

LEGISLATIVE COUNCIL BRIEF

COMMODITIES TRADING ORDINANCE (CAP. 250)

COMMODITIES TRADING (TRADING LIMITS AND POSITION LIMITS) (AMENDMENT) (NO. 3) RULES 2001

INTRODUCTION

1. At its meeting on 21 May 2001, the Securities and Futures Commission (“the Commission”) made the Commodities Trading (Trading Limits and Position Limits) (Amendment) (No. 3) Rules 2001 (“the Amendment Rules”) at the Annex. The Amendment Rules amended the limits applicable in respect of 21 existing stock futures contracts; made similar limits in relation to 23 new stock futures contracts; and deleted three existing stock futures contracts.

BACKGROUND AND ARGUMENT

2. The Commission has, in the past, made trading and position limits in relation to futures and options contracts under section 59 of the Commodities Trading Ordinance (Cap. 250). The limits are also reflected in the regulation of the Hong Kong Futures Exchange Limited (“the HKFE”).
3. Since the merger of the two exchanges and their three associated clearing houses, the Hong Kong Exchanges and Clearing Company Limited (“HKEx”) has been trying to rationalise various aspects of its business so as to achieve the synergy which the merger intended to create. As part of its efforts to achieve the synergy, HKEx is taking steps to harmonise the stock futures and stock options markets. In this connection, HKEx proposes to :
 - (a) standardise the contract specifications (including the contract multiplier¹, trading limits and position limits) for stock futures

¹ The contract multiplier is the fixed number of underlying shares for one futures contract. Hence for example, if the contract multiplier for a particular stock futures contract is 5000, that stock futures contract must be for 5000 underlying shares.

contracts and to bring them in line with the standards adopted for stock options contracts; and

- (b) standardise and synchronise the selection criteria for stock futures contracts and stock options contracts.

Standardising contract specifications

4. Currently the size of the contract multiplier for most stock futures contracts is equivalent to 5 board lots. It is proposed to reduce the contract multiplier for all stock futures contracts to one board lot of the underlying stock. This has several benefits :
 - (a) The contract size will be reduced proportionally as a result, making the products more attractive to investors.
 - (b) The contract multiplier for stock options contracts is already standardised as one board lot of the underlying stock. Synchronising the contract multipliers for products in the stock futures market and the stock options market will facilitate trading, back-to-back hedging and arbitrage activities.
 - (c) The new contract multipliers will be more user-friendly to investors.
5. Following the reduction of the contract multiplier, the size of stock futures contracts will be reduced. As a result, the trading limits and position limits prescribed for them under the existing legislation will be too restrictive. It is therefore proposed to increase the current position and trading limits for stock futures contracts and, at the same time, to bring them in line with the limits for stock options classes for the purpose of synchronising the two markets.
6. The existing trading limits and position limits for stock options contracts are already standardised. Essentially there are two tiers (determined on the basis of contract value) : for first tier products, the trading limit is 5,000 contracts and the position limit 1,000 contracts in any one expiry month; for second tier products, the trading limit is 25,000 contracts and the position limit 5,000 contracts in any one expiry month. HKEx proposes to adopt similar

standards for stock futures contracts. However, at this relatively early stage of harmonisation, HKEx proposes to adopt the more conservative first tier standards. Hence, the proposal is to standardise the trading limits for stock futures contracts to 5,000 contracts and the position limits to 1,000 contracts for any one contract month.

7. The Commission has considered the proposal from a risk management angle and is satisfied that the new trading limits and position limits would not increase market risks as the new limits still represent less than 1% of the total market capitalisation of the underlying shares.

Standardising the selection criteria

8. For the purpose of harmonising the stock futures and stock options markets, HKEx has proposed new criteria for selecting eligible stocks for stock futures and stock options contracts. The Commission has endorsed this new criteria.
9. As a result of changes to the selection criteria, three stocks are no longer eligible for trading in the stock futures market and their stock futures contracts should be deleted. The deletion should not give rise to any cause for concern regarding disposal of investors' existing positions as trading in these contracts have not yet commenced. At the same time, a total of 23 stocks not previously included are now eligible for trading in the stock futures market under the new criteria. It is necessary to prescribe trading limits and position limits for these new stock futures contracts to facilitate market surveillance. It is proposed that the new standardised limits be adopted for these 23 new stock futures contracts.

