

15 May 2017

Briefing Session



REVISION OF THE STOCK OPTION
POSITION LIMIT MODEL

HKEX
香港交易所

Derivatives Trading
Markets Division

Agenda

1

Background and Progress

2

Details on Revised Stock Option Position Limit Model



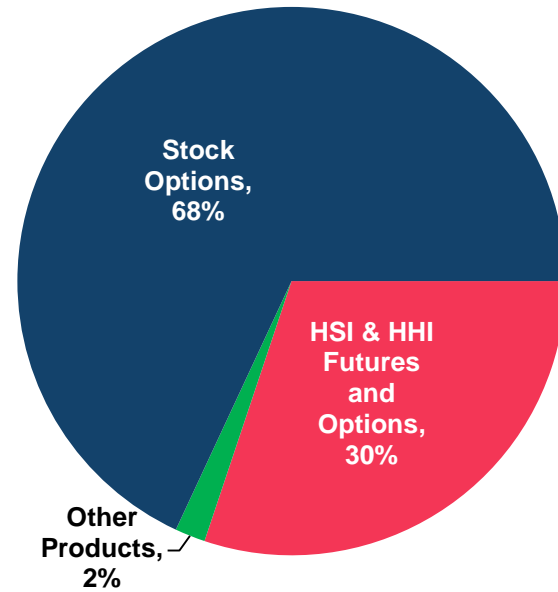
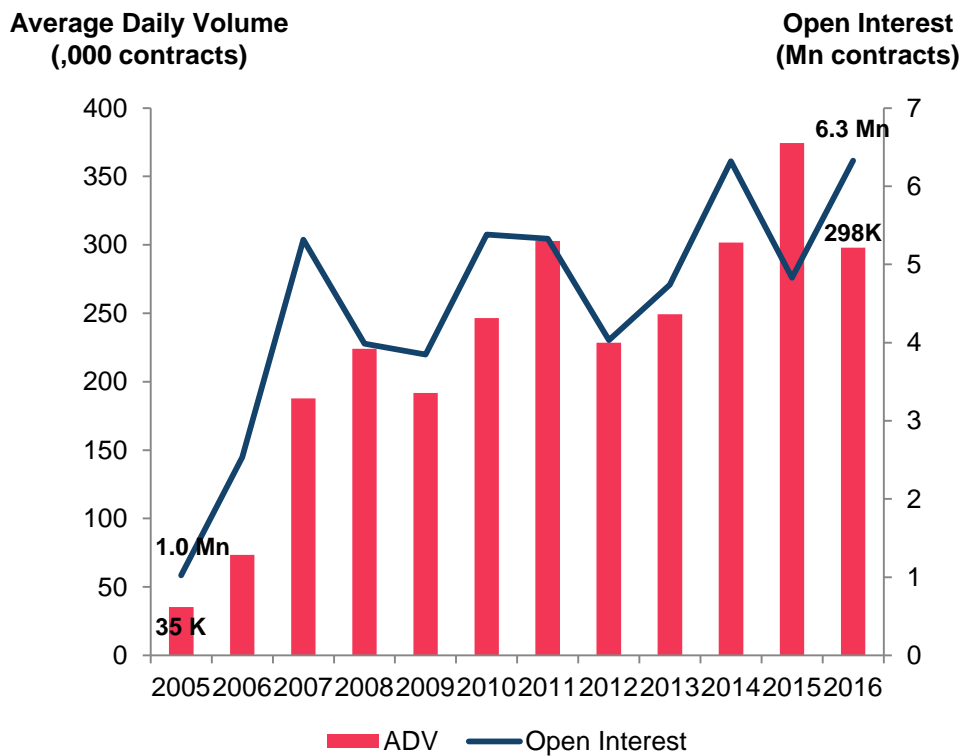
OVERVIEW OF HKEX STOCK OPTIONS MARKET (I) – SIGNIFICANT GROWTH IN STOCK OPTIONS MARKET

