sponsor ETNet to host a Facebook stock options game between 25 March 2013 and 24 April 2013 to arouse public awareness and interest in stock options. Over 30 gifts will be given out to players who answer questions correctly in the shortest period of time after watching a few education videos relating to stock options or forwarding the game to the most number of people. Please refer to the following website starting from 25 March 2013: <http://www.facebook.com/StockOptionsHK>

c. Promotional Materials - New Publications and Leaflets

To support Participants in stock options marketing, a set of new free publications will be provided to Participants including stock options brochures and marketing leaflets. Each Participant may apply for 100 copies of the stock options brochures and 200 copies of marketing leaflets. Additional copies may be entertained while stocks last. Electronic version of the new HKEx Stock Options Corner Introductory Guide and monthly newsletters will also be available for downloading from the Publications Section of the HKEx Stock Options Corner. Interested parties that would like to obtain marketing support please contact Mr. Justyn Ip at 2211-6150.

5. One year Market Data Fee Waiver

To improve the visibility of stock options market prices to the public, the Exchange will waive the subscriber fee of “Per Quote Access 1 (Top price level)” for real time stock option prices on a snapshot basis (including bid/ask price and volume, high/low, traded price and volume) for one year from 2 May 2013. Through HKEx licensed information vendors, brokers can disseminate stock option prices on their websites. For enquiry of this program, please email to marketdata@hkex.com.hk.

Relevant rule amendments relating to the Stock Options Revamp initiatives will be released in due course. Participants are requested to notify their staff and all interested clients about the upcoming initiatives in the stock options market and ensure that their back office systems are ready to support their trading.

Derivatives Trading
Global Markets Division

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.

List of Stock Option Classes with their Respective New Tier Levels Compared to the Old Tier Levels (Effective from 2 May 2013)

a) Stock Option Classes with Contract Size More Than One Underlying Board Lot Shares

No.	SEHK Code	Underlying Stock Name	HKATS Code	Contract Size (shares)	No. of Board Lots	Existing Tier No.	New Tier No.
1	1288	Agricultural Bank of China Limited	ABC	10,000	10	1	1
2	1299	AIA Group Limited	AIA	1,000	5	2	1
3	2601	China Pacific Insurance (Group) Co., Ltd.	CPI	1,000	5	1	1
4	2822	CSOP FTSE China A50 ETF	CSA	5,000	25	1	1
5	2823	iShares FTSE A50 China Index ETF *	A50	5,000	50	1	1
6	2827	W.I.S.E. - CSI 300 China Tracker *	CS3	1,000	5	1	1
7	3188	ChinaAMC CSI 300 Index ETF	AMC	2,000	10	1	1

* This is a synthetic ETF

b) Stock Option Classes with Contract Size Equal to One Underlying Board Lot Shares

No.	SEHK Code	Underlying Stock Name	HKATS Code	Contract Size (shares)	Existing Tier No.	New Tier No.
8	1	Cheung Kong (Holdings)	CKH	1,000	1	1
9	2	CLP Holdings	CLP	500	1	1
10	3	The Hong Kong and China Gas	HKA	~1,100	2	2
11	3	The Hong Kong and China Gas	HKG	1,000	2	2
12	4	The Wharf (Holdings)	WHL	1,000	1	1
13	5	HSBC Holdings Plc.	HKB	400	1	1
14	6	Power Assets Holdings	HEH	500	2	1
15	11	Hang Seng Bank	HSB	100	2	2
16	12	Henderson Land Development	HLD	1,000	1	1
17	13	Hutchison Whampoa	HWL	1,000	1	1
18	16	Sun Hung Kai Properties	SHK	1,000	1	1
19	17	New World Development	NWD	1,000	1	2
20	19	Swire Pacific 'A'	SWA	500	1	1
21	23	The Bank of East Asia	BEA	200	2	3
22	27	Galaxy Entertainment Group Limited	GLX	1,000	1	1
23	66	MTR Corporation	MTR	500	2	2
24	267	CITIC Pacific	CIT	1,000	1	2
25	293	Cathay Pacific Airways	CPA	1,000	1	2
26	330	Esprit Holdings	ESA	~109	2	3
27	330	Esprit Holdings	ESP	100	2	3

