

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 the Mini-Hang Seng China Enterprises Index Options

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Hong Kong Futures Exchange Limited (“the Exchange”) is pleased to announce that trading in the Mini-Hang Seng China Enterprises Index (“Mini H-shares Index”) Options Contract will commence on **Monday, 5 September 2016**.

The Mini H-shares Index Options Contract is introduced to satisfy the trading needs of retail investors and to provide investors who use Hang Seng China Enterprises Index (“H-shares Index”) Options for hedging with an additional tool to more precisely fine-tune their risk management.

Contract Specifications

The key features of the Mini H-shares Index Options Contract are as follows:

- Underlying Index: Hang Seng China Enterprises Index
- HKATS Code: MCH
- Contract Multiplier: HK\$10 per whole index point
- Minimum Fluctuation: 1 index point (or HK\$10)
- Contract Months: Spot month, the next calendar month, and the next 2 calendar quarter months
- Trading Hours: 9:15 a.m. – 12:00 noon (morning trading session) and 1:00 p.m. – 4:30 p.m. (afternoon trading session)
- Strike Interval:

Index points	Intervals
Below 2,000	50
At or above 2,000 but below 8,000	100
At or above 8,000	200

8. Position Limit: 12,000 position delta for Mini H-shares Index Futures, Mini H-shares Index Options, H-shares Index Futures and H-shares Index Options in all Contract Months combined, provided the position delta for Mini H-shares Index Futures or Mini H-shares Index Options shall not at any time exceed 2,400 in all Contract Months combined
9. Large Open Position: 2,500 open contracts, in any series
10. Expiry Day: The business day immediately preceding the last business day of the contract month
11. Final Settlement Day: The first business day after the Expiry Day of the contract month
12. Official Settlement Price: The average of the values of the H-shares Index taken at: (i) five (5) minute intervals from five (5) minutes after the start of, and up to five (5) minutes before the end of, the Continuous Trading Session of SEHK; and (ii) the close of trading on SEHK on the Expiry Day
13. Exchange Fee: HK\$1.00 per contract per side
14. Exercise Fee: HK\$1.00 on final settlement
15. Commission Levy: HK\$0.54 per contract. The Commission Levy will be exempted for the first six months of trading, i.e. from 5 September 2016 to 3 March 2017. Participants are advised to inform their clients of the exemption of Commission Levy.

Full details of the contract specifications are set forth in Attachment I for your reference.

Trading and Clearing Rules and Procedures

Relevant rule amendments will be announced via a separate circular.

Trading Arrangements

Please note that the following trading arrangements will be applicable to Mini H-shares Index Options:

- a. Pre-launch arrangements on 2 September 2016 (i.e. one business day before commencement of trading): Trading codes will be displayed on HKATS, but will not be tradable on that day. Information relating to Mini H-shares Index Options will be generated in the risk parameter files, clearing and open interest report;
- b. The HKATS order size limit will be 1,000 contracts;
- c. Block Trades in stock index options is not applicable to Mini H-shares Index Options; and
- d. The price parameter for the purpose of the error trade rule under HKFE Rule 819B is 10% for the notation price over or equal 300 index points and 30 index points for notation price below 300 index points. The error trade procedures are set forth in Attachment II.

Fungibility

The Mini H-shares Index Options Contract and the H-shares Index Options Contract are fungible. This means that position closing between the Mini H-shares Index Options and the H-shares Index Options Contracts are at the ratio of five Mini H-shares Index Options Contracts against one H-shares Index Options Contract.

Market Making

The Exchange invites applications of market makers for the Mini H-shares Index Options. Details of the market maker obligations are set forth in Attachment III. Upon fulfillment of their obligations, market makers of Mini H-shares Index Options will pay:

- (i) a discounted trading fee of HK\$0.20, i.e. 80% discount, for each Mini H-shares Index Options Contract traded; and
- (ii) a discounted trading fee on transactions effected in the following products, provided that the number of contracts that are eligible for a discounted trading fee should not exceed the number of contracts traded in the Mini H-shares Index Options (adjusted to equivalent contract size in the respective products):
 - \$1.00 in H-shares Index Options;
 - \$1.00 in H-shares Index Futures;
 - \$0.70 in Mini H-shares Index Futures.

In addition, market makers in H-shares Index Options shall pay a discounted trading fee of HK\$0.35 in Mini H-shares Index Options, provided that the number of contracts that are eligible for a discounted trading fee should not exceed the number of H-shares index Options contracts traded (number of contracts adjusted to equivalent contract size in Mini H-shares Index Options).