Significant Growth in Trading Activities

Stock Options Accounts for 68% of Market Share

Stock Option Trading Volume and Open Interest

HKEX Derivatives Product Market Share By Open Interest



2016 Year End Open Interest = 9,296,110 contracts

* Data as of 2016 year end number of contracts in open interest

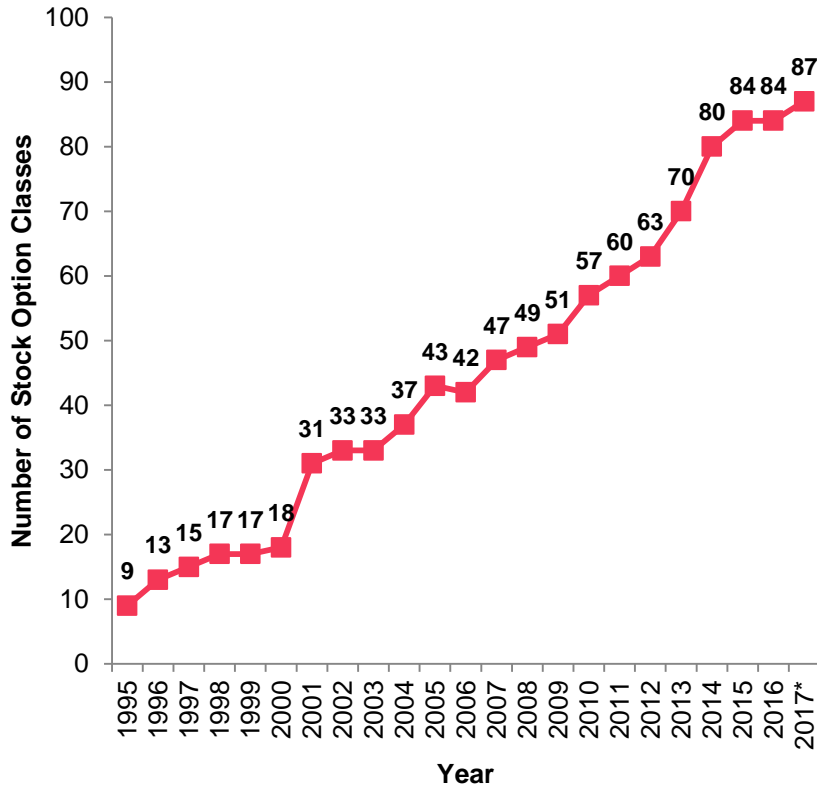
Stock Options Market is Growing and Becoming Significant in HKEX Derivatives Market



OVERVIEW OF HKEX STOCK OPTIONS MARKET (II) – DIVERSITY OF OPTION CLASSES

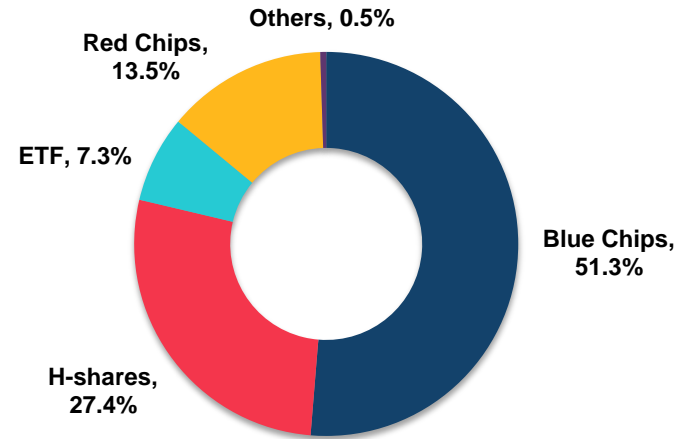
Growth in Number of Stock Option Classes

Number of Stock Option Classes from 1995 – 2017



Trading Overview & Distribution

Distribution of Stock Options Notional Traded in February 2017



Average Daily Notional Traded = HK\$ 7,796 Mn

TRADE OVERVIEW

	Traded (Avg. Daily)	% Chg MoM	% Chg YoY
Notional (HK\$ Mn)	7,796	+49.5%	+68.0%
Premium (HK\$ Mn)	163	+42.1%	-4.5%
Contracts	41.1	+55.7%	+62.2%

