

## **FAQ (FUTURES/OPTIONS TRADING)**

### **Introduction to Futures and Options Trading**

#### **1. What is a futures contract?**

Futures contracts are legally binding commitments between two parties to buy or sell a specific financial instrument at a given future date at a price set at the time of dealing. One of the main attractions of futures is the excellent leverage they provide. With relatively little capital, usually just a small percentage of the contract value, buyers and sellers are able to trade the full contract. As a result, the leverage can lead to substantial gain or loss on the original trading capital. The risks associated with futures can be significant and investors must fully understand the risks before trading futures.

#### **2. What is an options contract?**

An options contract is a legally binding contract between a buyer and a seller. For every options contract transaction in the market, there is always a buyer and a seller. Both stock options and stock index options are available from the Hong Kong Futures Exchange (HKFE). At Chong Hing Commodities and Futures Ltd, only stock index options of Hang Seng Index and Hang Seng China Enterprises Index are available for our customers to trade.

There are two types of options, a call and a put. Generally speaking, a call options gives the options buyer the right, but not the obligation, to buy an underlying asset at a predetermined price (strike price), within a certain time from the seller of the contract. A put options gives the options buyer the right to sell an underlying asset at the strike price. The options sellers, on the other hand, has the obligation to honor the options contracts they sold to the buyers. The seller is short an options contract whereas the buyer is long an options contract. In general, a short options position carries a bigger risk than a corresponding long options position.

The stock index options from HKFE is a cash-settled contract that can only be exercised at expiry. The initial margin of an individual options contract or a portfolio of options/futures contracts is determined by SPAN and is subject to the changes as stipulated by the HKFE.

#### **3. What is margin?**

In futures/options market, both buyers and sellers are required to deposit an Initial Margin, which usually amounts to anticipated daily price risk to cover market price fluctuations. At the end of each trading day, client's account is adjusted according to the value of each contract or marked to market. If the Initial Margin deposit falls below a stipulated level, called the Maintenance Margin, after marking-to-market, a margin call is issued and the client must deposit additional margin to restore the account to the Initial Margin level.

#### **4. What is SPAN?**

The Standard Portfolio Analysis of Risk, or SPAN, is a computer system for calculating margin requirements for futures and options portfolios. It is developed by the Chicago Mercantile Exchange and it is currently

adopted by HKFE for determining the initial margin of a client's portfolio. SPAN normally provides partial offsets between negatively correlated positions within a portfolio. In general, the SPAN margin requirement for a portfolio of contracts should always be less than or equal to the sum of the initial margin of each standalone contract.

For example, if the initial margin of a standalone long Hang Seng Index call options is \$500 and another long Hang Seng Index put requires \$400, then the total SPAN margin of a portfolio comprising the two contracts together will be less than \$900. That is because the call and the put are negatively correlated and the price risk of the long call should partially offset that of the long put under normal market conditions.

### **5. What is open interest?**

The open interest is the total number of outstanding futures/options contracts that have been bought or sold, but not yet settled by any offsetting transactions or fulfilled by delivery of the underlying asset. Open interest increases by one if both the buyer and the seller of the contract is initiating a new position. It decreases by one if both the buyer and the seller is liquidating an open position. Otherwise it will remain the same.

### **6. What are some common futures trading strategies?**

The most common strategy is to buy a Hang Seng Index Futures contract if a client expects the Hang Seng Index will rise or sell a contract if a client expects it will fall.

## **Operation of Futures Trading**

### **1. What are the different ways to trade futures at Chong Hing Commodities and Futures Ltd?**

- a. Place orders online through CHCF i-futures Online Trading System ([www.chcf.com.hk](http://www.chcf.com.hk))
- b. Place orders through our futures trading hotline (3768-9988).
- c. Place orders in person at our office in Central (2/F, Chong Hing Bank Centre, 24 Des Voeux Road Central) or any of our Chong Hing Commodities & Futures Limited branches.

### **2. When there is a floating loss in my current position and the net equity is below the initial margin requirement, how much additional margin do I need to deposit in order to open a new position?**

Floating loss is included when calculating the net equity. When opening a new position, the client is required to pay the required initial margin for the new contract(s) together with any floating loss in his/ her futures account.

For example, initial margin requirement is HK\$20,000 and the portfolio has a floating loss of HK\$300. In this case, the client needs to deposit  $\$20,000 + \$300 = \$20,300$  in order to open a new position (commission, exchange fee and government levy not included).