Interested parties should contact, by email, Ms. Rina Ku (RinaKu@hkex.com.hk) or Mr. Frederick Yim (FrederickYim@hkex.com.hk).

Index Providers' Disclaimers

Exchange Participants should notify their staff and all interested clients of the disclaimers of Hang Seng Indexes Company Limited as set forth in Attachment IV.

Trading Information

The access codes of information vendors Mini H-shares Index Options will be available on HKEX's website (<http://www.hkex.com.hk>) in due course.

Promotional Support for EPs

The Exchange will provide promotional items to support Exchange Participants in promoting Mini H-shares Index Options business. Participants who are interested in promoting Mini H-shares Index Options can contact Mr. Justyn Ip by email (JustynIp@hkex.com.hk).

Exchange Participants' Readiness

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

Li Gang
Co-Head
Market Development 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.

<p>Contract Specifications For Mini-Hang Seng China Enterprises Index (HSCEI) Options</p>

The following Contract Specifications shall apply to the Mini-Hang Seng China Enterprises Index Option Contract*:

Underlying Index/Index	Hang Seng China Enterprises Index (the share price index of that name compiled, computed and disseminated by Hang Seng Indexes Company Limited).**
Contract Multiplier	HK\$10 per Index point.**
Contract Months	Spot Month, the next calendar month and the next two calendar quarter months (i.e. quarter months are March, June, September and December).
Trading Hours	9:15 a.m. - 12:00 noon (morning trading session) and 1:00 p.m. - 4:30 p.m. (afternoon trading session) (Hong Kong time) There is no afternoon session on the eves of Christmas, New Year and Lunar New Year. The trading hours of the morning trading session on those three days shall be 9:15 a.m. - 12:30 p.m.
Trading Hours on Expiry Day	9:15 a.m. - 12:00 noon (morning trading session) and 1:00 p.m. - 4:00 p.m. (afternoon trading session) (Hong Kong time) There shall be no afternoon trading session if the Expiry Day falls on Christmas Eve, New Year's Eve or Lunar New Year's Eve.
Trading Method	The Exchange's Automated Trading System (HKATS).
Expiry Day	The Business Day immediately preceding the last Business Day of the Contract Month.
Option Premium	Quoted in whole Index points.
Contracted Value	Option Premium multiplied by the Contract Multiplier.

Strike Prices

Strike Prices shall be set as follows:

HSCEI (Index points)	Intervals
Below 2,000	50
At or above 2,000 but below 8,000	100
At or above 8,000	200

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 HKCC Rules) of (i) the Spot Month Mini-HSCEI Futures Contract for any day prior to the Expiry Day; and (ii) the next month Mini-HSCEI 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 from time to time 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

Cash settlement of the Final Settlement Value.

Final Settlement Day

The Business Day immediately following the Expiry Day.

Official Settlement Price

The Official Settlement Price for Mini-Hang Seng China Enterprises Index Options shall be a number, rounded down to the nearest whole number, determined by the Clearing House and shall be the average of the values of the Hang Seng China Enterprises Index compiled, computed and disseminated by Hang Seng Indexes Company Limited* taken at (i) five (5) minute intervals from five (5) minutes after the start of, and up to five (5) minutes before the end of, the Continuous Trading Session of SEHK; and (ii) the close of trading on SEHK on the Expiry Day. The Chief Executive of the Exchange has the power

Cabinet Trade	No Exchange Fee is payable. Commission Levy and Investor Compensation Levy are applicable.
Exercise Fee	A fee of HK\$1.00 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.

* The Mini-Hang Seng China Enterprises Index Option Contract and the Hang Seng China Enterprises Index Option Contract are fungible. Positions in these two Exchange Contracts will be netted automatically (in the case of House and Market Maker accounts) or may be closed out (in the case of Client account) in accordance with the Clearing House Rules.

** Same as the Mini-Hang Seng China Enterprises Index Futures Contract.

Error Trade Price Parameter and Procedures

The price parameters for Mini H-shares Index Options for the purposes of the error trade rule under HKFE Rule 819B are as follows:

<u>Futures contract</u>	<u>from notation price</u>
Stock Index Options	
i) if notation price \geq 300 index points	10%
ii) if notation price $<$ 300 index points	30 index points

Note:

1. Determination of the notation price of the Stock Index Option Contracts will be based on the following:
 - 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.