* Data as of Feb 2017

Growth in Number of Stock Option Classes and Diversity Met the Market Needs

* Data as of Apr 2017



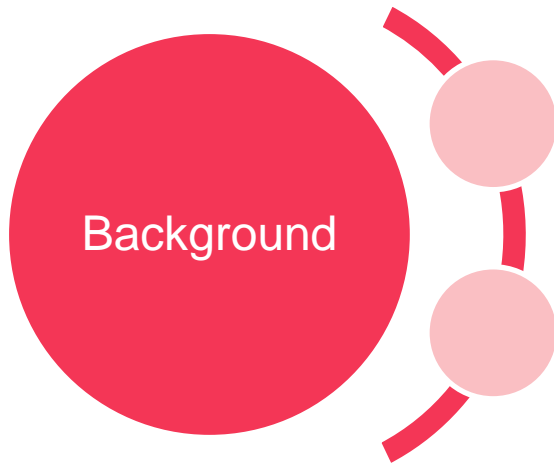
OVERVIEW OF HKEX STOCK OPTIONS MARKET (III) – AVAILABLE STOCK OPTION CLASSES

Available Stock Option Classes on HKEX				
H-shares (38)				ETF (6)
(358) Jiangxi Copper	(1171) Yanzhou Coal	(1919) China Cosco	(3968) CM Bank	(2800) Tracker Fund
(386) Sinopec	(1186) China Rail Cons	(1988) Minsheng Banking	(3988) Bank of China	(2822) CSOP FTSE China A50 ETF
(390) China Railway	(1211) BYD	(2318) Ping An	(6030) CITIC Securities Co. Ltd.	(2823) iShares A50 ETF
(489) Dongfeng Motor Group Co. Ltd.	(1288) ABC	(2328) PICC	(6837) Haitong Securities	(2827) WISE CSI300 ETF
(728) China Telecom	(1336) NCI	(2333) Great Wall Motor		(2828) HS H-SHARE ETF
(857) PetroChina	(1339) Peoples Insurance Company	(2600) Chalco		(3188) CAM CSI300 ETF
(902) Huaneng Power	(1359) Cinda	(2601) CPIC		
(914) Anhui Conch	(1398) ICBC	(2628) China Life		REIT (1)
(939) CCB	(1800) China Com Cons	(2777) Guangzhou R&F		(823) Link REIT
(998) Citic Bank	(1816) CGN Power	(2899) Zijin Mining		
(1088) China Shenhua	(1898) China Coal	(3323) CNBM		
		(3328) BoCom		
Blue Chip (23)		Red Chip (10)		Others (9)
(1) CKH	(23) Bank of East Asia	(1928) Sands China	(135) Kunlun Energy	(151) Want Want China
(2) CLP	(27) Galaxy	(2018) ACC Technologies	(267) Citic Pacific	(330) Esprit
(3) HK & China Gas	(66) MTR Corp		(688) China Overseas	(494) Li & Fung
(4) Wharf	(175) Geely Automobile		(762) China Unicom	(1044) Hengan International
(5) HSBC	(293) Cathay Pacific		(883) CNOOC	(2038) FIH Mobile
(6) Power Assets	(388) HKEX		(941) China Mobile	(2282) MGM China
(11) Hang Seng Bank	(700) Tencent		(992) Lenovo Group	(2888) Stan Chart
(12) Henderson Land	(1113) Cheung Kong Property		(1109) China Resources Land	(3800) Poly Energy
(16) SHK Properties	(1299) AIA		(2319) Mengniu Dairy	(3888) Kingsoft
(17) New World Dev	(1880) Belle		(2388) BOCHK	
(19) Swire Pacific-A				

