

## **LEGISLATIVE COUNCIL BRIEF**

### **SECURITIES AND FUTURES ORDINANCE (CAP. 571)**

### **SECURITIES AND FUTURES (CONTRACTS LIMITS AND REPORTABLE POSITIONS) (AMENDMENT) RULES 2003**

#### **INTRODUCTION**

At its meeting on 17 February 2003, the Securities and Futures Commission (“the Commission”) made the Securities and Futures (Contracts Limits and Reportable Positions) (Amendment) Rules 2003 (“the Amendment Rules”) at the Annex.

#### **BACKGROUND AND ARGUMENT**

2. Section 35(1) of the Securities and Futures Ordinance (Cap. 571) provides that the Commission may prescribe limits and reportable positions on futures contracts and options contracts. These limits and positions are prescribed in the Securities and Futures (Contracts Limits and Reportable Positions) Rules (Cap. 571Y) gazetted on 13 December 2002, and are also set out in the Rules, Regulations and Procedures of the Futures Exchange (“HKFE Rules”) and the Operational Trading Procedures for Options Trading Exchange Participants of the Stock Exchange (“SEHK Trading Procedures”).

*Four new stock futures contracts and four new stock options contracts*

3. Hong Kong Exchanges and Clearing Limited (“HKEx”) proposed to launch four new stock futures contracts and four new stock options contracts in respect of BOC Hong Kong (Holdings) Limited (“BOCHK”), Denway Motors Limited (“Denway”), Esprit Holdings Limited (“Esprit”) and the Kowloon Motor Bus Holdings Limited (“KMB”). The contract specifications for these new stock futures and stock options contracts will be the same as those for other existing stock futures and stock options contracts.

4. All of BOCHK, Denway, Esprit and KMB are designated securities eligible for short selling as regulated by the Eleventh Schedule of Rules of the Exchange. They have high market capitalization and turnover. Except for KMB, all of them already have derivative warrants listed in Hong Kong.

5. Introduction of new stock futures and stock options contracts is encouraged because investors will be provided with more choices and hedging activities can be facilitated. The Commission agreed that BOCHK, Denway, Esprit and KMB are eligible underlying stocks for the proposed new stock futures and stock options contracts and approved in the Commission meeting on 17 February 2003 relevant amendments to the HKFE Rules and SEHK Trading Procedures that effect the addition of these new stock futures and stock options contracts and their

corresponding contract specifications.

6. The Commission has to make rules to put statutory contract limits and reportable positions for these new stock futures and options contracts in place, which will mirror those contained in the HKFE Rules and SEHK Trading Procedures.

#### *Rectification of technical errors*

7. The Commission also considered it necessary to correct two technical errors. These are errors in relation to the MSCI China Free Index options contract and the Dow Jones Industrial Average options contract both set out in Schedule 1 to the Securities and Futures (Contracts Limits and Reportable Positions) Rules. It is proposed that in each case the mis-typed words “contract month” be replaced with the word “series”.

8. The two products have not been launched yet, thus the technical errors had not caused any disruption to the market.

9. The Commission proposes to rectify the technical errors existing in relation to these two index options contracts.

#### **THE AMENDMENT RULES**

10. The Amendment Rules amend Schedule 1 and Schedule 2 to the

Securities and Futures (Contracts Limits and Reportable Positions) Rules by (a) **adding** four new stock futures contracts and four new stock options contracts and **setting** statutory contract limits and reportable positions in relation thereto; and (b) **replacing** the references to “contract month” in two index options contracts in Schedule 1 with “series”.

## **PUBLIC CONSULTATION**

11. HKEx has consulted the market makers of stock futures and options about the introduction of the new contracts. Eleven stock options market makers have expressed interest in providing quotations for the BOCHK stock options contract and one stock futures market maker has expressed interest in providing quotations for the BOCHK stock futures contract.

12. HKEx has launched the BOCHK stock futures and options contracts on 17 March 2003. The launch date for the other stock futures and options contracts will be subject to market demand and interest of market makers.

