

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.

A large number of our manager members trade in OTC derivatives. Listed stock options on the HKEX may not offer adequate liquidity to address the strategies of some managers. That said, they are traded by certain managers. And with mandatory OTC central clearing obligations gradually coming into force in many jurisdictions, it may also lead to more listed derivatives activity on the HKEX.

The existing position limits for stock options have been in place since 2006. With the significant growth of the markets, the current limits can be unduly restrictive for some market participants. As such, a review was long overdue.

We commend the HKEX for taking the positive first step to move away from the existing position limit regime which is a de facto single tier scheme. It is sensible to consider and allow for higher calibrated limits. Any changes should enable the stock option markets to keep pace with the growth in the market capitalisation of the cash market as well as facilitate the trading and hedging needs of institutional investors.

It is critical that the new levels of position limits be sufficiently large and flexible enough to accommodate market participants who wish to trade in listed derivatives, or at the very least, not excessively constrain them from using the exchange platform.

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.

Any proposal to move away from the present one-size-fits-all model should be applauded. We also support the proposal for a regular review mechanism.

Beyond that, our members have not formed a consensus on whether a three-tier model is the appropriate solution. This is an issue which is very specific to the market views and the organisational circumstances of each market participant. Individual members may have their own views, and certain members may opt to provide their comments to the HKEX directly.

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

A view has been expressed - albeit it does not represent the majority view - whether adding an additional tier increases operational complexity - introducing more limits that require monitoring thus increasing the risk of possible limit breaches - while arguably only marginally increasing trading volumes.

It has been argued by some that a simpler solution could be to materially increase the limits of the existing two-tier scheme. An alternative step could be to remove these limits completely, particularly for single name stocks, which would align Hong Kong with the approach of a number of developed markets.

- End -