A Good Diversity of Stock Option Classes are Available to Investors

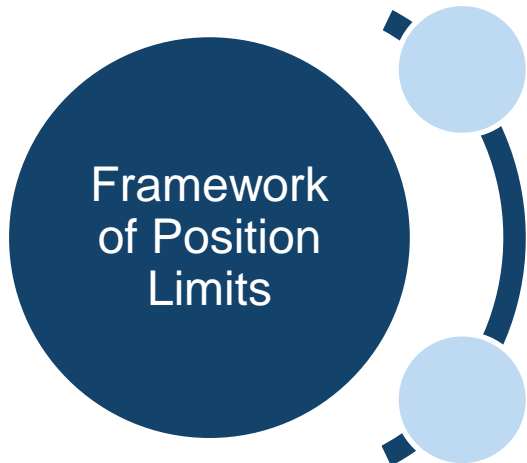


BACKGROUND OF POSITION LIMIT REGIME



Position limit is the highest number of futures or options contracts an investor is allowed to hold.

Position limit in Hong Kong is statutory governed by the SFO. Breaching the position limit is a criminal offense which is subject to a fine and/or imprisonment.



Statutory Limit :

Stock options – 50,000 open contracts per option class in any one market direction for all expiry months combined

Exchange Limit:

50,000 (82 classes) and 30,000 (5 classes) open contracts per option class in any one market direction for all expiry months combined



BACKGROUND OF STOCK OPTION POSITION LIMIT – A BRIEF HISTORY

Position Limit on Stock Options Established

- Position limit was set on Stock Options since its launch in 1995
- Set to 5,000 / 25,000 open contracts in ONE contract month

Position Limit on Stock Options Reviewed

- Position limit on Stock Options was reviewed
- Set to 30,000 / 50,000 open contracts in any one market direction for ALL expiry months (same for all underlyings)

HKEX Consultation

- HKEX consulted the market on revision to stock option position limit model in Apr 2016



1995

2006

Current

Revision of Stock Option Position Limit Regime is Long Overdue



SUPPORTIVE FEEDBACKS WERE RECEIVED IN MARKET CONSULTATIONS

HKEX (Jun 2016)

Market Consultation on Revision of Stock Option Position Limit (SOPL)

- Consulted the market on a three-tier SOPL framework with regular review and adjustment mechanism
- Strong supportive feedbacks were received:
 - Bring HK's SOPL regime more in line with international practice
 - Enhancing the competitiveness of HK's derivatives market



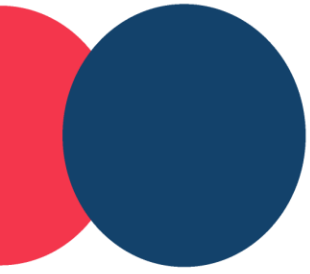
SFC (Mar 2017)

Consultation on Proposed Enhancements to the Position Limit Regime

- Consulted the market on enhancements to the position limit regime:
 - Raise the cap of excess position limit for client facilitation activities
 - Excess position limit for index arbitrage activities, asset managers and ETF market makers
 - Increase the statutory limit for stock options contract to 150,000 contracts
- Supportive feedbacks were received on the proposal, as well as the increase of the stock options' statutory limit

