

LEGISLATIVE COUNCIL BRIEF

SECURITIES ORDINANCE (CAP. 333)

SECURITIES (EXCHANGE-TRADED STOCK OPTIONS) (AMENDMENT) RULES 2002

INTRODUCTION

1. The Securities and Futures Commission (“the Commission”) has made the Securities (Exchange-Traded Stock Options) (Amendment) Rules 2002 (“the Amendment Rules”) at the Annex. The Amendment Rules amend the names of two stock options contracts and add two new stock options contracts. They also specify the trading limits and reportable level for the new products.

BACKGROUND AND ARGUMENT

2. Section 146(1)(p) of the Securities Ordinance (Cap. 333) provides that the Commission may prescribe limits and reporting levels on options contracts. These limits and levels are prescribed in the Securities (Exchange-Traded Stock Options) Rules, and are also set out in Chapter 5.9 and Appendix C of the Operational Trading Procedures for Options Trading Exchange Participants of the Stock Exchange of Hong Kong Limited (“SEHK”).

Change of names of existing contracts

3. SEHK proposed to change the names of two stock options contracts due to the change in the names of the underlying companies. The underlying companies are Legend Holdings Limited and Pacific Century CyberWorks Limited, which have changed their names to Legend Group Limited and PCCW Limited since 28 March 2002 and 9 August 2002 respectively.

New stock options contract

4. SEHK also proposed to introduce new stock options contracts on CNOOC Limited and Huaneng Power International Inc. The proposed contract specifications for these two new contracts will be the same as those of the existing stock options contracts.
5. Both CNOOC Limited and Huaneng Power International Inc. are designated securities eligible for short selling. They have high market capitalization and turnover. Their derivative warrants are already listed in Hong Kong, the active trading of which shows that there is market interest in other types of their derivative products.
6. The Commission has approved the above proposals submitted by the SEHK at the Commission meetings on 17 June and 19 August 2002. Subsequent to these changes, it is proposed that –
 - (i) references to “Legend Holdings Ltd.” and “Pacific Century CyberWorks Ltd.” in the Schedule to the Securities (Exchange-Traded Stock Options) Rules be repealed and substituted by “Legend Group Ltd.” and “PCCW Ltd.” respectively.
 - (ii) CNOOC Limited and Huaneng Power International, Inc. stock options contracts, and their respective trading limits and reporting levels be added to the Schedule to the Securities (Exchange-Traded Stock Options) Rules.

THE AMENDMENT RULES

7. The Amendment Rules amend the Schedule to the Securities (Exchange-Traded Stock Options) Rules by amending the name of two stock options contracts and adding two new stock options contracts and their respective trading limits and reporting levels.

PUBLIC CONSULTATION

8. The proposed amendments to the stock options contracts are consequential to the changes of the names of the underlying companies and are therefore straightforward and technical in nature. Public consultation is considered unnecessary.
9. Hong Kong Exchanges and Clearing Limited has consulted market makers of stock options on the introduction of the two new stock options contracts. Some market makers have indicated interests in making market for the two new option classes.

FINANCIAL AND STAFFING IMPLICATIONS

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

COMMENCEMENT DATE

11. The Amendment Rules will come into operation on 6 December 2002.

PUBLICITY

12. The Amendment Rules will be gazetted on 11 October 2002. HKEx has published in the newspaper the new stock options contracts and distributed promotional materials to exchange participants. Promotional flyers have also been distributed to retail investors through exchange participants.

ENQUIRIES

13. For any enquiries on this brief, please contact Monica To, Assistant Counsel of the Legal Services Division of the Commission at 2283 6123, or Bernadette Wong, Assistant Manager of the Supervision of Markets Division of the Commission at 2840 9386.

The Securities and Futures Commission
11 October 2002

**SECURITIES (EXCHANGE – TRADED STOCK
OPTIONS)(AMENDMENT) RULES 2002**

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

14. Commencement

These Rules shall come into operation on 6 December 2002.

15. Schedule amended

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

- (a) in item 54, in column 2, by repealing “Holdings” and substituting “Group”;
- (b) in item 55, in column 2, by repealing “Pacific Century CyberWorks” and substituting “PCCW”;
- (c) by adding –

“67.	CNOOC Ltd. stock options contract	25,000 contracts in any one expiry month	5,000 contracts in any one expiry month
68.	Huaneng Power International, Inc. stock options contract	25,000 contracts in any one expiry month	5,000 contracts in any one expiry month”.

Andrew Len Tao SHENG
Chairman,
Securities and Futures Commission

2002

Explanatory Note

These Rules amend the Schedule to the Securities (Exchange – Traded Stock Options) Rules (Cap. 333 sub. leg.) by updating the names of 2 existing stock options contracts and adding 2 new stock options contracts (and the relevant limits and reporting levels).