

For discussion  
on 6 June 2002

Paper No. 12/02

**Subcommittee on Draft Subsidiary Legislation to be made under the  
Securities and Futures Ordinance**

**Securities and Futures  
(Leveraged Foreign Exchange Trading) (Arbitration) Rules**

This paper sets out the proposals of the Securities and Futures Commission (SFC) to prescribe, for the purposes of section 118(1)(b) of the Securities and Futures Ordinance (“SFO”) (5 of 2002), the procedure for the settlement by arbitration of any dispute between a client and a licensed corporation in relation to leveraged foreign exchange trading.

**Proposal**

2. The SFC proposes to make the Securities and Futures (Leveraged Foreign Exchange Trading) (Arbitration) Rules, now in draft at **Annex 1**, under section 118(2) of the SFO.

**Power to make the Rules**

3. Part V of the SFO provides for the licensing and registration of individuals and corporations who carry on activities regulated by the SFC (“regulated activities”), including trading in leveraged foreign exchange contracts.

4. Section 118 of the SFO stipulates conditions to which a licence for certain regulated activities is subject. Section 118(1)(b) provides that it is condition of a licence for carrying on trading in leveraged foreign exchange contracts that a client may have any dispute regarding or touching upon any matter concerning such trading settled by arbitration in accordance with rules made under section 118(2).

5. Section 118(2) empowers the SFC to make rules for the purposes of section 118(1)(b) of the SFO, that provide for the establishment and functions of an arbitration panel, the appointment by the Financial Secretary of the chairman and members of the panel and its practice and procedure.

6. The SFC is of the view that the draft Rules would be *intra vires* if made as drafted.

### **Major features of the draft Rules**

7. The draft Rules at Annex 1 are to be made by the SFC under section 118(2). The draft Rules provide for the establishment and constitution of the Arbitration Panel, the selection and replacement of the Arbitrator, the procedural rules for the commencement, conduct and termination of the proceedings, evidence and pleadings and other miscellaneous matters.

8. The draft Rules are largely based on, the existing Leveraged Foreign Exchange Trading (Arbitration) Rules (Cap. 451 Sub. Leg. C). However, the draft Rules are now technologically neutral, reflecting section 400 of the SFO, so that documents are not precluded from being sent or served electronically.

9. The SFC considers that making provision for the right of clients of leveraged foreign exchange traders to refer disputes to arbitration is consistent with the SFC's objective in section 4(c) of the SFO "to provide protection for members of the public investing in or holding financial products".

### **Public consultation**

**10. The SFC released a consultation document and an exposure draft of the Rules on 28 March 2002 for comment by the public.** Two submissions were received. Both submissions were supportive of the draft rules. We attach the following documents for Members' reference –

- (a) Consultation Document on the draft Rules, at **Annex 2**, which sets out the underlying policy, together with the exposure draft of the Rules. We have made certain amendments to the exposure draft Rules to streamline the procedures of the arbitration proceedings and to improve the drafting. The revised draft is now at Annex 1 for Members' consideration;
- (b) Consultation Conclusion and Summary of Comments and SFC's Responses, at **Annex 3**, which set out the conclusions from the consultation and the SFC's responses to the comments received in the form of a table.

## **Way forward**

15. Subject to Members' views, the SFC will proceed to make the Rules under the authority vested in it and publish the Rules so made in the Gazette for tabling before the Legislative Council in the normal manner. The intention is that the Rules shall come into operation on the commencement of the SFO.

Securities and Futures Commission  
Financial Services Bureau  
30 May 2002

**D R A F T****SECURITIES AND FUTURES (LEVERAGED FOREIGN  
EXCHANGE TRADING) (ARBITRATION) RULES****CONTENTS**

Section		Page
<b>PART 1</b>		
<b>PRELIMINARY</b>		
1.	Commencement	1
2.	Interpretation	1
3.	Purpose of these Rules	2
4.	Constitution of arbitration panel	2
<b>PART 2</b>		
<b>RULES RELATING TO COMMENCEMENT OF ARBITRATION PROCEEDINGS</b>		
5.	Commencement of proceedings	3
6.	Initial deposit	5
7.	Representation	5
8.	Oaths and affirmation	5
<b>PART 3</b>		
<b>THE ARBITRATOR</b>		
9.	Selection of arbitrator	6
10.	Challenge of arbitrator	6
11.	Replacement of arbitrator	7
12.	Remuneration of arbitrator	7

**PART 4**

**RULES RELATING TO ARBITRATION  
PROCEEDINGS**

13.	Conduct of proceedings	7
14.	Notes of proceedings	9
15.	Designation of date, time and place of arbitration	9
16.	Attendance of representative of HKIAC	9
17.	Statement of claim	9
18.	Statement of defence or counterclaim	10
19.	Amendments and further statements	11
20.	Time period for sending further statements	11
21.	Evidence	11
22.	Hearing of witnesses	12
23.	Default	12
24.	Consolidation of proceedings	13
25.	Jurisdiction	14

**PART 5**

**RULES RELATING TO TERMINATION OF  
ARBITRATION PROCEEDINGS**

26.	Settlement	14
27.	Termination of proceedings	15
28.	Form and effect of awards	15
29.	Correction of awards	16
30.	Additional awards	16
31.	Costs	17
32.	Deposits of costs	17

**PART 6**

MISCELLANEOUS

33.	Communication and notice period	18
34.	Interest	19
35.	Exclusion of liability	19
36.	Destruction of documents	19
37.	Confidentiality	20
38.	Applicable law	20
39.	Miscellaneous	20

# DRAFT

[ cf : Sections 118(1)(b) and 118(2) of the Securities and Futures Ordinance ]

## SECURITIES AND FUTURES (LEVERAGED FOREIGN EXCHANGE TRADING) (ARBITRATION) RULES

(Made by the Securities and Futures Commission under section 118(2) of the Securities and Futures Ordinance (5 of 2002))

### PART 1

#### PRELIMINARY

##### 1. Commencement

These Rules shall come into operation on the day on which Part V of the Securities and Futures Ordinance (5 of 2002) comes into operation.

##### 2. Interpretation

In these Rules, unless the context otherwise requires –

"arbitration panel" (仲裁小組) means the arbitration panel established by section 4;

"arbitrator" (仲裁人) means an arbitrator appointed under any provision of these Rules;

"chairman" (主席) means the chairman of the arbitration panel;

"claimant" (申索人), in relation to a dispute being referred to arbitration, means the party making the claim;

"clerk" (書記) means the clerk to the arbitration panel referred to in section 4(6);

"client contract" (客戶合約) means any contract or arrangement between a licensed corporation and its client, which contains terms on which the licensed corporation is to provide leveraged foreign exchange trading services;

"deputy chairman" (副主席) means the deputy chairman of the arbitration panel;

"dispute" (爭議) means any dispute between a licensed corporation and a client regarding or touching upon any matter concerning the carrying on of leveraged foreign exchange trading;

"HKIAC" (仲裁中心) means the Hong Kong International Arbitration Centre;

"member" (成員) means a member of the arbitration panel;

"party" (當事人) means a party to a dispute;

"respondent" (答辯人), in relation to a dispute being referred to arbitration, means the party against whom the claim is made.

### **3. Purpose of these Rules**

These Rules govern the resolution of any dispute that is required to be settled by arbitration pursuant to section 118(1)(b) of the Ordinance.

### **4. Constitution of arbitration panel**

(1) For the purposes of resolving disputes in accordance with these Rules, there is established a panel to be known as the arbitration panel.

(2) The arbitration panel consists of a chairman, a deputy chairman and other members, to be appointed by the Financial Secretary.

(3) Directors and employees of the Commission are not eligible for appointment as members.

(4) The Financial Secretary may determine the term of office of a member, but a member may resign his office at any time by a notice in writing sent to the Financial Secretary.

(5) If the office of chairman is vacant or the chairman is unable to act as chairman due to illness, other incapacity or absence from Hong Kong, the deputy chairman or failing him, such other member as the Financial Secretary may designate, shall act as chairman in his place.

(6) The arbitration panel shall have a clerk, who shall be appointed by the Commission.

(7) The clerk shall prepare and maintain a list of members, which shall be made available for public inspection at all reasonable times free of charge.

