1a) Do you agree with the proposal to raise the cap on the excess position limit for HSI and HHI futures and options contracts from the current level of 50% to 300%?

Answer: Agree. The new position limit regime can be enhanced to facilitate the development of Hong Kong's derivatives market.

1b) Do you agree with the proposal relating to tightening the "adequate financial capability" requirement as set out in paragraph 25?

Answer: Agree. This will be important for regulators to ensure that EPs or their affiliates can manage the potential risks arising from such excess positions.

2) Do you have any comments on the proposed ETF Market Maker Excess Position Limit, i.e., an ETF market maker or liquidity provider may be authorized under the rules of the relevant recognized exchange company to hold or control futures or stock options contracts in excess of the statutory prescribed limit for hedging the risks arising from their ETF market making or liquidity providing activities?

Answer: Agree. We believe the excess position limit would facilitate ETF market makers in discharging their market making function and managing the associated risks.

3a) Do you have any comments on the proposed Index Arbitrage Activity Excess Position Limit, ie, the SFC may authorize an EP or its affiliate to hold or control HSI and HHI futures and options contracts in excess of the prescribed limit for index arbitrage activities? Do you have any comments on the definition of "Index arbitrage" set out in the proposed new section 4D(3) of the CLRP Rules (see Appendix A)?

Answer: In view of the benefits of index arbitrage activities to the market and the expected need for an excess position limit to facilitate such activities, we agree that EPs and their affiliates should be eligible to apply to the SFC for authorization to hold or control HSI and HHI futures and options contracts in excess of the statutory prescribed limit.

We do agree on the definition of "Index arbitrage" set out in the proposed new section 4D(3) of the CLRP Rules (see Appendix A).

3b) Do you have any comments or suggestions on the proposed eligibility criteria for an EP or its affiliate to be authorized by the SFC to hold or control excess position limits for index arbitrage activities?

Answer: We strongly agree that EP must have effective internal control procedures and risk management systems to manage the potential risks arising from index arbitrage activities.

4a) Do you have any comments on the proposed Asset Manager Excess Position Limit, i.e., the SFC may authorize an asset manager to hold or control HSI and HHI futures and options contracts in excess of the statutory prescribed limit?

Answer: Agree. The existing prescribed limits are too restrictive and it cannot cope with the prevailing business needs.

4b) Do you have any comments or suggestions on the eligibility criteria for asset managers to qualify for the Asset Manager Excess Position Limit?

Answer: We agree that the asset manager must demonstrate that it has a genuine business need to use HSI and HHI futures and options contracts to facilitate its asset management activity and they must has effective internal control procedures and risk management systems to manage the potential risks arising from the excess position.

5) Do you think it is appropriate to set the statutory position limit of all stock options contracts at 150,000 contracts?

Answer: We believe that it is appropriate to set the statutory position limit of all stock options contracts at 150,000 contracts and this can further develop Hong Kong's stock options market.