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通告 CIRCULAR

Subject: FREQUENTLY ASKED QUESTIONS ON POSITION LIMITS AND LARGE OPEN POSITION (“LOP”) REPORTING

Enquiry: lophkfe@hkex.com.hk

As part of the Exchange’s continuing efforts to enhance transparency and awareness of our rules and regulations, the Exchange today issued a set of Frequently Asked Questions (“FAQ”) on Position Limits and Large Open Position (“LOP”) Reporting.

The FAQ addresses questions frequently asked by Exchange Participants, LOP Holders and other market participants on compliance with the position limits and LOP reporting requirements, and also provides guidance and illustrations on whether and when LOP reporting obligations would be triggered under certain scenarios.

A copy of the FAQ is attached to this circular for your information. The FAQ is also available on the HKEX website at www.hkex.com.hk under the section: [“Large Open Positions and Position Limits”](#).

Market participants may contact the Market Surveillance and Monitoring Department (email: lophkfe@hkex.com.hk), should they have any feedback or questions regarding the FAQ.

Garbo Cheung
Head
Market Surveillance and Monitoring
Markets Division

This circular and FAQ have been issued in English with a separate Chinese translation of the same. If there is any discrepancy between the Chinese version and the English version, the English version shall prevail.

FREQUENTLY ASKED QUESTIONS – POSITION LIMITS AND LARGE OPEN POSITION (“LOP”) REPORTING

(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 (“CLRP Rules”), SFC’s Guidance Note on Position Limits and Large Open Position Reporting Requirements (“Guidance Note”), and relevant Exchange Rules and Circulars (Appendix I).)

POSITION LIMITS

Q1: Are position limits based on inter-day or intra-day positions?

A: Position limits should be observed at all times, and are applicable to open positions on exchange traded products, accumulated and/or established, on both an inter-day and intra-day basis. Position limits do not apply to unfilled or unexecuted orders.

Q2: How are position limits calculated? Can HKEX provide the calculation of position delta?

A: Calculation of position limits may vary by products. Some products (e.g. HSI futures and options) are calculated using the position delta for a combination of contracts, while others (e.g. stock futures) may be based on the number of open contracts (5,000 open contracts in any one Contract Month). For a complete list of position limits, please refer to the [Large Open Positions Reporting Level and Position Limits Table](#) on our website.

Position delta for futures and options contracts is available for each trading day on our website: http://www.hkex.com.hk/eng/market/rm/rm_dcrm/riskdata/greeks/greeks.asp

Q3: Is there any exemption from position limit?

A: Pursuant to the CLRP Rules, the SFC and SEHK/HKFE may authorize excess positions under specified circumstances. For details, please refer to the CLRP Rules and the SFC’s Guidance Note¹. Application for excess positions must be submitted in advance to the relevant authority.

¹ Para 3 Authorization to Exceed Prescribed Limits

Q4: What happens if a client breaches a position limit?

A: An Exchange Participant, who is aware or made aware of a breach of position limit by its client, should immediately: (a) notify the Exchange, and (b) request the client to liquidate the excess position.

LOP REPORTING**Q1: What are the Reporting Levels for different exchange traded products?**

A: LOP Reporting Levels may vary by products. For a complete list of LOP Reporting Levels, please refer to the [Large Open Positions Reporting Level and Position Limits Table](#) on our website.

Q2. Should LOP be measured and reported on a gross or net basis?

A: LOP should be measured and reported in terms of open contracts on a gross basis.

Q3: Is an Exchange Participant obliged to submit the LOP Report on behalf of its client?

A: An Exchange Participant is responsible for LOP Reporting in the following circumstances:

1. Any HKFE Participant or Options Exchange Participant holding positions in excess of the Reporting Level for *its own account*;
2. Any HKFE Participant or Options Exchange Participant holding positions in excess of the Reporting *Level for each of its client(s)*;
3. Any HKFE Participant holding an open position for *its own account* that exceeds 60% of the position limit of stock index futures and options product with the same underlying index²; **and**
4. Any HKFE Participant holding an open position for *each of its client(s)*³ that exceeds 60% of the position limit of stock index futures and options product with the same underlying index.