**PART 2**

**RULES RELATING TO COMMENCEMENT OF  
ARBITRATION PROCEEDINGS**

**5. Commencement of proceedings**

(1) Subject to subsection (3), a client may send a notice in writing, signed by him or on his behalf, to the licensed corporation with which he has a dispute requiring the dispute to be settled by arbitration in accordance with these Rules.

(2) Where the client has not sent a notice in writing under subsection (1) -

(a) the licensed corporation may send to the client with whom it has a dispute a notice in writing (containing the particulars described in subsection (7)(b), (d) and (e)), signed by it or on its behalf, referring the client to his right to require the dispute to be settled by arbitration in accordance with these Rules; and

(b) the client may send to the licensed corporation a notice in writing, signed by him or on his behalf, within 14 days after the receipt of the notice in writing under paragraph (a), requiring the dispute to be settled by arbitration in accordance with these Rules.

(3) Where a licensed corporation has sent to a client a notice in writing under subsection (2)(a) and the client has not sent to the licensed corporation a notice in writing under subsection (2)(b) within the time specified in that subsection, the client is not entitled to require the dispute to be settled by arbitration in accordance with these Rules.

(4) Subject to subsection (5), despite court proceedings having commenced in respect of a dispute, the client may require that the dispute be settled by arbitration, by sending a notice in writing signed by him or on his behalf to the licensed corporation to that effect within 14 days after the commencement of the court proceedings.

(5) Where a licensed corporation has sent to a client a notice in writing under subsection (2)(a) and the client has not sent to the licensed corporation a notice in writing under subsection (2)(b) within the time specified in that subsection, subsection (4) does not apply to that dispute.

(6) Arbitration proceedings are deemed to commence on the date on which the notice in writing under subsection (1) or (4), or where applicable, the notice in writing under subsection (2)(b), is sent to the licensed corporation in accordance with section 33.

- (7) A notice in writing sent under subsection (1) or (4) shall include -
- (a) a demand that the dispute be referred to arbitration;
  - (b) the names and addresses of the parties;
  - (c) a reference to the arbitration clause that the client is relying on, where applicable;
  - (d) a reference to the client contract; and
  - (e) a brief summary of the dispute, the remedy sought and an indication of the amount of money involved.

(8) Any notice in writing sent under this section by a body corporate or a partnership shall be completed and signed on its behalf by one of its directors or partners (as the case may be).

(9) A party who has sent a notice in writing under this section shall send a copy of the notice to the clerk for filing as soon as reasonably practicable.

(10) During the course of an arbitration under these Rules, neither party may pursue any suit, action or proceedings against the other in respect of the dispute referred to arbitration under these Rules.

**6. Initial deposit**

(1) When a copy of the notice in writing under section 5(1), (2)(a) or (4) is sent to the clerk for filing, the party sending the notice shall deposit with the clerk a sum of \$1,000.

(2) Where a licensed corporation has sent to a client a notice in writing under section 5(2)(a) and the client has not sent to the licensed corporation a notice in writing under section 5(2)(b) within the time specified in that section 5(2), the clerk shall, as soon as reasonably practicable, arrange to return to the licensed corporation the deposit that has been paid by the licensed corporation after deducting any amount reasonably incurred by the arbitration panel.

**7. Representation**

(1) A party may conduct arbitration proceedings in person or be represented by any other person.

(2) Where a party is a body corporate or a partnership, it may be represented by a director or a partner (as the case may be) or any other person authorized by it.

(3) A party shall send the name and address of its representative (if any) or other person (if any) authorized by it under subsection (1) or (2) (as the case may be) to the other party, with a copy sent to the clerk for filing, as soon as reasonably practicable after they have been decided on.

(4) A party shall notify the clerk and the other party immediately of any change of its representative or person authorized by it, or any change in the name or address of the representative or person authorized by it.

**8. Oaths and affirmation**

All evidence shall be given under oath or affirmation.

**PART 3**  
**THE ARBITRATOR**

**9. Selection of arbitrator**

(1) The chairman shall appoint from the arbitration panel a tribunal consisting of a single arbitrator to conduct the arbitration as soon as reasonably practicable after -

- (a) the arbitration has commenced as provided in section 5(6);  
and
- (b) a deposit has been received by the clerk in accordance with section 6(1).

(2) The parties shall provide such information as may be required by the chairman to assist him in the selection of an arbitrator in respect of their arbitration.

(3) The chairman has full discretion in the selection of an arbitrator under these Rules.

(4) The chairman shall notify the parties of his decision on the selection of an arbitrator in respect of their arbitration as soon as reasonably practicable.

**10. Challenge of arbitrator**

(1) A party may challenge an arbitrator if circumstances exist to give rise to justifiable doubts as to the impartiality or independence of the arbitrator.

(2) A party challenging the appointment of an arbitrator shall send a notice of challenge to the clerk setting out the reasons for such challenge, with a copy to the other party, within 14 days of the notification of such appointment or, if later, of his becoming aware of the circumstances giving rise to justifiable doubts as to the impartiality or independence of the arbitrator.

(3) If the other party concurs with the challenge or the challenged arbitrator withdraws from the appointment, the challenged arbitrator's office falls vacant and section 9 applies for the purposes of selecting a new arbitrator. In

neither case does this imply acceptance of the validity of the grounds for the challenge.

(4) Where the other party does not concur with the challenge or the challenged arbitrator does not withdraw from the appointment, the chairman shall make a decision on the challenge.

(5) If the chairman upholds the challenge, section 9 applies for the purposes of selecting a new arbitrator.

### **11. Replacement of arbitrator**

(1) Section 9 applies for the purposes of selecting a new arbitrator if, during the course of an arbitration, the arbitrator -

- (a) has died;
- (b) has resigned;
- (c) is absent from Hong Kong; or
- (d) is unable to act as arbitrator due to illness or other incapacity.

(2) If a new arbitrator is appointed, the hearing of the dispute shall start afresh unless both parties and the new arbitrator agree to continue with the proceedings on the basis of notes of proceedings taken at any such hearing prior to the replacement of the arbitrator.

### **12. Remuneration of arbitrator**

The arbitrator is to be paid such remuneration and allowances as the Financial Secretary may determine.

## **PART 4**

### **RULES RELATING TO ARBITRATION PROCEEDINGS**

### **13. Conduct of proceedings**

(1) Despite other provisions of these Rules, the arbitrator -

- (a) may conduct the arbitration in such manner as he considers appropriate and has the power to adopt, whenever possible, a simplified or expedited procedure and to conduct proceedings to ensure the just, expeditious, economical and final determination of the dispute; and
- (b) shall ensure that the parties are treated with equality and that at any stage of the proceedings each party is given a full opportunity to present that party's case.

(2) The arbitrator may, with the consent of the parties, decide whether to hold hearings for the presentation of evidence by witnesses, including expert witnesses, or for oral argument, or to conduct proceedings only on the basis of documents and other materials.

(3) All documents or information to be supplied to an arbitrator shall be sent to the clerk for transmission to the arbitrator, save where documents or information are submitted during a hearing.

(4) All documents and information to be supplied to an arbitrator shall be sent to the clerk as follows -

- (a) where a party submits documents or information during a hearing, one copy shall be sent to the clerk by that party immediately after the hearing; and
- (b) in all other cases, a party shall supply 2 sets of all documents or information to the clerk, except where they have been sent to the clerk by facsimile or electronic mail transmission in accordance with section 33.

(5) The arbitrator may appoint any legally qualified person to advise him on any matter relating to the arbitration.

(6) Without prejudice to subsection (5), the arbitrator may seek advice from any representative of the HKIAC who is attending the proceedings in accordance with section 16 on any matter relating to the practice and procedure of an arbitration.

**14. Notes of proceedings**

(1) Notes of proceedings before an arbitrator may be taken by a person appointed as a note-taker by the arbitrator and any party is entitled to inspect and take copies of the transcript of such notes on payment of the note-taker's charges.

(2) If no note-taker is appointed, the arbitrator shall take a note of the proceedings and any party is entitled to inspect and take copies of such note.

**15. Designation of date, time and place of arbitration**

(1) The arbitrator shall designate a date, time and place in Hong Kong for the arbitration to take place.

