

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 current system did not allow the distinction between very liquid and less liquid names in terms of options volume traded. For the very liquid names, in the broker market, we could see market participants trading otc vs. listed to re-gain listed stock option limit capacity.

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.

Increasing the position limit for liquid stocks is definitely a step in the right direction.

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

1. For HK markets, the position limit methodology for stock options differ quite substantially from that of stock index options. The former is based on number of contracts whereas the latter is based on delta. It is agreed that the methodology for stock needs to be reviewed with high priority, and it is easier to keep the same spirit in the methodology, but the inconsistency between the two methodologies should be addressed in future reviews.
2. While there is a need to increase position limit for stock options, we believe there is a similar need to increase position limit for stock index futures and options. Hopefully this will also be reviewed soon.
3. The current proposal explains how the position limit will change if it is approved. But how about contract size per underlying (TCH 100, PEC 2000): will there be any changes to the determination of the contract size per underlying going forward?

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