



Stock Options Revamp 2013

20 March 2013

Calvin Tai *Co-head of EFIC, Global Markets Division*

Irene Wong *Vice President, Derivatives Trading, Global Markets Division*

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Agenda

- 1 Stock Options Market in Hong Kong
- 2 Why Revamp Now?
- 3 Revamp Objectives & Initiatives
- 4 Benefits to Stakeholders
- 5 Stock Options Corner

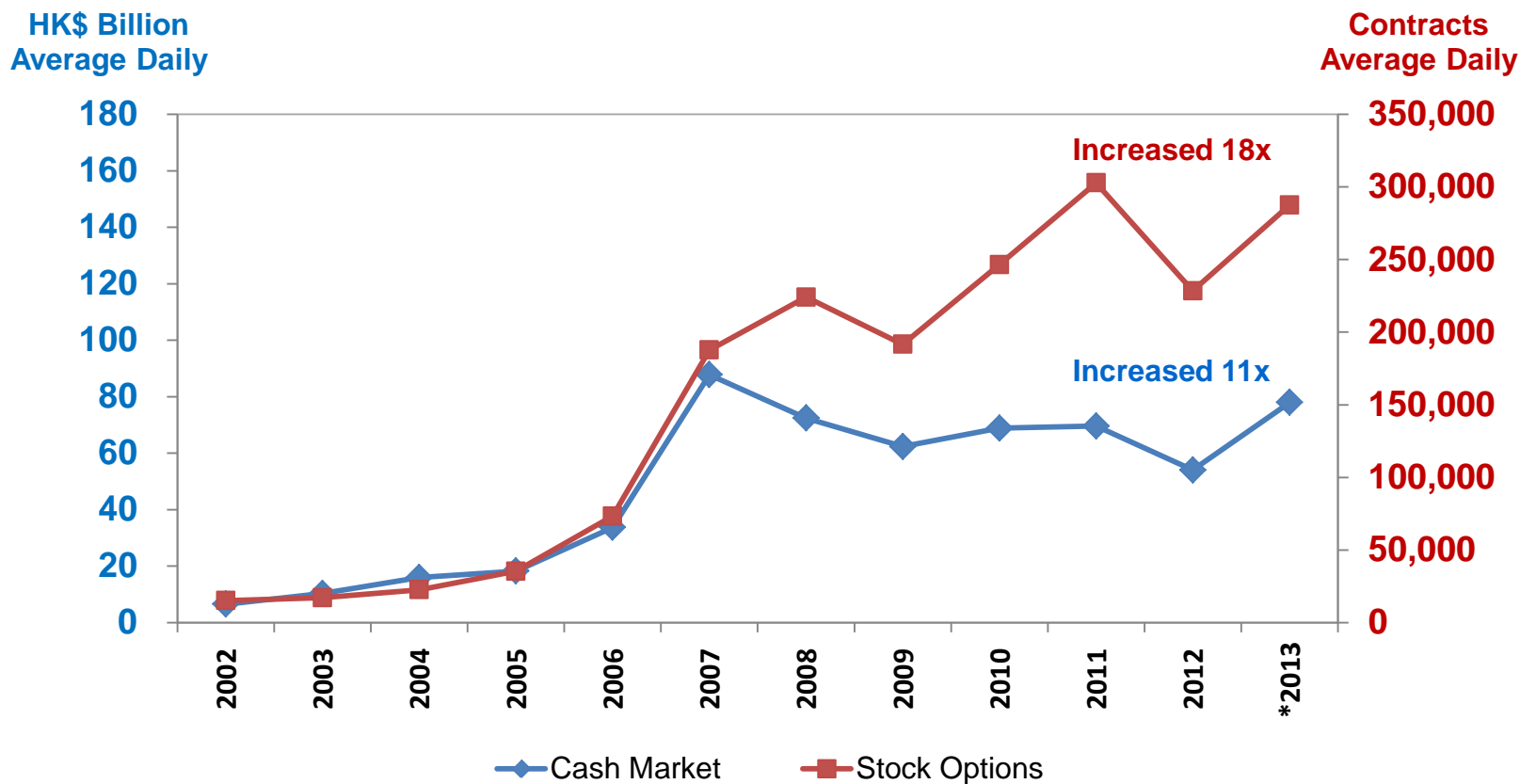
Stock Options Market Landscape

Hong Kong possesses a well-structured stock options market of :