(2) Notice of the date, time and place for the initial hearing shall be sent by the clerk to the parties, in accordance with section 33, at least 21 days prior to the date fixed for the hearing and notice for each hearing thereafter shall be given as the arbitrator may determine.

(3) The arbitrator may conduct hearings, hear witnesses and hold meetings for consultation at any place he considers appropriate, having regard to the circumstances of the arbitration.

**16. Attendance of representative of HKIAC**

A representative of the HKIAC may be present throughout the proceedings.

**17. Statement of claim**

(1) Unless a statement of claim was contained in or attached to the notice in writing requiring settlement of a dispute by arbitration, the claimant shall send his statement of claim to the respondent and to the arbitrator in accordance with sections 13(3) and (4) and 33, within 14 days from the date the arbitration is deemed to have commenced under section 5(6).

(2) A copy of the relevant client contract shall be annexed or otherwise attached to the statement of claim.

(3) The statement of claim shall include the following particulars -

- (a) the names and addresses of the parties;
  - (b) a statement of the facts supporting the claim;
  - (c) the points at issue; and
  - (d) the remedy sought.
- (4) The claimant may -
- (a) annex or otherwise attach to the statement of claim all documents that the claimant considers relevant; or
  - (b) add a reference to the documents or other evidence that the claimant intends to submit.

**18. Statement of defence or counterclaim**

(1) The respondent shall send a statement of defence to the claimant and to the arbitrator in accordance with sections 13(3) and (4) and 33, within 14 days from the date on which the statement of claim is sent to the respondent.

(2) The statement of defence shall reply to the particulars of the statement of claim referred to in section 17(3)(b), (c) and (d).

- (3) The respondent may -
- (a) annex or otherwise attach to the statement of defence documents on which the respondent relies in defence; or
  - (b) add a reference to the documents or other evidence that the respondent intends to submit.

(4) In the statement of defence, or at a later stage in the arbitration proceedings if the arbitrator decides that the delay is justified under the circumstances, the respondent may -

- (a) make a counterclaim arising out of the same dispute; or
- (b) rely on a claim arising out of that dispute for the purpose of a set-off.

(5) Section 17 applies to a counterclaim and a claim relied on for the purpose of a set-off in the same manner as it applies to a statement of claim.

**19. Amendments and further statements**

(1) During the course of an arbitration, a party may amend or supplement that party's claim, defence or counterclaim except where the arbitrator considers it inappropriate to allow this, having regard to -

- (a) any delay involved;
- (b) the likelihood of prejudice to the other party; or
- (c) any other relevant circumstances.

(2) The arbitrator may require or accept amendment to or supplement of a party's claim, defence or counterclaim, and shall fix the period for the sending of such amendment or supplement.

**20. Time period for sending further statements**

The period fixed by the arbitrator for the sending of any amendments or supplements under section 19, may not exceed 21 days from the date of such amendments or supplements, unless an extension is requested by a party and the arbitrator is satisfied that such an extension is justified in the circumstances.

**21. Evidence**

(1) Each party has the burden of proving the facts relied on to support that party's claim, defence or counterclaim.

- (2) The arbitrator -
- (a) shall determine the admissibility, materiality, relevance and weight of any evidence; and
  - (b) may admit evidence irrespective of the rules governing the admissibility of evidence in court if, in his opinion, the interest of justice is served by so doing.

(3) If the arbitrator considers it appropriate, he may require a party to send to him and to the other party, within a period stipulated by him, a summary of the documents and other evidence which that party intends to present in support of the facts in issue set out in that party's statement.

**22. Hearing of witnesses**

(1) If any witness is to be heard, each party shall send a notice to the arbitrator and to the other party at least 14 days before the hearing specifying -

- (a) the name and address of the witness;
- (b) the subject matter of the witness's testimony or, if the arbitrator so requires, a transcript of the witness's statement or expert report; and
- (c) the language in which the witness will give his testimony.

(2) The arbitrator may arrange for translations or recordings to be made at a hearing as he considers appropriate.

(3) Hearings shall be held in public unless the arbitrator decides otherwise with the consent of the parties.

(4) The arbitrator may require the retirement of any witness during the testimony of any other witness.

(5) Evidence of a witness may also be presented in the form of a written statement signed by him.

(6) The arbitrator is free to determine the manner in which a witness is examined.

**23. Default**

(1) If, within the period fixed by the arbitrator, the claimant fails to file a statement of claim without showing sufficient cause for such failure, the arbitrator may make an order for the termination of the arbitration proceedings in accordance with section 27.

(2) If, within the period fixed by the arbitrator, the respondent fails to file a statement of defence without showing sufficient cause for such failure, the arbitrator may, as he thinks fit, make an order in favour of the claimant or make an order for the termination of the arbitration proceedings in accordance with section 27.

(3) If one of the parties, duly notified under these Rules, fails to appear at a hearing or fails to produce any document in that party's possession when required to do so, without valid excuse, the arbitrator may proceed with the arbitration and such proceedings are deemed to have been conducted in accordance with section 13(1).

**24. Consolidation of proceedings**

(1) Where in relation to 2 or more arbitration proceedings it appears to the chairman -

- (a) that a common question of law or fact arises in both or all of them;
- (b) that the claims arise out of the same transaction or series of transactions; or
- (c) that it is desirable to make an order under this section for any other reason,

the chairman may -

- (d) order those arbitration proceedings -
  - (i) to be consolidated on such terms as he thinks just; or
  - (ii) to be heard immediately after one another; or
- (e) order any of those arbitration proceedings to be stayed until after the determination of any other of them.

(2) Subject to section 10, the chairman may select another arbitrator to conduct the arbitration proceedings consolidated under subsection (1)(d)(i).

(3) Where the chairman selects an arbitrator pursuant to subsection (2), any prior appointment of an arbitrator for any of the arbitration proceedings being consolidated ceases to have effect.

**25. Jurisdiction**

(1) The arbitrator has the power to rule on any objection by either party to his jurisdiction to hear the dispute.

(2) No objection to the arbitrator's jurisdiction may be raised after the sending of the statement of defence or, with respect to a counterclaim, after the sending of the reply to the counterclaim.

(3) The arbitrator may rule on an objection to his jurisdiction as a preliminary question or may proceed with the arbitration and rule on such an objection in his final award.

(4) Where applicable, an arbitration clause is treated as being independent of the other terms of a client contract and any decision made by the arbitrator or a court of law declaring that the client contract is void does not of itself invalidate the arbitration clause.

**PART 5**

**RULES RELATING TO TERMINATION OF  
ARBITRATION PROCEEDINGS**

**26. Settlement**

(1) If, before the award is made, the parties agree on a settlement of the dispute, the arbitrator shall record the settlement in the form of an arbitration award on agreed terms.

(2) The arbitrator is not obliged to give reasons for an award made under subsection (1).

(3) An award made under subsection (1) shall be signed by the arbitrator, sent to the parties and lodged with the clerk for filing.

(4) An award made under subsection (1) is final and binding on the parties.

**27. Termination of proceedings**

(1) If, before the award is made, the continuation of the arbitration proceedings becomes unnecessary or impossible for any reason other than by way of an agreement to settle between the parties, the arbitrator may, either on his own initiative or at the request of a party, make an order for the termination of the arbitration proceedings.

(2) The arbitrator shall state in the order the reasons for the termination.

(3) An order made under subsection (1) shall be signed by the arbitrator, sent to the parties and lodged with the clerk for filing.

(4) An order made under subsection (1) is final and binding on the parties.

**28. Form and effect of awards**

(1) An award shall -

- (a) give reasons for the decision;
- (b) be signed by the arbitrator; and
- (c) contain the date on which and the place where it was made.

(2) In addition to making a final award, the arbitrator has the power to make interim, interlocutory or partial awards during the course of an arbitration.

(3) An award made by the arbitrator under this section shall be sent to the parties and lodged with the clerk for filing.

(4) An award made by the arbitrator shall be made public but, where the arbitrator considers it appropriate to do so, this may be done in a manner that preserves the anonymity of the parties.

(5) Despite subsection (4), the Commission -

- (a) shall be notified by the clerk of any award made in respect of a licensed corporation; and
- (b) may make use of any findings made by an arbitrator for the purposes of performing its functions under the

Ordinance including, but without limitation, assessing whether the licensed corporation is a fit and proper person to be so licensed.