28	358	Jiangxi Copper	JXC	1,000	2	2
29	386	China Petroleum & Chemical	CPC	2,000	2	2
30	388	Hong Kong Exchanges and Clearing	HEX	100	1	2
31	390	China Railway Group	CRG	1,000	2	3
32	494	Li & Fung	LIF	2,000	1	2
33	688	China Overseas Land & Investment	COL	2,000	1	1
34	700	Tencent Holdings	TCH	100	2	1
35	728	China Telecom	CTC	2,000	2	3
36	762	China Unicom (Hong Kong)	CHU	2,000	2	2
37	857	PetroChina	PEC	2,000	2	2
38	883	CNOOC	CNC	1,000	2	2
39	902	Huaneng Power International, Inc.	HNP	2,000	2	2
40	914	Anhui Conch Cement Company Limited	ACC	500	2	2
41	939	China Construction Bank	CCB	1,000	2	3
42	941	China Mobile	CHT	500	1	1
43	998	China CITIC Bank	CTB	1,000	2	3
44	1088	China Shenhua Energy	CSE	500	2	2
45	1171	Yanzhou Coal Mining Company	YZC	2,000	1	1
46	1186	China Railway Construction Corporation	CRC	500	2	3
47	1211	BYD Company	BYD	500	1	2
48	1398	Industrial and Commercial Bank of China	ICB	1,000	2	3
49	1800	China Communications Construction	CCC	1,000	2	3
50	1880	Belle International Holdings Limited	BIH	1,000	2	2
51	1898	China Coal Energy	CCE	1,000	2	3
52	1919	China COSCO Holdings	CCS	500	2	3
53	1928	Sands China Ltd.	SAN	400	2	2
54	2038	Foxconn International Holdings	FIH	1,000	1	3
55	2318	Ping An Insurance (Group)	PAI	500	2	1
56	2328	PICC Property and Casualty	PIC	2,000	2	2
57	2388	BOC Hong Kong	BOC	500	2	2
58	2600	Aluminum Corporation of China	ALC	2,000	2	3
59	2628	China Life Insurance	CLI	1,000	2	2
60	2777	Guangzhou R&F Properties	RFP	400	2	3
61	2800	Tracker Fund of Hong Kong	TRF	500	2	2
62	2888	Standard Chartered PLC	STC	50	2	3
63	2899	Zijin Mining Group	ZJM	2,000	2	3
64	3323	China National Building Material	NBM	2,000	2	2
65	3328	Bank of Communications	BCM	1,000	2	3
66	3968	China Merchants Bank	CMB	500	2	3
67	3988	Bank of China	BCL	1,000	2	3

Update on Obligations for Market Makers Providing Continuous Quotes (CQMM) or Market Makers Responding to Quote Requests (QRMM) with the Introduction of Fourth Expiry Month Contract

- The assigned series of CQMM and QRMM will include options series in the fourth expiry month contract. CQMM is required to provide continuous quotes for not less than 24 options series chosen from the following selection pool.

Contract Month	Option Series	Series For Selection	
		Call Series	Put Series
Spot month	Out-of-the-Money	5	5
	In-the-Money	2	2
Second Calendar month	Out-of-the-Money	5	5
	In-the-Money	2	2
Third Calendar month	Out-of-the-Money	5	5
	In-the-Money	2	2
Fourth Calendar month (new)	Out-of-the-Money	5	5
	In-the-Money	2	2
First Quarter month	Out-of-the-Money	5	5
	In-the-Money	2	2
Second Quarter month	Out-of-the-Money	5	5
	In-the-Money	2	2
Sub-total		42	42
Total		84	

- The maximum bid/offer spread requirement for CQMM and QRMM is updated to include the fourth calendar contract month as follow:

Option Series	Liquidity Level 1	Liquidity Level 2
Spot month with 3 days or less to expiry	20% of the bid price of the quote or 3 times the best bid/offer spread of the underlying securities, whichever is the lower.	20% of the bid price of the quote or 4 times the best bid/offer spread of the underlying securities, whichever is the lower.
Spot month with 4 days or more to expiry and the next 3 calendar expiry months	10% of the bid price of the quote or 3 times the best bid/offer spread of the underlying securities, whichever is the lower.	10% of the bid price of the quote or 4 times the best bid/offer spread of the underlying securities, whichever is the lower.
The next 2 calendar quarter expiry months	20% of the bid price of the quote or 4 times the best bid/offer spread of the underlying securities, whichever is the lower.	20% of the bid price of the quote or 6 times the best bid/offer spread of the underlying securities, whichever is the lower.
The 3rd calendar quarter expiry month and any other longer-dated expiry month as the Exchange deems necessary	20% of the bid price of the quote or 8 times the best bid/offer spread of the underlying securities, whichever is the lower.	20% of the bid price of the quote or 12 times the best bid/offer spread of the underlying securities, whichever is the lower.

Stock Options Analytical and Risk Management Tools in HKEX Stock Options Corner

Area	Option Tools	Usage
Product and Price Information	<ul style="list-style-type: none"> • Stock options details • Stock options search 	<ul style="list-style-type: none"> • Base on different selection criteria, such as option premium, moneyness or expiration, to search for stock options details
Analytical Tools	<ul style="list-style-type: none"> • New Options Calculator • Volatilities Comparative Charts 	<ul style="list-style-type: none"> • Calculate theoretical prices of stock options • Facilitate assess stock options pricing based on their historical and implied volatilities
Risk Management Tools	<ul style="list-style-type: none"> • Portfolio Analyser • Price / Volatility Matrix 	<ul style="list-style-type: none"> • Assess the theoretical value of a portfolio of stock options with or without their underlying stock • Calculate theoretical stock option prices under different scenario of volatility levels and market factors
One-stop Margin Information	<ul style="list-style-type: none"> • Margin Estimator • Margin Data Search 	<ul style="list-style-type: none"> • Search for the minimum client margin requirement of a single or multiple short positions in stock options • Facilitate investors to estimate stock options margin requirements
Education Section	<ul style="list-style-type: none"> • Options ABC • Educational Videos • TV Interviews 	<ul style="list-style-type: none"> • Tutorials and educational materials to enhance investors' knowledge in stock options