### **3. When opening a new contract, how much will be withdrawn immediately from the settlement bank account?**

We may exercise the right (but not obligation) of fund holding in the client's settlement account. Clients adopting CHCF i-futures Online Trading System are required to complete the fund holding process by themselves.

In case of a day-trade Order, we will withdraw the amount for commission and other related charges after market close. Profit or loss for the current day will be also either deposited into or withdrawn from your settlement bank account after market close accordingly.

#### **4. What is 'Hold Fund'?**

When placing a new trading order, we may exercise the right to hold additional fund in a client's settlement account if the net equity is less than initial margin requirement.

A client will get a margin call when the net equity of his/her account is below the maintenance margin requirement. The client will then need to have sufficient fund in his/ her settlement account in order to bring the net equity back to the initial margin level. Client can also hold fund through our CHCF i-futures Online Trading System.

The 'Fund Holding' process is one of our risk control measures. We have rights to hold the full or partial amount of required margin or even do not hold any fund at any time from the clients' settlement accounts in accordance with the need of our internal operation. Once the instruction for holding fund is submitted, it cannot be canceled.

#### **5. What is a calendar spread? How much is its initial margin?**

Calendar spread is one of the most common method in arbitrage. It involves buying and selling futures contracts sharing the same underlying assets with different expiry months at the same time. For example, one can buy one contract of the July Hang Seng Index Futures (HSI) and sell one August HSI at the same time. Since both contracts are correlated, part of the market risk is offset and thus the margin requirement is greatly reduced. For instance, the intermonth spread charge (as in August 2008) is only HK\$7,500 for a calendar spread involving two HSI contracts with different expiry month in July and August . If a client chooses to liquidate either one (but not both) of the two contracts in a calendar spread separately, the margin level will increase back to the margin of a standalone contract. In the example given above, the initial margin will increase to HK\$95,550 (as in August 2008) and the client will need to have the additional margin in the account before he/ she can separately liquidate one contract in a calendar spread.

#### **6. What is the partial margin offset between the Standard and Mini Hang Seng Index futures contract?**

The value of a Mini Hang Seng Index futures contract (MHI) is only one-fifth of the standard Hang Seng Index futures contract (HSI). Since both contracts are correlated, partial margin offset is permitted. For instance, a trader may buy one HSI contract (spot month) and then sell four MHI contracts (spot month) later on. In this situation, the whole portfolio will only require the initial margin of one MHI contract. The same

partial margin offset applies to the Standard and Mini Hang Seng China H-Financial Index Futures contracts.

### **7. How is profit and loss be calculated in trading Hang Seng Index Futures?**

The contract multiplier of a Standard and a Mini Hang Seng Index Futures contract is HK\$50 and HK\$10 respectively. The same multipliers apply to the Standard and Mini Hang Seng China H-Financial Index Futures contracts. For instance, a trader bought a MHI (spot month) at 20,000 points and later sold a MHI (spot month) at 21,000 points. In this example, the trader made a profit of HK\$10,000 (HK\$10 X 1,000, commission not included).

### **8. What is the order for liquidation?**

Our trading system will first match and liquidate any outstanding day-trade positions on a first-in-first-out basis, then any other outstanding open position brought forward from the previous day will be liquidated next. For instance, a trader bought a MHI (spot month) at 20,000 points yesterday. The trader later bought another MHI (spot month) at 21,000 points today, and he finally sold a MHI (spot month) at 22,000 before the market closed today. In this example, the contract at 21,000 will be liquidated first.

### **9. Why is trading futures riskier than trading securities in the cash market?**

In securities trading, an investor may only lose up to all of his/ her trading capital if no margin loan is involved. Futures market implicitly involves trading in margin and every futures contract has an expiry date. The leverage in futures can incur substantial loss (or profit) in a short time. An investor may also be required to make additional deposit when he/ she gets a margin call. Thus futures trading generally involves more risk and it may not be suitable for every investor.

### **10. What should a client do if he/ she is not able to receive any trade confirmation for any reason?**

The client may check the the order status by dialing our futures trading hotline during working hours. Alternatively, the client may access the order book online after our trading system update around 7:00 pm. The client will also receive a Daily Statement by mail if the order is filled.