- (6) An award made by the arbitrator is final and binding on the parties.

**29. Correction of awards**

(1) Within 14 days after the receipt of the award, either party may, with notice to the other party, request the arbitrator to correct in the award any errors in computation, any clerical or typographical errors or any errors of a similar nature.

(2) If the arbitrator considers the request made under subsection (1) to be justified, he shall make the correction within 14 days after the receipt of the request.

(3) The arbitrator may, on his own initiative, correct any error of the type referred to in subsection (1) within 28 days after the date of the award.

- (4) Section 28 applies in relation to such corrections.

**30. Additional awards**

(1) Within 14 days after the receipt of an award, either party may, with notice to the other party, request the arbitrator to make an additional award as to claims presented during the course of the arbitration but omitted from the award.

(2) If the arbitrator considers the request for an additional award to be justified and considers that the omission can be rectified without any further evidence, he may make the additional award within 14 days after the receipt of the request.

- (3) Section 28 applies in relation to such additional award.

**31. Costs**

(1) The arbitrator shall make an order for costs whenever he makes an arbitration award, including an award on agreed terms, and an order for the termination of the arbitration proceedings.

(2) Subject to subsection (3), the costs of an arbitration are to be borne by the unsuccessful party.

(3) The arbitrator may apportion costs between the parties if he considers that apportionment is reasonable in the circumstances.

(4) The order for costs shall specify -

- (a) the sum to be paid, which shall include -
  - (i) the amount of fees of the arbitrator;
  - (ii) costs for legal advice or for other assistance such as translation, oral interpretation and note-taking required by the arbitrator;
  - (iii) travel and other expenses of witnesses to the extent allowed by the arbitrator;
  - (iv) costs of the successful party, including the costs for legal representation, to the extent allowed by the arbitrator; and
  - (v) the amount of administrative or other costs incurred by the arbitrator and the arbitration panel;
- (b) the parties to and by whom payment shall be made; and
- (c) the time limit for making payment.

(5) A party against whom such an order is made shall make payment in accordance with the order.

**32. Deposits of costs**

(1) At any time during the arbitration proceedings, the arbitrator may require any party to deposit with the clerk such sum or sums to defray the

expenses of the arbitration if the arbitrator considers it expedient to do so in the circumstances.

(2) In determining the amount of any deposit, the arbitrator shall take into account the amount in dispute, the complexity of the subject matter, the costs incurred or to be incurred by the arbitrator, and other relevant circumstances of the case.

(3) If payment of the required deposit is not made by the relevant party within 14 days after the receipt of the requirement, the arbitrator may make an order for the termination of the arbitration proceedings in accordance with section 27.

(4) After the termination of proceedings, with the assistance of the arbitrator, the clerk -

- (a) shall render an account to the parties of the total deposits received under these Rules; and
- (b) after all the costs required to be borne by a party have been paid, shall return any unexpended balance of the party's portion of the deposits to that party.

## PART 6

### MISCELLANEOUS

#### **33. Communication and notice period**

(1) Any challenge, notice, order, award, or other document (however described) sent or lodged (however described) to or with a party or the clerk under these Rules may be sent or lodged in accordance with the provisions of section 400 of the Ordinance.

- (2) For the purposes of calculating a period of time under these Rules -
- (a) the period begins to run on the day following the day when the document is sent or lodged;

- (b) if the last day of the period is a public holiday or a day on which banks are not generally open for business, the period is extended until the first business day that follows; and
- (c) public holidays or days on which banks are not generally open for business occurring during the running of the period of time are included in calculating the period.

**34. Interest**

The arbitrator may order the payment of interest on any damages or costs, including the payment of compound interest if appropriate in the circumstances.

**35. Exclusion of liability**

None of the following persons is liable to any party for any act or omission in connection with any arbitration conducted under these Rules unless he is found to have been fraudulent or dishonest -

- (a) the chairman;
- (b) the deputy chairman;
- (c) a member;
- (d) the arbitrator;
- (e) the clerk;
- (f) a representative of the HKIAC who attends arbitration proceedings in accordance with section 16.

**36. Destruction of documents**

The clerk and the arbitrator may destroy any document relating to an arbitration sent to them under these Rules after the expiry of a period of 1 year after the later of the following -

- (a) the last correspondence relating to the arbitration received by the clerk;

- (b) the making of an arbitration award by the arbitrator;
- (c) the making of an order for the termination of the arbitration proceedings.

**37. Confidentiality**

(1) The arbitrator may in his discretion determine that certain information relating to the arbitration is to be kept confidential.

(2) Subject to section 28(5), such confidential information may not be disclosed by any person without the written consent of the arbitrator.

**38. Applicable law**

(1) Hong Kong law applies to the arbitration proceedings.

(2) The arbitrator shall take into account the trade practice applicable to the transaction.

(3) Pursuant to section 2AB of the Arbitration Ordinance (Cap. 341), the provisions of that Ordinance apply to an arbitration conducted under these Rules, save for those matters that have been specifically provided for in these Rules.

**39. Miscellaneous**

(1) The arbitrator, or if the arbitration proceedings have not been commenced, the chairman, may modify the requirements of these Rules in relation to the sending of documents or the length of time periods in particular cases where, in his opinion, it is expedient to do so in the interest of justice.

(2) A party who knows or reasonably ought to know that any provision of, or requirement under, these Rules has not been complied with and yet proceeds with the arbitration without promptly stating his objection to such non-compliance is deemed to have waived his right to object.

Chairman,  
Securities and Futures Commission

2002

**Explanatory Note**

These Rules are made by the Securities and Futures Commission under section 118(2) of the Securities and Futures Ordinance (5 of 2002). They prescribe for the purposes of section 118(1)(b) of the Ordinance the procedure for the settlement by arbitration of any dispute between a licensed corporation and a client in relation to leveraged foreign exchange trading.



SECURITIES AND  
FUTURES COMMISSION  
證券及期貨事務監察委員會

**A Consultation Paper on the Securities  
and Futures (Leveraged Foreign Exchange Trading -  
Arbitration) Rules**

《證券及期貨(槓桿式外匯交易-仲裁)規則》諮詢  
文件

Hong Kong  
March 2002

香港  
2002年3月

## Consultation

This consultation document invites public comments on the draft **Securities and Futures (Leveraged Foreign Exchange Trading - Arbitration) Rules** (“the draft Rules”) which the Securities and Futures Commission (“SFC”) proposes to make under section 118(2) of the Securities and Futures Ordinance (No. 5 of 2002) (“the Ordinance”) when it commences.

### Introduction

1. Like the Leveraged Foreign Exchange Trading Ordinance, the Ordinance does not contain detailed provisions prescribing the procedure for the settlement by arbitration of any dispute between a client and a licensed corporation in relation to leveraged foreign exchange trading. It merely gives the SFC the necessary rule-making power, under section 118(2), to prescribe the procedure in subsidiary legislation.
2. There are controls built into the legislative system, whereby any rules made by the SFC must be subject to negative vetting by the Legislative Council. In addition, a mandatory consultation requirement is stipulated in section 398 of the Ordinance. Therefore, the SFC now releases the draft Rules (see Attachment 1) for public consultation.
3. The public may obtain copies of the consultation document and the attachments free of charge at the SFC’s office and on the SFC’s Internet website at <http://www.hksfc.org.hk>.
4. The SFC invites interested parties to submit written comments on the draft Rules or to comment on related matters that might have a significant impact upon the draft Rules **no later than 11 April 2002**. Any person wishing to comment should provide details of any organization whose views they represent. In addition, persons suggesting alternative approaches are encouraged to submit proposed text to amend the draft Rules.

### Background to the draft Rules

5. A copy of the draft Rules is attached. In short, they prescribe, for the purposes of section 118(1)(b) of the Ordinance, the procedure for the settlement by arbitration of any dispute between a client and a licensed corporation in relation to leveraged foreign exchange trading.
6. The draft Rules have been prepared having regard to, and are largely based on, the existing Leveraged Foreign Exchange Trading (Arbitration) Rules made under sections 7(5) and 73 of the Leveraged Foreign Exchange Trading Ordinance. The only changes are to make the draft Rules technologically neutral and therefore to modernize the procedure. The draft Rules provide for the establishment and constitution of the Arbitration Panel, selection and replacement of the Arbitrator, the procedural rules for the commencement, conduct and termination of the proceedings and other miscellaneous matters.