THE AMENDMENT RULES

10. The Amendment Rules amend the Schedule to the Commodities Trading (Trading Limits and Position Limits) Rules by adding 23 new stock futures contracts and introducing trading limits and position limits in respect thereof, amending the position and trading limits for 21 existing stock futures contracts and deleting three stock futures contracts.

PUBLIC CONSULTATION

11. Public consultation is considered unnecessary as the amendments are straightforward and technical in nature.

FINANCIAL AND STAFFING IMPLICATIONS

12. There are no financial or staffing implications for the Government.

COMMENCEMENT DATE

13. The Commencement date for the Amendment Rules will be 13 July 2001.

PUBLICITY

14. The Amendment Rules will be gazetted on 1 June 2001. The HKFE will issue a circular to its participants when the new products are launched and when the amendments to the trading limits and position limits of existing stock futures contracts take effect.

ENQUIRIES

15. For any enquiries on this brief, please contact Ms Thrity Mukadam, Senior Counsel of the Legal Services Division of the Commission at 2840-9209 or Mr Stanley Ng, Senior Manager of the Supervision of Markets Division of the Commission, at 2283-6133.

The Securities and Futures Commission
1 June 2001

**COMMODITIES TRADING (TRADING LIMITS AND
POSITION LIMITS) (AMENDMENT) (NO. 3) RULES 2001**

(Made by the Securities and Futures Commission under
section 59 of the Commodities Trading Ordinance (Cap. 250))

1. Commencement

These Rules shall come into operation on 13 July 2001.

2. Schedule amended

The Schedule to the Commodities Trading (Trading Limits and Position Limits) Rules (Cap. 250 sub. leg.) is amended -

(a) by repealing item 1 and substituting -

"1.	HSBC Holdings Plc stock futures contract	5 000 open contracts for any one contract month	1 000 open contracts for any one contract month.";
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(b) by repealing items 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14 and 15 and substituting -

"3.	CITIC Pacific Ltd. stock futures contract	5 000 open contracts for any one contract month	1 000 open contracts for any one contract month.
4.	Cheung Kong (Holdings) Ltd. stock futures contract	5 000 open contracts for any one contract month	1 000 open contracts for any one contract month.
5.	Swire Pacific Ltd. 'A' stock futures contract	5 000 open contracts for any one contract month	1 000 open contracts for any one contract month.
6.	CLP Holdings Ltd. stock futures contract	5 000 open contracts for any one contract month	1 000 open contracts for any one contract month.
7.	China Resources Enterprise, Ltd. stock futures contract	5 000 open contracts for any one contract month	1 000 open contracts for any one contract month.
8.	Hang Seng Bank Ltd. stock futures contract	5 000 open contracts for any one contract month	1 000 open contracts for any one contract month.

9.	Henderson Land Development Co. Ltd. stock futures contract	5 000 open contracts for any one contract month	1 000 open contracts for any one contract month.
10.	Hopewell Holdings Ltd. stock futures contract	5 000 open contracts for any one contract month	1 000 open contracts for any one contract month.
11.	Hutchison Whampoa Ltd. stock futures contract	5 000 open contracts for any one contract month	1 000 open contracts for any one contract month.
12.	New World Development Co. Ltd. stock futures contract	5 000 open contracts for any one contract month	1 000 open contracts for any one contract month.
13.	Shanghai Industrial Holdings Ltd. stock futures contract	5 000 open contracts for any one contract month	1 000 open contracts for any one contract month.
14.	Sun Hung Kai Properties Ltd. stock futures contract	5 000 open contracts for any one contract month	1 000 open contracts for any one contract month.
15.	The Wharf (Holdings) Ltd. stock futures contract	5 000 open contracts for any one contract month	1 000 open contracts for any one contract month.";

(c) by repealing item 19 and substituting -

"19.	COSCO Pacific Ltd. stock futures contract	5 000 open contracts for any one contract month	1 000 open contracts for any one contract month.";
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(d) by repealing items 20, 21 and 22;

(e) by repealing items 23, 24 and 25 and substituting -

"23.	Hong Kong and China Gas Co. Ltd. stock futures contract	5 000 open contracts for any one contract month	1 000 open contracts for any one contract month.
24.	Hongkong Electric Holdings Ltd. stock futures contract	5 000 open contracts for any one contract month	1 000 open contracts for any one contract month.