- **Active Trading Market Environment**
 - Average daily volume of 230,000 contracts in 2012
- **Heterogeneous Market Participation**
 - Over 80 Participants consisting of local and international brokerages, serving clients range of retail, corporate, banks and funds
- **Wide Product Breadth & Design**
 - 65 option classes in 20 industries
 - 230 series per class on average
- **Liquidity Provision**
 - Effective, systematic market making system
 - Two types of market makers
 - (a) Quote Request Market Makers (QRMM)
 - (b) Continuous Quote Market Makers (CQMM)

Growth of Trading Volume since 2002

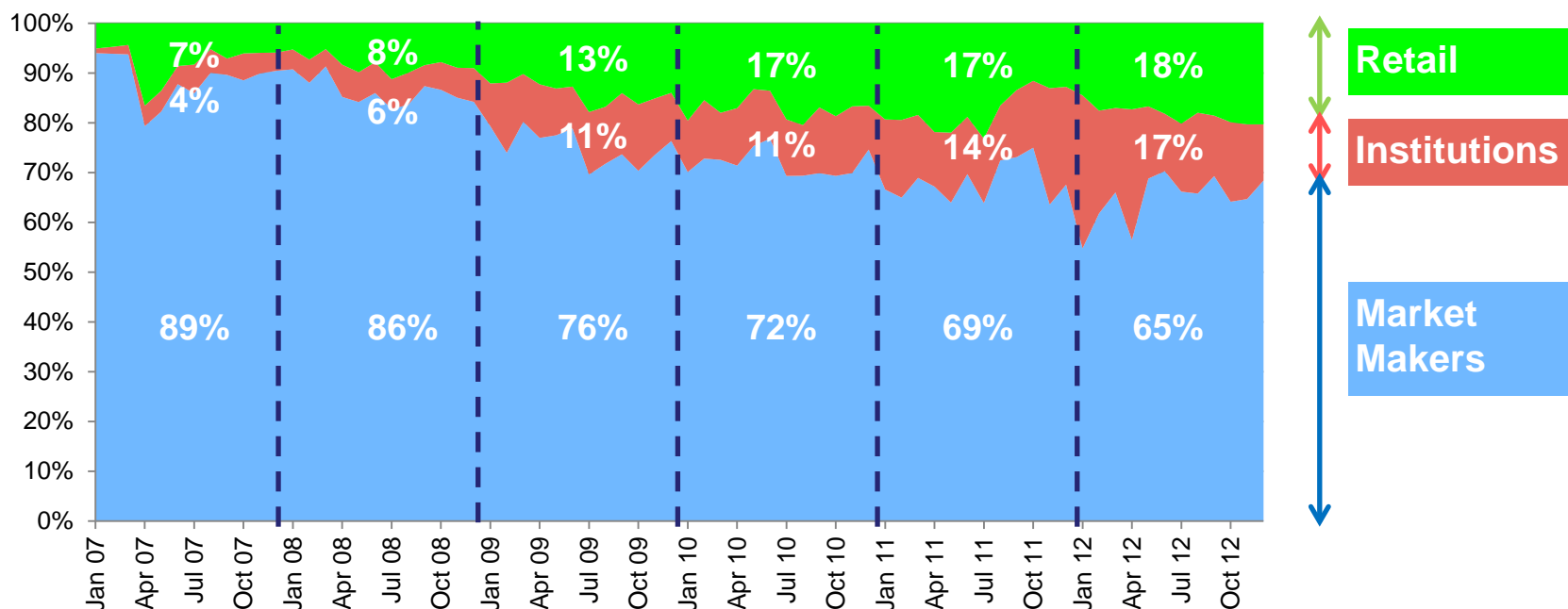
- Growth of stock options surpassed that of the cash market in the period



