

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

**Securities and Futures (Contract Limits and  
Reportable Positions) Rules**

**Introduction**

Members considered the draft Securities and Futures (Contract Limits and Reportable Positions) Rules (the draft Rules) at the Subcommittee meeting on 16 September 2002. This paper updates Members of the latest proposals of the Securities and Futures Commission (SFC), as follows –

- (a) to increase the reportable position for Hang Seng Index (HSI) futures and options contracts from 250 contracts to 500 contracts;
- (b) to accordingly adjust the reportable position for mini-HSI futures contracts from 1,250 contracts to 2,500 contracts; and
- (c) to specify the reportable position for the new mini-HSI options contracts at the same level as that for mini-HSI futures contracts at (b) above.

**Reportable position for HSI futures and options contracts**

2. The reportable position for standard HSI futures and options contracts prescribed in the draft Rules is 250 open contracts for any one contract month or 250 open contracts for any one series. This is the same as prescribed under existing law. Under section 6(1) of the draft Rules, any person who holds or controls a reportable position shall notify the exchange company concerned within one reporting day of that position.

3. During public consultation on an exposure draft of the Rules earlier in March 2002, the SFC received market comments that the reportable position for HSI futures and options contracts should be relaxed from 250 to 500 contracts. In response, the SFC advised Members in September 2002 that it was considering the matter but as a relaxation of the reportable position would have implications on the enforcement of the Rules by the SFC and the Hong Kong

Exchanges and Clearing Limited (HKEx), there was a need to weigh the benefit of the proposal against the impact on the effectiveness of cross-market surveillance. The SFC stated that it was working with the HKEx and would come to a considered view on the proposals in the next few months.

4. In the last few months, the SFC has been working closely with HKEx to enhance the effectiveness of the relevant market surveillance systems. The SFC is now satisfied that it would be appropriate to relax the reportable position for HSI futures and options contracts to 500 contracts without unduly increasing the systemic risks in the market.

5. The SFC believes that the relaxation of the reportable position for HSI futures and options contracts will be beneficial to the industry as a whole as the compliance burden on industry participants (as well as the investors) will be reduced and this may result in an increase in market activities for HSI futures and options contracts.

#### **Reportable position for mini-HSI futures contracts**

6. As the contract size of mini-HSI futures contracts is one-fifth of the size of standard HSI contracts, the reportable position for mini-HSI futures contracts will be amended from 1,250 in existing law to 2,500 proportionately.

#### **Reportable position for the new mini-HSI options contracts**

7. To support the introduction of the new mini-HSI options contract in November 2002, we gazetted on 11 October 2002 the Commodities Trading (Trading Limits and Position Limits) (Amendment)(No. 2) Rules 2002 to specify the reportable position for this new product at 1,250 contracts, in line with that for mini-HSI futures contracts. This new product, as well as the new position limit at 2,500 contracts, will now be specified in the revised draft of the Rules.

#### **Proposed amendments to the draft Rules**

8. The above amendments to the draft Rules are marked up at the **Annex** for Members' easy reference.

## **Way forward**

9. The SFC intends to make the Rules as revised in the near future for gazettal and tabling before the Legislative Council in the normal manner. The intention is to bring the Rules into operation on the commencement of the Securities and Futures Ordinance.

Securities and Futures Commission  
Financial Services and Treasury Bureau  
27 November 2002

**SECURITIES AND FUTURES (CONTRACTS LIMITS AND  
REPORTABLE POSITIONS) RULES**

(Made by the Securities and Futures Commission under section 35(1)  
of the Securities and Futures Ordinance (Cap. 571))

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SCHEDULE 1

[ss. 2 & 5]

**PRESCRIBED LIMIT AND REPORTING LEVEL FOR  
FUTURES CONTRACTS**

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<b>Item</b>	<b>Futures Contract</b>	<b>Prescribed Limit</b>	<b>Reporting Level</b>
27.	Hang Seng Index futures and options contracts, and Mini-Hang Seng Index futures contracts <u>and options contracts</u>	10 000 long or short position delta limit for all contract months combined, provided the position delta for the Mini-Hang Seng Index futures contracts <u>or Mini-Hang Seng Index options contracts</u> shall not at any time exceed 2 000 long or short for all contract months combined	<del>250</del> 500 open Hang Seng Index futures contracts for any one contract month; <del>250</del> 500 open Hang Seng Index options contracts for any one series; <del>1-250</del> 2 500 open Mini-Hang Seng Index futures contracts for any one contract month <u>and 1,250</u> 2 500 open Mini-Hang Seng Index options contracts for any one series.

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