

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.

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.

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

FIA is the leading global trade organization for the futures, options and centrally cleared derivatives markets, with offices in London, Singapore and Washington, D.C.

FIA's membership includes clearing firms, exchanges, clearinghouses, trading firms and commodities specialists from more than 48 countries as well as technology vendors, lawyers and other professionals serving the industry. FIA's mission is to support open, transparent and competitive markets, protect and enhance the integrity of the financial system and to promote high standards of professional conduct.

We understand that at this time, the current proposed model is limited to position limits relating to stock options only. As advocates for open, transparent and competitive derivatives markets, we strongly urge that a revision of position limits is also considered and introduced for other asset classes, particularly futures.

We agree with the comments made by the Financial Services Development Council in their recent paper "Hong Kong's Position Limits Regime for Exchange-traded Derivatives – the Need for Revision" that a prompt and timely refinement of the exchange-traded derivatives position limits regime would help Hong Kong maintain its global competitiveness and better realise its potential as a leading financial centre. A revision of position limits would also align Hong Kong markets with other jurisdictions and improve risk management capabilities through a deeper, more efficient and more effective derivatives market.

We also support and encourage the introduction of hedging exemptions which are typically in place in other jurisdictions where position limits exist. Hedging exemptions facilitate the risk management activities of qualified users whose hedging needs exceed the prescribed limits.

Revision of the current narrow position limits and introduction of hedging exemptions will facilitate greater long-term hedging which will assist in stabilising market volatility and promote sustainable market growth.

Position limits have been one of FIA's primary areas of focus globally including in Europe and the US. We welcome the opportunity to share our experience from other jurisdictions if required. We look forward to providing further feedback when the revision of position limits is considered for the Exchange's derivatives markets.