

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: Launch of the TSI Iron Ore Fines 62% Fe CFR China Futures

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Hong Kong Futures Exchange Limited (“the Exchange”) is pleased to announce that the Securities and Futures Commission (“SFC”) has approved the introduction of the cash-settled TSI Iron Ore Fines 62% Fe CFR China Futures¹ (“Iron Ore Futures”). The trading of the Iron Ore Futures will commence on **Monday, 13 November 2017** (“Commencement Date”).

Further to our existing product offerings in precious metals and base metals, the Iron Ore Futures is introduced as the first ferrous metal commodity futures in the Exchange, which can provide an additional investment and risk management tool to address the trading, hedging and asset allocation needs of the market, improve price transparency and facilitate price discovery in the iron ore derivatives market.

A. Contract Features

Key features of the Iron Ore Futures are as follows:

Contracts	Monthly Contracts	Quarterly Contracts
HKATS Code	FEM	FEQ
Underlying	TSI Iron Ore Fines 62% Fe CFR China Index	
Contract Size	100 tonnes	
Trading Currency	U.S. dollars	
Price Quotation	U.S. dollars and cents per tonne	

¹ Reference is made to the circular dated 27 September 2017 regarding “Introduction of the TSI Iron Ore Fines 62% Fe CFR China Futures, Registration for Participant Briefings and Application for Incentives & Joint Promotional Programs”.

Contracts	Monthly Contracts	Quarterly Contracts
Contract Months	Spot Month and the next 23 calendar months	Spot Quarter and the next seven calendar quarters (i.e. calendar quarters are January to March, April to June, July to September and October to December)
Minimum Fluctuation	USD 0.01 per tonne	
Maximum Fluctuation	Nil	
Trading Fee	USD 1.00 per contract per side	
Settlement Fee	USD 1.00 per contract per side	
Commission Levy ²	USD 0.07 per contract per side	
Trading Hours (Hong Kong Time)	9:00 a.m. to 4:30 p.m. (day trading session) and 5:15 p.m. to 1:00 a.m. (after-hours trading session)	
Final Settlement Price	Arithmetic average of all TSI Iron Ore Fines 62% Fe CFR China Index values published in that Contract Month, rounded to 2 decimal places	Arithmetic average of the Final Settlement Prices of the three corresponding Monthly Contracts in that Contract Quarter, rounded to 2 decimal places
Last Trading Day	The last Hong Kong Business Day of a calendar month that is not a Singapore public holiday	The Last Trading Day of the last Monthly Contract in the calendar quarter
Settlement Method	Cash settled contract of difference	
Position Limits	30,000 net long or short in all Contract Months combined, per Exchange Participant for the Exchange Participant's own behalf; and 30,000 net long or short in all Contract Months combined, per Client	
Large Open Positions	500 open contracts, in any one Contract Month, per Exchange Participant for the Exchange Participant's own behalf; and 500 open contracts, in any one Contract Month, per Client	

Details of the Contract Specifications are set forth in **Attachment I** for reference. Relevant rule amendments relating to the Iron Ore Futures will be announced via circulars in due course.

² Levies are payable at the rate or of the amount prescribed from time to time pursuant to the Securities and Futures Ordinance (Cap.571). The current rate is set at HK\$ 0.54 per contract, for which the USD equivalent will be determined by the Exchange from time to time.

B. Pre-Launch Arrangements

To facilitate market participants in the trading and clearing of the Iron Ore Futures, the following pre-launch arrangements will be made available on **Friday, 10 November 2017** (i.e. one business day before the Commencement Date):

- a. Trading codes of the Iron Ore Futures will be displayed on HKATS, but the Iron Ore Futures will not be tradable on that day; and
- b. Information relating to the Iron Ore Futures will be generated in the risk parameter files, clearing and open interest reports.

C. Contract Months and Contract Quarters Arrangements at Launch

On the Commencement Date, the contract months and contract quarters of the Iron Ore Futures available for trading will be from **January 2018 to December 2019**, and from **Q1 2018 to Q4 2019** respectively. This means that the Iron Ore Futures will be launched without monthly contracts for November 2017 and December 2017 or quarterly contracts for Q4 2017, i.e. the earliest Spot Month and Spot Quarter will be January 2018 and Q1 2018 respectively.

This launch arrangement is made to facilitate trading and market communications, as the Iron Ore Futures will be launched based on the revised methodology and specifications of the TSI Iron Ore Fines 62% Fe CFR China Index published by S&P Global Platts (“Platts”), the index provider, with effect from 2 January 2018. For reference, please refer to the Platts’ announcement in their [Subscriber Notes](#) and details in the [Methodology and Specifications Guide](#).

D. Trading Arrangements

Trading Eligibility

Exchange Participants (“EPs”) are required to have USD settlement capability in order to be granted trading access to the Iron Ore Futures.