*Up till Feb 2013

Heterogeneous Market Participation

- Increasing market participation from retail and institutions
- Options Trading Participants increased from 51 to 87 (up 71%) in 5 years



HKEx Stock Options Market Participation Distribution 2007-2012

Product Breadth & Design

- Continuously introduce new option classes according to market interest and change in macroeconomic environment

Hotels, Casinos & Leisure Facilities:

Sands China, Galaxy Entertainment,

IT-Software & Services:

Tencent Holdings

A-Shares ETF:

CSOP FTSE China A50 ETF

iShares FTSE A50 China Index ETF

W.I.S.E. CSI 300 China Tracker

ChinaAMC CSI 300 Index ETF

- Broad selection in strikes & contract months

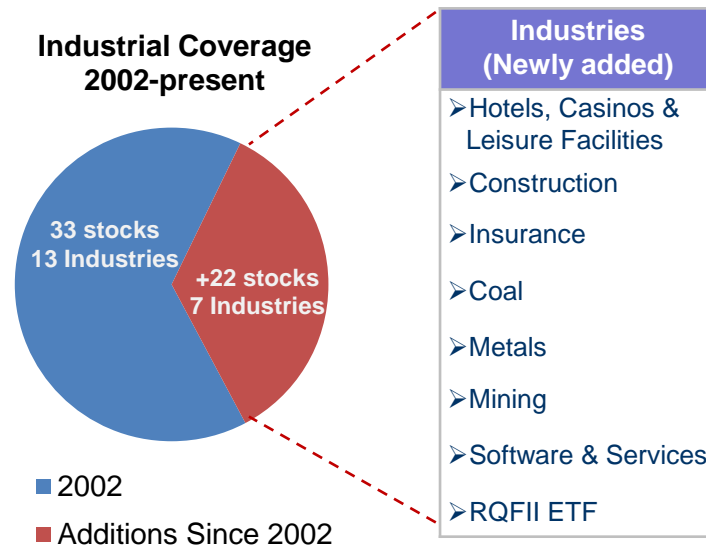
2002: 80 series per class on average

Present: 230 series per class now on average (~3x times)

- Enhancement in liquidity provision

QRMM - Shorten response time with longer holding time

CQMM - Increase quote provision series per option class



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Why Revamp Now?

Market Environment

- The market has growing interest in option linked products versus caution about counterparty risk (even between banks / corporates)
- More stringent regulatory environment has led to increased demand for higher product and price transparency
- Sales procedures for investment products are getting more complicated

Why Revamp Now?

Value Proposition: Listed Stocks Options on HKEx

- HKEx acts as a Central Counter Party (CCP) to mitigate counter party risk
- Listed stock options are trading on a highly visible and transparent platform
- Availability of secondary market provides accessible mark-to-market information for better valuation and risk management
- Investors are able to use the HKEx listed options platform to execute yield-enhancing strategies

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Key Objectives of the Revamp