Market Maker Obligations (for the period of 5 September 2016 and 31 October 2016 (both dates inclusive))

Market Making Obligation	Provision of Continuous Quotes (CQ)	Response to Quote Requests (QR)												
Assigned Series*	Not less than 12 option series	All QR issued												
Trading Requirement	Provision of CQ not less than 70% of the trading hours in each calendar month	Response to not less than 70% of the QR in each calendar month												
Maximum Time Limit for Responding to QR	N/A	Response to a QR within 20 seconds of the QR												
Minimum Display Time	Not less than 20 seconds, unless a change in the level of the underlying index occurs during the 20 seconds display period, in which case, market makers may change their quotes													
Maximum bid/offer spread	<table border="1"> <thead> <tr> <th><u>Contract Month</u></th> <th><u>Option Price</u></th> <th><u>Maximum Bid/Offer Spread</u></th> </tr> </thead> <tbody> <tr> <td rowspan="2">1st to 3rd</td> <td>1 - 750 points</td> <td>30 points or 10% of bid price, whichever is higher</td> </tr> <tr> <td>751 points or more</td> <td>75 points</td> </tr> <tr> <td rowspan="2">4th onwards</td> <td>1 - 750 points</td> <td>30 points or 20% of bid price, whichever is higher</td> </tr> <tr> <td>751 points or more</td> <td>150 points</td> </tr> </tbody> </table>	<u>Contract Month</u>	<u>Option Price</u>	<u>Maximum Bid/Offer Spread</u>	1st to 3rd	1 - 750 points	30 points or 10% of bid price, whichever is higher	751 points or more	75 points	4th onwards	1 - 750 points	30 points or 20% of bid price, whichever is higher	751 points or more	150 points
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	751 points or more	150 points												
Minimum Quote Size	Not fewer than 5 contracts													

Beginning from 1 November 2016, the market making obligations of Mini H-shares Index Options will be revised together with other stock index options products. For details, please refer to the separate circular:

http://www.hkex.com.hk/eng/market/partcir/hkfe/2016/Documents/MKD_EQD_07_16_e.pdf

Disclaimer of Hang Seng Indexes Company Limited

Hang Seng Indexes Company Limited (“HSIL”) currently publishes, compiles and computes a number of stock indexes and may publish, compile and compute such additional stock indexes at the request of Hang Seng Data Services Limited (“HSDS”) from time to time (collectively, the “Hang Seng Indexes”). The marks, names and processes of compilation and computation of the respective Hang Seng Indexes are the exclusive property of and proprietary to HSDS. HSIL has granted to the Exchange by way of licence the use of the Hang Seng Indexes solely for the purposes of and in connection with the creation, marketing and trading of futures contracts based on any of the Hang Seng Indexes respectively (collectively, “Futures Contracts”). The process and basis of compilation and computation of any of the Hang Seng Indexes and any of the related formula or formulae, constituent stocks and factors may at any time be changed or altered by HSIL without notice and the Exchange may at any time require that trading in and settlement of such of the Futures Contracts as the Exchange may designate be conducted by reference to an alternative index or alternative indexes to be calculated. Neither the Exchange nor HSDS nor HSIL warrants or represents or guarantees to any participant or any third party the accuracy or completeness of the Hang Seng Indexes or any of them and the compilation and computation thereof or any information related thereto and no such warranty or representation or guarantee of any kind whatsoever relating to the Hang Seng Indexes or any of them is given or may be implied. Further, no responsibility or liability whatsoever is accepted by the Exchange, HSDS or HSIL in respect of the use of the Hang Seng Indexes or any of them for the purposes of and in connection with the Futures Contracts or any of them and/or dealings therein, or for any inaccuracies, omissions, mistakes, errors, delays, interruptions, suspension, changes or failures (including but not limited to those resulting from negligence) of HSIL in the compilation and computation of the Hang Seng Indexes or any of them or for any economic or other losses which may be directly or indirectly sustained as a result thereof by any participant or any third party dealing with the Futures Contracts or any of them. No claims, actions or legal proceedings may be brought by any participant or any third party against the Exchange and/or HSDS and/or HSIL in connection with or arising out of matters referred to in this disclaimer. Any participant or any third party deals in the Futures Contracts or any of them in full knowledge of this disclaimer and can place no reliance whatsoever on the Exchange, HSDS and/or HSIL. For the avoidance of doubt, this disclaimer does not create any contractual or quasi-contractual relationship between any participant or third party and HSIL and/or HSDS and must not be construed to have created such relationship.