

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 MSCI China (USD) Index Futures and MSCI China Net Total Return (USD) Index Futures Contracts - Update

Enquiry: For technical enquiries:

- HKATS (Hotline¹: 2211-6360 E-mail: hkatssupport@hkex.com.hk)
- DCASS (Hotline: 2979-7222 E-mail: clearingpsd@hkex.com.hk)

For business enquiries:

- Mr. Dick Fung (Tel: 2211-6320 E-mail: dickfung@hkex.com.hk)
- Ms. Flora Lo (Tel: 2211-6137 E-mail: floralo@hkex.com.hk)

Reference is made to the circular (ref: [MKS/EQD/49/21](#)) dated 25 October 2021 regarding the introduction of MSCI China (USD) Index Futures and MSCI China Net Total Return (“NTR”) (USD) Index Futures Contracts (the “Contracts”). Hong Kong Futures Exchange Limited (“the Exchange”) is pleased to announce that Securities and Futures Commission (“SFC”) has approved the introduction of the Contracts with launch date on **22 November 2021 (Monday)** (“Launch Date”). This follows the upcoming plan of MSCI to discontinue the MSCI China Free Index and substitute with the MSCI China Index. The two indices currently have identical index compositions and weightings.

Details of the contract specifications are set forth in Attachment I. The index methodology is set forth in Attachment II. Relevant rule amendments will be announced in due course.

¹ All calls to the HKATS hotline would be recorded. Please refer to the following link for HKEX privacy policy statement: http://www.hkex.com.hk/eng/global/privacy_policy.htm

Trading Arrangements for the Contracts

Pre-Launch Arrangements

To facilitate market participants in the trading and clearing of the Contracts, the following pre-launch arrangements will be made available one business day before the Launch Date:

- a. Trading codes will be displayed on HKATS, but the Contracts will not be tradable on that day; and
- b. Information relating to the Contracts will be generated in the risk parameter files (“RPF”), clearing and open interest reports.

The purpose of the generation of RPF one business day before the Launch Date is to assist Participants to estimate the margin requirements for trading on the Launch Date.

Please note that the margin requirements estimated using the RPF available on the business day before the Launch Date may not be the same as the actual amounts required on the Launch Date. Hong Kong Exchanges and Clearing Limited (“HKEX”) and its subsidiaries accept no liability whatsoever for any loss or damage arising from or in connection with the use of the information contained in such RPF. Participants who wish to use the above-mentioned RPF are reminded to update the PC-SPAN Organisation Master File.

Other Trading Arrangements

- a. The following contract months will be available for trading from the Launch Date: December 2021, January 2022, March 2022, June 2022, September 2022, December 2022.
- b. The minimum block trade volume threshold is 25 contracts for MSCI China NTR (USD) Futures contracts and 50 contracts for MSCI China (USD) Futures contracts.
- c. Block trade permissible price range: $\pm 3\%$ from reference price which will be applied in the T and T+1 sessions (see details in Attachment III).
- d. Error trade parameters: $\pm 3\%$ from notation price² which will be applied in the T and T+1 sessions (see details in Attachment III).
- e. Volatility Control Mechanism and price limit will not be applied during T session.
- f. Price limit will be applied in the T+1 session. The price limit will be $\pm 5\%$ from the last traded price of each contract month for the respective Contracts in the T Session. If there is no last

² EPs that are original parties to a transaction on HKATS can file error trade claims to HKFE if the trades deviate from this error trade price parameter.

traded price of a specific contract month during the T Session, the previous day's daily settlement price of the same contract month will be used as the reference price. For newly listed contract months, the reference price of the preceding contract month will apply.

- g. The maximum HKATS order size limit is 1,000 contracts. Exchange Participants ("EPs") are required to submit their request to HKFE for setting up their own order size limits based on their business needs and risk management requirements.

Transitional Arrangement for the Original Contracts

Effective from the Launch Date of the Contracts, there will be no new contract months created on the existing contracts based on the MSCI China Free Index, namely:

- MSCI China Free NTR (USD) Index Futures,
- MSCI China Free (USD) Index Futures and
- MSCI China Free (USD) Index Options (collectively "Original Contracts").