1. Reduce Trading Fee

- Tier Structure Review

2. Increase Price Visibility

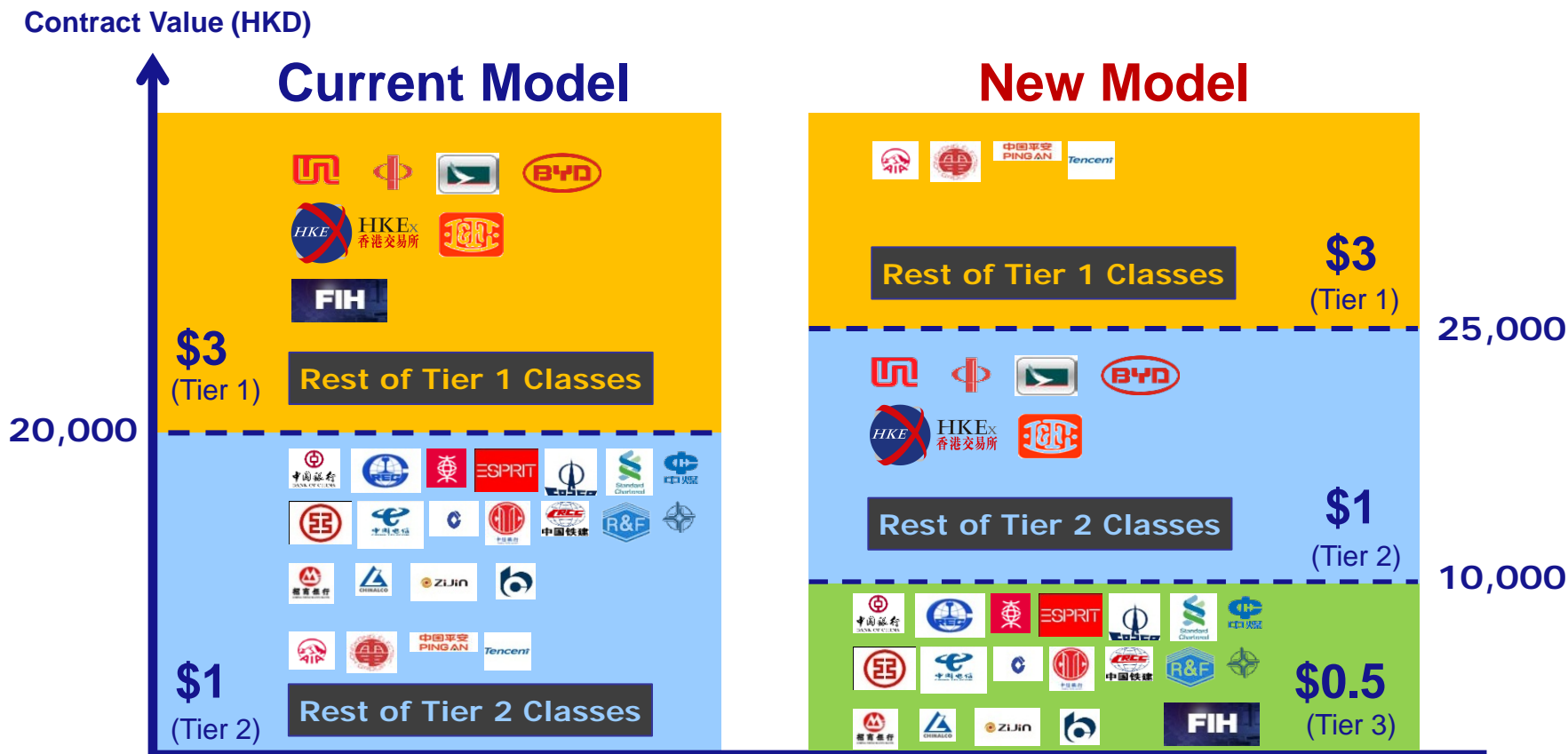
- Primary Market Maker Programme
- Price Dissemination Promotion
- Stock Options Corner

3. Enhance Tradability > Improve Micro-infrastructure

- Introduction of 4th Contract Month
- Reduce Minimum Trading Spread

Reduce Trading Fee by Tier Review

- Maintain competitiveness along with OTC trading market



➤ 26 classes will have a trading fee reduction ranging from 50% to 83%

Introduction of Primary Market Maker Programme (PMM)

- To expand coverage of stock options price quotation
- Pilot scheme
 - 5 PMM permits in each eligible classes maximum
 - On 5 selected classes
 HSBC Holdings Plc, CNOOC Limited, China Mobile Limited, AIA Group Limited, China Life Insurance Company Limited
- Next step
 - To expand coverage to more classes when the market is ready after HKATS upgrade to Genium INET Platform

Obligations		<u>CQMM</u>	<u>QRMM</u>	<u>PMM</u>	<u>Enhancement</u>
	➤ Series Covered	24		120	5 Times
	➤ Provision Time	50%		> 80%	Up 60%
	➤ Response Rate		50%	> 80%	Up 60%

