

Submitted Via Email
Company/Entity View

Question 1 - In line with the existing methodology, HKEX is proposing to add two tiers of exchange-level position limit (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?

Agree

Please state reason for your view:

We fully support increasing the maximum limit for exchange-level position limits of SSO to align with market growth. In fact, some members have requested that the limit be further revised upwards to 300,000 contracts.

However, the proposed change from a three-tier to five-tier model will further complicate the position limit regime and pose additional regulatory risks to exchange participants, particularly when monitoring position limit usage for their clients. This proposal will also introduce additional operational challenges for EPs as the introduction of two more tiers will entail two additional setups of every required aspect that is unique to each tier (for example, exchange fees). In view of this, while we understand the rationale behind the tiered structure in defining the position limit of SSO based on the profile of underlying stocks, we recommend that HKEX reconsiders its proposal to add more tiers to the existing model. As the difference between each tier under both the current and proposed models is 50,000 contracts, HKEX could consider widening the bands within each of the existing three tiers rather than adding more tiers. This is especially since the tails at both ends are broader than the middle few tiers under the proposed model, thereby presenting an opportunity to consolidate the middle tiers into one.

We also note that the review of whether a stock belongs in a specific tier is conducted on an annual basis. We request that the HKEX considers whether this should be done more frequently, considering that certain stocks are more volatile than others.

Finally, we would like to seek clarity on the position limits applicable to market makers following any increase in position limits. A market maker can currently apply for up to two times the maximum position limit for certain SSO. Should the maximum position limits be increased to 250,000 contracts, can HKEX confirm that a market maker would be able to apply for two times that limit (i.e. 500,000 contracts)? Such an increase would be welcome given that the current limits do not reflect the increased liquidity of listed options in the past decade, as well as higher stock prices compared to when the rules were first put in place.

Question 2 - 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

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?

Support

Please state reason for your view:

We are supportive of the review of the SSF position limit model and the proposed increase of the maximum limit for exchange-level position limit of SSF. However, for the reasons set out in our response to Q1, we encourage HKEX to reconsider its proposal to introduce additional tiers.

Instead, the HKEX could consider retaining the existing three tiers. The lower tier could be designated for stocks with limits less than X, the higher tier with limits more than Y and the middle tier between X and Y. In the event limits are insufficient in the future, this will allow them to be accommodated within the existing three bands rather than redefining each of the tiers again.

We also note that the proposed position limit will be based on the net position in all contract months for any SSF. This could bring about increased risks compared to using a net position for each month, as risks could differ from month to month.

The proposed model also contemplates annual reviews at the end of November, with any revisions effected on 1 April of the following year. We would encourage such reviews and revisions to take place more frequently to ensure that limits always reflect current market conditions.

Question 3 - Considering that flagship-minis are included in the position limits for products that reference the same index, do you support 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

Please state reason for your view:

We support the removal of the additional position limits applicable only to the flagship-minis. This will simplify the rules and monitoring required, especially since the flagship-minis and associated standard contracts are fungible.

Question 4 - Do you support revising the Large Open Position reporting requirement (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?

Do not support

Please state reason for your view:

Most members do not support revising the reporting requirement from 2,500 to 500 contracts for the flagship-minis. These contracts will probably result in a greater number of positions having to be reported as the contract size is smaller. In addition, as the exposure is only a fifth of the standard contract, the amount of risk that is being reported for the flagship-minis is not the same as the standard size contract.

Other comments: Can HKEX consider aggregating limits and monitoring them on a combined basis instead of setting a directional limit (i.e. long/short)? This will give EPs more flexibility to combine risk strategies to reduce exposure and would be a more accurate reflection of EPs' risks on the positions.