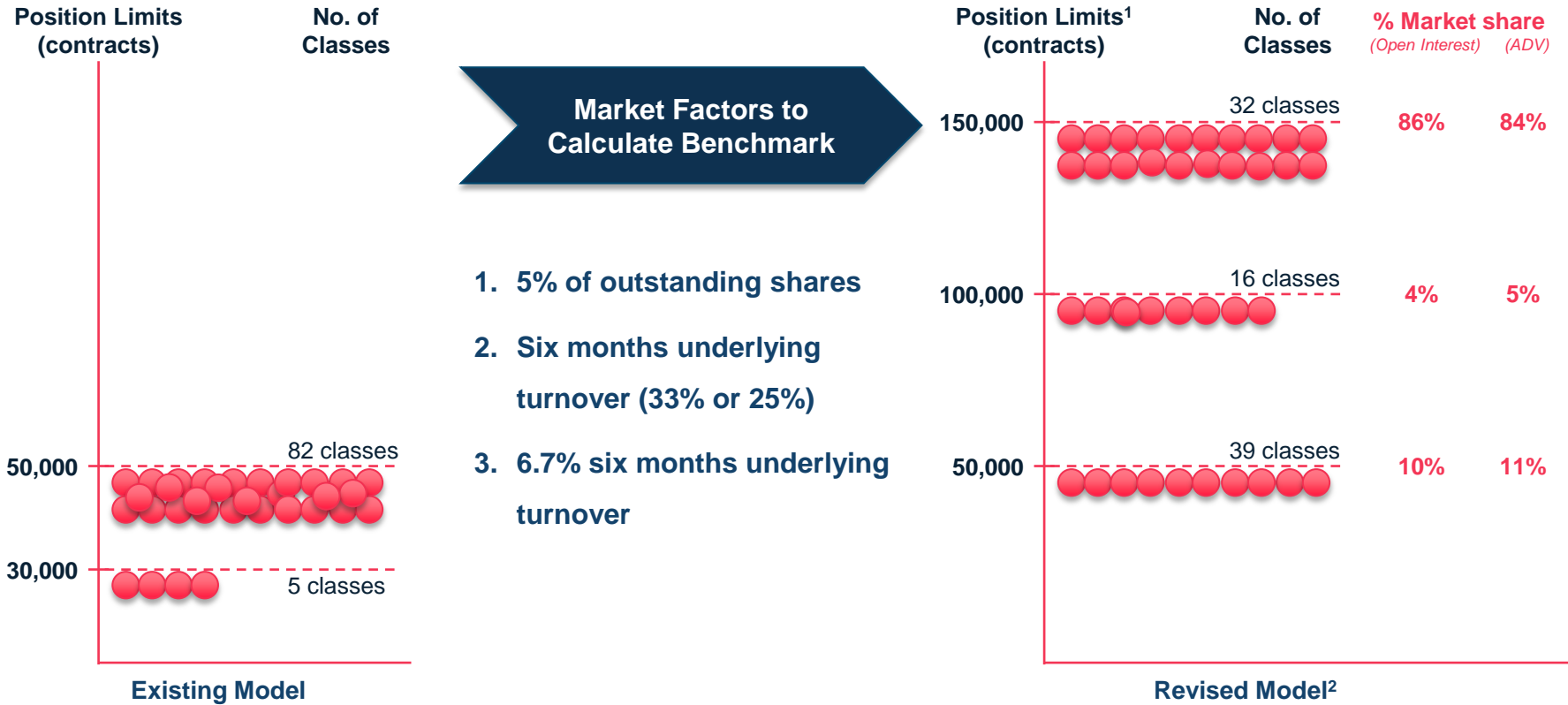
HKEX Sets to Work to Revise its Stock Option Position Limit Model





DETAILS ON REVISED STOCK OPTION POSITION LIMIT MODEL

METHODOLOGY FOR REVISED STOCK OPTION POSITION LIMIT MODEL



Actively Traded Stock Options (86% OI; 84% ADV) Enjoy Three Times Position Limits



1 – Position limit = 150,000 when calculated benchmark \geq 150,000;
 Position limit = 100,000 when $100,000 \leq$ calculated benchmark < 150,000
 Position limit = 50,000 when calculated benchmark < 100,000
 2 – Data period from Nov 2016 – Apr 2017

EXAMPLE OF POSITON LIMIT DETERMINATION UNDER REVISED MODEL

Underlying Stock Name	Outstanding Shares ¹ (,000 contracts)	6-month Turnover of Underlying ¹ (,000 contracts)		Projected contract equivalent number (,000 contracts)	Position Limit Liquidity Threshold ¹ (,000 contracts)	Projected contract equivalent number with liquidity threshold (,000 contracts)	Revised Position Limit (,000 contracts)
	5%	33%	25%		6.7% of 6m Turnover		
Bank of China	4,181	12,039	9,121	9,121	2,432	2,432	150
China Construction Bank	12,021	12,253	9,283	12,021	2,475	2,475	150
Bank of Communications	1,751	1,083	821	1,083	219	219	150



1 – The numbers of shares are expressed per contract size. The contract sizes of Bank of China (3988), China Construction Bank (939) and Bank of Communications (3328) are 1,000 shares.

