July 2022

Consultation Conclusions

Proposed Changes on Position Limits and Large Open Position Reporting Requirements

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DEFINITIONS

Term	Definition
“Flagship-minis”	Mini-HSI futures, Mini-HSI options, Mini-HSCEI futures and Mini-HSCEI options are collectively referred to as “flagship-minis”
“HKEX”	Hong Kong Exchanges and Clearing Limited
“HKFE”	Hong Kong Futures Exchange
“HSCEI”	Hang Seng China Enterprises Index
“HSI”	Hang Seng Index
“LOP”	Large Open Position
“Mini-HSCEI”	Mini-Hang Seng China Enterprises Index
“Mini-HSI”	Mini-Hang Seng Index
“SEHK”	Stock Exchange of Hong Kong
“SFC”	Securities and Futures Commission
“SSF”	Single Stock Futures
“SSO”	Single Stock Options

EXECUTIVE SUMMARY

1) On 2 June 2022, Hong Kong Exchanges and Clearing Limited (“HKEX”) issued a consultation paper on the proposed revision of: 1) the exchange-level position limit regime for single stock options and futures; and 2) additional exchange-level position limits and Large Open Position (“LOP”) reporting requirements for Mini-Hang Seng Index (“Mini-HSI”) and Mini-Hang Seng China Enterprises Index (“Mini-HSCEI”) derivatives contracts.

2) HKEX received a total of 22 responses including 19 Exchange Participants, 1 industry association and 2 individuals.

3) The majority of respondents supported the proposed revision of the single stock options and single stock futures position limit models. The majority of respondents supported the removal of additional position limits for the Mini-HSI and Mini-HSCEI futures and options contracts. A large proportion of respondents did not support the revision of the LOP reporting requirements for Mini-HSI and Mini-HSCEI derivatives contracts.

4) HKEX will proceed with the proposal to revise the position limit models for single stock options and single stock futures; and the removal of the additional position limit for Mini-HSI and Mini-HSCEI futures and options contracts. However, HKEX will not at this stage proceed with the revision of the LOP reporting requirements for Mini-HSI and Mini-HSCEI derivatives contracts. The adoption of these proposals are subject to the approval of the Securities and Futures Commission (“SFC”).

CHAPTER1: INTRODUCTION

5) On 2 June 2022, HKEX issued a consultation paper to seek market participants' views on the proposed revisions of the single stock options ("SSO") and single stock futures' ("SSF") exchange-level position limit models; changes to the exchange-level position limits for Mini-HSI and Mini-HSCEI futures and options contracts; and a revision of the exchange-determined LOP reporting requirements.

6) The consultation paper consists of two parts:

7) Part 1 of the consultation paper focuses on SSO traded on The Stock Exchange of Hong Kong Limited ("SEHK") and SSF traded on Hong Kong Futures Exchange Limited ("HKFE"). The paper sought comments on the proposal to introduce additional tiers (i.e. 200,000 and 250,000 contracts) to the SSO exchange-level position limit model and introduce a tiered exchange-level position limit model for SSF.

8) Part 2 of the consultation paper sought comments on the proposed changes to exchange-level position limits for Mini-HSI and Mini-HSCEI futures and options contracts, and the exchange-determined LOP reporting requirements. Mini-HSI futures, Mini-HSI options, Mini-HSCEI futures and Mini-HSCEI options are collectively referred to as "flagship-minis" in this paper.

   For details of the Consultation Paper, please refer to

   https://www.hkex.com.hk/-/media/HKEX-Market/News/Market-Consultations/2016-Present/June-2022-Position-Limit/cp202206.pdf

9) The consultation period ended on 30 June 2022. HKEX received a total of 22 responses from Exchange Participants, an industry association and individuals. Copies of their responses are available on the HKEX website at: https://www.hkex.com.hk/News/Market-Consultations/2016-to-Present/Responses_Jul_2022?sc_lang=en

10) Statistics and key responses to the Consultation Paper are summarised in Chapter 2. It also includes HKEX's responses to the key comments raised. The comments should be read in conjunction with the Consultation Paper.

