



Business Rules for CFFEX Index Options

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1. Product Designing principles

'High Standard, Steady Start, Risk Control'

➤ Risk Control

- Underlying indexes are typical and hard to be manipulated;
- Reviewing trading rules strictly, ensuring the risk is controllable.

➤ Satisfy market's demand

- Different types of investors' trading habit and risk preference are considered.

2. Contract Underlying

- CSI300, CSI1000 and SSE 50 Index
 - Indexes are typical, can represent the market
 - ✓ CSI300 is 300 stocks ranked top in A shares, CSI1000 is the last 1000 stocks among top 1800 stocks. Both indexes are broad-based cross-market index.
 - Contracts are highly complementary
 - ✓ Stocks of underlying do not repeat, which provide investors with more diverse risk control tools.
 - Stocks of underlying have relevantly higher liquidity.
 - Index is hard to be manipulated
 - ✓ Stocks weights are relevantly separate, industries are diverse.

3. Contract Table

Contract Name	CSI 300 Index Options	CSI 1000 Index Options	SSE 50 Index Options
Underlying	CSI 300 Index	CSI 1000 Index	SSE 50 Index
Contract Multiplier	RMB 100		
Contract Type	Call option contracts and put option contracts		
Quotation Unit	Index point		
Tick Size	0.2 index points		
Limit Up/Limit Down	±10% of the closing price of the SSE 50 Index on the previous trading day		
Contract Months	The current month, the next two months, and the subsequent three quarterly months of the March, June, September, and December cycle		
Strike Prices	Strike prices cover ±10% of the closing price of the underlying Index on the preceding trading day		
	Exercise Price	Exercise Price Gap (The current month & the next two months)	Exercise Price Gap (the subsequent three quarterly month)
	≤2500	25	50
	(2500, 5000)	50	100
	(5000, 10000)	100	200
> 10000	200	400	
Exercise Style	European		
Trading Hours	9:30-11:30, 13:00-15:00		
Last Trading Day	Third Friday of the contract's expiry month, postponed to the next business day if it falls on a public holiday		
Expiration Date	Same as "Last Trading Day"		
Settlement Method	Cash settlement		
Product Code	Call options: IO Contract Month-C-Strike Price	Call options: MO Contract Month-C-Strike Price	Call options: HO Contract Month-C-Strike Price
	Put options: IO Contract Month-P-Strike Price	Put options: MO Contract Month-P-Strike Price	Put options: HO Contract Month-P-Strike Price
Exchange	China Financial Futures Exchange		

4. Contract Details

➤ Contract Multiplier

- CSI 300, CSI 1000 & SSE 50 index options' multipliers are RMB 100.
- From international experience, index futures and index options share the same underlying, their multipliers are integer multiples.
- Contract sizes are at a relatively moderate level among similar products in the world

Underlying	Contract Multiplier	Price (index points)	Notional value (RMB)
CSI300	100	4485.01	450k
CSI1000	100	6995.53	700k
SSE 50	100	3085.22	310k

Note: data acquired on 30th June

4. Contract Details

➤ Tick Size

- Tick size means stock index options' minimum change unit, it is designed by liquidity and underlying volatility.
- CSI 300, CSI 1000 & SSE 50 share the same tick size which is 0.2.
- It will benefit investors using futures & options to trade and manage their risks.

4. Contract Details

➤ Contract Months

- The contract months of CSI 300, CSI 1000 & SSE 50 are the current month, the next two months, and the subsequent three quarterly months of the March, June, September, and December cycle, totally 6 months.

4. Contract Details

➤ Strike Price

■ Strike price covering ranging:

- ✓ cover $\pm 10\%$ of the closing price of the underlying index on the preceding trading day.
- ✓ Satisfy investors' trading demand, ensure investors have tradable products within the price range of underlying index.

