

## Part B Consultation Questions

Please reply to the questions below that are raised in the Consultation Paper downloadable from the HKEX website at:

<http://www.hkex.com.hk/eng/newsconsul/mktconsul/Documents/cp201604.pdf>

Please indicate your preference by checking the appropriate boxes.

Where there is insufficient space provided for your comments, please attach additional pages.

1. Do you support the revision of the current model with the introduction of a three-tier system with a review mechanism for HKEX's stock option position limit to address the issues with the existing regime?

Yes

No

Please give reasons for your view.

We strongly agree with the proposed revision. It will address the issues with the existing framework, which are well summarised in the consultation paper, including the many unintended restrictions and inconsistencies across different underlyings, as well as the lack of flexibility that is required for a healthy development of the markets.

2. Do you agree the implementation of the proposed model (three-tier system with review mechanism) would be an important step in enhancing Hong Kong's stock options market and increasing its competitiveness?

Yes

No

Please give reasons for your view.

We agreed. The development of Hong Kong's stock option market will be facilitated by this updated and increased limits methodology that are much more relevant to the present-day market. The additional flexibility (including that around the liquidity threshold, as well as regular and ad hoc reviews) will enable the limits to cope with changing market conditions which is crucial in maintaining the competitiveness of the market.

3. Do you have any comments on the proposed model? Please give reasons for your view.

What will be important will be how the added flexibility will be exercised whether in response to changing market conditions, or to other scenarios such as corporate actions.

Hence, we propose that flexibility should also be available and exercised appropriately and reasonably to allow participants sufficient time to wind down its position when faced with a reduction of position limits. Market makers' ability to apply for extension to position limits should also be preserved under the new regime.

Ultimately, to enhance long term flexibility and facilitate market development and competitiveness, we propose for the Exchange's consideration in addition to the revision proposed in this consultation paper, the Exchange should be given the added flexibility, whether in consultation with the regulator or otherwise, to adjust the contract multiplier of stock option classes, in response to changing conditions. The lack of flexibility under the existing regime will become increasingly disabling as market conditions change, demanding quicker and more flexible responses to be facilitated under a new regime.

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