Maximum Order Size

Please note that the Iron Ore Futures will have a maximum order size limit on HKATS of 1,000 contracts. EPs are required to submit their requests to the Exchange for setting up their own order size limits based on their business needs and risk management requirements.

Error Trade Price Parameters and Procedures

The price parameter for the purpose of the error trade rules under the Exchange Rule 819B is **4%** from notation price. Details of error trade parameters are set forth in **Attachment II** for reference.

Block Trade Volume Threshold and Permissible Price Range

The block trade volume threshold for the Iron Ore Futures will be **50** contracts. The block trade permissible price range is **4%**. Details of block trade permissible price range are set forth in **Attachment III** for reference.

E. Clearing and Settlement Arrangements

To be eligible for clearing and settlement of the Iron Ore Futures, Clearing Participants (“CPs”) are required to arrange USD settlement capability by setting up a USD bank account with any of the Settlement Banks appointed by HKFE Clearing Corporation Limited (“Clearing House”) and to maintain relevant mandates in such form as prescribed by Clearing House.

CPs 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 ensure their eligibility for clearing and/or settlement of the Iron Ore Futures.

F. Risk Management Arrangements

Margin offset will be offered between the Monthly and Quarterly Contracts of the Iron Ore Futures via inter-commodity spread functionality in PRiME³. CPs can allocate the eligible positions to relevant account(s)⁴ in accordance with the Clearing House Procedures for margin offset claim purpose.

³ Please refer to section 2.7 of PRiME margining guide for details.

⁴ Client Offset Claim Account

Margin levels and margin offset parameters⁵ for the Iron Ore Futures will be announced and the updated PC-SPAN Organization Master File will be made available in due course.

G. Trading Information

The access codes of information vendors of the Iron Ore Futures will be available on HKEX's website.

H. Incentive Programs

Six-month Fees Holiday and Commission Levy Exemption

For all Participants and their clients, the Exchange will offer a waiver of Exchange Trading Fee for the initial six months from the Commencement Date to 11 May 2018, both dates inclusive, excluding the After-Hours Futures Trading Session on 11 May 2018, for the trading of Iron Ore Futures.

The Commission Levy for the Iron Ore Futures will be exempted for the first six months of trading from the Commencement Date to 11 May 2018, both dates inclusive, excluding the After-Hours Futures Trading Session on 11 May 2018.

Participants are advised to inform their clients of the fee holidays and exemption of Commission Levy accordingly.

Bundled Liquidity Providing Incentive Program

The Exchange invites applications for liquidity providers and proprietary traders for the Iron Ore Futures. Incentives include: 1) cross-product trading fee rebates; 2) market data fee rebates; 3) hosting services fee rebates; and 4) OAPI license fee waiver. Further details are included under circular dated 27 September 2017 regarding "Introduction of the TSI Iron Ore Fines 62% Fe CFR China Futures, Registration for Participant Briefings and Application for Incentives & Joint Promotional Programs" ([MKD/CMD/005/17](#)).

⁵ Delta/Spread Ratio and Spread Credit Rate.

Interested parties should contact Ms. Rina Ku (RinaKu@hkex.com.hk) or Ms. Iris Hui (IrisHui@hkex.com.hk) for further information.

Joint Promotional Program

The Exchange is launching a Joint Promotion Program on the Iron Ore Futures, with the objective of enhancing investors' knowledge of the Iron Ore Futures through a series of joint marketing and educational activities, including but not limited to promotion events, advertisements, etc. Further details are included under circular dated 27 September 2017 regarding "Introduction of the TSI Iron Ore Fines 62% Fe CFR China Futures, Registration for Participant Briefings and Application for Incentives & Joint Promotional Programs" ([MKD/CMD/005/17](#)).

Interested parties should contact Ms. Catherine Zhang (CatherineZhang@HKEX.COM.HK), Ms Cynthia Wu (CynthiaWu@hkex.com.hk), or Mr. Steven Chou (StevenChou@HKEX.COM.HK) for further information.

I. Participants' Readiness

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

Dennis Zhang
Head of Commodities Development
Market Development
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.

Attachment I

Contract Specifications

<p>Contract Specifications For TSI Iron Ore Fines 62% Fe CFR China Futures</p>
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The following Contract Specifications shall apply to the TSI Iron Ore Fines 62% Fe CFR China Futures Contract:-

Underlying	TSI Iron Ore Fines 62% Fe CFR China Index
Contract Size	100 tonnes
Trading Currency	U.S. dollars
Contract Months	For Monthly Contracts: Spot Month and the next 23 calendar months For Quarterly Contracts: Spot Quarter and the next seven calendar quarters (i.e. calendar quarters are January to March, April to June, July to September and October to 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	U.S. dollars and cents per tonne
Minimum Fluctuation	USD 0.01 per tonne
Maximum Fluctuation	As prescribed by the Exchange from time to time
Contracted Price	The price at which a TSI Iron Ore Fines 62% Fe CFR China Futures Contract is registered by the Clearing House
Contracted Value	Contracted Price multiplied by the Contract Size
Position Limits	30,000 net long or short in all Contract Months combined, per Exchange Participant for the Exchange Participant's own behalf; and 30,000 net long or short in all Contract Months combined, per Client
Large Open Positions	500 open contracts, in any one Contract Month, per Exchange Participant for the Exchange Participant's own behalf; and 500 open contracts, in any one Contract Month, per Client
Pre-Market Opening Period	Nil