11) HKEX's conclusions and the next steps are set out in Chapter 3.

HKEX would like to take this opportunity to thank all participants who shared their comments and views during the consultation process.

CHAPTER 2: MARKET FEEDBACK

Part 1 of the Consultation

12) The following table summarises the 22 respondents by participant category:

Category	Q1. In line with the existing methodology, HKEX is proposing to add two tiers of exchange-level position limit (i.e. 200,000 and 250,000 contracts) which will increase the maximum limit to 250,000 contracts for exchange-level position limit for SSO. Would you agree to such change, in view of business needs, risk implications to the Hong Kong market and operational considerations?		Q2. Do you support the revision of the current SSF position limit model with the introduction of a five-tier model applicable to net positions (with 25,000 contracts as the maximum position limit), a single month position limit set at two times the net limit, and a review mechanism for both annual adjustments and corporate actions, in view of business needs, risk implications to Hong Kong market and operational considerations?	
	Agree	**Disagree**	**Support**	**Not Support**
Corporate	**19 (95%)**	**1 (5%)**	**20 (100%)**	**0 (0%)**
Exchange Participants	18	1	19	0
Industry Association	1	0	1	0
Individual	**2 (100 %)**	**0 (0 %)**	**2 (100 %)**	**0 (0 %)**

13) Among the 22 responses received, 19 out of 20 (95 per cent) corporate respondents and 2 out of 2 (100 per cent) individual respondents supported the revision of the SSO model.

14) Among the 22 responses received, 20 out of 20 (100 per cent) corporate respondents and 2 out of 2 (100 per cent) individual respondents agreed to the revision of the SSF model.

15) A summary of responses on the revisions of the SSO and SSF models is detailed based on participant category as follows:

a) Exchange Participants:

(1) SSO: There were 19 responses from Exchange Participants. 18 respondents (with a 63 per cent market share[1]) supported the revision of the stock option position limit model; while 1 respondent (with a 1 per cent market share) did not support the proposed revision.

1 Based on the market open interest statistics in May 2022 (same for other market share statistics below)

(2) SSF: 19 respondents (with a 94 per cent market share) supported the revision of the stock futures position limit model.

b) Industry Association: HKEX received 1 response from an industry association that broadly represents different stakeholders in the investment community. Their members include global banks and other market participants (with a 22 per cent market share on SSO and less than 1 per cent market share on SSF). They supported the revisions of SSO and SSF position limit models.

c) Individual: Out of the 2 responses from individuals, 2 (100 per cent) supported the revisions of SSO and SSF position limit models.

16) We are pleased to see broad market support for the proposed revisions of the SSO and SSF position limit models. The majority of respondents believed that the proposed model can provide more flexibility to enhance Hong Kong's stock options and futures markets.

Details of the responses to the SSO proposal

17) A summary of responses from participants who supported the proposed revision for SSO is as follows:

a) Business needs:

i) The proposed revision will facilitate continuous market growth and create conditions for a more mature market

ii) The proposed revision will provide greater flexibility

iii) Increasing the position limit for SSO classes with a higher turnover is a reasonable approach

b) Risk implications:

i) The proposed revision will improve risk controls as the position limit will correspond to market capitalisation and liquidity

18) The respondents who supported the proposal also raised the following suggestions and concerns about the SSO model:

a) Business needs:

i) While supportive of the increase to 250,000 contracts, respondents believed HKEX should consider a further increase of the maximum position limit to 300,000 contracts

ii) Market makers should continue to be eligible to apply for expanded position limits

b) Risk implications:

i) While supportive of the change, respondents believed a complicated model with 5 tiers introduces additional regulatory risks

ii) The position limit methodology penalises spread trades. HKEX should consider aggregate limits on a combined basis instead of imposing a directional limit.

c) Operational considerations:

i) Participants suggested increasing the frequency of reviews under the review mechanism, which currently requires one review annually.

ii) HKEX should examine the review process triggered by relevant corporate actions

iii) The 5-tier structure will entail additional configuration resources (e.g. exchange fees setup). HKEX should keep 3 tiers, with wider position limit bands.