In addition, effective from the Launch Date of the Contracts, trading of the Original Contracts in existing contract months **with no open interest** will be suspended. Trading of the Original Contracts in existing contract months **with open interest** will be continued for a transitional period, tentatively until the first quarter of 2022. After that, it is expected that trading in all contract months of the Original Contracts will be suspended.

Position holders in the MSCI China Free NTR (USD) Index Futures and MSCI China Free (USD) Index Futures who wish to migrate to the Contracts can close out their original positions during the transitional period and create new positions in the Contracts.

Clearing and Settlement Arrangements for the Contracts

To be eligible for clearing and settlement of the Contracts, Clearing Participants ("CPs") of the HKFE Clearing Corporation Limited ("HKCC") need to arrange for USD settlement capability, including having an **active** USD bank account with any of the appointed settlement banks appointed by HKCC.

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 ascertain their eligibility of clearing the Contracts.

Risk Management Arrangement for the Contracts

Margin offset among certain Contracts will be offered in PRiME³. CPs could allocate the eligible positions to relevant account(s)⁴ in accordance with the Clearing House Procedures for margin offset claim purpose. Margin levels and margin offset parameters⁵ for the Contracts will be announced and an update of PC-SPAN Organisation Master File will be made available in due course. Details of the risk management arrangements will be provided in separate HKCC circular in due course.

Information Vendor Access Code

The access codes of major information vendors for the underlying indices and the Contracts can be found in Attachment IV. More information of the access codes will be available on HKEX's website ([link](#)) in due course.

Liquidity Provider and Block Trade Participant Incentive Programs

The Exchange invites applications for the Liquidity Provider ("LP") Program for the Contracts. Please refer to Attachment V for details. Interested parties should contact Ms. Emily Huang (EmilyHuang@hkex.com.hk) and Mr. Aaron Thio (AaronThio@hkex.com.hk) for application information. Applicants who wish to participate the LP Program starting from the first day are required to submit their application on or before **12 November 2021 (Friday)**.

In addition, the MSCI China NTR (USD) Index Futures will be included to the existing Block Trade Participant Program of MSCI Suite. Please refer to the circular (ref: [MKS/EQD/13/21](#) dated 21 March 2021) for program information.

³ Please refer to section 2.7 of [PRiME Margining Guide](#) for details.

⁴ Client Offset Claim Account

⁵ Delta/Spread Ratio and Spread Credit Rate

SFC Commission Levy Exemption

The Commission Levy for the Contracts will be exempted for the first six months of trading, i.e. from 22 November 2021 (Monday) to the close of T session on 20 May 2022 (Friday). Participants are advised to inform their clients accordingly.

Contracts	During six-month SFC commission levy exemption, i.e. from 22 November 2021 to 20 May 2022 (T Session)	After six-month SFC commission levy exemption, i.e. from 20 May 2022 (T+1 Session) onwards
MSCI China Net Total Return (USD) Index Futures	Nil	USD 0.07
MSCI China (USD) Index Futures	Nil	USD 0.07

Participants' Readiness

Participants are required to notify their staff and all interested clients of the details of the Contracts. In particular, the contract specifications of the Contracts such as the contract multiplier and the minimum fluctuations may be different from the Original Contracts.

Contracts	Original Contracts		Contracts	
	MSCI China Free NTR (USD) Index Futures	MSCI China Free (USD) Index Futures	MSCI China NTR (USD) Index Futures	MSCI China (USD) Index Futures
Market Code	161	168	161	168
HKATS Code	MCN	MCF	<u>CHN</u>	<u>CHI</u>
Commodity Code	5424	5481	<u>5447</u>	<u>5489</u>
Minimum Fluctuation (index points)	0.001	2.00	0.001	<u>0.02</u>
Contract Multiplier	USD 50	USD 5	USD 50	<u>USD 500</u>

Please ensure that all trading, clearing, and back office systems, including OAPI program and other operational arrangements are ready in order for a smooth operation upon the introduction. In addition, staff should be fully aware of the above and should exercise caution when dealing with the Contracts and when advising their clients.



