

LEGISLATIVE COUNCIL BRIEF

COMMODITIES TRADING ORDINANCE

COMMODITIES TRADING (CONTRACT LEVY)
(AMENDMENT) RULES 2001

INTRODUCTION

1. The Securities and Futures Commission (“the Commission”) has made the Commodities Trading (Contract Levy) (Amendment) Rules 2001 (“the Amendment Rules”) at the Annex.

BACKGROUND AND ARGUMENT

2. By virtue of section 79A(1) of the Commodities Trading Ordinance (Cap.250) (“the Ordinance”), the Hong Kong Futures Exchange Limited (“the HKFE”) is required to pay to the Commission a contract levy (“the compensation fund levy”) on every contract traded on its Exchange. This levy is then paid into the compensation fund established pursuant to section 77 of the Ordinance.
3. The power to prescribe the rate of such levy is vested in the Commission by section 79A(2)(a) of the Ordinance and the levy currently prescribed by the Commission is \$0.50 per leviable transaction.

4. The Commission has recently revised such levy so that a lower rate is payable in relation to the Mini-Hang Seng Index Futures Contract (“Mini-HSI Futures Contract”), while the rate payable in relation to other contracts shall remain unchanged.
5. The Mini-HSI Futures Contract is a new stock index futures contract which began trading on 9 October 2000. It is essentially a smaller sized standard Hang Seng Index Futures Contract (“the HSI Futures Contract”) – its value, margin requirement and minimum commission are one-fifth of that of the HSI Futures Contract. The Mini-HSI Futures Contract was introduced as a result of the HSI Futures Contract having become unaffordable by many retail investors.¹
6. The Mini-HSI Futures Contract provides investors with another trading and hedging alternative. The proposal to reduce the compensation fund levy in respect of the Mini-HSI Futures Contract from \$0.50 to \$0.10 per contract will promote participation in the Mini-HSI Futures Contract market by reducing the overall transaction cost for trading such contracts. The proposal for such levy to be 20% of that payable in respect of other contracts is based on the fact that the value of a Mini-HSI Futures Contract is one-fifth of that of an existing HSI Futures Contract.
7. As a further measure to lower costs for trading Mini-HSI Futures Contracts, the Chief Executive in Council has approved the

¹ The HSI Futures Contract was launched in 1986. Since then, its value has increased by more than 700%, which far exceeds the accumulated inflation (of 134%) and GDP growth (of 315%) over that time. As a result, the HSI Futures Contract is now unaffordable by many retail investors and fails to meet their trading and hedging needs.

Securities and Futures Commission (Levy) (Futures Contracts) (Amendment) Order 2001 (“the Amendment Order”) to reduce proportionately the levy payable to the Commission from \$1.00 to \$0.20 per contract, being one-fifth of that payable in relation to the HSI Futures Contract. A separate Legislative Council Brief on the Amendment Order will be issued.

THE AMENDMENT RULES

8. The Amendment Rules amend the Rules by providing for a lower rate of compensation fund levy to be payable in relation to Mini-HSI Futures Contracts, whilst retaining the existing rate in relation to other contracts.

PUBLIC CONSULTATION

9. Both the Commission and the HKFE support the introduction of the revised compensation fund levy. Public consultation is considered unnecessary, as the amendments are straightforward and technical in nature.

FINANCIAL AND STAFFING IMPLICATIONS

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

COMMENCEMENT DATE

11. The Amendment Rules shall come into operation on 14 February 2001.

PUBLICITY

12. The Amendment Rules will be published in the Gazette on 12 January 2001. The HKFE will issue a circular to its participants when the new levy takes effect.

ENQUIRIES

13. For any enquiries on this brief, please contact Ms Thrity Mukadam, Counsel of the Legal Services Division of the Commission, at 2840-9209 or Ms Alexandra Yeong, Senior Manager of the Supervision of Markets Division of the Commission, at 2840-9247.

The Securities and Futures Commission

11 January 2001

COMMODITIES TRADING (CONTRACT LEVY) (AMENDMENT) RULES 2001

(Made by the Securities and Futures Commission under section 79A(2) of the Commodities Trading Ordinance (Cap. 250) after consultation with the Hong Kong Futures Exchange Limited)

1. Commencement

These Rules shall come into operation on 14 February 2001.

2. Rule substituted

Rule 2 of the Commodities Trading (Contract Levy) Rules (Cap. 250 sub. leg.) is repealed and the following substituted -

"2. Rate of contract levy

(1) Subject to paragraph (2), the rate of the contract levy for the purpose of section 79A(1) of the Ordinance shall be \$0.50 per leviable transaction.

(2) The rate of the contract levy for the purpose of section 79A(1) of the Ordinance shall, in relation to Mini-Hang Seng Index Futures Contracts, be \$0.10 per leviable transaction.

(3) In this Rule -

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

Andrew Len Tao SHENG
Chairman,
Securities and Futures Commission

5 January 2001

Explanatory Note

Under section 79A(1) of the Commodities Trading Ordinance (Cap. 250), a prescribed levy on every leviable transaction is payable by the Hong Kong Futures Exchange Limited to the Securities and Futures Commission for purposes of the compensation fund. The levy is currently \$0.50 on every leviable transaction. These Rules reduce the levy to \$0.10 on every leviable transaction in respect of Mini-Hang Seng Index Futures Contracts.