Note that if the client maintains separate accounts through different Exchange Participants, the client may either:

- (a) provide its total positions to one Exchange Participant and authorize that Exchange Participant to submit the LOP Report to HKEX; or
- (b) authorize each individual Exchange Participant to report its positions separately to HKEX even though its positions in individual accounts may not exceed the Reporting Level.

² The Exchange Participant is required to report all outstanding positions in the products concerned, including those positions that are below the LOP reporting threshold

³ The 60% requirement applies separately to positions held or controlled by each ultimate beneficial identity, omnibus account operator and transaction originator.

Q4: Should an Exchange Participant report its stock option positions held for its market making activities and proprietary trades?

A: An Exchange Participant should report its stock option positions to the Exchange if the combined positions of its market making activities and proprietary trades exceed the Reporting Level. However, if the positions arising from market making activities are held by Market Makers in their Market Maker Account(s), such positions are treated as having been reported to the Exchange and need not be included in the LOP Report.

Example

- An Exchange Participant has 1,200 open contracts in an option class of the same expiry month
- Reporting level: 1,000 open contracts, in any one Contract Month

Case 1: Positions held for both market making activities and proprietary trades

Position Nature	No. of Contracts	Reportable Position
Market Making	800	Not required
Proprietary Trade	400	400
Total	1,200	400

Case 2: Positions held solely for market making activities

Position Nature	No. of Contracts	Reportable Position
Market Making	1,200	Not required

Q5: What is the EP Code in the LOP Report?

A: The EP Code is the Participant Code of the HKFE Participant or Options Exchange Participant, with which the positions are being held. The EP Code can be found on the [HKEX's website](#).

Q6: What are the definitions for hedging, arbitrage and trading? Can a position be reported for more than one of these trading purposes in the LOP Report?

A: To facilitate the Exchange's monitoring, Exchange Participants are required to provide the nature of a **reportable position** (i.e. for hedging, arbitrage or trading purposes, as defined below) in the LOP Report.

Hedging: Utilization of futures/options to reduce or eliminate the market risk of a portfolio by compensating for the effect of price fluctuations of an underlying asset

Arbitrage: Trading to take riskless or near riskless profit from price differentials in related markets

Trading: Trading for potential profit in anticipation of a price movement in either the short or long term, but not for hedging or arbitrage purpose

A **position** can be reported for one or more of the above trading purposes in the LOP Report. For client accounts, EPs may obtain this information upon the client's account opening or communications with the client from time to time.

Q7: What are the differences between “ultimate beneficial identity” and “transaction originator” in the LOP Report?

A: An “ultimate beneficial identity” (or ultimate client) is a person who holds the positions with beneficial ownership, while a “transaction originator” is a person who is responsible for originating instructions for transactions on behalf of the other person (e.g. a fund manager).

In the case of a fund manager, if he has discretion in relation to positions he holds or controls for his funds, he is not allowed to disaggregate the positions held or controlled for each of the funds.

Example

- Fund Manager A is in charge of the investment of two funds, Fund B and Fund C.
- Fund B and Fund C hold 1,600 and 400 Hang Seng Index Futures 06/2017 contracts respectively.
- The positions are held by Exchange Participant D.
- Reporting level: 500 open contracts, in any one Contract Month

Fund Name	Long or Short	No. of Contracts
Fund B	L	1,600
Fund C	S	400
Total		2,000

Exchange Participant D shall file the LOP Report for Fund Manager A as follows:

LOP Report (Data Worksheet):

Product Code	EP Code	A/C No.	Person Report	Contract Month	L or S	Contract No.
HSIF	DDD	Z_123	TO	06/2017	L	1,600
HSIF	DDD	Z_456	TO	06/2017	S	400

LOP Report (A/C List Worksheet):

