Consultation Conclusions on Proposed Increase of Position Limits for Exchange-traded Derivatives Based on Hang Seng Index, Hang Seng China Enterprises Index and Hang Seng TECH Index

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Contents

Executive summary

1. This paper sets out the Securities and Futures Commission's (**SFC**) consultation conclusions and responses to comments on proposed increases of the position limits for exchange-traded derivatives based on Hang Seng Index, Hang Seng China Enterprises Index and Hang Seng TECH Index (collectively, the **Hang Seng Indexes Derivatives**), as well as the related amendments to the Securities and Futures (Contracts Limits and Reportable Positions) Rules (**Rules**) and proposed updates to the Guidance Note on Position Limits and Large Open Position Reporting Requirements (**Guidance Note**).

2. The SFC issued the Consultation Paper on 27 February 2025. During the one-month consultation period up to 28 March 2025, we received 25 submissions from various stakeholders including local and overseas market participants, liquidity providers/market makers[1], asset managers, industry associations and an individual. A list of the respondents (other than those who requested anonymity) is set out in the Annex.

3. Overall, the proposal receives strong support from the respondents. Their comments, except for two who have requested their submissions be withheld from publication, are available on the SFC's website. This conclusions paper should be read in conjunction with the Consultation Paper.

4. Having considered the feedback, the SFC will proceed with the implementation of the proposal and finalise the relevant amendments to the Rules and the Guidance Note as proposed in the Consultation Paper. The amendments to the Rules will be published in the Government Gazette and submitted to the Legislative Council for negative vetting. Subject to the legislative process, the new position limits for Hang Seng Indexes Derivatives are expected to take effect in July 2025.

Key comments received and the SFC's responses

Public comments

5. There was strong consensus among respondents that increasing position limits will enhance market liquidity, improve hedging efficiency and facilitate further market growth. Some noted that the proposed changes are essential for accommodating the legitimate business needs of market participants and allowing them to manage risks more effectively.

6. One respondent suggested position limits be higher for liquidity providers/market makers, such that market making activities will not be curtailed.

[1] Both liquidity providers and market makers serve the same function of improving market liquidity by providing two-way quotes. In HKEX, market makers are required to quote according to the obligations stated in the HKEX Rules, whereas for liquidity providers, they quote according to the obligations as agreed with HKEX.

7. Another respondent sought clarification on whether the existing authorisations to hold or control position limits above the statutory levels will continue to apply.

8. A few respondents called for larger increases in the position limits, citing that other international exchanges either impose no position limits or have much higher limits on major equity index derivatives vis-à-vis the open interest, daily turnover and market capitalisation. It is suggested that the position limits be adjusted with forward-looking metrics.

9. Numerous respondents called for regular reviews of the position limits and benchmarking against other developed markets to ensure the position limits in Hong Kong remain appropriate.

10. Respondents generally agreed that the proposal will not increase systemic risk to the Hong Kong financial market.

The SFC's response

11. We are encouraged by the overwhelming support for the proposal.

12. For liquidity providers/market makers, currently sections 4 and 4A of the Rules already provide for them to seek authorisations from the respective exchanges to hold or control positions above the statutory limits. As we understand, a number of liquidity providers and market makers have been authorised by the respective exchanges for position limits above the statutory levels. In addition to market making, the Rules also allow the SFC to authorise market participants to hold or control positions above the statutory limits for some specified activities, such as provision of client facilitation services, index arbitrage activities, asset management and provision of clearing services.

13. The existing authorisations to hold or control positions in excess of the statutory limits will remain valid, subject to the terms outlined in the authorisation conditions.

14. Regarding the suggestions to raise position limits further beyond the proposed levels as mentioned in the Consultation Paper, we consider that a number of factors should be taken into account when determining the level of position limits, including the utilisation of existing position limits and the potential systemic impact of raising those limits. We are mindful to strike a proper balance between facilitating market development and maintaining financial stability. Having considered the historical and potential market growth, as well as the reporting data from market participants regarding their utilisation of the limits, we consider that the proposed position limits are appropriate to cope with market development in the foreseeable future without introducing additional risk to the Hong Kong financial market.

15. As regards the calls for regular reviews of position limits, we would like to clarify that there have indeed been periodic assessments of the regime. The SFC is committed to ensuring the position limit regime remains effective in both facilitating market

development and serving its regulatory function to prevent the excessive build-up of positions that may disrupt the Hong Kong financial market. While noting respondents' comments that Hong Kong's regime should align with global standards, we must point out that every jurisdiction should consider its own unique risk profile and factors in safeguarding its markets. Nevertheless, we will keep in view the global standards and consider further adjustments to the position limits if deemed appropriate.

16. The SFC will maintain vigilant oversight and robust monitoring to ensure that the increased position limits will not introduce undue systemic risk to the Hong Kong financial market.

Conclusions and way forward

17. A sound and adaptive regulatory framework is critical to maintaining Hong Kong's competitiveness as an international financial centre. Therefore, the SFC is committed to enhancing the position limit regime to better serve the needs of market participants while ensuring the stability and integrity of the Hong Kong financial market.

18. Having considered the comments received, the SFC will proceed with the proposal as set out in the Consultation Paper. After completing the legislative amendments, we aim to implement the proposal in July 2025.

19. Lastly, the SFC would like to thank all respondents for their time and effort in reviewing and providing feedback on the proposal. We appreciate the constructive responses and look forward to continuing our engagement with the industry on future initiatives.

Annex – List of respondents

(in alphabetical order)

1. Asia Securities Industry & Financial Markets Association
2. Chinese Futures Association of Hong Kong
3. Futures Industry Association
4. G.H. Financials (Hong Kong) Limited
5. Hong Kong Investment Funds Association
6. Old Mission Capital LLC
7. Orient Futures (Hong Kong) Limited
8. Mr. Syamantak Saha
9. Yuanta Futures (HK) Co., Limited
10. Anonymous – 14 respondents requested not to publish their identities
11. Anonymous – 2 respondents requested not to publish their identities and the contents of their submissions