Alexander Siu
Co-head of Equities Product Development
Markets Division

Contract Specifications

Contracts	MSCI China Net Total Return (USD) Index Futures	MSCI China (USD) Index Futures
Underlying Index	MSCI China Net Total Return Index	MSCI China Index
HKATS Code	CHN	CHI
Trading Currency	USD	
Index Currency	USD	
Contract Multiplier	USD 50	USD 500
Minimum Fluctuation	0.001 index point	0.02 index point
Contract Months	Spot, next calendar month and the following 4 quarterly months	
Trading Hours	9:00am-4:30pm (T); 5:15pm-3:00am (T+1)	
Trading Hours on Last Trading Day ("LTD")	9:00am-4:30pm	
LTD	3rd Friday. If it falls on a Hong Kong public holiday, the LTD will be the preceding Hong Kong business day	The Hong Kong business day immediately preceding the last Hong Kong business day of the Contract Month, provided that it is a common business day on which all component stocks of index are open for trading. If the LTD is not a common business day, the LTD shall be the preceding Hong Kong business day which is a common business day.
Final Settlement Price ("FSP")	The FSP for MSCI China Net Total Return (USD) Index Futures Contracts shall be a number, rounded up to the nearest 3 decimal places if the figure in the fourth decimal place is 5 or above and rounded down to the nearest 3 decimal places if it is below 5, determined by the Clearing House and shall be the official closing value of the MSCI China Net Total Return Index on the third Friday of the Contract Month or, if MSCI Limited announces that there is an unexpected market closure event relating to the MSCI China Net Total Return Index, the final Unexpected Market Closure Index level of the MSCI China Net Total Return Index published by MSCI Limited after the third Friday of the Contract Month.	The FSP for MSCI China (USD) Index Futures Contracts shall be a number, rounded up to the nearest 2 decimal places if the figure in the third decimal place is 5 or above and rounded down to the nearest 2 decimal places if it is below 5, determined by the Clearing House and shall be the official closing value of the MSCI China Index on the LTD of the Contract Month.
Final Settlement Day	1 Hong Kong business day after FSP is determined	
Large Open Position	500 open contracts in any one Contract Month	
Position Limit	53,000 net contracts long or short across all Contract Months	35,000 net contracts long or short across all Contract Months
Trading Fee	USD 0.60	USD 1.00
Settlement Fee	USD 0.60	USD 1.00
Commission Levy ⁶	USD 0.07	USD 0.07

⁶ The Commission Levy is collected in the trading currency equivalent to HKD 0.54 at the exchange rate determined by HKFE from time to time. There will be Commission Levy exemption for the first six months of trading from Launch Date.

Index Methodology

The MSCI China Index captures large and mid cap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings (e.g. ADRs). With 740 constituents, the index covers about 85% of this China equity universe. Currently, the index includes Large Cap A and Mid Cap A shares represented at 20% of their free float adjusted market capitalization.

Top 10 Index Constituents

Company	Float Adjusted Market Capitalization (USD Bn)	Index Weight (%)	Sector
Tencent Holding (CN)	341.22	12.75	Communication Services
Alibaba Group Holding (HK)	277.33	10.36	Consumer Discretionary
Meituan B	127.71	4.77	Consumer Discretionary
China Construction Bank H	68.93	2.58	Financials
JD.com ADR	62.77	2.35	Consumer Discretionary
Wuxi Biologics	58.54	2.19	Health Care
NIO A ADR	48.52	1.81	Consumer Discretionary
Ping An Insurance H	43.30	1.62	Financials
Baidu ADR	42.67	1.59	Communication Services
Pinduoduo ADR A	39.77	1.49	Consumer Discretionary

Source: MSCI, as of 30 September 2021

For more index information, please refer to MSCI's webpage ([factsheet](#) and [index methodology](#)).

Block Trade Permissible Price Range

With reference to the HKFE rule 815A (5), 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. The block trade permissible price range for the Contracts is 3%.

Error Trade Parameters

The price parameters for the purposes of the error trade rule under HKFE Rule 819B is 3% from notional price.

Note:

The notation price will be determined as follows:

- (a) The last traded price within 5 minutes prior to the error trade;
- (b) The mid-point of the best bid/ask price immediately prior to the error trade;
- (c) Last settlement price; or
- (d) The difference of notation prices between the related outright contracts (calendar spread only).