7. It is the intention of the SFC that the draft Rules should be user-friendly and they have been drafted so as to streamline the procedure with notices and other documents now able to be served electronically. Furthermore, the draft Rules no longer rely on an arbitration clause in the client agreement. The SFC would welcome suggestions from industry participants on any specific improvements that could be made to the draft Rules to make them user-friendly for participants.

### **New Policy Initiatives**

8. No major policy changes have been incorporated into the draft Rules, which on the whole re-enact the existing Leveraged Foreign Exchange Trading (Arbitration) Rules, with the following minor changes:

- (a) Under section 118(1)(b) of the Ordinance it must be a condition of a license for the carrying on of leveraged foreign exchange trading, that a client may require a dispute to be referred to arbitration. In contrast, under the existing law, this is not mandatory. The draft Rules reflect this and they are also less technically reliant on an arbitration clause in view of the broad scope of section 118(1)(b);
- (b) The draft Rules are now technologically neutral, reflecting section 400 of the Ordinance, so that documents are not precluded from being sent or served electronically

### **Other matters**

9. Please note that the names of the commentators and the contents of their submissions may be published on the SFC web site and in other documents to be published by the SFC. In this connection, please read the Personal Information Collection Statement attached to this consultation paper.

10. You may not wish your name and/or submission to be published by the SFC. If this is the case, please state that you wish your name and/or submission to be withheld from publication when you make your submission.

11. Written comments may be sent

By mail to: SFC (LFET Arbitration Rules)  
12/F, Edinburgh Tower  
The Landmark  
15 Queen's Road Central  
Hong Kong

Attn: Intermediaries Supervision Department

By fax to: (852) 2526 5304

By on-line submission at: <http://www/hksfc.org.hk>

By e-mail to: LFET\_arbitration\_rules.org.hk

12. The draft Rules should be read in conjunction with the Securities and Futures Ordinance itself.

## **Personal Information Collection Statement**

1. This Personal Information Collection Statement (“PICS”) is made in accordance with the guidelines issued by the Privacy Commissioner for Personal Data. The PICS sets out the purposes for which your Personal Data<sup>1</sup> will be used following collection, what you are agreeing to with respect to the SFC’s use of your Personal Data and your rights under the PDPO.

### **Purpose of Collection**

2. The Personal Data provided in your submission to the SFC in response to this Consultation Paper may be used by the SFC for one or more of the following purposes:
  - to administer the relevant Ordinances, rules, regulations, codes and guidelines made or promulgated pursuant to the powers vested in the SFC
  - for the purposes of performing the SFC’s statutory functions under the relevant Ordinances
  - for research and statistical purposes
  - other purposes permitted by law

### **Transfer of Personal Data**

3. Personal Data may be disclosed by the SFC to the members of the public in Hong Kong and elsewhere, as part of the public consultation on the Consultation Paper. The names of persons who submit comments on the Consultation Paper together with the whole or part of their submission may be disclosed to members of the public. This will be done by publishing this information on the SFC web site and in documents to be published by the SFC throughout and at the conclusion of the consultation period.

### **Access to Data**

4. You have the right to request access to and correction of your Personal Data in accordance with the provisions of the PDPO. Your right of access includes the right to obtain a copy of your Personal Data provided in your submission on the Consultation Paper. The SFC has the right to charge a reasonable fee for processing any data access request.

### **Enquiries**

5. Any enquiries regarding the Personal Data provided in your submission on the Consultation Paper, or requests for access to Personal Data or correction of Personal Data, should be addressed in writing to:

The Data Privacy Officer  
The Securities and Futures Commission  
12/F, Edinburgh Tower, The Landmark  
15 Queen’s Road Central, Hong Kong

A copy of the Privacy Policy Statement adopted by the SFC is available upon request.

---

<sup>1</sup> Personal Data means personal data as defined in the Personal Data (Privacy) Ordinance, Cap 486 (“PDPO”)

**SECURITIES AND FUTURES (LEVERAGED FOREIGN EXCHANGE  
TRADING - ARBITRATION) RULES**

**(CAP.[ ], SECTION 118(2))**

**ARRANGEMENT OF SECTIONS**

**No. Page**

**PART I**

**PRELIMINARY**

1. Commencement
2. Interpretation
3. Purpose of these Rules
4. Constitution of Arbitration Panel

**PART II**

**RULES RELATING TO THE COMMENCEMENT OF PROCEEDINGS**

5. Commencement of proceedings
6. Initial deposit
7. Representation
8. Oaths and affirmation

**PART III**

**THE ARBITRATOR**

9. Selection of arbitrator
10. Challenge of arbitrator
11. Replacement of arbitrator
12. Remuneration of arbitrator

**PART IV**

**RULES RELATING TO THE ARBITRATION PROCEEDINGS**

13. Conduct of proceedings
14. Notes of proceedings

15. Designation of time and place of arbitration
16. Language
17. Attendance
18. Statement of claim
19. Statement of defence or counterclaim
20. Amendments and further statements
21. Time period for the communication of statements
22. Evidence
23. Hearing of witnesses
24. Default
25. Consolidation of proceedings
26. Jurisdiction

PART V  
RULES RELATING TO THE TERMINATION OF PROCEEDINGS

27. Settlement
28. Termination of proceedings
29. Form and effect of awards
30. Correction of awards
31. Additional awards
32. Costs
33. Deposits of Costs

PART VI  
MISCELLANEOUS

34. Communication and notice period
35. Interest
36. Exclusion of liability
37. Destruction of documents
38. Confidentiality
39. Applicable law
40. Interpretation and enforcement of rules

# SECURITIES AND FUTURES (LEVERAGED FOREIGN EXCHANGE TRADING - ARBITRATION) RULES

(Made by the Securities and Futures Commission  
under section 118(2) of the Securities and Futures  
Ordinance (No.5 of 2002)

## PART I PRELIMINARY

### 1. Commencement

These Rules shall come into operation on the day appointed for the commencement of Part V of the Securities and Futures Ordinance (No.5 of 2002).

### 2. Interpretation

In these Rules, unless the context otherwise requires -

"Arbitration Panel" (仲裁委員會) means the Arbitration Panel established by section 4;

"chairman" (主席) means the chairman of the Arbitration Panel;

"claimant" (申索人) means the party making the claim in respect of the dispute being referred to arbitration;

"clerk" (書記) means the clerk to the Arbitration Panel referred to in section 4(6);

"client contract" (客戶合約) means any contract or arrangement between a licensed corporation and its client containing terms on which the licensed corporation is to provide leveraged foreign exchange trading services and, where applicable, includes any separate arbitration agreement between them;

"dispute" (爭議) means any dispute between a client and a licensed corporation regarding or touching upon any matter concerning the carrying on of leveraged foreign exchange trading;

"HKIAC" (香港國際仲裁中心) means the Hong Kong International Arbitration Centre; ;

"party" (當事人) means a party to a dispute;

"respondent" (答辯人) means the party against whom a claim is made in respect of the dispute being referred to arbitration.

### 3. Purpose of these Rules

For the purposes of section 118(1)(b) of the Ordinance these Rules govern the resolution of any dispute where a client requires, or agrees, that the dispute be referred to arbitration.

#### **4. Constitution of Arbitration Panel**

(1) For the purposes of resolving disputes in accordance with these Rules, there is established a panel to be known as the Arbitration Panel.

(2) The Arbitration Panel consists of members, including a chairman and a deputy chairman, who are appointed by the Financial Secretary.

(3) Directors and employees of the Commission are not eligible for appointment as members of the Arbitration Panel.

(4) A member of the Arbitration Panel holds office for such period as the Financial Secretary may determine but may resign his office at any time by letter sent to the Financial Secretary.

(5) If the office of chairman is vacant or the chairman is unable to act as chairman due to illness, other incapacity or absence from Hong Kong, the deputy chairman of the Arbitration Panel or, failing him, such other member of the Arbitration Panel as the Financial Secretary may appoint, acts as chairman in his place.

(6) The Arbitration Panel must have a clerk and such person is to be appointed from time to time by the Commission.