13. The SFC has carried out public consultation when making the Securities and Futures (Contracts Limits and Reportable Positions) Rules. The proposed additions of the four new stock futures contracts and four new stock options contracts and their respective contract limits and reportable positions are additions to existing categories and are technical and non-controversial in nature. The proposed amendments to the two existing index options contracts are to rectify technical errors. Public consultation is not necessary.

## **FINANCIAL AND STAFFING IMPLICATIONS**

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

## **COMMENCEMENT DATE**

15. The Amendment Rules will come into operation on 23 May 2003.

## **PUBLICITY**

16. The Amendment Rules will be gazetted on 28 March 2003. Promotional flyers will be distributed to retail investors through exchange participants. There will be no large-scale marketing and education program but HKEx will continue its efforts in soliciting market makers for the new contracts.

## **ENQUIRIES**

17. For any enquiries on this brief, please contact Jessie Fok, Counsel of the Legal Services Division of the Commission at 2283 6183, or Bernadette Wong, Assistant Manager of the Supervision of Markets Division of the Commission at 2840 9386.

The Securities and Futures Commission

2 April 2003

**SECURITIES AND FUTURES (CONTRACTS LIMITS AND REPORTABLE POSITIONS) (AMENDMENT) RULES 2003**

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

**1. Commencement**

These Rules shall come into operation on 23 May 2003.

**2. Prescribed limit and reporting level for futures contracts**

Schedule 1 to the Securities and Futures (Contracts Limits and Reportable Positions) Rules (L.N. 220 of 2002) is amended –

(a) in item 39 –

- (i) in column 3, by repealing “contract month” and substituting “series”;
- (ii) in column 4, by repealing “contract month” and substituting “series”;

(b) in item 104 –

- (i) in column 3, by repealing “contract month” and substituting “series”;
- (ii) in column 4, by repealing “contract month” and substituting “series”;

(c) by adding –

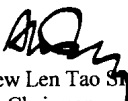
“108.	BOC Hong Kong (Holdings) Ltd. stock futures contract	5 000 open contracts for any one contract month	1 000 open contracts for any one contract month
109.	Denway Motors Ltd. stock futures contract	5 000 open contracts for any one contract month	1 000 open contracts for any one contract month

110.	Esprit Holdings Ltd. stock futures contract	5 000 open contracts for any one contract month	1 000 open contracts for any one contract month
111.	The Kowloon Motor Bus Holdings Ltd. stock futures contract	5 000 open contracts for any one contract month	1 000 open contracts for any one contract month".

3. **Prescribed limit and reporting level for stock options contracts**

Schedule 2 is amended by adding –

“48.	BOC Hong Kong (Holdings) Ltd. stock options contract	25 000 contracts in any one expiry month	5 000 contracts in any one expiry month
49.	Denway Motors Ltd. stock options contract	25 000 contracts in any one expiry month	5 000 contracts in any one expiry month
50.	Esprit Holdings Ltd. stock options contract	25 000 contracts in any one expiry month	5 000 contracts in any one expiry month
51.	The Kowloon Motor Bus Holdings Ltd. stock options contract	25 000 contracts in any one expiry month	5 000 contracts in any one expiry month”.

  
 Andrew Len Tao SENG  
 Chairman,  
 Securities and Futures Commission

17<sup>th</sup> March 2003

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### **Explanatory Note**

Under section 35(1) of the Securities and Futures Ordinance (Cap. 571), the Securities and Futures Commission may prescribe limits on the number of futures contracts and options contracts that may be held or controlled by any person. It may also prescribe the reportable positions in respect of such contracts.

2. Such limits and reportable positions are established and fixed for the futures contracts and stock options contracts specified respectively in Schedules 1 and 2 to the Securities and Futures (Contracts Limits and Reportable Positions) Rules (L.N. 220 of 2002). Those Schedules are now amended by adding 4 new stock futures contracts and 4 new stock options contracts and by amending 2 existing index options contracts.