Before Introduction of Primary Market Maker Programme (PMM)

Center Strike						296) Calls/Puts						297) Calls						298) Puts						299) Term Structure											
						Calls												Puts																	
						Strike	Last	Bid	Ask	Volm							Strike	Last	Bid	Ask	Volm														
29 Apr 13 (42d); CSize 500; R .26; IFwd 81.28												29 Apr 13 (42d); CSize 500; R .26; IFwd 81.28																							
1)	60.00	22.58y				67)	60.00	.01y							67)	60.00	.01y																		
2)	65.00	17.58y				68)	65.00	.01y							68)	65.00	.01y																		
3)	70.00	11.50			2	69)	70.00	.01y							69)	70.00	.01y																		
4)	72.50	10.10y				70)	72.50	.02y							70)	72.50	.02y																		
5)	75.00	7.65y				71)	75.00	.07y							71)	75.00	.07y																		
6)	77.50	4.27	4.11		36	72)	77.50	.41							72)	77.50	.41	.44		660															
7)	80.00	2.36	2.30	2.39	247	73)	80.00	1.08	1.03	1.12	3215				73)	80.00	1.08	1.03	1.12	3215															
8)	82.50	1.15	1.10	1.17	638	74)	82.50	2.38	2.35	2.42	438				74)	82.50	2.38	2.35	2.42	438															
9)	85.00	.50	.38	.51	423	75)	85.00	4.21	4.20	4.25	180				75)	85.00	4.21	4.20	4.25	180															
10)	87.50	.22	.15	.23	109	76)	87.50	6.45	6.40	6.48	16				76)	87.50	6.45	6.40	6.48	16															
11)	90.00	.12		.14	42	77)	90.00	8.90	8.82		13				77)	90.00	8.90	8.82		13															
12)	92.50	.06			169	78)	92.50	9.98y							78)	92.50	9.98y																		
13)	95.00	.02y				79)	95.00	13.36			20				79)	95.00	13.36			20															
14)	97.50	.01y				80)	97.50	14.95y							80)	97.50	14.95y																		
15)	100.00	.01			10	81)	100.00	17.45y							81)	100.00	17.45y																		
16)	102.50	.01y				82)	102.50	19.95y							82)	102.50	19.95y																		
17)	105.00	.01y				83)	105.00	22.45y							83)	105.00	22.45y																		
18)	107.50	.01y				84)	107.50	24.95y							84)	107.50	24.95y																		
19)	110.00	.01y				85)	110.00	27.45y							85)	110.00	27.45y																		

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After Introduction of Primary Market Maker Programme (PMM)

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3)	70.00	11.50	10.75	11.87	2	69)	70.00	.01y						69)	70.00	.01y	.01	.02																	
4)	72.50	10.10y	9.98	10.23		70)	72.50	.02y						70)	72.50	.02y	.02	.04																	
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17)	105.00	.01y				83)	105.00	22.45y	22.10	22.88				83)	105.00	22.45y	22.10	22.88																	
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Price Dissemination Promotion

Promotion Scheme

HKEx will waive subscriber fee of top price level for real time stock option prices* for one year

Benefit

- Brokers: Ability to expand customer base by freely disseminating stock option prices on corporate websites through HKEx licensed information vendor
- Investors: To view market data for free and more easily on broker or information vendor website

*top price level provided on a snapshot basis (including bid/ask price and volume, high/low, traded price and volume)

Stock Options Corner

Beginners

- Access to product information, educational materials include publications and videos

