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Hong Kong Exchanges and Clearing Limited is a recognized exchange controller under the Securities and Futures Ordinance which is the controller of The Stock Exchange of Hong Kong Limited, Hong Kong Futures Exchange Limited, Hong Kong Securities Clearing Company Limited, The SEHK Options Clearing House Limited, HKFE Clearing Corporation Limited and OTC Clearing Hong Kong Limited.

通告 CIRCULAR

Subject: **Introduction of New Large Open Position (“LOP”) Reporting Procedures for Derivatives Holiday Trading**

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As referenced in the Circular dated 11 March 2022 (Ref. No: [MO/DT/057/22](#)), the Hong Kong Futures Exchange Limited (“**the Exchange**” or “**HKFE**”) will launch the Derivatives Holiday Trading on the Buddha’s Birthday public holiday on 9 May 2022.

In order to maintain LOP monitoring capability on Holiday Trading Exchange Contracts (“**H-Contracts**”) during Hong Kong public holiday(s) with trading and clearing services (“**H-Day**”), the Exchange will introduce the following new LOP reporting procedures for H-Contracts on the day of launch.

A. New LOP Reporting Procedures on H-Contracts

Pursuant to Rule 831(c) of Rules, Regulations and Procedures of the Futures Exchange (“**HKFE Rules**”), an Exchange Participant approved by the Exchange to trade the H-Contracts (“**Holiday Trading EP**”), who holds open positions in excess of a LOP for its own account or for each of its Clients in any H-Contracts, shall file a LOP Report with HKFE by no later than 12:00 noon of the **next Trading Day**, whether it is a Hong Kong public holiday or not, after the positions are opened or accumulated, and shall continue to file the LOP Report as long as the prescribed reporting level remains to be exceeded.

LOP reporting procedures for non H-Contracts will remain unchanged, Exchange Participants shall refer to the Circular dated 25 October 2005 (Ref. ED/DMD/MD/024/05).

B. Reporting by a person other than a Holiday Trading EP

A person (e.g. a client of Holiday Trading EP) who holds open positions in H-Contracts in excess of a LOP and submits the LOP report to HKFE directly (instead of via its Holiday Trading EP(s)) shall be subjected to the LOP reporting procedures on H-Contracts as prescribed above.

To ensure the effective implementation of the new LOP reporting procedures, Holiday Trading EPs are strongly reminded to observe the notification requirements stipulated in HKFE Rule 633(c). Holiday Trading EPs are obligated to inform their clients the specific LOP reporting requirements set out in the HKFE Rules and the Securities and Futures (Contracts Limits and Reportable Positions) Rules (“**SF Rules**”) and related guidance issued by the Securities and Futures Commission (“**the Commission**”) applicable for H-Contracts.

C. Possible enforcement actions against non-compliance of LOP reporting requirements

(i) Holiday Trading EP

The HKFE may impose, depending on the seriousness, a summary fine and/or take further disciplinary actions against a Holiday Trading EP for any non-compliance of the LOP reporting requirements in accordance with the HKFE Rules.

(ii) A person other than a Holiday Trading EP

Pursuant to HKFE Rule 630(a), where the Exchange has grounds to believe that any person has failed to comply with the LOP reporting requirements, the Exchange may prescribe the maximum number or value of long or short H-Contracts in respect of any Market which any Holiday Trading EP or Holiday Trading EPs is/are permitted to buy or sell on behalf of such person.

In this regard, HKFE will introduce a 3-level progressive enforcement measures against the non-compliance by a client of Holiday Trading EP (**see Table 1 below**).

Based on number of occurrence of the non-compliance, HKFE will notify the Holiday Trading EP(s) of the actions that they have to take against their non-compliant clients. If a Holiday Trading EP fails to act in accordance with HKFE's direction, HKFE may impose a summary fine or take further disciplinary actions against the EP in accordance with the HKFE Rules.