(7) A list of members of the Arbitration Panel may be obtained from the clerk who must prepare and maintain such a list.

## **PART II**

### **RULES RELATING TO THE COMMENCEMENT OF PROCEEDINGS**

#### **5. Commencement of proceedings**

(1) Where the claimant is a client, he may commence arbitration proceedings by sending to the licensed corporation with which he has a dispute, a letter signed by him or on his behalf, requiring the dispute to be settled by arbitration in accordance with these Rules.

(2) Where the claimant is a licensed corporation, arbitration proceedings may be commenced by -

- (a) the licensed corporation sending to the client with whom it has a dispute a letter (containing the particulars described in subsection (7)(b), (d) and (e)), signed by it or on its behalf, proposing that the dispute be settled by arbitration in accordance with these Rules; and
- (b) the client sending to the licensed corporation a letter, signed by him or on his behalf, within 14 days of receipt of the letter under paragraph (a), agreeing to the proposal.

(3) If the client does not send a letter under subsection (2)(b) agreeing to the proposal by the licensed corporation to refer a dispute to arbitration within the time prescribed -

- (a) the proposal lapses; and
- (b) the client is not entitled to refer the same dispute to arbitration.

(4) Subject to subsection (5), despite court proceedings having commenced in respect of a dispute, the client may require that the dispute be settled by arbitration, by sending a letter signed by

him or on his behalf to the licensed corporation to that effect within 14 days after the commencement of the court proceedings.

(5) Subsection (4) does not apply where the client has refused an earlier request for arbitration in respect of the same dispute.

(6) Arbitration proceedings are deemed to commence on the date on which the letter referred to in subsection (1) or (4) or, where applicable, the letter referred to in subsection (2)(b), is received by the licensed corporation in accordance with section 34.

(7) A letter sent under subsection (1) or (4) must include -

- (a) a demand that the dispute be referred to arbitration;
- (b) the names and addresses of the parties;
- (c) a reference to the arbitration clause that the client is relying on, where applicable;
- (d) a reference to the client contract; and
- (e) a brief summary of the dispute, the remedy sought and an indication of the amount of money involved.

(8) Where the claimant is a body corporate or a partnership, any letter sent under this section must be completed and signed on its behalf by one of its directors or partners, as the case may be.

(9) A copy of any letter sent under this section must be sent to the clerk for filing.

(10) During the arbitration of any matter, neither party may pursue any suit, action or proceedings against the other in respect of the dispute referred to arbitration under these Rules.

## **6. Initial deposit**

(1) When a copy of the letter requiring or requesting arbitration, as the case may be, is sent to the clerk for filing, the party sending the letter must deposit with the clerk a sum of \$1,000.

(2) Where a licensed corporation requests arbitration but the client does not agree, the deposit referred to in subsection (1) must be returned to the licensed corporation as soon as practicable after deducting any amount reasonably incurred by the Arbitration Panel in relation to the matter.

## **7. Representation**

(1) The parties may conduct arbitration proceedings in person or be represented by any other person of their choice.

(2) Where a party is a body corporate or a partnership, it may be represented by a director or a partner, as the case may be, or any other person of its choice authorized by it.

(3) The names and addresses of the persons referred to in subsections (1) and (2) must be sent to the other party, with a copy sent to the clerk for filing, as soon as they have been decided on.

(4) A party must notify the clerk and the other party immediately of any change of representative, or any change of particulars of the representative.

## **8. Oaths and affirmation**

All evidence must be given under oath or affirmation.

## PART III

### THE ARBITRATOR

#### 9. Selection of arbitrator

- (1) The chairman must select an arbitrator from the Arbitration Panel to conduct the arbitration as soon as practicable after -
  - (a) the arbitration has commenced as provided in section 5(6); and
  - (b) a deposit has been received by the clerk in accordance with section 6(1).
- (2) The parties must provide such information as may be required by the chairman to assist him in his selection of an arbitrator.
- (3) The chairman has full discretion in the selection of an arbitrator under these Rules.

#### 10. Challenge of arbitrator

- (1) A party may challenge an arbitrator if circumstances exist to give rise to justifiable doubts as to the arbitrator's impartiality or independence.
- (2) A party who proposes to challenge an arbitrator must send his challenge to the clerk, setting out the reasons for such challenge, with a copy to the other party, within 14 days of the notification of the appointment of the arbitrator in question or, if later, of his becoming aware of the circumstances giving rise to doubts about the arbitrator's suitability.
- (3) Where the other party concurs with the challenge posed or the challenged arbitrator withdraws from the appointment, the challenged arbitrator must vacate his office and section 9 applies for the purposes of selecting a new arbitrator. In neither case does this imply acceptance of the validity of the grounds for the challenge.
- (4) Where the other party does not concur with the challenge and the challenged arbitrator does not withdraw, a decision on the challenge must be made by the chairman.
- (5) If the chairman upholds the challenge, section 9 applies for the purposes of selecting a new arbitrator.

#### 11. Replacement of arbitrator

- (1) In the event of the death or resignation of the arbitrator during the course of the arbitration proceedings, section 9 applies for the purposes of selecting a new arbitrator.
- (2) If an arbitrator is unable to act due to illness or other incapacity or is absent from Hong Kong, sections 9 and 10 apply.
- (3) If the arbitrator is replaced, any hearings held previously must be repeated unless both parties and the new arbitrator agree to proceed on the basis of notes taken at such prior hearings.

#### 12. Remuneration of arbitrator

The arbitrator is to be paid such remuneration and allowances as the Financial Secretary may determine.

## PART IV

### RULES RELATING TO THE ARBITRATION PROCEEDINGS

#### 13. Conduct of proceedings

- (1) Despite other provisions of these Rules, the arbitrator -
  - (a) may adopt the widest discretion allowed by law;
  - (b) may conduct the arbitration in such manner as he considers appropriate and has the power to adopt, whenever possible, a simplified or expedited procedure and to conduct proceedings to ensure the just, expeditious, economical and final determination of the dispute; and
  - (c) must ensure that the parties are treated with equality and that at any stage of the proceedings each party is given a full opportunity to present that party's case.
- (2) The arbitrator may, in his discretion, decide whether to hold hearings for the presentation of evidence by witnesses, including expert witnesses, or for oral argument, or to conduct the proceedings only on the basis of documents and other materials.
- (3) All documents or information to be supplied to an arbitrator must be sent to the clerk for transmission to the arbitrator, save where documents or information are submitted during a hearing.
- (4) All documents and information that are to be supplied to an arbitrator must be sent to the clerk as follows -
  - (a) where a party submits documents or information during a hearing, one copy must be sent to the clerk by that party immediately after the hearing; and
  - (b) in all other cases, a party must supply 2 sets of all documents or information to the clerk, except where they have been sent to the clerk by facsimile or electronic mail transmission in accordance with [section 34](#).
- (5) The arbitrator may appoint any legally qualified person to advise him on any matter relating to the arbitration.
- (6) Without prejudice to [subsection \(5\)](#), the arbitrator may seek advice from any representative of the HKIAC who is attending the proceedings in accordance with [section 17](#) on any matter relating to the practice and procedure of an arbitration.

#### 14. Notes of proceedings

- (1) Notes of proceedings before an arbitrator may be taken by a person appointed as a note-taker by the arbitrator and any party is entitled to inspect and take copies of the transcript of such notes on payment of the note-taker's charges.
- (2) If no note-taker is appointed, the arbitrator must take a note of the proceedings and any party is entitled to inspect and take copies of such note.

## **15. Designation of time and place of arbitration**

(1) The arbitrator must designate a date, time and place in Hong Kong for the arbitration to take place.

(2) Notice of the date, time and place for the initial hearing must be sent by the clerk to the parties, in accordance with section 34, at least 21 days prior to the date fixed for hearing and notice for each hearing thereafter must be given as the arbitrator may determine.

(3) The arbitrator may conduct hearings, hear witnesses and hold meetings for consultation at any place he considers appropriate, having regard to the circumstances of the arbitration.

## **16. Language**

(1) The arbitrator may order that any documents annexed or otherwise attached to statements and any supplementary documents or exhibits submitted in the course of proceedings, if not in an official language, be accompanied by a translation into an official language, such translation to be certified if not agreed.