Current investors of stock options

- Offers stock options analytical and risk management tools

Brokers

- Can be used as a selling tool and for client education

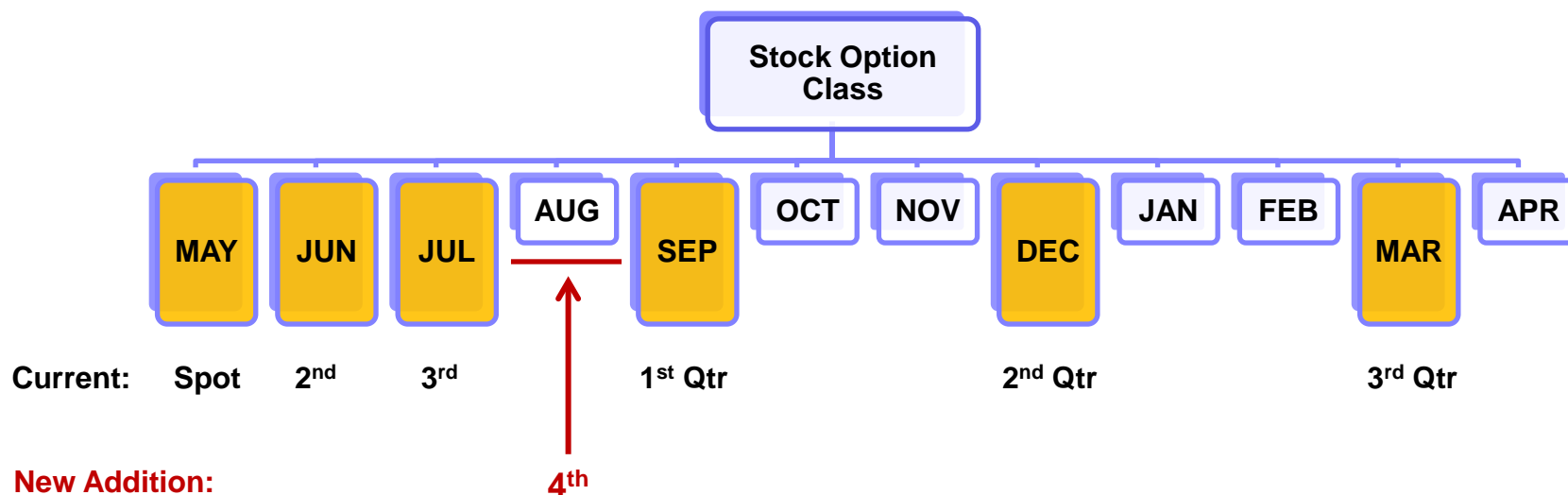
Interested parties starting stock options business

- Procedures, checklists, resources required, time frame

Introduction of 4th Expiry Month

➤ Introduction of 4th Expiry Month

- Expanding contract selection to 7 expiry months
- To ensure availability of at least 3-month maturity for trading (which is common in OTC market)



Reduce Minimum Trading Spread

➤ Reduce Minimum Trading Spread

- To improve trading efficiency in terms of spread cost
- Reduce minimum trading spreads to 1/1000 dollar (\$0.001) for selected options with low-priced underlying stocks

	Underlying Price	Option Price (5% premium)	Spread	Spread %
HSBC	\$80	\$4.00	\$0.01	0.25%
Bank of China	\$4	\$0.20	\$0.01	5.0%
Bank of China (After Reduction)	\$4	\$0.20	\$0.001	0.5%