Table 1 – Progressive Trading Limit Reduction

Frequency of non-compliance	Actions to be taken
First non-compliance	<p style="text-align: center;"><u>Level 1</u></p> <ul style="list-style-type: none"> • Holiday Trading EP(s) to issue a written warning to the concerned client(s) to communicate the possible consequence of any repeated non-compliance
Second non-compliance within a rolling six month period	<p style="text-align: center;"><u>Level 2</u></p> <ul style="list-style-type: none"> • Holiday Trading EP(s) to reduce the trading limit of the concerned client(s) in H-Contracts by 50% on the H-Day(s) as prescribed in the HKFE notification. • Such reduction will be imposed for a H-Day or consecutive H-Days.
Further incident of non-compliance within a rolling six month period	<p style="text-align: center;"><u>Level 3</u></p> <ul style="list-style-type: none"> • Holiday Trading EP(s) shall not buy or sell any H-Contracts on behalf of the concerned client(s) on the H-Day(s) as prescribed in the HKFE notification. • Such confinement will be imposed for a minimum of two H-Days or consecutive H-Days • Prior approval from HKFE is required to resume trading on H-Day on behalf of the concerned client(s).

Note 1: All non-compliance incidents fall under consecutive H-Days are treated as one non-compliance.

Note2: Transactions for position closeout are permitted under Level 2 and Level 3 progressive measures.

For any serious non-compliance, including non-cooperative and/or non-responsive manner that caused late rectification, the Exchange will impose the Level 3 measure immediately.

In light of the above new LOP reporting procedures for Derivatives Holiday Trading, the Exchange has prepared a set of Frequently Asked Questions (“FAQ”) in order to facilitate the market’s understanding of the relevant rules and requirements.

Please contact the Market Surveillance and Monitoring Department (email: lophkfe@hkex.com.hk) should there be any questions regarding this new LOP reporting procedures and FAQ.

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This circular has been issued in the English language with a separate Chinese language translation. If there is any conflict in the circulars between the meaning of Chinese words or terms in the Chinese language version and English words in the English language version, the meaning of the English words shall prevail.

FREQUENTLY ASKED QUESTIONS – LARGE OPEN POSITION (“LOP”) REPORTING PROCEDURES FOR DERIVATIVES HOLIDAY TRADING

(Important Note: This FAQ does not have the force of law, and should not be interpreted in any manner which would override the provision of any applicable law or any other regulatory requirements. This FAQ should be read in conjunction with the Securities and Futures (Contracts Limits and Reportable Positions) Rules (“CLRP Rules”) made under Section 35(1) of the Securities and Futures Ordinance (“SFO”), SFC’s Guidance Note on Position Limits and Large Open Position Reporting Requirements (“Guidance Note”), and relevant Exchange Rules and Circulars)

LARGE OPEN POSITION (“LOP”) REPORTING

Q1: Are there any changes to the reporting form and content for LOP reporting on H-Days?

A: No, the same reporting form and the required contents will be used for LOP reporting on H-Days .

Q2: Does a Holiday Trading EP need to file LOP reports on H-Days if they only have LOP in non H-Contracts?

A: No, it is the same as existing LOP reporting arrangements. Holiday Trading EP will only be required to file an LOP report for reportable positions in non H-Contracts by the next Business Day (i.e. Monday to Friday except public holiday) after the positions are opened or accumulated.

Q3: Is a Holiday Trading EP allowed to include LOPs in both H-Contracts and non H-Contracts in the LOP reports submitted during H-Days?

A: For the purpose to facilitate Holiday Trading EP’s system setup and reporting logistics, Holiday Trading EP could opt-in to include the LOP in non H-Contracts together with LOP in H-Contracts in the LOP reports for the submission during H-Days.

If the Holiday Trading EP decided to include both H-Contracts and non H-Contracts in the LOP reports for H-days, it shall apply the same reporting approach on a consistent basis.

Q4: Are there any specified form of communication on LOP reporting requirements of H-Contracts for the Clients?

- A:** No specified form of communication is required. However, Holiday Trading EPs need to apply adequate procedures to ensure their Clients are properly informed about the LOP reporting requirements on H-Contracts and maintain sufficient documentary evidence to demonstrate such communication has been performed.