Trading Hours (Hong Kong time)	<p>9:00 a.m. – 4:30 p.m. (day trading session) and 5:15 p.m. – 1:00 a.m. (after-hours trading session)</p> <p>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.</p>
Trading Hours on Last Trading Day (Hong Kong time)	<p>9:00 a.m. – 4:30 p.m. (day trading session) and 5:15 p.m. – 6:30 p.m. (after-hours trading session)</p> <p>There is no trading after 12:30 p.m. on the Last Trading Day that is the last Hong Kong Business Day before New Year's Day or the Lunar New Year, and which is also the last day before New Year's Day or the Lunar New Year on which the TSI Iron Ore Fines 62% Fe CFR China Index is published. The trading hours on those two days shall be 9:00 a.m. – 12:30 p.m.</p>
Trading Method	The Exchange's Automated Trading System (HKATS)
Last Trading Day	<p>For Monthly Contracts: The last Hong Kong Business Day of a calendar month that is not a Singapore public holiday</p> <p>For Quarterly Contracts: The Last Trading Day of the last Monthly Contract in the calendar quarter</p>
Final Settlement Day	The second Hong Kong Business Day after the Last Trading Day, provided that if (i) the Last Trading Day is on the last Hong Kong Business Day before New Year's Day or the Lunar New Year, (ii) the Trading Hours of the Spot Month Contract and the Spot Quarter Contract end at 12:30 p.m., and (iii) the day trading session of other Contract Months ends at 4:30 p.m., the Final Settlement Day shall be the first Hong Kong Business Day after the Last Trading Day
Settlement Method	Cash settled contract of difference
Settlement Currency	U.S. dollars
Final Settlement Price	<p>For Monthly Contracts: The Final Settlement Price shall be the arithmetic average of all TSI Iron Ore Fines 62% Fe CFR China Index values published in that Contract Month, rounded to 2 decimal places. It is rounded up if the figure in the third decimal place is 5 or above and rounded down if it is below 5;</p> <p>For Quarterly Contracts: The Final Settlement Price shall be the arithmetic average of the Final Settlement Prices of the three corresponding Monthly Contracts in that Contract Quarter rounded to 2 decimal places. It is rounded up if the figure in the third decimal place is 5 or above and rounded down if it is below 5</p> <p>The Chief Executive of the Exchange has the power under the Regulations for trading Metal Futures Contracts to determine the Final Settlement Price under certain circumstances.</p>

Cash Settlement Value	The Final Settlement Price multiplied by the Contract Size
Trading Fee (per contract per side)	Exchange Fee USD1.00 The amount indicated above is subject to change from time to time
Levies	Commission Levy and Investor Compensation Levy are payable at the rate or of the amount prescribed from time to time pursuant to the Ordinance Exchange Participants shall pay the prescribed amount of Commission Levy in US Dollar equivalent (at the conversion rate determined by the Exchange, rounded to the nearest US Cents)
Commission Rate	Negotiable

Attachment II

Error Trade Parameters for the Iron Ore Futures

The price parameters for the Iron Ore Futures for the purposes of the error trade rule under 819B in the Rules of the Exchange are as follows:

<u>Futures contracts</u>	<u>from notation price</u>
Iron Ore Futures	4%

Note:

The notation price will be determined as follows:

1. The average of the prices of the previous match and the next match in that contract occurring reasonably close to the time of error trade. If this average price fails to reflect a fair price, in the opinion of the Exchange, the notation price will be determined on the basis of item 2 below;
2. The reasonable bid and offer prices available around the time of error trade. If this, in the opinion of the Exchange, fails to reflect a fair price, the notation price will be determined on the basis of item 3 below
3. The prices obtained by the Exchange from consulting 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.

Attachment III

Block Trade Permissible Price Range for the Iron Ore Futures

With reference to 815A (5) in the Rules of the Exchange, the price at which a block trade is executed must be fair and reasonable, and the revised permissible price range for block trades is determined in the following manner:

- (a) When the executed price is at or within the range of highest traded price, lowest traded price, bid and ask price of the contract; or
- (b) When the executed price is within a price range to both sides of a reference price obtained through prevailing market prices, or if necessary, determined as the theoretical values based on the prevailing underlying values. Price ranges for the Iron Ore Futures are as follows:

<u>Futures contracts</u>	<u>Price range</u>
Iron Ore Futures	4%

DISCLAIMER

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