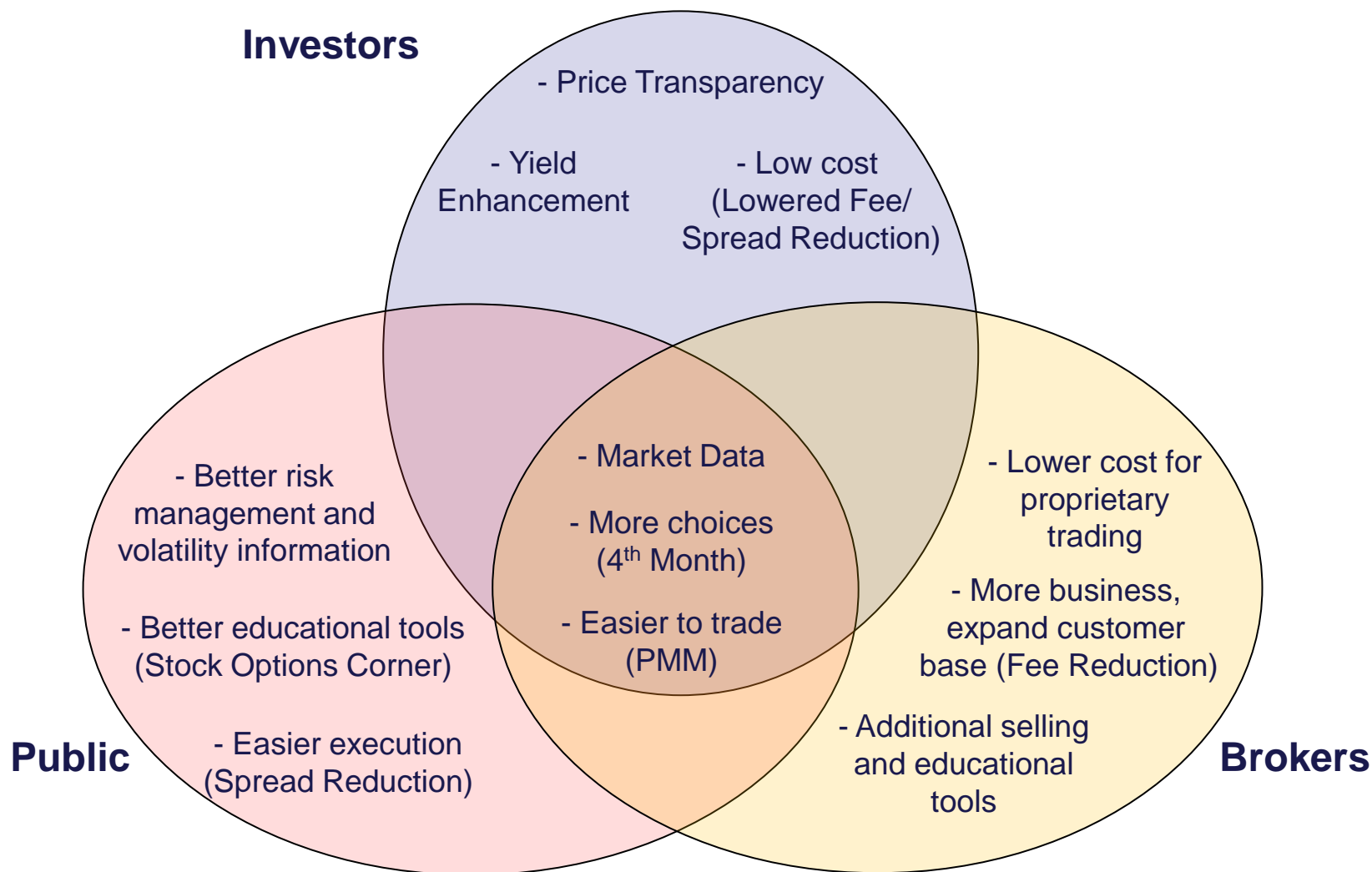
Timeline

<u>Objective</u>	<u>Initiative</u>	<u>Implementation</u>
1. Reduce Trading Fee	<ul style="list-style-type: none"> • Tier Structure Review 	2 May 2013
2. Increase Price Visibility	<ul style="list-style-type: none"> • Primary Market Maker Programme • Price Dissemination Promotion • Stock Options Corner 	Q2, 2013 2 May 2013 20 March 2013
3. Enhance Tradability > Improve Micro-infrastructure	<ul style="list-style-type: none"> • Introduction of 4th Contract Month • Reduce Minimum Trading Spread 	2 May 2013 Q4, 2013 (after HKATS upgrade to Genium INET Platform)

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Benefits to Stakeholders




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HKEx Stock Options Corner

www.hkex.com.hk/stockoptions



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Stock Options


Updated: 20/03/2013

The HKEx stock options corner aims to provide investors with a comprehensive platform to obtain Hong Kong stock options information. Beginners can refer to [Options ABC](#) and [Options Strategies](#) to learn about the basics of stock options. More advanced investors can use [Options/Warrants Calculator](#) and [Portfolio Analyser](#) to estimate theoretical values of options. Investors can also search for stock options and view top ten traded options series and options prices in a user-friendly way.

