

Legislative Council Panel on Financial Affairs

Follow-up actions arising from the meeting on 14 December 2016 Legislative proposals to enhance the position limit regime

PURPOSE

This note provides a comparison of the position limit regime for major equity index futures/options contracts and stock options contracts in Hong Kong under the proposed enhancements with those in the major markets in the United States, Europe and Singapore.

THE COMPARISON

2. At present, there is no common international practice of setting position limits for futures and options contracts traded on exchanges. Regulators in Hong Kong, US, Europe and Singapore adopt different approaches as summarized below.

- (a) In **Hong Kong**, position limits for futures and options contracts are specified in the Securities and Futures (Contracts Limits and Reportable Positions) Rules (Cap. 571Y) (“CLRP Rules”). The position limit regime was first introduced in 1999 in the wake of the Asian Financial Crisis with the purpose to prevent and discourage build-up of large positions which may pose a threat to the orderly functioning and stability of the Hong Kong financial market. Under the regime, market participants may seek authorization from the Securities and Futures Commission, the Hong Kong Futures Exchange or the Stock Exchange of Hong Kong for excess position limits under specified circumstances set out in the CLRP Rules.
- (b) In **the United States**, position limits are usually specified in the rules of exchanges. In general, market participants can apply to the relevant exchanges for excess position limits for certain purposes.

- (c) In **Europe**, most exchanges do not impose position limits on their futures and options contracts except for stock options contracts.
- (d) In **Singapore**, position limits are specified in the rules of the exchange. In general, market participants can apply to the exchange for excess position limits.

3. A detailed comparison is provided at **Annex**.

Financial Services and the Treasury Bureau
Securities and Futures Commission
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**Comparison of the Position Limit Regime in Hong Kong
with Those in the Major Markets in the United States, Europe and Singapore**

Country/ Region	Exchanges	Position Limit for Equity-related Futures and Options Contracts	Application for Excess Position Limit		
			Eligible Activities for Application	Cap on Excess Position Limit	Party Responsible for Approving Excess Position Limit
Hong Kong	Hong Kong Exchanges and Clearing Limited	<p>Hang Seng Index (“HSI”) futures and options: 10 000 position delta</p> <p>Hang Seng China Enterprises Index (“H-shares index”) futures and options contracts: 12 000 position delta</p> <p>Stock options: 50 000 contracts (proposed to increase to 150 000 contracts)</p>	<p><u>For HSI and H-shares index futures and options contracts:</u></p> <ul style="list-style-type: none"> • Client Facilitation (existing provision proposed to be enhanced) • Index Arbitrage (new proposal) • Asset Manager (new proposal) <p><u>For the relevant futures and stock options contracts:</u></p> <ul style="list-style-type: none"> • Market Makers / Issuers or Liquidity Providers of Structured Products (proposed to include ETF Market Makers) 	<ul style="list-style-type: none"> • 50% of the position limit (proposed to increase to 300%) • Ditto • Ditto • No cap 	<ul style="list-style-type: none"> • Securities and Futures Commission (“SFC”) • SFC • SFC • Hong Kong Futures Exchange or the Stock Exchange of Hong Kong

Country/ Region	Exchanges	Position Limit for Equity-related Futures and Options Contracts	Application for Excess Position Limit		
			Eligible Activities for Application	Cap on Excess Position Limit	Party Responsible for Approving Excess Position Limit
United States	Chicago Mercantile Exchange	S&P 500 Index futures and options: 60 000 position delta	<ul style="list-style-type: none"> • Bona Fide Hedging • Risk Management • Arbitrage and Spread 	<ul style="list-style-type: none"> • No cap • No cap • No cap 	<ul style="list-style-type: none"> • Exchange • Exchange • Exchange
	Chicago Board Options Exchange	Stock options: 25 000 to 250 000 contracts			
Europe	ICE Futures Europe (located in London)	No position limit	N/A	N/A	N/A
	Eurex Exchange	No position limit for most futures and options contracts For stock options, the position limit is based on 25% of the free float market capitalization of the underlying stocks	N/A	N/A	N/A
	Euronext	No position limit	N/A	N/A	N/A

Country/ Region	Exchanges	Position Limit for Equity-related Futures and Options Contracts	Application for Excess Position Limit		
			Eligible Activities for Application	Cap on Excess Position Limit	Party Responsible for Approving Excess Position Limit
Singapore	Singapore Exchange	Nikkei 225 Index futures and options: 10 000 position delta China A50 Index futures: 15 000 contracts	<ul style="list-style-type: none"> • Not specifically defined 	<ul style="list-style-type: none"> • Not specified 	<ul style="list-style-type: none"> • Exchange

Note:

Position delta refers to the amount by which the price of a futures/options contract position will change for a corresponding change in the price of the underlying index or asset. In Hong Kong, the delta of a standard HSI or H-shares Index futures contract is 1, and the delta of a standard HSI or H-shares Index options contract ranges between 0 and 1. The futures-equivalent positions in an options contract are determined based on its delta which are added to the futures positions for purposes of complying with the position limits.