<u>HKEX response:</u> HKEX appreciates the positive feedback and recommendations.

HKEX would like to clarify that the position limit tiers are different from the SSO fee tiers. Under the current regime, there are different position limit tiers for SSO. These are separate from the three-tiered classification which determines the exchange fees. There are no proposed changes to the fee tiers.

The current position limit structure has been working effectively in the past years in classifying the SSO classes into appropriate tiers based on the profile of the stocks. The proposal aims to address the existing maximum position limit and determine whether that provides the market with adequate capacity.

More frequent reviews to the position limits would impact the resources of participants, as they potentially would need to revise their positions downward to relevant position limits. On balance, HKEX considers the annual review to be an appropriate frequency.

HKEX will continue to engage with participants regarding the possibility of switching from the directional position limits to an aggregated position limit.

In addition, HKEX will review the position limit regime regularly including the position limit levels, liquidity threshold and review mechanism. We welcome ongoing feedback from the market.

19) An Exchange Participant did not support a revision of the SSO position limits. The reason is as follows:

a) One respondent, which is an Exchange Participant, commented that most of the options series in Hong Kong are still traded in low volume and low open interest. Increasing the maximum position limit level may result in a high concentration of single option holder.

<u>HKEX response:</u> As mentioned in paragraph 25 of the Consultation Paper, the model will continue to use the liquidity threshold that takes the past

six months' turnover into account when determining the new position limit. The position limits are designed to scale with the liquidity profile of the underlying, and would prevent a disruptive position from developing in the SSO market.

20) With consideration given to the aforementioned feedback and taking into account the support from the majority of respondents, HKEX will proceed with the addition of two tiers to the current SSO position limit structure.

Details of the responses to the SSF proposal

21) The respondents who supported the proposed revision of the SSF position limits provided the following feedback:
   - **a)** Business needs:
      - i) The one-size-fits-all regime needs to be changed as the current regime has been in place for the last 26 years
      - ii) The proposed revision supports the evolving market and a more mature market
      - iii) The proposed netting of contracts is sensible and supports spread trading
   - **b)** Risk implications:
      - i) The proposed model offers better risk controls with better differentiation between SSF based on the market capitalisation and liquidity of the underlying stock

22) The respondents have also raised the following suggestions and concerns about the SSF model:
   - **a)** Business needs:
      - i) While supportive, respondents recommended higher position limit values
      - ii) While supportive, respondents recommended a review of the liquidity threshold used to determine position limits
      - iii) As the current model supports a maximum position of 25,000 contracts, the proposed model reduces limits for futures with position limits of 20,000 or fewer contracts. This may significantly limit the future growth of the SSF market
   - **b)** Risk implications:
      - i) The proposed model may increase the risk profile of SSF compared to a net position limit for each month as risk could differ from month to month
   - **c)** Operational considerations:
      - i) Respondents requested more frequent reviews under the review mechanism
      - ii) Participants would like to understand how the proposed liquidity threshold of 1.34% is determined

HKEX response: HKEX has received mostly positive feedback and understands the market demand for changing the SSF model, which has not been revised for 26 years. Similar to the SSO, HKEX will review the position limit regime regularly including the position limit levels, liquidity threshold and review mechanism.

The liquidity threshold of 1.34 per cent of the underlying stock's 6-month trading volume is designed as a prudence measure that could be revised from time to time as deemed appropriate by HKFE.

The current annual mechanism contains an adjustment period for participants to make changes to their positions and adapt to the new position limit tiers. More frequent reviews will be considered along with further analysis on the duration of the adjustment period and the market's familiarity with the new model.

23) In view of the aforementioned feedback and taking into account the support from the majority of respondents, HKEX will proceed with the introduction of a tiered SSF position limit structure with annual reviews.

