

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.

Yes. This is because Hong Kong's existing position limit regime does not have a regular review mechanism to cater for material changes in the characteristics of the underlying stock. There is also no regular review to cater for changes due to market development, and there is no mechanism for adjustments due to corporate actions that have an impact on the underlying stock. As a result, the effectiveness of stock options as a hedging tool may be affected.

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.

Yes. Given the rapid development of the market in recent years, a revision of the regime needs to be considered. If there are no changes, the stock options offered by HKEX may cease to be effective trading and hedging tools. Therefore a more accommodative position limit regime is required to maintain Hong Kong's competitiveness as an international risk management and financial centre.

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

We agree that the review frequency be set at annually to balance the administrative and trading costs. If the review is carried out too often, substantial administrative and trading costs may be generated as market participants will need to check whether their portfolios need to be rebalanced due to the change in position limits more frequently. On the other hand, if the interval between reviews is too long, the position limits may not be adjusted in time for any material change in notional value of the stock options contracts, thus affecting its effectiveness as a hedging tool.

- End -