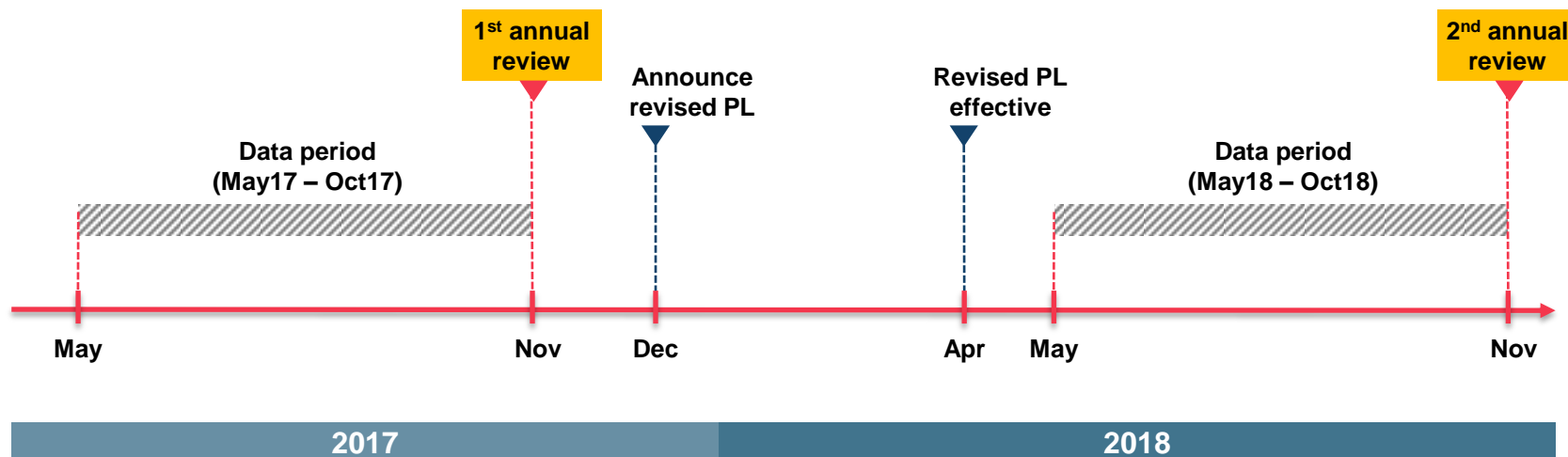
2 – Table data: Nov 2016 – Apr 2017

ANNUAL REVIEW FOR POSITION LIMIT

Key Dates for Annual Review

1. Annual Review: At the end of each November
2. Announcement: In the following December of annual review
3. Effective Day: 1 April of the following year