### **11. Why does futures trading involve interest payment?**

We have the right (but not obligation) to hold fund from client's settlement account at any time so as to maintain the Net Equity not less than the required margin. If a client fails to deposit sufficient fund or we fail to hold or debit the required fund from his/ her account by the prescribed time, interest calculated on a daily basis at the rate of "P+3%p.a.", where P is the prime rate of the Chong Hing Bank.

### **12. What is the 'Margin Limit' for a new client?**

The 'Margin Limit' is HK\$250,000 for all new clients, generally subject to final approval from the company.

### **13. How to change the 'Margin Limit' ?**

The client needs to fill in the 'Adjustment on Margin Limit' form and submit it to our head office or one of our

branches, along with the relative supporting documents for approval.

#### **14. How to withdraw the additional amount from my futures account?**

The client can withdraw the excess amount from his/ her futures account, but this is subject to the condition that the net equity is not less than the initial margin level. Client needs to fill in the 'Client Fund Withdrawal Request Form' and submit it to our head office or one of our branches. The requested amount will be deposited to his/ her current account after market close.

### **Important notice of CHCF i-futures Trading System**

#### **1. What is the advantage of using CHCF i-futures Online Trading System?**

- a. Easy, convenient, user friendly and independent.
- b. Relatively lower trading commission when compared with our hotline.
- c. Avoid a jammed hotline

#### **2. How to apply the CHCF i-futures Online Trading System?**

For our existing Chong Hing Commodities & Futures Limited clients, in general, you can simply download the i-future Application Form in the introduction page after pressing the 'Download Form' button, complete the form and send it to our head office by mail or by hand.(2/F, Chong Hing Bank Centre, 24 Des Voeux Road Central, Hong Kong). You may also visit any branch of Chong Hing Commodities & Futures Limited to open the CHCF i-futures Online Trading account.

If you are not our clients, simply open a current account with Chong Hing Bank and sign the Futures Client Agreement with us.

#### **3. Can I apply a joint account for CHCF i-futures Online Trading System?**

CHCF i-futures Online Trading System are available to both individual and joint accounts. For a joint account, all the account holders have to sign the application form for the CHCF i-futures Online Trading System.

#### **4. How can I collect the Login Password and Trade Password?**

Once your application is approved, we will send you a Login Password and Trade Password by mail so that you can activate your CHCF i-futures Online Trading account. If you do not receive the passwords within one week after your submission of application, please call our service hotline at 3768-9988.

#### **5. What is the difference between the Login Password and Trade Password and when are they used?**

Login Password is only used when logging into your futures account.

Trade Password is required every time when a client is holding fund, placing an order, modifying an order, or canceling an order. But the client may choose to save the Trade Password in the Preference section of the CHCF i-futures Online Trading System. When the trade password is saved in the system, the client only needs

to input the Trade Password once for each login session.

The Save Trade Password function will be canceled as soon as the client has logged out his/ her futures account. This feature, although quick and convenient when placing an order, is not without risk. The main risk is that another person may easily place an order in your account when your computer is left unattended. In other words, the client should never leave his/ her computer unattended when the Save Trade Password function is enabled.

#### **6. How do I login CHCF i-futures Online Trading System?**

Just go to our web site ([www.chcf.com.hk](http://www.chcf.com.hk)) and input your 7 digits Account Number and 8 digits Password. Please be reminded to change the password upon your first login, the new password should be a combination of 8 alphanumerical characters.

If a client cannot login for whatever reason, please try again according to the pop-up message on screen. Account would be locked up after five bad attempts. Client has to call our hotline 3768-9988 for account re-activation.

#### **7. How can I change my Login Password and Trade Password?**

You can change your password within the CHCF i-futures Online Trading System. Please click the 'Change Password' button at the top of the screen and select Login Password or Trade Password. Input your old password and then new password twice, finally press 'confirm' button to submit. The new password will be effective after the confirmation message appeared.

#### **8. What should I do if I forget the Login Password or Trade Password?**

If you have forgotten your password, please complete the 'CHCF i-futures Password Reset Application Form' which can either be downloaded from our website or obtained in any branch of Chong Hing Commodities & Futures Limited. Return the signed form to CHCF or any Branch of CHCF by mail or in person. We will send you a new password by mail as soon as possible.

#### **9. Will the account executive inform me if my order placed via CHCF i-futures Online Trading System is filled?**

If your order is placed through our CHCF i-futures Online Trading System, then our account executive will **NOT** notify you after the order is filled. Therefore, you need to check the Trade Book online or please contact us at 3768-9988 for any enquiries.

