

LEGISLATIVE COUNCIL BRIEF

SECURITIES ORDINANCE (CAP. 333)

SECURITIES (EXCHANGE - TRADED STOCK OPTIONS) (AMENDMENT) RULES 2001

INTRODUCTION

1. At its meeting on 21 May 2001, the Securities and Futures Commission (“the Commission”) made the Securities (Exchange – Traded Stock Options) (Amendment) Rules 2001 (“the Amendment Rules”) at the Annex. The Amendment Rules add 10 new stock options classes prescribe limits and reporting levels for them. They also delete 19 existing stock options classes.

BACKGROUND AND ARGUMENT

2. The Commission has, in the past, prescribed limits and reporting levels in relation to stock options under section 146(1) of the Securities Ordinance (Cap. 333), which parallel the limits and levels set by the Stock Exchange of Hong Kong Limited (“SEHK”) in its Operational Trading Procedures for Options Trading Exchange Participants.
3. Since the merger of the two exchanges and their three associated clearing houses, the Hong Kong Exchanges and Clearing 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, it has proposed to consolidate the two sets of criteria for selecting underlying stocks for stock futures contracts and stock options contracts. The new set of selection criteria applicable to both contracts has been approved by the Commission.
4. As a result of the consolidation, 19 stocks are no longer eligible for trading in the stock options market and their stock options 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 has not yet commenced. On the other hand, 10 other

stocks not previously included are now eligible for trading in the stock options market under the new selection criteria. It is necessary to prescribe limits and reporting levels for these new stock options classes to facilitate market surveillance. It is proposed that their limits should follow those applicable to the existing contracts.

THE AMENDMENT RULES

5. The Amendment Rules amend the Schedule to the Securities (Exchange – Traded Stock Options) Rules by adding 10 new stock options classes and introducing limits and reporting levels in respect thereof, and deleting 19 stock options classes.

PUBLIC CONSULTATION

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

FINANCIAL AND STAFFING IMPLICATIONS

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

COMMENCEMENT DATE

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

PUBLICITY

9. The Amendment Rules will be gazetted on 1 June 2001.

ENQUIRIES

10. 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

**SECURITIES (EXCHANGE - TRADED STOCK OPTIONS)
(AMENDMENT) RULES 2001**

(Made by the Securities and Futures Commission under
section 146(1)(p) of the Securities Ordinance (Cap. 333))

1. Commencement

These Rules shall come into operation on 13 July 2001.

2. Schedule amended

The Schedule to the Securities (Exchange - Traded Stock Options) Rules (Cap. 333 sub. leg.) is amended -

(a) by repealing items 21, 22, 23, 26, 28, 30, 37, 38, 41, 42, 43, 44, 45, 46, 47, 48, 51, 53 and 56;

(b) by adding -

"57.	China Petroleum & Chemical Corporation stock options contract	25,000 contracts in any one expiry month	5,000 contracts in any one expiry month
58.	China Unicom Ltd. stock options contract	25,000 contracts in any one expiry month	5,000 contracts in any one expiry month
59.	Dah Sing Financial Holdings Ltd. stock options contract	25,000 contracts in any one expiry month	5,000 contracts in any one expiry month
60.	Guoco Group Ltd. stock options contract	5,000 contracts in any one expiry month	1,000 contracts in any one expiry month
61.	Hong Kong Exchanges and Clearing Ltd. stock options contract	5,000 contracts in any one expiry month	1,000 contracts in any one expiry month
62.	Li & Fung Ltd. stock options contract	5,000 contracts in any one expiry month	1,000 contracts in any one expiry month

63.	MTR Corporation Ltd. Stock options contract	25,000 contracts in any one expiry month	5,000 contracts in any one expiry month
64.	PetroChina Co. Ltd. stock options contract	25,000 contracts in any one expiry month	5,000 contracts in any one expiry month
65.	Wing Hang Bank, Ltd. stock options contract	25,000 contracts in any one expiry month	5,000 contracts in any one expiry month
66.	Yue Yuen Industrial (Holdings) Ltd. stock options contract	5,000 contracts in any one expiry month	1,000 contracts in any one expiry month".

Andrew Len Tao SHENG
Chairman,
Securities and Futures Commission

29 May 2001

Explanatory Note

Under section 146(1)(p) of the Securities Ordinance (Cap. 333), the Securities and Futures Commission may prescribe limits on the number of stock options contracts traded on the Unified Exchange that may be held or controlled by any person.

2. Such limits are prescribed for the stock options contracts specified in the Schedule to the Securities (Exchange - Traded Stock Options) Rules (Cap. 333 sub. leg.). That Schedule is now amended by the deletion of 19 stock options classes and the addition of 10 new stock options classes.