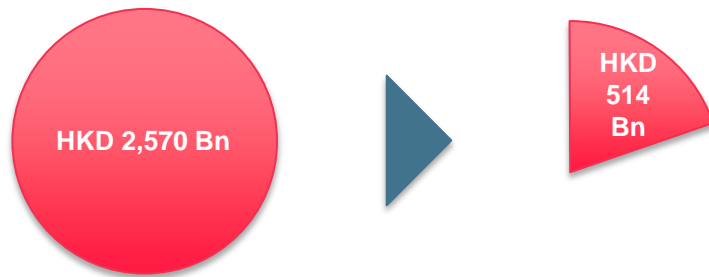
Illustration for Annual Review



POSITION LIMIT ADJUSTMENT UPON CORPORATE ACTIONS

Deficiency of Existing Position Limit Regime upon Corporate Actions

Notional value of Tencent Position Limit

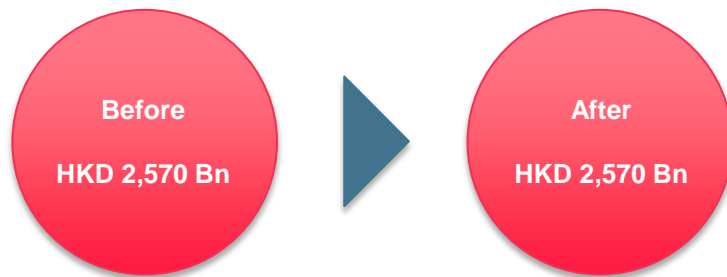


Tencent notional position limit drops 80% in 1-to-5 stock split in 2014

- Notional value of stock option position limit may vary significantly upon corporate actions (e.g. stock split / consolidation)
- Due to a lack of adjustment mechanism, the position limit of Tencent remains at 50,000 contracts
- Market players do not have enough headroom to hold five times of Tencent contracts¹

Revised Position Limit Regime upon Corporate Actions

Notional value of Tencent Position Limit



Tencent notional position limit remains the same under revised regime

- Adjust the contract size of the affected stock options contracts (e.g. increase the adjusted contract size by five times in the case of Tencent)
- Notional value of stock option position limit will remain the same upon corporate actions

In the Revised Model, Contract Size will be Adjusted to Maintain the Same Contract Value



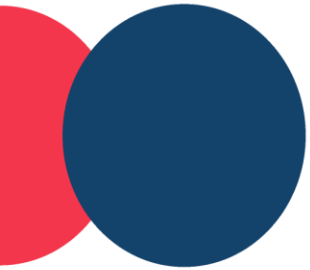
¹ – In theory, it is indifferent to trade 5 new Tencent contracts or 1 pre-stock split Tencent contracts

STOCK OPTION POSITION LIMIT MODEL COMPARISON

Existing Model	
<ul style="list-style-type: none"> • Two tiers position limit system (De facto single tier) • In any one market direction • For all expiry months 	
Position Limit Tier	<ul style="list-style-type: none"> • 50,000 (82 classes) • 30,000 (5 classes)
Model Reference	<ul style="list-style-type: none"> • Underlying turnover • Outstanding shares
Regular Review	No regular review mechanism
Corporate Action	No adjustment mechanism upon corporate action

Revised Model	
<ul style="list-style-type: none"> • Three tiers position limit system • In any one market direction • For all expiry months 	
Position Limit Tier	<ul style="list-style-type: none"> • 150,000 • 100,000 • 50,000
Model Reference	<ul style="list-style-type: none"> • Underlying turnover • Outstanding shares <i>(with parameters changed)</i>
Regular Review	<i>Annual review</i> of position limit tier of each stock option
Corporate Action	<i>Contract size is adjusted</i> to maintain the notional value of position limit
Additional Liquidity Threshold	<i>6.7% of six months underlying turnover</i>





APPENDIX

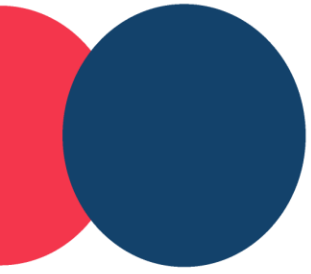
I. Position Limit Regime International Comparison

APPENDIX I – STOCK OPTION POSITION LIMIT REGIME INTERNATIONAL COMPARISON

Exchange	With Position Limit	Position Limit Per Option Class	Type of Position Limit	Review Mechanism
ASX	No	Not Applicable		
Euronext	No	Not Applicable		
Eurex	Yes	25% of free float	Variable	Yes
CBOE	Yes	25,000 - 250,000 (contracts)	Five tiers	Yes
HKEX (Revised)	Yes	50,000 - 150,000 (contracts)	Three tiers	Yes
HKEX (Existing)	Yes	30,000 - 50,000 (contracts)	Two tiers (De facto single tier)	No

Revised Stock Option Position Limit (SOPL) Model Is At Par With International Standard





THANK YOU