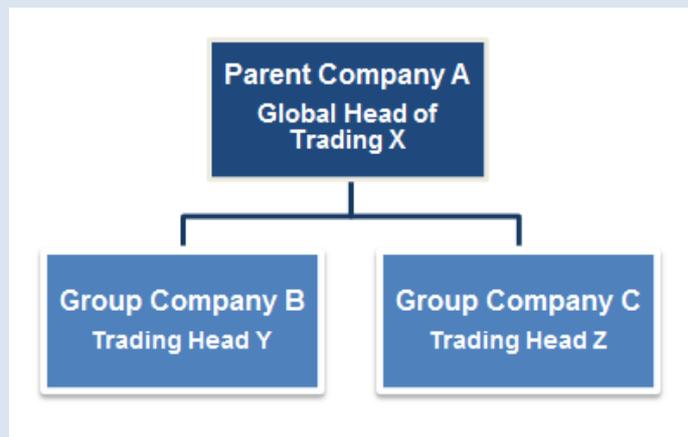
A/C No	Ultimate Beneficial Identity	Transaction Originator
Z_123	Fund B	Fund Manager A
Z_456	Fund C	Fund Manager A

Q8: How should an Exchange Participant report LOP for different companies within the same group?

A: The positions held by different companies within the same group under the same control should be aggregated for LOP reporting purpose. The aggregation requirement does not apply to a group company who controls positions merely by virtue of its corporate relationship, provided that such company does not give its affiliates or subsidiaries any day-to-day direction with respect to trading.

Example

- Parent Company A has two group companies, Group Company B and Group Company C
- Group Company B and Group Company C are headed by Trading Heads Y and Z respectively. They have a common reporting line to Global Head of Trading, X, of Parent Company A
- As Global Head X does not give Trading Heads Y and Z any day-to-day trading direction, the positions held by Group Company B and Group Company C need not be aggregated for LOP reporting



Group Company	Long or Short	No. of Contracts
Group Company B	L	1,500
Group Company C	S	300
Total		1,200

Exchange Participant D shall file the LOP Report for Group Company B as follows:

LOP Report (Data Worksheet):

Product Code	EP Code	A/C No.	Person Report	Contract Month	L or S	Contract No.
HSIF	DDD	Z_1234	BI	07/2017	L	1,500

LOP Report (A/C List Worksheet):

A/C No	Ultimate Beneficial Identity	Transaction Originator
Z_1234	Group Company B	Leave blank if nil

Q9: How should an Exchange Participant report LOP for different proprietary trading desks for different strategies?

A: Even though different proprietary trading desks may adopt different trading strategies and may not make trading decision for each other, their positions should be aggregated for LOP Reporting as long as they are booked under the same legal entity.

There are situations where positions of different proprietary trading desks are booked under separate legal entities. Provided that each legal entity does not give day-to-day trading direction to another legal entity, their positions could be treated separately (i.e. disaggregated). An example is shown in FAQ 8 above.

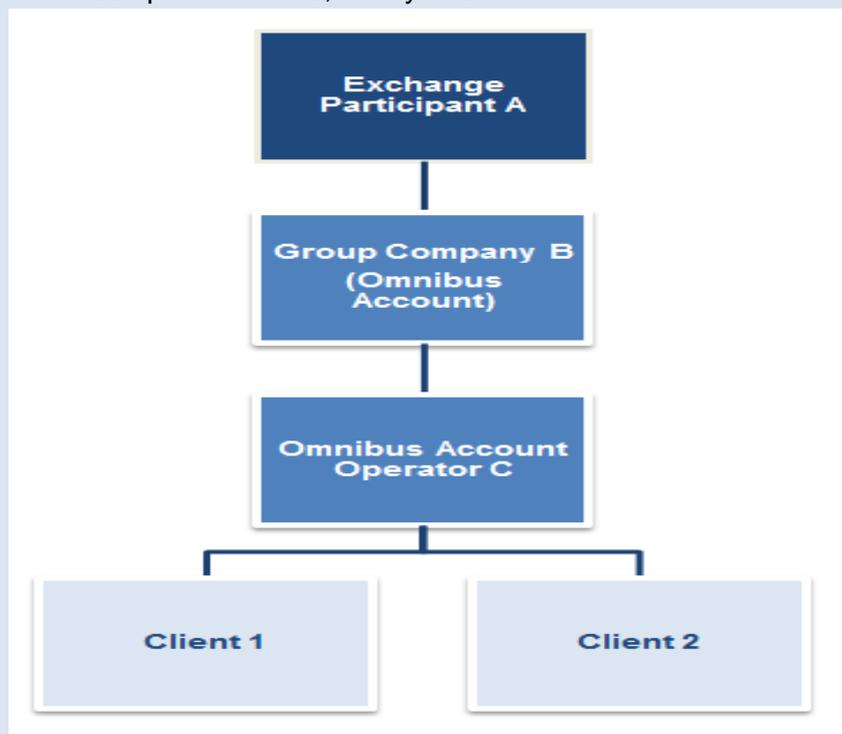
Q10: How should an Exchange Participant report LOP for omnibus accounts?