25.	China Mobile (Hong Kong) Ltd. stock futures contract	5 000 open contracts for any one contract month	1 000 open contracts for any one contract month.";
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(f) by repealing items 39, 40 and 41 and substituting -

"39.	Pacific Century Cyberworks Ltd. stock futures contract	5 000 open contracts for any one contract month	1 000 open contracts for any one contract month.
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40.	Bank of East Asia Ltd. stock futures contract	5 000 open contracts for any one contract month	1 000 open contracts for any one contract month.
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41.	Legend Holdings Ltd. stock futures contract	5 000 open contracts for any one contract month	1 000 open contracts for any one contract month.";
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(g) by adding -

"44.	Amoy Properties Ltd. stock futures contract	5 000 open contracts for any one contract month	1 000 open contracts for any one contract month.
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45.	Cathay Pacific Airways Ltd. stock futures contract	5 000 open contracts for any one contract month	1 000 open contracts for any one contract month.
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46.	Cheung Kong Infrastructure Holdings Ltd. stock futures contract	5 000 open contracts for any one contract month	1 000 open contracts for any one contract month.
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47.	China Merchants Holdings (International) Co. Ltd. stock futures contract	5 000 open contracts for any one contract month	1 000 open contracts for any one contract month.
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48.	China Petroleum & Chemical Corporation stock futures contract	5 000 open contracts for any one contract month	1 000 open contracts for any one contract month.
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49.	China Unicom Ltd. stock futures contract	5 000 open contracts for any one contract month	1 000 open contracts for any one contract month.
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50.	Dah Sing Financial Holdings Ltd. stock futures contract	5 000 open contracts for any one contract month	1 000 open contracts for any one contract month.
51.	Guoco Group Ltd. stock futures contract	5 000 open contracts for any one contract month	1 000 open contracts for any one contract month.
52.	Hang Lung Development Co. Ltd. stock futures contract	5 000 open contracts for any one contract month	1 000 open contracts for any one contract month.
53.	Henderson Investment Ltd. stock futures contract	5 000 open contracts for any one contract month	1 000 open contracts for any one contract month.
54.	Hong Kong Exchanges and Clearing Ltd. stock futures contract	5 000 open contracts for any one contract month	1 000 open contracts for any one contract month.
55.	Hysan Development Co. Ltd. stock futures contract	5 000 open contracts for any one contract month	1 000 open contracts for any one contract month.
56.	Johnson Electric Holdings Ltd. stock futures contract	5 000 open contracts for any one contract month	1 000 open contracts for any one contract month.
57.	Li & Fung Ltd. stock futures contract	5 000 open contracts for any one contract month	1 000 open contracts for any one contract month.
58.	MTR Corporation Ltd. stock futures contract	5 000 open contracts for any one contract month	1 000 open contracts for any one contract month.
59.	PetroChina Co. Ltd. stock futures contract	5 000 open contracts for any one contract month	1 000 open contracts for any one contract month.
60.	Shangri-La Asia Ltd. stock futures contract	5 000 open contracts for any one contract month	1 000 open contracts for any one contract month.
61.	Sino Land Co. Ltd. stock futures contract	5 000 open contracts for any one contract month	1 000 open contracts for any one contract month.

62.	South China Morning Post (Holdings) Ltd. stock futures contract	5 000 open contracts for any one contract month	1 000 open contracts for any one contract month.
63.	Television Broadcasts Ltd. stock futures contract	5 000 open contracts for any one contract month	1 000 open contracts for any one contract month.
64.	Wheelock and Co. Ltd. stock futures contract	5 000 open contracts for any one contract month	1 000 open contracts for any one contract month.
65.	Wing Hang Bank, Ltd. stock futures contract	5 000 open contracts for any one contract month	1 000 open contracts for any one contract month.
66.	Yue Yuen Industrial (Holdings) Ltd. stock futures contract	5 000 open contracts for any one contract month	1 000 open contracts for any one contract month."

Andrew Len Tao SHENG
Chairman,
Securities and Futures Commission

29 May 2001

Explanatory Note

Under section 59 of the Commodities Trading Ordinance (Cap. 250), the Securities and Futures Commission may establish and fix limits on the amount of trading which may be done, or positions which may be held, by any person under futures or options contracts in respect of a specified commodity on the Hong Kong Futures Exchange.

2. Such limits are established and fixed for the futures and options contracts specified in the Schedule to the Commodities Trading (Trading Limits and Position Limits) Rules (Cap. 250 sub. leg.). That Schedule is now amended by the deletion of 3 existing stock futures contracts, the amendment of 21 existing stock futures contracts and the addition of 23 new stock futures contracts.