<u>Submitted via Qualtrics</u>
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 are supportive of the proposal to add two new tiers of 200,000 and 250,000 contracts to the exchange-level position limits.

For EPs that are currently authorised by HKEX to hold positions that are higher than the proposed position limit, could the exchange clarify how the transition process works between the two models, i.e. does the authorised EP need to apply for approval again or would the existing authorisation roll over.

While the proposed limits are suitable for the current product scope, it may not be appropriate in the future when the exchange expands its product offering to meet investor demands.

We would also propose that HKEX adopts a review process triggered by relevant corporate actions, which could limit market makers' ability to provide liquidity to additional instruments.

In addition, we would like to suggest that HKEX reviews the Position Limit calculation definition/methodology. As the Position Limit calculates open contracts, per option class in any one market direction for all expiry months, combined into synthetic long and short positions, it captures the gross sum of instrument positions in an underlying single stock. Using Tencent as an example, a call spread structure of 200,000 lots of long 1 month 500 calls with 200,000 lots of short 1 month 510 Calls contributes to Position Limit Exposures of 200,000 on both the synthetical long and short sides, however the actual market risk for this structure is significantly smaller than either long or short 200,000 lots of the underlying stocks. In other words, the current position limit calculation could significantly penalise market maker's low-risk strategies when providing liquidity to the market.

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 introduction of the five tier model proposed. We are also supportive of the single month position limit at two times the net limit to support rolls/spread trading.

However the Net Position Limit values proposed could be seen as a reduction in the current max position limit for many of the SSFs – for example, currently the an EP can long 5K contracts per expiry and hold 25K long contract across 5 expiries in an SSF underlying, however under the new proposed model if the SSF underlying does not fall into the top tier, the net positions limits will be reduced to less than 25K. This may significantly limit the future growth of the SSF products.

In the proposed model, the additional liquidity threshold seems to be a dominating factor that caps the projected contract equivalent number, could the exchange share how the value of 1.34% is calculated for this threshold?

For the future growth of the SSF product, we highly recommend the HKEX to better align the tiered net position limit values with the SSO position limit values. It is possible to see market making participants requiring limits substantially higher than 25k to provide liquidity for some of the major SSF names such in busy conditions. An improvement idea is to increase the current tiered limit values from 25K/20K/15K/10K/5K to 50K/45K/40K/35K/25K for example. (Review of the additional liquidity threshold is also required to ensure sensible allocation of limits.)

We are supportive of the regular review process in connection with corporate actions as market makers generally need limit increases to continue to support the products following abrupt capital adjustments. Could the exchange elaborate further on this review process and provide some examples for clarity?

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:

N/A

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?

Support

Please state reason for your view:

N/A