■ Strike price gap:

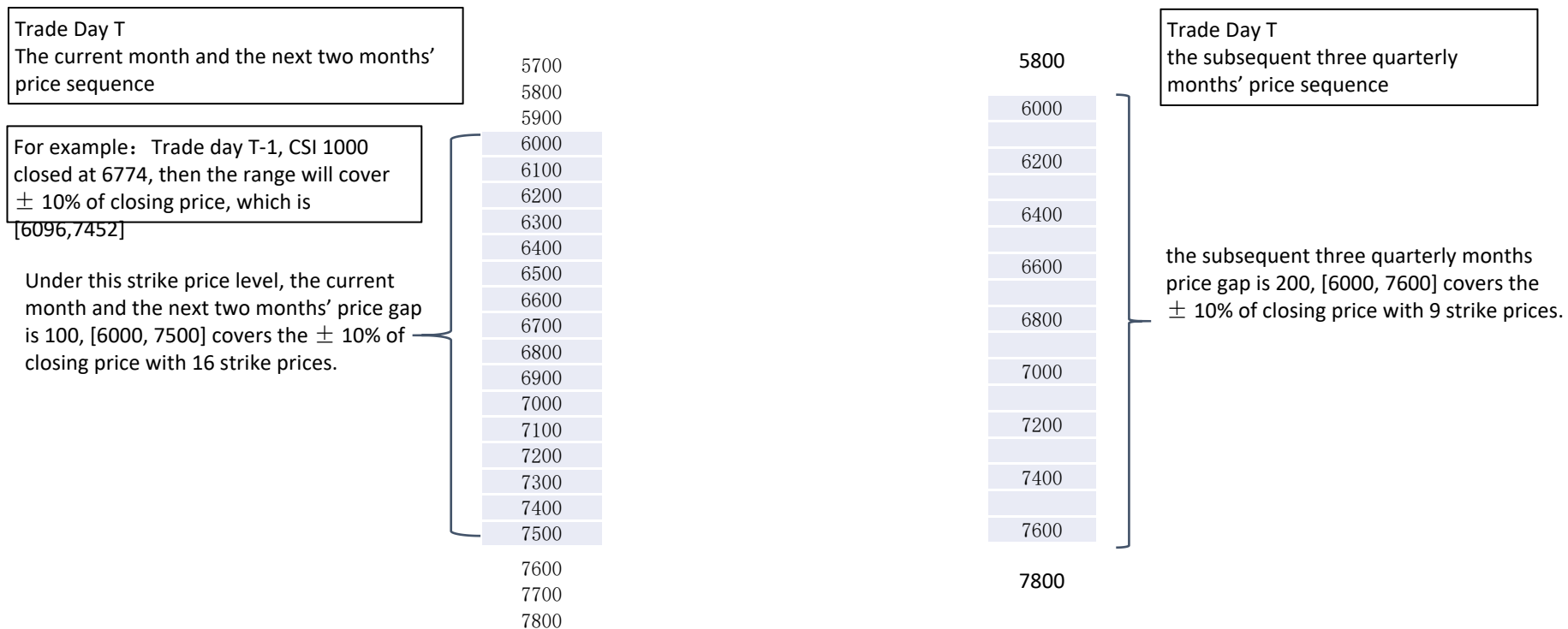
- ✓ From the perspective of considering market's liquidity and investors' trading demands, gap is designed based on contract months and strike price.

Strike Price (SP)	The current month and the next two months	the subsequent three quarterly months
$SP \leq 2500$	25	50
$2500 < SP \leq 5000$	50	100
$5000 < SP \leq 10000$	100	200
$10000 < SP$	200	400

4. Contract Details

➤ Contract listing

- After close each trading day, the exchange will list new contracts with different strike price base on strike price gap.



4. Contract Details

➤ Trading time

- Stock index options: 9: 30-11: 30, 13: 00-15: 00.
- The opening auction runs from 9:25 a.m. to 9:30 a.m. on each trading day. Orders shall be submitted between 9:25 a.m. and 9:29 a.m. and matched between 9:29 a.m. and 9:30 a.m.
- Continuous trading runs from 9:30 a.m. to 11:30 a.m. (first session) and from 1:00 p.m. to 2:57 p.m. (second session) on each trading day.
- The closing auction runs from 2:57 p.m. to 3:00 p.m. on each trading.

4. Contract Details

- Last trading day
 - It is third Friday of the contract's expiry month, postponed to the next trading day if it falls on a public holiday.

- Exercise style
 - Stock index options' exercising style is European style, buyers can only exercise on expiration date.
 - expiration date is the last trading day, exercise day is the same as expiration date.