Part 2 of the Consultation

24) The following table summarises the 22 responses to question three of the consultation by participant category:

Category	Q3. Considering that flagship-minis are included in the position limits for products that reference the same index, do you support the removal of the additional position limit that applies only to flagship-minis, in view of business needs, risk implications to Hong Kong market and operational considerations?	
	Support	**Not Support**
Corporate	**19 (95%)**	**1 (5%)**
Exchange Participants	18	1
Industry Association	1	0
Individual	**1 (50%)**	**1 (50%)**

25) Among the 22 responses received, 19 out of 20 (95 per cent) corporate respondents and 1 out of 2 (50 per cent) individual respondents supported the removal of the additional position limit that applies only to flagship-minis.

26) Summary of responses by category:

a) Exchange Participants: There were 19 responses from Exchange Participants. 18 (with an 81 per cent market share) supported the proposal and 1 (with a 0 per cent market share) did not support it.

b) Industry Association: There was 1 response from an industry association (who represented 5 per cent market share). It supported the removal of the additional position limit applicable only to the flagship-minis.

c) Individual: Out of the 2 responses from individuals, 1 (50 per cent) supported the proposal.

27) HKEX is pleased to see the broad market support for the proposed removal of the additional position limit on flagship-minis. The majority of respondents agreed to remove the additional limit due to the fungible nature of standard-size contracts and flagship-minis.

28) A summary of responses from participants who supported the proposed removal of the additional limit on flagship-minis is as follows:

a) Business needs:

i) The current position limit regime is too complicated, and the proposed change helps clients to easily understand the limits

ii) The fungible nature of the contracts makes the additional limit redundant

b) Risk implications:

i) No risk implication given the fungible nature of the contracts

c) Operational considerations:

i) No operational concerns given the fungible nature of the contracts

ii) Position limit-monitoring can be simplified

29) A total of two responses received did not support the proposal, one from an Exchange Participant, who indicated they have no strong view on the subject matter; and one from an individual, who expressed that risk management is a concern with the removal.

HKEX response: The flagship-minis are still subject to the combined position limit based on the position delta of the contracts, which has served as an effective management tool, given the fungible nature of standard-size and flagship-mini contracts.

30) The following table summarises the 22 responses to question four of the consultation by participant category:

Category	**Q4. Do you support revising the Large Open Position reporting requirement (i.e. from 2,500 to 500 contracts) for Mini-HSI and Mini-HSCEI futures and options, in view of business needs, risk implications to Hong Kong market and operational considerations?**	
	Support	**Not Support**
Corporate	**8 (40%)**	**12 (60%)**
Exchange Participants	8	11
Industry Association	0	1
Individual	**2 (100 %)**	**0 (0 %)**

31) A summary of responses by participant category:

a) Exchange Participants: There were 19 responses from Exchange Participants. 8 (with a 51 per cent market share) supported the proposed revision of the LOP requirement for flagship-minis, while 11 (with a 31 per cent market share) did not support the proposed revision.

b) Industry Association: There was 1 response from an industry association (who represented 5 per cent market share). It indicated that most of its members do not support the proposed revision of the LOP requirement for flagship-minis.

c) Individual: Out of the 2 responses from individuals, 2 (100 per cent) supported the proposed revision of the LOP requirement for flagship-minis.

32) The majority of respondents who agreed with the revision of the LOP requirement expressed that the revision can help standardise the operations of the LOP process. They believed the proposed revision would represent a one-off static change in the reporting systems.

