

25 October 2016

Securities and Futures Commission
35/F, Cheung Kong Center
3 Queen's Road
Central, Hong Kong

Dear Sir,

SFC proposes to enhance position limit regime

Thank you for the opportunity to provide our comments regarding enhancing position limit regime.

Our responses to the questions posted in the Consultation Paper are below:

Q1a 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%?

We agree with the increase of the position limit for HSI and HHI futures and options. The turnover has increase significantly since 2014 to 2015 as pointed out in para 19-20 in the consultation document. HSI and HHI Futures are very liquid and essential products for us to hedge the market exposure derived from the market making activities across ETFs and other relevant options products. For example in 2828, we provides tight prices in line with the value of the HHI future. We are able to do this because there is a liquid and active hedge available in the HHI futures. As soon as there is a pricing inefficiency in the market and we trade in the ETF, we will execute the corresponding orders to the HHI/HSI futures market, thus bringing the value of the ETF and the futures back in line. This particular trading strategies improves the market efficiency and benefit the whole market include retail investors in order to trade the products as close to the fair price/NAV as possible.

Q1b Do you agree with the proposal relating to tightening the "adequate financial capability" requirement as set out in paragraph 25? (NAV requirement at a level not less than \$5 billion)

Yes, we agree with the proposal relating to tightening the "adequate financial capability" requirement as set out in paragraph 25.

We believe that with potentially larger positions arising from larger position limits, there is also potentially an increased risk of large financial losses, and thus greater "financial capability" should be required as protection. Therefore we agree that raising the financial requirements of the EPs is logical.

Q2 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?

The proposed increase cap on the excess position limit is a major improvement for market makers to provide the necessary liquidity in all directions without reaching the current limit.

Q3a Do you have any comments on the proposed Index Arbitrage Activity Excess Position Limit, i.e., 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)?

We agree that SFC should 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. The definition of "Index arbitrage" is adequate in our view.

Q3b 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?

The proposed eligibility criteria are sufficiently thorough and necessary.

Q4a 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?

No comment

Q4b Do you have any comments or suggestions on the eligibility criteria for asset managers to qualify for the Asset Manager Excess Position Limit?

No comment

Q5 Do you think it is appropriate to set the statutory position limit of all stock options contracts at 150,000 contracts?

supports the proposed increase of statutory position limit of all stock options contract. The option market in HK has increased significantly as pointed out in para 51 in the consultation and the new limit will encourage market makers to quote bigger size during volatile market to improve liquidity.

We also took part in the HKEX consultation and were in favour of their proposal to move toward a three-tier framework for SOPL as it gives them more flexibility to set these limits appropriately based on factors such as market capitalisation, liquidity and contract size. The SFC increase of the statutory position limits of all stock options contracts to 150,000 contracts facilitates this change.

However, we would like to point out the proposed inconsistent approach between HKEX and SFC. The lower limit imposed by HKEX will defeat the purpose of encouraging option trading in Hong Kong and the purpose of this consultation. The inconsistent of limits also create an unnecessary confusion and administrative burden (i.e. cost) to EP/Market Makers.

will continue to apply and would like an efficient process for the application of excess stock option position limits beyond the statutory position limit of 150,000 contracts to facilitate its market making activities.

Conclusion

We thank you for your consideration of our comments in relation to the matters raised by the Consultation.

is committed to supporting fair and transparent markets and would be pleased to assist with any questions you may have in relation to our response in this submission.

Should you have any enquiries, feel free to contact

Yours sincerely,

For and on behalf of