- Delivery method
 - Stock index options uses cash delivery.
 - Stock index options' delivery day is the last trading day.

4. Contract Details

➤ Contract Code

- CSI 300, CSI 1000 & SSE 50 index options:
 - ✓ Call options: IO Contract Month-C-Strike Price (MO2212-C-7000)
 - ✓ Put options: IO Contract Month-P-Strike Price (MO2212-P-7000)

5. Major Business Rules

➤ Margin rules

- Margin can be divided into trading margin & settlement reservation
 - ✓ settlement reservation is margin not occupied by position holdings;
 - ✓ Trading margin is margin occupied by position holdings.
- If the following happens during future trading, exchange can adjust margin base on market risks:
 - ✓ a One-Sided Market occurs;
 - ✓ there is a long public holiday;
 - ✓ in the opinion of the Exchange, market risks have noticeably changed;
 - ✓ in the opinion of the Exchange, such actions are warranted by the circumstances.

5. Major Business Rules

➤ Trading margin rules

■ CSI 300, CSI 1000 & SSE 50:

- ✓ Stock index options buyer needs to pay premium.
- ✓ Stock index options seller needs to pay trading margin:
 - Including: 1. contract's premium's settlement price, 2. Offset, to ensure the negative movement of premium at the next trading day.
- ✓ CSI 300, CSI 1000 & SSE 50 margin adjustment factor is 12%, 15% & 12%, minimum safety factor is 0.5.
- ✓ The Formula is as below:

- Trading margin for each call = (settlement price of the Contract × contract multiplier) + max(current day's closing price of the underlying index × contract multiplier × margin adjustment factor of the Contract – out-of-the-money amount, minimum safety factor × current day's closing price of the underlying index × contract multiplier × margin adjustment factor of the Contract)
- Trading margin for each put = (settlement price of the Contract × contract multiplier) + max(current day's closing price of the underlying index × contract multiplier × margin adjustment factor of the Contract – out-of-the-money amount, minimum safety factor × strike price of the Contract × contract multiplier × margin adjustment factor of the Contract)
- The out-of-the-money amount of a call is: max [(strike price of the Contract – current day's closing price of the underlying index) × contract multiplier, 0]; the out-of-the-money amount of a put is: max [(current day's closing price of the underlying index – strike price of the Contract) × contract multiplier, 0].

5. Major Business Rules

➤ Daily mark-to-market

- After market close each trading day, the Exchange shall clear the profits and losses, option premium, trading margin, fees, taxes, and other charges for all contracts traded and held by each Clearing Member according to the daily settlement price, and transfer the net balance of receivables and payables by adding it to or deducting it from Clearing Members' clearing reserves accordingly.
- Upon completion of clearing by the Exchange, each Clearing Member shall clear trades for its clients and Trading Members based on the foregoing principle, and each Trading Member shall do so for its clients.

5. Major Business Rules

➤ Settlement price of a given day

- The settlement price of a Contract on a given trading day other than the last trading day is the Contract's execution price from the closing auction.
- If no execution price has been established by the closing auction or if the execution price is obviously unreasonable, the Exchange shall have the right to determine the settlement price for that day
- The exercise-settlement price on the last trading day shall be determined as follows:
 - ✓ for a call, the exercise-settlement price shall be the difference between its final settlement price and its strike price if the former is higher than the latter, and zero if otherwise;
 - ✓ for a put, the exercise-settlement price shall be the difference between its strike price and final settlement price if the former is higher than the latter, and zero if otherwise.

5. Major Business Rules

➤ Transaction Fee

■ CSI 300, CSI 1000 & SSE 50 index options:

- ✓ Transaction fee is 15 RMB per lot, no submission fee.
- ✓ Exercise and Assignment Fee is 1 RMB per lot.

5. Major Business Rules

➤ Exercise and Assignment

- Exercise is buyer of options exercise rights, cash settlement at last trading day's settlement price.
- Assignment is when buyer of options exercise rights, seller of option should close their position by cash settlement at last trading day's settlement price.
- The final settlement price:
 - ✓ The final settlement price of the Contract is the arithmetic average price of the underlying index during the last two trading hours on the last trading day, rounded to two decimal.