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

Information Vendor Access Codes

Underlying Indices:

Contracts	Underlying Index	Bloomberg Ticker	Refinitiv Ticker
MSCI China Net Total Return (USD) Index Futures	MSCI China Net Total Return (USD) index	M1CN Index	.MICN00000NUS
MSCI China (USD) Index Futures	MSCI China (USD) Index	M3CN Index	.MICN00000PUS

Contracts:

Contracts	Bloomberg Ticker	Refinitiv Ticker
MSCI China Net Total Return (USD) Index Futures	CJEA Index	0#HCHN:
MSCI China (USD) Index Futures	CSAI Index	0#HCHI:

LP Program

1. LP obligations and incentives shall be same as the existing arrangement:

	MSCI China Net Total Return (USD) Index Futures	MSCI China (USD) Index Futures
Program Period	From product launch to end of June 2022 (or at least six months, whichever is the later)	
Eligibility	EPs or direct clients of EPs	
No. of LP Permits	<ul style="list-style-type: none"> Outright LP: 1 for T session and 1 for T+1 session Calendar spread LP: 1 	<ul style="list-style-type: none"> 1 Outright LP for T session
Obligations	<ul style="list-style-type: none"> Outright LP: Provide continuous quotes (“CQ”) for 70% of trading hours in T session or 50% of trading hours in T+1 session; Calendar spread LP: provide CQ for 70% of trading hours in T session Specific details of the obligations will be determined through bidding process. 	
Incentives:		
Trading Fee Discount (market making account only)	<ul style="list-style-type: none"> Discounted trading fee of USD 0.30 Note: The market-wide trading fee waiver, if any, will supersede the discounted trading fee during the market-wide trading fee waiver period. 	
Cash Incentives (per month per LP)	<ul style="list-style-type: none"> Outright: HKD 25,000 per session; Spread: HKD 12,500 (during the month of quarterly roll) 	<ul style="list-style-type: none"> Outright: HKD 25,000 per session
OAPI Sub-license Fee Waiver	Outright: 1 OAPI in T session	Outright: 1 OAPI in T session

2. The performance of LPs in respect of each trading session will be evaluated at the end of each calendar month. If an LP fails to meet its obligations of the contract in respect of a trading session in a calendar month, it will not be entitled to the incentives in respect of that trading session for that calendar month. LP will be required to pay the difference between the discounted trading fee and the standard trading fee of that contract and there will be no OAPI waiver and cash incentives given to the LP. The appointment of any LP who fails to meet its commitment for two consecutive months may be subject to early termination by the Exchange.

MSCI Disclaimer

The Contracts are not sponsored, endorsed, sold or promoted by MSCI Inc. ("MSCI"), any affiliate of MSCI or any other party involved in, or related to, making or compiling any Indexes. The Contracts have not been passed on by MSCI, any of its affiliates or any other party involved in, or related to, making or compiling any Indexes as to their legality or suitability with respect to any person or entity. MSCI, its affiliates and any other party involved in, or related to, making or compiling the MSCI Indexes do not guarantee the originality, accuracy and/or completeness of the MSCI Indexes or any data included therein. Neither MSCI, any of its affiliates nor any other party involved in, or related to, making or compiling the MSCI Indexes makes any express or implied warranties, and expressly disclaims all warranties of merchantability and fitness for a particular purpose or use with respect to the Contract, the MSCI Indexes or any data included therein. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any other party involved in, or related to, making or compiling the MSCI Indexes have any liability for any direct, special, punitive, indirect, or consequential damages (including lost profits), even if notified of the possibility of such damages, claims, losses or expenses relating to any futures or options contracts or caused by any errors or delays in calculating or disseminating the MSCI Indexes. Neither MSCI, any of its affiliates nor any other party involved in, or related to, making or compiling the MSCI Indexes has any obligation to take the needs of the issuers of the Contracts, the owners of the Contracts or the Exchange into consideration in determining, composing or calculating the Indexes. Neither MSCI, its affiliates nor any other party involved in, or related to, making or compiling the MSCI Indexes is responsible for or have participated in the determination of the timing of, prices at, or quantities of the Contracts to be issued or in the determination or calculation of the equation by which the Contracts are redeemable for cash.