A: If an omnibus account operator in one layer has notified the Exchange of the LOP held by the ultimate clients, including identities of each of them (either by itself or through its agent), the other omnibus account operators below this layer will not be required to notify the Exchange of any LOP held in their accounts.

If an ultimate client chooses to file the LOP Report to the Exchange, the omnibus account operator will not be required to report on his behalf.

Example

- Omnibus Account Operator C holds 1,200 Hang Seng Index Futures contracts (“HSIF”) for Client 1 and Client 2 in Exchange Participant A via the Exchange Participant’s Group Company B.
- Reporting level: 500 open contracts, in any one Contract Month



Entity	Long or Short	No. of Contract
Group Company B	L	1,200
Omnibus Account Operator C	L	1,200
Client 1	L	800
Client 2	L	400

Case 1: Omnibus Account Operator C has authorized and provided the identities of Client 1 and Client 2 to Exchange Participant A for LOP Reporting purpose

- Exchange Participant A shall file the LOP Report for Group Company B and Client 1, while no reporting is required for Omnibus Account Operator C and Client 2

Exchange Participant A

LOP Report (Data Worksheet):

Product Code	EP Code	A/C No.	Person Report	Contract Month	L or S	Contract No.
HSIF	AAA	Z_123	OM	06/2017	L	1,200
HSIF	AAA	Z_456	BI	06/2017	L	800

LOP Report (A/C List Worksheet):

A/C No	Ultimate Beneficial Identity	Transaction Originator
Z_123	Group Company B	Leave blank if nil
Z_456	Client 1	Leave blank if nil

Case 2: Omnibus Account Operator C has not provided the identities of Client 1 and Client 2 to Exchange Participant A for LOP reporting purpose

- Exchange Participant A shall file the LOP Report for Group Company B and Omnibus Account Operator C,
- Omnibus Account Operator C shall file the LOP Report for Client 1

Exchange Participant A

LOP Report (Data Worksheet):

Product Code	EP Code	A/C No.	Person Report	Contract Month	L or S	Contract No.
HSIF	AAA	Z_123	OM	06/2017	L	1,200
HSIF	AAA	Z_333	OM	06/2017	L	1,200

LOP Report (A/C List worksheet):

A/C No	Ultimate Beneficial Identity	Transaction Originator
Z_123	Group Company B	Leave blank if nil
Z_333	Omnibus account operator C	Leave blank if nil

Omnibus Account Operator C**LOP Report (Data Worksheet):**

Product Code	EP Code	A/C No.	Person Report	Contract Month	L or S	Contract No.
HSIF	AAA	Z_456	BI	06/2017	L	800

LOP Report (A/C List Worksheet):

A/C No	Ultimate Beneficial Identity	Transaction Originator
Z_456	Client 1	Leave blank if nil

Case 3: Same as Case 2, but Client 1 will file the LOP Report to the Exchange

- Exchange Participant A shall file the LOP Report for Group Company B and Omnibus Account Operator C
- Client 1 shall file the LOP Report by himself

