

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.

We are supportive of revising the existing regime. The current model is restrictive. The limits are often too low for stocks that trade at a lower spot price. Whilst requesting for larger position limit is possible, it often takes a few days for market participants to obtain approval from the Exchange. Having a larger limits on the contracts and regular review of the limits will be an improvement.

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.

The implementation of the proposed model would be beneficial.

However, whilst the proposed model takes into account capitalisation and liquidity, stocks with high or low spot price could still end up having the same limit tier.

We propose that the model could be further enhanced by referencing the market turnover in dollar terms - by factoring in the spot price, stocks with high spot price will be given a lower position limit while stocks with low spot price will be given a higher position limit. Another suggestion is to look at the average daily turnover to set the limits. This would allow the limits to be more inline with market trend and performance. This provides more flexibility and presents a more cost effective way for market maker to hedge their portfolio, which in turns encourages more liquidity in the market.

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

We would like HKEx to consider referencing the market turnover in dollar terms. We believe it would be beneficial to the market participant. We would be available to discuss with HKEx our proposal in more details.

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