A position in an option contract under the same trading code is exercised or assigned as net position.

The option buyer submits the minimum profit amount for exercising to the exchange on the expiration date from 9:30-15:15.

The Exchange shall assign positions to be exercised of buyers to the positions of sellers on a pro-rata basis.

Exercise of the Contracts shall result in cash settlement based on the exercise- settlement price on the expiration date and the corresponding positions shall be closed out.



5. Major Business Rules

➤ The limit up/limit down

■ CSI 300, CSI 1000 & SSE 50:

- ✓ $\pm 10\%$ of the closing price of the underlying index on the preceding trading day.
- ✓ The specific limit up/limit down price shall be calculated as follows:
 - (1) On the listing day: limit up/limit down price = listing benchmark price $\pm 10\%$ of the closing price of the underlying index on the preceding trading day;
 - (2) On days other than the listing day: limit up/limit down price = settlement price of the preceding trading day $\pm 10\%$ of the closing price of the underlying index on the preceding trading day.
 - If the limit down price calculated above is smaller than the tick size, then the limit down price shall be the tick size.

■ The Exchange may adjust the strike price interval in view of market conditions.

5. Major Business Rules

➤ Position limit

■ CSI 300, CSI 1000 & SSE 50:

- ✓ CSI 300, CSI 1000 & SSE 50's max position of a monthly contract are 5000 lots, 1200 lots & 1200 lots. (positions held through different members shall be calculated on an aggregate basis)
- ✓ The “long” positions of the monthly Contract shall be the sum of long positions in call options and short positions in put options; the “short” positions of the monthly Contract shall be the sum of short position in call options and long position in put options.

5. Major Business Rules

➤ Trading limit

- “Trading limit” refers to the maximum position prescribed by the Exchange that a member or client may open in a listed product or contract within a certain time period.
- CSI 300, CSI 1000 & SSE 50 index options:
 - ✓ a client shall be subject to a daily maximum position-opening limit of 200 lots in all contracts of the same product, 100 lots in contracts of the same expiration month, and 30 lots in the same deep out-of-the-money (OTM) contract. Positions opened for hedging, risk management or market making purposes are not subject to the above limits.
 - ✓ deep OTM options refer to call options with a strike price 10 strikes or more above the closing price of the underlying index on the preceding trading day, or put options with a strike price 10 strikes or more below the closing price of the underlying index on the preceding trading day.

5. Major Business Rules

➤ Forced Liquidation

- “Forced liquidation” refers to the compulsory measure taken by the Exchange to liquidate the positions held by a member or client in accordance with relevant rules.

- The Exchange shall force-liquidate the positions held by a member or client if:
 - ✓ (1) a Clearing Member has a negative clearing reserve balance and fails to eliminate the shortfall before the end of the morning session;
 - ✓ (2) the positions held by a non-futures-company member or a client exceed the position limit and the positions in excess are not closed out before the end of the morning session;
 - ✓ (3) forced liquidation is imposed by the Exchange due to violations or breaches;
 - ✓ (4) forced liquidation is required as an emergency measure of the Exchange;
 - ✓ (5) there is any other circumstance where forced liquidation is deemed necessary by the

- Unless otherwise prescribed by the Exchange, the positions subject to forced liquidation shall be liquidated first by the relevant member before the end of the morning session; failing which, they shall be force-liquidated by the Exchange.

5. Major Business Rules

➤ Forced Position Reduction

- “Forced position reduction” refers to the process whereby the Exchange automatically matches and executes outstanding close-out orders quoted at the day’s limit up/limit down price with the positions held by non futures-company members or clients whose net positions in the same contract are profitable at the day’s limit up/limit down price in accordance with these measures.
- Options contracts are not subject to forced position reduction, except the abnormal situation recognized by exchange.

5. Major Business Rules

➤ Market Makers

- Introducing market makers to index option market, provide liquidity to the market:
 - ✓ Option market has lots of contracts, market makers in foreign option market is popular.
 - ✓ Selecting experienced, talented team to become market makers in index options, exam them base on performance, to ensure the quality of market makers.

- Market makers should do the followings as agreed:
 - ✓ Provide continuous two-sided quotes;
 - ✓ Responsive market's quotes;
 - ✓ Making quotes during closing auction.