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通告 CIRCULAR

Subject: **Frequently Asked Questions – Position Limits and Large Open Position (“LOP”) Reporting on Physically Settled Options on Futures Contracts**

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As referenced in the Circular dated 12 August 2021 (Ref. No.: [MO/DT/176/21](#)), the Hong Kong Futures Exchange Limited (“the Exchange” or “HKFE”) will introduce the Physically Settled Options on Futures Contracts (“OOF”) on Hang Seng Index (“HSI”) Futures and Hang Seng China Enterprises Index (“HSCEI”) Futures (collectively as “the Contracts”) on 23 August 2021.

In light of the new settlement features of the OOF, the Exchange has prepared a set of Frequently Asked Questions (“FAQ”) pertaining to the relevant requirements of the Contracts’ Position Limits and LOP reporting.

The FAQ serves to address some of the key questions the Exchange Participants (“EPs”) may have and high-light those areas to which EPs should pay attention in order to facilitate the market’s understanding of the relevant rules and requirements.

Market Participants may contact the Market Surveillance and Monitoring Department (email: lophkfe@hkex.com.hk) should there be any enquiries regarding this FAQ.

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This circular has been issued in the English language with a separate Chinese language translation. If there is any conflict in the circulars between the meaning of Chinese words or terms in the Chinese language version and English words in the English language version, the meaning of the English words shall prevail.

FREQUENTLY ASKED QUESTIONS – Position Limits and Large Open Position (“LOP”) Reporting on Physically Settled Options on Futures Contracts (“OOF”) on Hang Seng Index (“HSI”) Futures and Hang Seng China Enterprises Index (“HSCEI”) Futures (collectively as “the Contracts”)

(Important Note: This FAQ does not have the force of law, and should not be interpreted in any manner which would override the provision of any applicable law or any other regulatory requirements. This FAQ should be read in conjunction with the Securities and Futures (Contracts Limits and Reportable Positions) Rules (“CLRPs Rules”) made under Section 35(1) of the Securities and Futures Ordinance (“SFO”), SFC’s Guidance Note on Position Limits and Large Open Position Reporting Requirements (“Guidance Note”), and relevant Exchange Rules and Circulars)

POSITION LIMITS

Q1: Is there any difference between the Exchange Position Limits and Statutory Position Limits of the Contracts?

A: Before the sub-legislation of SFO is amended to include the Contracts in the combined position limits, EPs should be aware that the contracts to be included in the calculation of statutory position limits under the SFO and the exchange position limits stipulated in the contract specifications under the HKFE Rules **are different**.

In this regard, EPs and their clients are required to observe **both** the existing statutory position limits under the SFO and the exchange position limits stipulated in the contract specifications under the HKFE Rules prior to the amendment of sub-legislation of the SFO.

Please see below (i) the basis of Exchange Position Limit **and** Statutory Position Limit calculation using the HSI product suite as illustration (same basis applies to HSCEI product suite) and (ii) examples of Position Limit calculation:

(i) Basis of Calculation (prior to amendment of the sub-legislation of the SFO):

	HSI Products ¹	Weekly HSI Options	Hang Seng Gross Total Return Index Futures ("HSIGTRI Futures")	Hang Seng Net Total Return Index Futures ("HSINTRI Futures")	HSI OOF
Exchange Position Limit (10,000 net delta in all months combined)	YES	YES	YES	YES	YES
Statutory Position Limit (10,000 net delta in all months combined)	YES	NO	NO	NO	NO

(ii) Examples of Position Limit Calculation:

Case	Open Position Delta of HSI Products (A)	Open Position Delta of HSI OOF (B)	Aggregate Position Delta (A) + (B)	Within Statutory Position Limit of HSI Products?	Within Exchange Position Limit?
Scenario 1: Holding HSI Products only					
1	+9,900	0	+9,900	Yes	Yes
2	+11,000	0	+11,000	No	No
Scenario 2: Holding both HSI Products and HSI OOF (same direction)					
3	+8,900	+1,000	+9,900	Yes	Yes
4	+12,000	+1,000	+13,000	No	No
5	+1,000	+12,000	+13,000	Yes	No
Scenario 3: Holding both HSI Products and HSI OOF (opposite direction)					
6	+12,000	-3,000	+9,000	No	Yes
7	+3,000	-12,000	-9,000	Yes	Yes
Scenario 4: Holding HSI OOF only and without position in HSI Products					
8	0	+9,900	+9,900	Yes*	Yes
9	0	+11,000	+11,000	Yes*	No

*HSI OOF does not have statutory position limit on its own prior to the amendment of the sub-legislation of the SFO

¹ HSI Products: HSI Futures, HSI Options, Mini HSI Futures and Mini HSI Options

Q2: What is the treatment of Exchange Position Limits if the SFC approves excess positions in HSI and/or HSCEI² Products to be held by an EP and/or its clients?