Exchange Participant A**LOP Report (Data Worksheet):**

Product Code	EP Code	A/C No.	Person Report	Contract Month	L or S	Contract No.
HSIF	AAA	Z_123	OM	06/2017	L	1,200
HSIF	AAA	Z_333	OM	06/2017	L	1,200

LOP Report (A/C List worksheet):

A/C No	Ultimate Beneficial Identity	Transaction Originator
Z_123	Group Company B	Leave blank if nil
Z_333	Omnibus account operator C	Leave blank if nil

Client 1**LOP Report (Data Worksheet):**

Product Code	EP Code	A/C No.	Person Report	Contract Month	L or S	Contract No.
HSIF	AAA	Z_456	BI	06/2017	L	800

LOP Report (A/C List Worksheet):

A/C No	Ultimate Beneficial Identity	Transaction Originator
Z_456	Client 1	Leave blank if nil

However, no matter which party is chosen by the person to submit the notice to the Exchange, it is the responsibility of each person holding or controlling the reportable position to fulfil its obligation under Section 6(1) of the CLRP Rules.

Q11: How should an Exchange Participant report LOP for positions that are pending allocation due to time zone differences?

A: The Exchange Participant should:

- (a) on the date of reporting, provide the “transaction originator” and specify “pending allocation” in the “ultimate beneficial identity” column of the LOP Report; and
- (b) on subsequent reporting date(s), report the “ultimate beneficial identity” (e.g. Fund B and Fund C) until the positions fall below the Reporting Level.

Q12: Could an Exchange Participant include all positions regardless of the Reporting Levels in the LOP Report?

A: Although there is no statutory or regulatory requirement to report positions below the Reporting Level, an Exchange Participant may include all positions (for its own account and for all or certain clients) in its LOP Report to the Exchange. This approach, once adopted, should be applied consistently in order to facilitate the Exchange’s monitoring of compliance with the LOP Reporting requirement.

The Exchange Participant should make prior arrangements with the Exchange by submitting (a) a specimen LOP Report that includes all positions for a recent trade date, and (b) information of all new LOP holders on the specimen LOP Report to:

Market Surveillance and Monitoring Department
Email address: lophkfe@hkex.com.hk

FEEDBACK AND QUESTIONS

The above examples are intended for illustrative purposes only and are not meant to be complete or exhaustive. Market Participants should carefully consider their own particular circumstances (including but not limited to the particular organization structure in question, the contractual relationships amongst the parties involved and any instructions regarding delegated reporting) when adopting these examples.

Market Participants may contact the Market Surveillance and Monitoring Department (email: lophkfe@hkex.com.hk), should they have any feedback or questions regarding this FAQ.

Market Surveillance and Monitoring Department
July 2017

Appendix I

Relevant Exchange Rules and Circulars on Position Limits and LOP Reporting

Exchange Rules

Rules, Regulations and Procedures of the Futures Exchange

Chapter VI - Exchange Participants and Their Clients

628	Monitoring Large Open Positions
629	Trading Limits and Position Limits
631-632	Exceeding Position Limits
632(A)	Client-Based Delta Position Limits
632(B)	Increasing a Position Limit
633(c)	Responsibility of Informing Clients of the LOP reporting requirements

Operational Trading Procedures for Options Trading Exchange Participants of the Stock Exchange

Chapter 5 : Client Services Support

5.9	Position Limit and Reporting Level
5.10	Responsibility of Reporting Excess in Reporting Level and Informing Clients of the LOP reporting requirements
5.11	Reporting Excess in Reporting Level
5.12	Increasing a Position Limit

Circulars

1. Harmonisation Of Position Reporting Levels And Position Limits In HKFE Contract Specifications With The Securities And Futures (Contracts Limits And Reportable Positions) Rules [Ref: ED/DMD/MD/024/05]
2. Strengthening Large Open Position Monitoring for Stock Index Futures and Options [Ref: EFIC/DT/178/14]
3. Electronic Submission of Large Open Position Report for Futures Contracts [Ref: MSM/001/15]
4. Electronic Submission of Large Open Position Report for Stock Options [Ref: MSM/001/2016]