Operational Trading Procedures

Chapter 5： Client Services Support

5.9 Position Limit and Reporting Level

Subject to *Options Trading Rule 436A*, limits are imposed on the open positions any single party (Options Exchange Participant or client) can carry at any one time. Reporting levels, in excess of which a party (Options Exchange Participant or client) is required to report to the Exchange, are also prescribed. Without prejudice to the powers of the Exchange under *Options Trading Rules 435 and 439*, the position limits[Note 1] currently applicable are classified into 5 levels, namely 250,000, 200,000, 150,000, 100,000 and 50,000 open contracts per option class in any one market direction for all expiry months combined. The applicable level of position limit is determined by reference to the methodology set out in 5.9A below. Reporting level[Note 2] for all option classes is 1,000 open contracts per option class per expiry month.

Notes:

1. *Position Limit* – this represents the maximum number of open contracts a single party can hold for any option class in any one market direction for all expiry months combined (N.B. long calls/short puts combined are in one direction and short calls/long puts combined are in another direction).

   Example A, if the limit is 50,000 and an Options Exchange Participant is long a total of 47,000 calls and short 3,000 puts in the same option class, it has reached the limit, but if it is long 47,000 calls and long 3,000 puts, it has not.

   Example B, if the limit is 150,000 and an Options Exchange Participant is long a total of 135,000 calls and 15,000 puts and short a total of 10,000 puts and 132,000 calls in the same option class, it has not reached the limit, since the positions in one market direction will be 145,000 contracts (long 135,000 calls and short 10,000 puts) and 147,000 contracts (short 132,000 calls and long 15,000 puts).

   A Market Maker or an Options Exchange Participant which is, or is holding positions for, a person specified under section 4A of the Securities and Futures (Contracts Limits and Reportable Positions) Rules may hold positions in excess of the limit prescribed by the Commission under the Securities and Futures (Contracts Limits and Reportable Positions) Rules provided that it is authorized to do so by the Exchange under 5.12 below.

2. *Reporting level* – this is the number of open contracts in any one single expiry month of an option class, including all types, strike prices, long and short positions in excess of which a position shall be reported to the Exchange. Where positions exceeding this level are held for a client, the Options Exchange Participant must notify the Exchange of the client's identity. Positions arising from market making activities that are held by Market Makers in their Market Maker Accounts are treated as having been reported to the Exchange.

5.9A   Methodology for Setting the Position Limit

The position limit is set based on the contract-equivalent number and shall be calculated by reference to the market capitalization and liquidity of the underlying stock relating to that particular stock options contract.

Contract-equivalent number (X)	Position limit
250,000 contracts ≤ X	250,000 contracts
200,000 ≤ X < 250,000 contracts	200,000 contracts
150,000 ≤ X < 200,000 contracts	150,000 contracts
100,000 ≤ X < 150,000 contracts	100,000 contracts
X < 100,000 contracts	50,000 contracts

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.

5.12   Increasing a Position Limit

Subject to *Options Trading Rule 436A*, an Options Exchange Participant or a client may request the Exchange to increase the position limit imposed by the Exchange or, in the case of a person specified under section 4A of the Securities and Futures (Contracts Limits and Reportable Positions) Rules, to authorize it to hold positions in excess of the limit prescribed by the Commission thereunder (the "Commission's prescribed limit"). Where applicable, an Options Exchange Participant (if it is not a SEOCH Participant) or a client may also submit a request to increase the position limit imposed on behalf of the SEOCH Participant which clears its trades together with its own request. Such requests shall be made in writing to the Exchange. The Options Exchange Participant or its client or the person that made the request may be required to justify the increase of the limit imposed by the Exchange or the holding of positions in excess of the Commission's prescribed limit. The Exchange may at its absolute discretion grant or refuse the request. Approval from the Exchange must be received prior to entering into positions which exceed the position limit imposed by the Exchange or the Commission's prescribed limit. In the event that approval to hold or control excess position limit is granted by the Exchange under s4A of the Securities and Futures (Contracts Limits and Reportable Positions) Rules in respect of any option class, the Options Exchange Participant or client shall appoint only one SEOCH Participant to hold its positions in such option class.