A: If the SFC approves an EP and/or its client to hold excess positions in HSI and/or HSCEI Products, HKFE will apply the approved position delta to the Exchange Position Limit calculation of that EP and/or its client.

For example, the SFC has approved an EP to hold excess positions in HSI Products, increasing the position delta from 10,000 to 20,000. HKFE will adopt the same position delta (i.e. 20,000) for HSI Products, Weekly HSI Options, HSI GTRI Futures, HSI NTRI Futures and OOF on HSI in all Contract Months and Contract Weeks combined on that EP. Please see below for illustrations (*Similar treatments will be applied to HSCEI product suite*):

Case	Open Position Delta of HSI Products (A)	Open Position Delta of HSI OOF (B)	Aggregate Position Delta (A) + (B)	Within Statutory Position Limit of HSI Products?	Within Exchange Position Limit?
Scenario 1: Holding HSI Products only					
1	+19,900	0	+19,900	Yes	Yes
2	-21,000	0	-21,000	No	No
Scenario 2: Holding both HSI Products and HSI OOF (same direction)					
3	+18,900	+1,000	+19,900	Yes	Yes
4	-21,000	-1,000	-22,000	No	No
5	+3,000	+19,000	+22,000	Yes	No
Scenario 3: Holding both HSI Products and HSI OOF (opposite direction)					
6	+22,000	-3,000	+19,000	No	Yes
7	+3,000	-22,000	-19,000	Yes	Yes
Scenario 4: Holding HSI OOF only and without position in HSI Products					
8	0	+19,900	+19,900	Yes*	Yes
9	0	-21,000	-21,000	Yes*	No

*HSI OOF does not have statutory position limit on its own prior to the amendment of the sub-legislation of the SFO

² HSCEI Products: HSCEI Futures, HSCEI Options, Mini HSCEI Futures and Mini HSCEI Options

Q3: Is there anything EPs need to be aware of in position limit monitoring on the Contracts' expiry day?

A: EPs should be aware that the exercise event on expiry day for in-the-money OOF could potentially result in a change in the position delta of their positions as well as their position limit usage. It is therefore of paramount importance that appropriate monitoring measures be put in place to ensure compliance of position limit requirements at all time.



LARGE OPEN POSITION (“LOP”) REPORTING

Q1: What are the LOP reporting code and reporting level for the Contracts?

A: **Table 1** below sets out the LOP reporting code and reporting level of the Contracts. EPs are reminded to update all necessary system parameters to ensure effective LOP monitoring is in place to timely detect reportable positions of the Contracts.

Table 1: Reporting Code and Reporting level

Product	LOP reporting code	Reporting level
OOF on HSI	PHSO	500 open contracts in any one series
OOF on HSCEI	PHHO	500 open contracts in any one series

Q2: Is the 60% reporting rule on stock index futures and options applicable to the Contracts?

A: Yes, EPs should note that the LOP reporting requirement on EPs with open position held for their own account or any client exceeding 60% of the position limit of stock index futures and options products with the same underlying index **is also applicable** to the Contracts. See Circular dated 26 November 2014 (Ref. No.: [EFIC/DT/178/14](#)) for details.

Q3: Do we need to include the futures contracts generated from the exercising of the in-the-money OOF in the LOP report as of expiry day?

A: Yes, EPs should include those delivered futures contracts in determining their reportable positions as of expiry day. The delivery of underlying futures will be completed in the end of day processing in HKFE Clearing Corporation Limited (“HKCC”) and will be treated as T-day positions of the expiry day.

Q4: How should the LOP reporting be done if there are discrepancies between EP’s own books and DCASS records due to the timing difference of processing the post trade adjustments as of expiry day?

A: EPs shall report the LOP based on their books and records. In case of discrepancies between the reported LOP and DCASS records on the expiry day of the Contracts, the Exchange will make reference to the EP’s exercise record in DCASS to ascertain the rationale behind such discrepancies. If the discrepancies are supported by the DCASS exercise records, EPs will not be required to provide an explanation on such discrepancies.

The above examples and illustrations are intended for illustrative purposes only and are not meant to be complete or exhaustive. Market Participants should carefully consider their own particular circumstances when adopting these examples and illustrations.