(2) Unless the arbitrator otherwise orders, witnesses are entitled to give their evidence in the language of their choice and the arbitrator may order the translation of that evidence, if not given in an official language, into an official language by a suitably qualified person.

## **17. Attendance**

In addition to the clerk, a representative of the HKIAC may be present throughout the proceedings.

## **18. Statement of claim**

(1) Unless a statement of claim was contained in or attached to the letter requiring or requesting arbitration, as the case may be, the claimant must send his statement of claim to the respondent and to the arbitrator in accordance with sections 13(3) and (4) and 34, within 14 days from the date the arbitration is deemed to have commenced under section 5(6).

(2) A copy of the client contract must be annexed or otherwise attached to the statement of claim.

(3) The statement of claim must include the following particulars -

- (a) the names and addresses of the parties;
- (b) a statement of the facts supporting the claim;
- (c) the points at issue; and
- (d) the remedy sought.

(4) The claimant may -

- (a) annex or otherwise attach to the statement of claim all documents the claimant considers relevant; or
- (b) add a reference to the documents or other evidence the claimant intends to submit.

## **19. Statement of defence or counterclaim**

(1) The respondent must send a statement of defence to the claimant and to the arbitrator in accordance with sections 13(3) and (4) and 34, within 14 days from the date the statement of claim is received by the respondent.

(2) The statement of defence must reply to the particulars of the statement of claim referred to in section 18(3)(b), (c) and (d).

(3) The respondent may -

(a) annex or otherwise attach to a statement of defence documents on which the respondent relies in defence; or

(b) add a reference to the documents or other evidence the respondent intends to submit.

(4) In the statement of defence, or at a later stage in the arbitration proceedings if the arbitrator decides that the delay was justified under the circumstances, the respondent may -

(a) make a counter-claim arising out of the same dispute; or

(b) rely on a claim arising out of that dispute for the purpose of a set-off.

(5) Section 18 applies to a counter-claim and a claim relied on for the purpose of a set-off in the same manner as it applies to a statement of claim.

## **20. Amendments and further statements**

(1) During the arbitration proceedings, a party may amend or supplement that party's claim or defence except where the arbitrator considers it inappropriate to allow this, having regard to -

(a) any delay involved;

(b) the likelihood of prejudice to the other party; or

(c) any other relevant circumstances.

(2) The arbitrator may require or accept further statements, in addition to the statement of claim and the statement of defence, and must fix the periods of time for communicating such statements.

## **21. Time period for the communication of statements**

The time period fixed by the arbitrator for the sending of statements (including the statement of claim and statement of defence) may not exceed 21 days unless an extension is requested by a party and the arbitrator is satisfied that such an extension is justified in the circumstances.

## **22. Evidence**

(1) Each party has the burden of proving the facts relied on to support that party's statement.

(2) The arbitrator -

(a) must determine the admissibility, materiality, relevance and weight of any evidence;  
and

(b) may admit evidence irrespective of the rules governing the admissibility of evidence in court if, in his opinion, the interest of justice is served by so doing.

(3) If the arbitrator considers it appropriate, he may require a party to send to him and to the other party, within a period of time stipulated by him, a summary of the documents and other evidence which that party intends to present in support of the facts in issue set out in that party's statement.

## **23. Hearing of witnesses**

(1) If any witnesses are to be heard, each party must send a notice to the arbitrator and to the other party at least 14 days before the hearing specifying -

- (a) the name and address of each witness;
- (b) the subject matter of each witness's testimony or, at the request of the arbitrator, a transcript of the witness's statement or expert report; and
- (c) the language in which each witness will give his testimony.

(2) The arbitrator may arrange for translations or recordings to be made at a hearing as he considers appropriate.

(3) Hearings must be held in public unless the arbitrator decides otherwise.

(4) The arbitrator may require the retirement of any witness during the testimony of any other witness.

(5) Evidence of a witness may also be presented in the form of a written statement signed by him.

(6) The arbitrator is free to determine the manner in which witnesses are examined.

## **24. Default**

(1) If, within the period of time fixed by the arbitrator, the claimant fails to file a statement of claim without showing sufficient cause for such failure, the arbitrator may issue an order for the termination of the arbitration proceedings in accordance with section 28.

(2) If, within the period of time fixed by the arbitrator, the respondent fails to file a statement of defence without showing sufficient cause for such failure, the arbitrator may, as he thinks fit, make an order in favour of the claimant or an order for termination in accordance with section 28.

(3) If one of the parties, duly notified under these Rules, fails to appear at a hearing or fails to produce any document in that party's possession when required to do so without any valid excuse, the arbitrator may proceed with the arbitration and such proceedings are deemed to have been conducted in accordance with section 13(1).

## **25. Consolidation of proceedings**

(1) Where in relation to 2 or more arbitration proceedings it appears to the chairman -

- (a) that some common question of law or fact arises in both or all of them;
- (b) that the claims arise out of the same transaction or series of transactions; or
- (c) that for some other reason it is desirable to make an order under this section, the chairman may

(i) order those arbitration proceedings -

(A) to be consolidated on such terms as he thinks just; or

(B) to be heard immediately after one another; or

(ii) order any of those arbitration proceedings to be stayed until after the determination of any other of them.

(2) Subject to section 10, where the chairman orders arbitration proceedings to be consolidated under subsection (1)(c)(i)(A) he has power to select the arbitrator.

(3) Where the chairman selects an arbitrator pursuant to subsection (2), any prior appointment of an arbitrator for any of the arbitration proceedings being consolidated ceases to have effect.

## **26. Jurisdiction**

(1) The arbitrator has the power to rule on any objection by either party to his jurisdiction to hear the dispute.

(2) An objection to the arbitrator's jurisdiction must be raised not later than in the statement of defence or, with respect to a counter-claim, in the reply to the counter-claim.

(3) Normally, the arbitrator must rule on an objection to his jurisdiction as a preliminary question, but he has the power to proceed with the arbitration and rule on such an objection in his final award.

(4) Where applicable, an arbitration clause is treated as being independent of the other terms of a client contract and any decision by the arbitrator or a court of law declaring that the client contract is null and void does not of itself invalidate the arbitration clause.

## **PART V**

### **RULES RELATING TO THE TERMINATION OF PROCEEDINGS**

## **27. Settlement**

(1) If, before the award is made, the parties agree on a settlement of the dispute, the arbitrator must record the settlement in the form of an arbitration award on agreed terms.

(2) The arbitrator is not obliged to give reasons for an award made under subsection (1).

(3) An award made under subsection (1) must be signed by the arbitrator, sent to the parties and lodged with the clerk for filing.

(4) An award made under subsection (1) is final and binding on the parties.

## **28. Termination of proceedings**

(1) If, before the award is made, the continuation of the arbitration proceedings becomes unnecessary or impossible for any reason other than by way of an agreement to settle between the parties, the arbitrator may, either upon his own initiative or at the request of a party, issue an order for the termination of the arbitration.

(2) The arbitrator must state in the order the reasons for the termination.

(3) An order made under subsection (1) must be signed by the arbitrator, sent to the parties and lodged with the clerk for filing.

(4) An order made under subsection (1) is final and binding on the parties.

## **29. Form and effect of awards**

- (1) An award must -
  - (a) give reasons for the decision;
  - (b) be signed by the arbitrator; and
  - (c) contain the date on which and the place where it was made.
- (2) In addition to making a final award, the arbitrator has the power to make interim, interlocutory or partial awards during the arbitration proceedings.
- (3) An award made by the arbitrator under this section must be sent to the parties and lodged with the clerk for filing.
- (4) An award made by the arbitrator must be made public but, where the arbitrator considers it appropriate to do so, this may be done in a manner that preserves the anonymity of the parties.
- (5) Despite subsection (4), the Commission -
  - (a) must be notified by the clerk of any award made in respect of a licensed corporation; and
  - (b) may make use of any findings made by an arbitrator for the purposes of exercising its functions under the Ordinance including, but without limitation, assessing whether the licensed corporation is a fit and proper person to be so licensed.
- (6) An award made by the arbitrator is final and binding on the parties.