- ▶ [Stock Options Search](#)
- ▶ [Top 10 Traded Stock Option Series](#)
- ▶ [Publications](#)
- ▶ [Options Tools](#)
- ▶ [Options Education](#)
- ▶ [Trading Information](#)
- ▶ [Market Maker Information](#)
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- ▶ [Stock Options Circulars](#)
- ▶ [Frequently Asked Questions](#)
- ▶ [Setting up a Stock Options Business \(Coming soon\)](#)
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HKEx Stock Options Corner

Over 10 New Options Tools



Highlights:

Beginners Learning Tools	Current Investors Analytical Tools	Brokers Practical trading tools
<ul style="list-style-type: none"> • Provide education materials • Provide product information 	<ul style="list-style-type: none"> • Provide analytical and risk management tools 	<ul style="list-style-type: none"> • Provide trading information • Provide information on setting up stock options business
<ul style="list-style-type: none"> • Options ABC • Educational video 	<ul style="list-style-type: none"> • Options/Warrants Calculator • Volatility comparison charts 	<ul style="list-style-type: none"> • Stock Options Search • Stock Option Details
	<ul style="list-style-type: none"> • Portfolio analyser • Price/volatility matrices 	<ul style="list-style-type: none"> • Gross margin estimator • Margin data search

Aims to cover all kinds of users and investors

Facebook game

25 March - 24 April

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- Watch 6 videos to test your stock options knowledge
- More than 30 prizes to be given including smartphones !



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January 2013 Highlights

Stock options market started the year with an increase of 88% in terms of total notional traded as compared to Dec 2012. Options of two RQFII ETF (HKD counter) commenced trading on 28th January, namely CSOP FTSE China A50 ETF (2822/CSA) and ChinaAMC CSI 300 Index ETF (3188/AMC), traded 2,150 and 2,017 contracts per day respectively, representing a total of HK\$1.3 billion notional.

Trade Overview

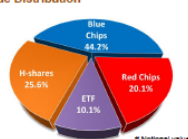
	Traded	% Chg MoM	% Chg YoY
Notional (HKD)	158,977 mm	+68.0%	+91.1%
Premium (HKD)	4,432 mm	+93.7%	+35.0%
Contracts	6.6 mm	+50.2%	+37.7%
Current number of stock options: 65			

Top Open Interest*

Option	Calls	Puts	Total	Chg MoM
China Mobile	7,564	6,599	14,163	+162%
HSBC	3,660	5,090	8,750	+134%
A50	4,066	4,558	8,625	+126%
Tencent	2,626	2,413	5,039	+112%
Ping An	2,256	2,310	4,566	+125%

*Notional value as of 31 Jan

Trade Distribution*



Most Traded Options



Trade vs Open Interest



Do You Know?

Q: What should I do if there is no bid / offer on the screen?

A: It is not unusual when there is no bid / offer on the screen. Some market makers opt for making market in response to quote requests. You may begin with utilizing the quote request function (usually built in your trading system). In case no quotes were given after making the quote request, you may contact your broker to reach HKEx derivatives operations hotline for further assistance.

Further details about market maker obligations can be found in the link below.
http://www.hkex.com.hk/eng/market/mk_obligations.htm

HKEx STOCK OPTIONS

Introductory Guide to the Stock Options Corner



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END

Risks of Trading Futures and Options

Futures and options involve a high degree of risk. Losses from futures and options trading can exceed your initial margin funds and you may be required to pay additional margin funds on short notice. Failure to do so may result in your position being liquidated and you being liable for any resulting deficit. You must therefore understand the risks of trading in futures and options and should assess whether they are right for you. You are encouraged to consult a broker or financial adviser on your suitability for futures and options trading in light of your financial position and investment objectives before trading.

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