33) HKEX received a large proportion of responses from participants who did not support the proposed revision. A summary of responses from participants who did not support the proposed revision of the LOP requirement for flagship-minis is as follows:

a) Business needs:
   i) The reporting threshold should be calculated on a notional basis or with the same amount of risk as the standard-sized contracts
   ii) Participants did not see any urgency or business need and did not understand the reason for the change

b) Risk implications:
   i) The proposed revision may result in a false positive in terms of the flagging positions which are not risky or large

c) Operational considerations:
   i) The 500 contract threshold for minis is too small to report
   ii) The revision will place unnecessary additional burden on participants

HKEX response: The majority of the respondents are of the view that the flagship-mini LOP reporting requirement should be aligned with the notional reporting requirement of the standard-size contracts. HKEX acknowledges these responses and understands the rationale provided by the respondents.

Other comments

34) Of the responses received, there were several areas that respondents sought clarifications regarding the position limit model. Please see below for details:

34.1. Participants would like to see HKEX and the SFC harmonise HKEX position limit regime rules with the SFC statutory limits to avoid separate position limit monitoring controls and different processes that cater to two regimes.

<u>HKEX response:</u> HKEX continues to work with the SFC to improve the position limit regime in Hong Kong. Different initiatives will be discussed to revise the position limit regimes and updates will be announced in due course.

34.2. HKEX should ensure the procedure for market makers to request excess positions remains in place. In order to provide liquidity to the market during market events or volatility, market makers will need to increase their position limits.

<u>HKEX response:</u> HKEX will continue to work with the regulator on updating the market maker excess position limit regime, which can be applied to the new position limit model. Details will be announced in due course. Further details on the treatment of the existing excess position limit approved to be carried forward to the new model will also be announced in due course.

34.3. The market would benefit from an increase in the prescribed position limit for HSI and HSCEI contracts

<u>HKEX response:</u> HKEX will continue to work with the regulator to improve the existing position limit regime for HSI and HSCEI derivatives.

CHAPTER 3: CONCLUSION AND NEXT STEPS

35) The responses to the Consultation Paper show strong support for the proposed revision of Hong Kong's SSO and SSF position limit models and the removal of the additional position limit that applies only to flagship-minis.

36) Respondents who supported the revision of SSO and SSF position limit models agreed that the proposals would support market growth and provide more flexibility that can improve Hong Kong's derivatives market.

37) With the majority of the responses supporting the proposal, HKEX will proceed with its proposed SSO position limit model. Two additional tiers (i.e. 200,000 and 250,000 contracts) will be added to the existing three-tier model (i.e. 50,000, 100,000, 150,000 contracts). Details of the final version of HKEX's proposed SSO position limit model can be found in Appendix I for reference.

38) With the majority of the responses supporting the proposal, HKEX will proceed with its proposed SSF position limit model. The existing 5,000 contracts per expiry month model will be revised to a five-tier model with net position limits (i.e. 5,000, 10,000, 15,000, 20,000, and 25,000 contracts). A single contract month limit with 2 times the net position limit for all contract months combined will also be introduced. Details of the final version of HKEX's proposed SSF position limit model can be found in Appendix II for reference.

39) Under the current position limit regime, flagship-minis' position limits are determined based on a combined position delta with other standard-sized contracts, and are subject to an additional position limit which applies to flagship-minis only. Given that the overall position limit is determined based on positions across all contracts in the product family, HKEX will proceed to remove the additional position limit that applies only to flagship-minis.

Proposed exchange-level position limit for products that reference HSI or reference HSI futures
Position delta for Hang Seng Index Futures, Hang Seng Index Options, Hang Seng Index Futures Options, Mini-Hang Seng Index Futures, Mini-Hang Seng Index Options, Hang Seng Index (Gross Total Return Index) Futures, Hang Seng Index (Net Total Return Index) Futures combined and Weekly Hang Seng Index Options combined of 10,000 long or short in all Contract Months and Contract Weeks (where applicable) combined~~, provided the position delta for Mini-Hang Seng Index Futures or Mini-Hang Seng Index Options shall not at any time exceed 2,000 long or short in all Contract Months combined~~. For this purpose, (i) the position delta of one Mini-Hang Seng Index Futures Contract will have a value of 0.2 and the position delta of one Mini-Hang Seng Index Option Contract will be one-fifth of the position delta of the corresponding series in the Hang Seng Index Option Contract; and (ii) the position delta of one Hang Seng Index (Gross Total Return Index) Futures Contract and one Hang Seng Index (Net Total Return Index) Futures Contract will be based on their contract value ratios versus Hang Seng Index Futures and will be announced by the Exchange from time to time.

