

## 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.

The revised three-tier position limits appear to be more reflective of the market capitalisation and liquidity of underlying stocks than the single de facto 50,000 limit. The increase in position limits is definitely a good thing from client perspective.

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.

However the revised position limit may not be sufficient for institutional investors. Take the example of the China Construction Bank (939.HK) stock option:- Assuming the new option position limit is 150,000, with the current stock price of HKD 4.76 (closing price on 6 May) , the notional value of 150,000 options is only approximately USD100m. Such position limit may not be large enough to attract international institutional investors to invest in the Hong Kong stock options market.

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

(1) We understand that the review of stock option position limits will be conducted in November and the announcement of the review results in December. If revisions are necessary, the new position limits will take effect on 1 April of the following year which will give a buffer of 3 months to unwind excess positions. Whilst we agree with the proposal of 3 months for short term options, for longer term options, e.g. option classes with tenors of more than 9 months, as liquidity for these options may be thin, we consider that a longer period of time (> 3 months) is needed to unwind the positions in the event of position limit reduction.

(2) We share the concern that the proposed position limit change may intensify the exercise risk as HKEx's stock options are American style options which can be physically exercised into underlying stocks on any trading day before expiry. As such, we suggest the Exchange to consider issuing European stock options as an alternative choice for investors.

(3) The proposal has not mentioned whether application to increase position limit is still permissible under the new model. It is important that a listed option market maker be able to apply for increase in position limit as and when needed in order to meet market making obligations and hedging needs.

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