

LEGISLATIVE COUNCIL BRIEF

Securities and Futures Commission Ordinance (Chapter 24)

SECURITIES AND FUTURES COMMISSION (LEVY) (FUTURES CONTRACTS) (AMENDMENT) ORDER 2001

INTRODUCTION

At the meeting of the Executive Council on 9 January 2001, the Council ADVISED and the Chief Executive ORDERED that the Securities and Futures Commission (Levy) (Futures Contracts) (Amendment) Order 2001 (“the Amendment Order”), at the Annex, should be made under section 52(2) of the Securities and Futures Commission Ordinance (Cap. 24) (“SFCO”).

BACKGROUND AND ARGUMENT

2. The Mini-Hang Seng Index Futures Contract (“Mini-HSI Futures Contract”) is a new stock index futures contract which began trading on 9 October 2000. Its value, margin requirement and minimum commission are one-fifth of those of a standard Hang Seng Index Futures Contract (“HSI Futures Contract”). It was introduced to provide retail investors with a more affordable trading and hedging alternative to the HSI Futures Contract, which has appreciated considerably in value over the past few years. The two contracts are fungible (i.e. market participants may offset positions at the ratio of five Mini-HSI Futures Contracts to one HSI Futures Contract). The average daily trading volume is approximately 2 000 contracts since its introduction in October 2000, as compared with 17 200 contracts for the HSI Futures Contracts for the same period.

3. Under section 52(2) of the SFCO, persons who engage in the purchase or sale of commodity futures contracts that are registered with a clearing house and traded on the Hong Kong Futures Exchange (“HKFE”), are liable to pay to the Securities and Futures Commission (“the Commission”) a levy at the rate specified by order of the Chief Executive in Council.

4. The levy payable to the Commission is specified in section 2 of the Securities and Futures Commission (Levy) (Futures Contracts) Order (Cap. 24 sub. leg.) (“the Order”). Currently, the levy is \$1 per leviable transaction in each market of the HKFE. Taking into account the facts that the value of a Mini-HSI Futures Contract equals to one-fifth of that of a HSI Futures Contract,

and that they are fungible, the HKFE has proposed to reduce proportionately the levy payable to the Commission to \$0.20 per transaction, being one-fifth of that payable in respect of an HSI Futures Contract. The Commission agrees to the proposal.

5. To further reduce the transaction cost for Mini-HSI Futures Contracts, the Commission has made the Commodities Trading (Contract Levy) (Amendment) Rules 2001 (“the Amendment Rules”) under section 79A(2) of the Commodities Trading Ordinance (Cap. 250) to reduce proportionately the compensation fund levy from \$0.50 to \$0.10 per contract, being one-fifth of that payable in respect of an HSI Futures Contract. A separate Legislative Council brief will be issued on the Amendment Rules. The reduction in both levies will lower the total transaction cost for a Mini-HSI Futures Contract correspondingly.

6. The Amendment Order and the Amendment Rules shall come into operation on the same day on 14 February 2001.

THE AMENDMENT ORDER

7. The levy payable by each purchaser and seller in respect of every leviable transaction in each market of the HKFE is currently \$1 for every leviable transaction as specified in the Order. The Amendment Order seeks to reduce the levy to \$0.20 for every leviable transaction in respect of the Mini-HSI Futures Contract.

PUBLIC CONSULTATION

8. The Commission supports the proposal which has been endorsed by the Board of Directors of the Hong Kong Exchanges and Clearing Limited. Public consultation is considered unnecessary, as the amendments are straightforward and technical in nature.

BASIC LAW IMPLICATIONS

9. The Department of Justice advises that the proposed Amendment Order does not conflict with those provisions of the Basic Law carrying no human rights implications.

HUMAN RIGHTS IMPLICATIONS

10. The Department of Justice advises that the proposed Amendment Order is consistent with the human rights provisions of the Basic Law.

BINDING EFFECT OF THE AMENDMENT ORDER

11. The amendment will not affect the current binding effect of the Order.

FINANCIAL AND STAFFING IMPLICATIONS

12. The proposed levy reduction may affect marginally the revenue of the Commission but this may be compensated by the possible increase in trading volume of this instrument following the reduction. There are no financial or staffing implications for the Government.

ECONOMIC IMPLICATIONS

13. The proposal will help promote trading in Mini-HSI Futures Contracts which have been launched to meet the trading and hedging needs of retail investors. It will be conducive to enhancing the competitiveness of the Hong Kong securities and futures market.

LEGISLATIVE TIMETABLE

14. The legislative timetable is as follows –

Publication in the Gazette	12 January 2001
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Tabling at the Legislative Council	17 January 2001
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PUBLICITY

15. The Amendment Order will be published in the Gazette on 12 January 2001 and a press release will be issued on the same day. A spokesman will be available for answering media enquiries.

ENQUIRIES

16. For any enquiries on this brief, please contact Ms Salina Yan, Principal Assistant Secretary for Financial Services at 2528 9161.

Financial Services Bureau
11 January 2001

**SECURITIES AND FUTURES COMMISSION (LEVY) (FUTURES
CONTRACTS) (AMENDMENT) ORDER 2001**

(Made by the Chief Executive in Council under section 52(2) of the
Securities and Futures Commission Ordinance (Cap. 24))

1. Commencement

This Order shall come into operation on 14 February 2001.

2. Paragraph substituted

Paragraph 2 of the Securities and Futures Commission (Levy) (Futures Contracts) Order (Cap. 24 sub. leg.) is repealed and the following substituted -

"2. Rate of levy under section 52(2)

(1) Subject to subparagraph (2) and paragraphs 3 and 4, the levy for the purposes of section 52(2) of the Ordinance shall be \$1 for each leviable transaction in each market of the Futures Exchange Company.

(2) The levy for the purposes of section 52(2) of the Ordinance shall, in relation to Mini-Hang Seng Index Futures Contracts, be \$0.20 for each leviable transaction.

(3) In this paragraph -

"Mini-Hang Seng Index Futures Contracts" (小型恆生指數期貨合約) means the stock index futures contracts of which the contract specifications are set out in the rules of the Futures Exchange Company."

Clerk to the Executive Council

COUNCIL CHAMBER

2001

Explanatory Note

Under section 52(2) of the Securities and Futures Commission Ordinance (Cap. 24), the Chief Executive in Council may be order specify the levy payable by each of the purchaser and the seller in respect of every leviabale transaction in each market of the Futures Exchange Company.

2. The levy is specified in the Securities and Futures Commission (Levy) (Futures Contracts) Order (Cap. 24 sub. leg.) which is currently \$1 for every leviabale transaction. This Order reduces the levy to \$0.20 for every leviabale transaction in respect of Mini-Hang Seng Index Futures Contracts.