## **30. Correction of awards**

- (1) Within 14 days after receipt of the award, either party may, with notice to the other party, request the arbitrator to correct in the award any errors in computation, any clerical or typographical errors or any errors of a similar nature.
- (2) If the arbitrator considers the request made under subsection (1) to be justified, he must make the correction within 14 days of receiving the request.
- (3) The arbitrator may on his own initiative correct any error of the type referred to in subsection (1) within 28 days of the date of the award.
- (4) Section 29 applies to such corrections accordingly.

## **31. Additional awards**

- (1) Within 14 days after receipt of an award, either party may, with notice to the other party, request the arbitrator to make an additional award as to claims presented in the arbitration proceedings but omitted from the award.
- (2) If the arbitrator considers the request for an additional award to be justified and considers that the omission can be rectified without any further evidence, he may make the additional award within 14 days after receipt of the request.
- (3) When an additional award is made, section 29 applies accordingly.

### **32. Costs**

- (1) Whenever the arbitrator makes an arbitration award, including an award on agreed terms and an order for the termination of the arbitration proceedings, he must make an order for costs.
- (2) In principle, the costs of an arbitration are borne by the unsuccessful party.
- (3) Despite subsection (2), the arbitrator is free to apportion costs between the parties if he considers that apportionment is reasonable in the circumstances.
- (4) The order for costs must specify -
  - (a) the sum to be paid, which must include -
    - (i) the amount of fees of the arbitrator;
    - (ii) costs for legal advice or for other assistance such as translation, oral interpretation and note-taking required by the arbitrator;
    - (iii) travel and other expenses of witnesses to the extent allowed by the arbitrator;
    - (iv) costs of the successful party, including the costs for representation, to the extent allowed by the arbitrator; and
    - (v) the amount of administrative or other costs, incurred by the arbitrator and the Arbitration Panel;
  - (b) the parties to and by whom payment must be made; and
  - (c) the time limit for making payment.
- (5) A party against whom such an order is made must make payment in accordance with the order.

### **33. Deposits of costs**

- (1) At any time during the arbitration proceedings, the arbitrator may require any party to deposit with the clerk such sum or sums to defray the expenses of the arbitration if the arbitrator considers it expedient to do so in the circumstances.
- (2) The arbitrator determines the amount of any deposit, taking into account the amount in dispute, the complexity of the subject matter, the costs incurred or to be incurred by the arbitrator and other relevant circumstances of the case.
- (3) If payment of the required deposit is not made within 14 days after receipt of the request, the arbitrator may order the termination of the arbitration proceedings in accordance with section 28.
- (4) After the termination of proceedings, with the assistance of the arbitrator, the clerk -
  - (a) must render an accounting to the parties of the total deposits received under these Rules; and
  - (b) after all the costs required to be borne by a party have been paid, must return any unexpended balance of the party's portion of the deposits to that party.

**PART VI**  
**MISCELLANEOUS**

**34. Communication and notice period**

(1) Any letter, challenge, notice, order, award, or other document (regardless of description) sent to a party or the clerk under these Rules may be sent in accordance with the provisions of section 400 of the Ordinance.

(2) For the purposes of calculating a period of time under these Rules -

- (a) the period begins to run on the day following the day when the document is received;
- (b) if the last day of the period is an official holiday or a day on which banks are not generally open for business, the period is extended until the first business day which follows; and
- (c) official holidays or days on which banks are not generally open for business occurring during the running of the period of time are included in calculating the period.

**35. Interest**

The arbitrator has the power to order the payment of interest on any damages or costs including the payment of compound interest if appropriate in the circumstances.

**36. Exclusion of liability**

(1) An arbitrator is not liable to any party for any act or omission relating to an arbitration conducted under these Rules, unless he is found to have been fraudulent or dishonest.

(2) None of the following persons is liable to any party for any act or omission in connection with any arbitration conducted under these Rules unless he is found to have been fraudulent or dishonest -

- (a) the chairman;
- (b) the deputy chairman of the Arbitration Panel;
- (c) a member of the Arbitration Panel;
- (d) any representative of the HKIAC who attends arbitration proceedings in accordance with section 17.

**37. Destruction of documents**

The clerk and the arbitrator may destroy all documents relating to an arbitration sent to them under these Rules after the expiry of a period of 1 year from the date of the last correspondence received by them.

### **38. Confidentiality**

(1) The arbitrator may in his discretion determine that certain information relating to the arbitration must be kept confidential.

(2) Without prejudice to section 29(5), such confidential information may not be disclosed by any person without the written consent of the arbitrator.

### **39. Applicable law**

(1) Hong Kong law applies to the arbitration proceedings.

(2) In all cases, the arbitrator must take into account the usages of the trade applicable to the transaction.

(3) Pursuant to section 2J of the Arbitration Ordinance (Cap. 341), the provisions of that Ordinance apply to an arbitration conducted under these Rules save for those matters which have been specifically provided for in these Rules.

### **40. Interpretation and enforcement of rules**

(1) The arbitrator is empowered to interpret and determine the applicability of all provisions under these Rules and to take appropriate action to obtain compliance with any ruling made by him whilst arbitration proceedings are being conducted.

(2) The arbitrator may modify the requirements of these Rules in relation to the sending of documents or the length of time periods in particular cases where, in his opinion, it is expedient to do so in the interest of justice.

(3) A party who knows that any provision of, or requirement under, these Rules has not been complied with and yet proceeds with the arbitration without promptly stating his objection to such non-compliance is deemed to have waived his right to object.

Chairman,  
Securities and Futures  
Commission

2002

### **Explanatory Note**

These Rules are made by the Securities and Futures Commission under section 118(2) of the Securities and Futures Ordinance

(No.5 of 2002). They prescribe for the purposes of section 118(1)(b) of the Ordinance the procedure for the settlement by arbitration of any dispute between a client and a licensed corporation in relation to leveraged foreign exchange trading.

Consultation Document on the Draft Securities and  
Futures (Leveraged Foreign Exchange Trading –  
Arbitration) Rules

**Consultation Conclusion**

Securities and Futures Commission  
Hong Kong

April 2002

## **INTRODUCTION**

1. On 28 March 2002, the Securities and Futures Commission (“SFC”) released ‘a Consultation Document on the draft Securities and Futures (Leveraged Foreign Exchange Trading – Arbitration) Rules’ (“Consultation Document”). The Consultation Document contained proposed rules to prescribe the procedure for the settlement by arbitration of any dispute between a client and a licensed corporation in relation to leveraged foreign exchange trading.
2. The consultation period lasted until 16 April 2002.
3. The purpose of this document is to provide interested persons with an analysis of the main comments raised during the consultation exercise and the rationale for the SFC’s conclusions. *This document should be read in conjunction with the Consultation Document.*

## **PUBLIC CONSULTATION**

### **Consultation process**

4. In addition to the public announcement inviting comments, the Consultation Document was also published on the SFC website.
5. 2 submissions were received from the market practitioners, namely the Hong Kong International Arbitration Centre and the Institute of Securities Dealers Ltd.
6. The comments were positive.

### **Consultation conclusion**

7. No change has been made to the original draft Rules set out in the Consultation Document.

## **SUMMARY OF COMMENTS AND SFC’S RESPONSES**

8. A summary of comments received on the draft Rules are set out in Attachment.

**Summary of comments received on the Exposure Draft of the  
Securities and Futures (Leveraged Foreign Exchange Trading - Arbitration) Rules**

	Section reference	Details of the Rules	Respondent's comments	SFC's response
<i>General comment</i>				
1.	-		[HKIAC] The commentator in principle supported the proposal as put forward.	Noted.
<i>Specific comment</i>				
2.	4	Constitution of Arbitration Panel	[ISD] It may make better use of resources if the Commission could fully leverage on the HKIAC than to set up a separate Arbitration Panel solely for LFET matters, however, given that the LFET arbitration rules have never been used, such review may not be worthwhile.	A separate Arbitration Panel is needed to have members with special knowledge and expertise in leverage foreign exchange trading business. Under s13 "Conduct of Proceedings", the arbitrator can seek advice from a representative of the HKIAC who is attending the proceedings on matter relating to the practice and procedure of an arbitration.

**List of Respondents**

Date received	Respondent
15 April 2002	Hong Kong International Arbitration Centre ("HKIAC")
15 April 2002	Institute of Securities Dealers Ltd ("ISD")