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.

As highlighted by ASIFMA in their response, the current position limit scheme for single stock options in Hong Kong is overly restrictive relative to the growth of the Hong Kong market. Larger position limits will allow appropriately larger option positions for those equity issues with the underlying capitalisation and liquidity to justify them. A more flexible position-limit scheme will better accommodate differences in stock prices; under the current system, the limits are often too small for low-priced stocks. In addition, the annual review of the model will help ensure the position limits model will continue to be suited to the market needs as market participants and HKEx gain experience with the new model and as the Hong Kong equity market continues to evolve.

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.

As highlighted by ASIFMA in their response, a three-tier system is still relatively simple while increasing position limits for those issues with the capitalisation and liquidity to justify higher limits and would address the needs of both market makers and dealers. The proposed system would bring Hong Kong market practices with respect to option position limits in line with generally accepted practices in other major equity markets trading stock options. It would do so by accommodating higher position limits where justified, while providing appropriately lower tiers for less liquid issues with more limited free floats. It would increase liquidity of the options as well as their underlying stocks, and better address the needs of clients as well as market makers and dealers. In short, the proposed model would be a significant improvement over the current one-size-fits-all model, which imposes excessive position-limit constraints on issues with ample liquiditiy and capitalisation to justify higher limits.

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

As highlighted by ASIFMA in their response, the proposal does not state whether, under the new model, there will be a process for hedgers such as market makers to apply for an increased position limit. We support ASIFMA's view that it is important that the new model have such hedge exemptions.

In addition, we support ASIFMA's view that not that reviews will take place annually in November and any changes announced in December, which will be effective the following April. In the event of a reduction in the position limit for some option series, e.g., those with longer tenors, three months may be insufficient because of illiquidity. Hence, we support ASIFMA's proposal for a longer implementation deadline for such less liquid option series.

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