Proposed exchange-level position limit for products that reference HSCEI or reference HSCEI futures
Position delta for Mini-Hang Seng China Enterprises Index Futures, Mini-Hang Seng China Enterprises Index Options, Hang Seng China Enterprises Index Futures, Hang Seng China Enterprises Index Options, Hang Seng China Enterprises Index Futures Options, Hang Seng China Enterprises Index (Gross Total Return Index) Futures, Hang Seng China Enterprises Index (Net Total Return Index) Futures and Weekly Hang Seng China Enterprises Index Options combined of 12,000 long or short in all Contract Months and Contract Weeks (where applicable) combined~~, provided the position delta for Mini-Hang Seng China Enterprises Index Futures or Mini-Hang Seng China Enterprises Index Options shall not at any time exceed 2,400 long or short in all Contract Months combined~~. For this purpose, (i) the position delta of one Mini-Hang Seng China Enterprises Index Futures Contract will have a value of 0.2 and the position delta of one Mini-Hang Seng China Enterprises Index Option Contract will be one-fifth of the position delta of the corresponding series in the Hang Seng China Enterprises Index Option Contract; and (ii) the position delta of one Hang Seng China Enterprises Index (Gross Total Return Index) Futures Contract and one Hang Seng China Enterprises Index (Net Total Return Index) Futures Contract will be based on their contract value ratios versus Hang Seng China Enterprises Index Futures and will be announced by the Exchange from time to time.

40) Having carefully considered the responses from different market participants, HKEX will not revise the LOP requirement for flagship-minis at this stage.

41) The exchange-level position limits cannot exceed the statutory position limit. The statutory position limit is prescribed in the Securities and Futures (Contracts Limits and Reportable Positions) Rules and enforced by SFC. HKEX will continue discussions with SFC to determine the next step(s) and announce updates in due course.

APPENDIX I

Final version SSO Position Limit Model

1. Subject to further discussion with the SFC and SFC's approval, HKEX's proposed SSO position limit model to be implemented will be as follows.

2. The exchange-level position limits for SSO under the five-tier system are 50,000, 100,000, 150,000, 200,000, and 250,000 contracts.

   - If the contract-equivalent number is equal to or higher than 250,000 contracts, the position limit will be set at 250,000 contracts.
   - If the contract-equivalent number is equal to or higher than 200,000 but lower than 250,000 contracts, the position limit will be set at 200,000 contracts.
   - If the contract-equivalent number is equal to or higher than 150,000 but lower than 200,000 contracts, the position limit will be set at 150,000 contracts.
   - If the contract-equivalent number is equal to or higher than 100,000 but lower than 150,000 contracts, the position limit will be set at 100,000 contracts.
   - If the contract-equivalent number is lower than 100,000 contracts, the position limit will be set at 50,000 contracts.

   The tiers are illustrated in the following table.

Tier	Contract-equivalent number (X)	Proposed position limit*
1	250,000 contracts ≤ X	250,000 contracts
2	200,000 ≤ X < 250,000 contracts	200,000 contracts
3	150,000 ≤ X < 200,000 contracts	150,000 contracts
4	100,000 ≤ X < 150,000 contracts	100,000 contracts
5	X < 100,000 contracts	50,000 contracts

* *Calculation based on the number of open contracts per SSO class in any one market direction for all expiry months combined*

X = 5% of the outstanding shares divided by the contract size subject to the provisions set out below:

(i) if 5% of the outstanding shares is less than 25% of the stock's turnover for the previous six months (the "25% Threshold"), X shall be deemed to be equal to the 25% Threshold divided by the contract size subject to (iii) below;

(ii) if 5% of the outstanding shares is greater than 33% of the stock's turnover for the previous six months (the "33% Threshold"), X shall be deemed to be equal to the 33% Threshold divided by the contract size subject to (iii) below; and

(iii) if X as calculated above is more than the Liquidity Threshold divided by the contract size, it shall be deemed to be equal to the Liquidity Threshold divided by the contract size. “Liquidity Threshold” means 6.7% of the stock’s turnover in the previous six months.