#### **10. Can I use CHCF i-futures Online Trading System overseas?**

You can use our CHCF i-futures Online Trading System anywhere provided you can access our website through the Internet. .

## Customer Service of CHCF i-futures Online Trading System

### **1. How can I get help if I have any problems or inquiries?**

Please contact us at 3768-9988 within the office hours.

## Client information protection of CHCF i-futures Online Trading System

### **1. How does CHCF i-futures Online Trading System protect my personal information?**

CHCF i-futures Online Trading System currently offers 3 levels of security to safeguard your personal information:

#### a. Strong Encryption (128-bits)

All data sending to and receiving from our company's servers is 'scrambled' and 'resembled' so that your personal and financial information are protected. (Note: 128-bits encryption, the highest level of encryption commercially available, means there are 2128 possible combinations of 'keys' but only one can 'unlock' the information.)

#### b. Password

Your password must be entered every time when you login i-Futures Online Trading System. Please keep your password confidential and change your password periodically. To enhance your protection, your i-futures account would be locked up automatically after five consecutive unsuccessful login attempts. If your account is locked, please call our service hotline at 3768-9988.

#### c. Automatic Logout

For security reason, the trading window will logout automatically if your computer is left idle for more than 30 minutes. Please re-login again to resume the trading service.

### **2. How can I enhance the security and reliability of CHCF i-futures Online Trading System and avoid any unauthorized access?**

- Please do not disclose your account number and password to other people
- Please do not allow any other person to operate your i-futures account
- It is not safe to write down your account number and password together on a piece of paper. If it is really necessary, then at least write them on two pieces of paper and keep them in a safe place separately.
- Avoid selecting any password which may be easily accessible, such as the number of HKID, telephone, birthday, etc.
- Change your password periodically. You can change it by clicking on the 'Change Password' button which is at the top of the screen after you login.
- Do not leave your computer unattended if you have already login CHCF i-futures Online Trading System. Make sure you have already logout whenever you are leaving your computer.
- Please always use the logout button to exit the services and close the browser after a logout confirmation had displayed.
- Check your account balance and statement regularly and promptly report any suspicious transaction to

CHCF.

- Protect your computer system by updating your anti-virus software regularly.
- Please do not access CHCF i-futures Online Trading System through any public computers (e.g. in a Cyber Cafe). Please also remove any temporary files stored in in the hard disks of your computer after sharing it with others.

To remove the temporary files from your computer:

- a. Click 'Tools' at the top of browser and select Internet Options
- b. Find the second box called 'Temporary Internet Files' and press the 'Remove File' button
- c. Click 'OK' at the bottom of the table

### **3. What is 128-bits encryption?**

128-bits encryption refers to scrambling data so that unauthorized parties cannot have any access to it. To ensure your confidential information remain secure when it is passed between your PC and our company's server, your Internet browser must support 128-bits encryption.

### **4. How can I reveal or update my Internet browser's 128-bits encryption configuration?**

There are several steps to reveal the 128-bits encryption of Microsoft Internet Explorer 6.0 or above . You can select 'Help' from the Menu bar and then click on 'About Internet Explorer' to reveal whether your browse support 128-bits encryption. Please update your Internet browser by downloading an updated one.

### **5. What are the minimum system requirements for using CHCF i-futures Online Trading System?**

#### **PC Configuration:**

CPU: PIII 500 or higher

RAM: 256M or higher

Screen Resolution:

Screen Resolution: 800 x 600 or above

#### **Operating System:**

Microsoft Windows 2000 or above

Internet Browser:

Microsoft Internet Explorer 6.0 or above

Java:

Microsoft 1.1.4 (Recommended)

Internet:

Broadband or Dedicate Internet Line

### **6. If my Internet connection is cut off while I am placing an order, how can I know whether the order has been processed successfully?**

You can re-login CHCF i-futures Online Trading System to check the 'Trade Book' and 'Detail Position' , or call our hotline at 3768-9988 to check your order status.



**7. What should I do if I do not get any response after clicking a hyperlink, a button or an icon?**

The speed of Internet access may be affected by factors like net traffic, speed of modem and telephone lines. Server workload may also be affected by the speed of Internet access and the response may inevitably become very slow. If you encounter slow response, please wait. Avoid clicking any particular hyperlink or button repeatedly. You may logout from your current session and try again later.