The Liquidity Threshold could be revised from time to time as deemed appropriate by the Exchange.

Regular review

3. The position limits are to be reviewed regularly on an annual basis to adjust for any substantial changes due to market development. The formula above is applied to all SSO classes at the end of November each year, and if revisions are required, the updated position limits will be announced in December in the same year and will take effect on the first business day of April in the next calendar year.

For corporate action

4. Following a corporate action which results in a material change in the value of an underlying stock, SEHK may consider adjusting the contract size of the affected SSO to substantively maintain its notional value.

APPENDIX II

Final version SSF Position Limit Model

1. Subject to regulatory approval, HKEX's proposed SSF position limit model to be implemented will be as follows.

2. The exchange-level position limits for SSF under the five-tier system are 5,000, 10,000, 15,000, 20,000, and 25,000 contracts.

   - If the contract-equivalent number is equal to or higher than 25,000 contracts, the position limit will be set at 25,000 contracts.
   - If the contract-equivalent number is equal to or higher than 20,000 but lower than 25,000 contracts, the position limit will be set at 20,000 contracts.
   - If the contract-equivalent number is equal to or higher than 15,000 but lower than 20,000 contracts, the position limit will be set at 15,000 contracts.
   - If the contract-equivalent number is equal to or higher than 10,000 but lower than 15,000 contracts, the position limit will be set at 10,000 contracts.
   - If the contract-equivalent number is lower than 10,000 contracts, the position limit will be set at 5,000 contracts.

   The tiers are illustrated in the following table.

Tier	Contract-equivalent number (X)	Proposed position limit*
1	25,000 contracts ≤ X	25,000 contracts
2	20,000 ≤ X < 25,000 contracts	20,000 contracts
3	15,000 ≤ X < 20,000 contracts	15,000 contracts
4	10,000 ≤ X < 15,000 contracts	10,000 contracts
5	X < 10,000 contracts	5,000 contracts

** Calculation based on the number of open contracts per SSF class in any one market direction for all expiry months combined*

X = 5% of the outstanding shares divided by the contract size subject to the provisions set out below:

(i) if 5% of the outstanding shares is less than 25% of the stock's turnover for the previous six months (the "25% Threshold"), X shall be deemed to be equal to the 25% Threshold divided by the contract size subject to (iii) below;

(ii) if 5% of the outstanding shares is greater than 33% of the stock's turnover for the previous six months (the "33% Threshold"), X shall be deemed to be equal to the 33% Threshold divided by the contract size subject to (iii) below; and

(iii) if X as calculated above is more than the Liquidity Threshold divided by the contract size, it shall be deemed to be equal to the Liquidity Threshold divided by the contract size. “Liquidity Threshold” means 1.34% of the stock’s turnover in the previous six months.

The Liquidity Threshold could be revised from time to time as deemed appropriate by HKFE.

Regular review

3. The position limits are to be reviewed regularly on an annual basis to adjust for any substantial changes due to market development. The formula above is applied to all SSF classes at the end of November each year, and if revisions are required, the updated position limits will be announced in December in the same year and will take effect on the first business day of April in the next calendar year.

For corporate action

4. Following a corporate action which results in a material change in the value of an underlying stock, HKFE may consider adjusting the contract size of the affected SSF to substantively maintain its notional value.

APPENDIX III

List of Respondents

Corporate Respondents - Participants

1 – 19	19 Participants that requested anonymity

Corporate Respondents - Professional Body / Industry Associations

20	Futures Industry Association

Individuals

21 – 22	2 individuals who requested anonymity

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