

LEGISLATIVE COUNCIL BRIEF

Securities and Futures Ordinance (Cap. 571)

SECURITIES AND FUTURES (CONTRACTS LIMITS AND REPORTABLE POSITIONS) (AMENDMENT) RULES 2008

INTRODUCTION

Pursuant to section 35(1) of the Securities and Futures Ordinance (SFO), the Securities and Futures Commission (the Commission) has made the Securities and Futures (Contracts Limits and Reportable Positions) (Amendment) Rules 2008 (the Amendment Rules) at [Annex](#).

BACKGROUND

2. Section 35(1) of the SFO 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 (Contract Limits and Reportable Positions) Rules (the Rules).

3. The Hang Seng China H-Financials Index Futures Contract (HFIF contract) and the Hang Seng China Enterprises Index Futures Contract¹ (Mini H-shares Index futures contract) were introduced in April 2007 and March 2008 as trading and hedging tools tracking the performances of Mainland financial stocks listed on the Stock Exchange and the H-shares market respectively. The Amendment Rules seek to prescribe the limits and reportable positions for HFIF contracts and Mini H-shares Index futures contracts, which mirror those already specified in the Rules of the Hong Kong Futures Exchange.

THE AMENDMENT RULES

¹ The value and margin requirement of a Mini H-shares Index Futures Contract is one-fifth of those of a standard H-shares Index Futures Contract.

4. The Amendment Rules amend Schedule 1 to the Rules by –
- (a) repealing item 5 of Schedule 1 and replacing it with a new item 5 which combines the prescribed limits of standard H-shares index futures contracts and options contracts and Mini H-shares Index futures contracts into an aggregate delta limit of 12,000 applicable to all H-shares Index futures contract months and options series; and provides for a specific position delta limit of 2,400 long or short (for all contract months combined) for Mini H-shares Index futures contracts. The new item 5 also sets a reporting level of 2,500 open contracts (for any one contract month) for Mini H-shares Index futures contracts. The reporting level for H-shares Index futures contracts and options contracts remains unchanged at 500 open contracts; and
 - (b) adding a new item 5A to Schedule 1 to set the prescribed limit for HFIF Contracts at an aggregate delta limit of 10,000 contracts and a reporting level of 500 open contracts (for any one contract month).

PUBLIC CONSULTATION

5. As the proposed amendments are essentially of a technical nature and are in line with the existing arrangements for setting position limits and reportable positions for other standard futures contracts and mini futures contracts, the Commission does not consider it necessary to conduct a public consultation. Nevertheless, exchange participants and the Derivatives Market Consultative Panel of the Hong Kong Exchanges and Clearing Ltd. were consulted before the launching of HFIF contracts and Mini H-shares Index futures contracts, and the position limits and reporting levels of the two contracts were determined after taking into account their views and comments.

FINANCIAL AND STAFFING IMPLICATIONS

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

COMMENCEMENT DATE

7. The Amendment Rules will come into operation on 6 June 2008.

PUBLICITY

8. The Amendment Rules will be gazetted on 11 April 2008.

ENQUIRIES

9. For any enquiries on this brief, please contact Ms Mary Ahern, Legal Consultant of the Legal Services Division of the Commission (at 22836809) or Mr Stanley Ng, Senior Manager of the Supervision of Markets Division of the Commission (at 22836133).

The Securities and Futures Commission
8 April 2008

Drafter: Ms. Karmen Kwok

File ref: LDT/748/18/1 II

**SECURITIES AND FUTURES (CONTRACTS LIMITS AND
REPORTABLE POSITIONS)(AMENDMENT) RULES 2008**

DRAFTING HISTORY TABLE

Draft no.	Release date	Doc. no. & version
"blue"	13.3.2008	#151080v1

**SECURITIES AND FUTURES (CONTRACTS LIMITS
AND REPORTABLE POSITIONS)(AMENDMENT)
RULES 2008**

(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 6 June 2008.

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

Schedule 1 to the Securities and Futures (Contracts Limits and Reportable
Positions) Rules (Cap. 571 sub. leg. Y) is amended –

(a) by repealing item 5 and substituting –

“5. Hang Seng China Enterprises Index futures contracts and options contracts, and Mini-Hang Seng China Enterprises Index futures contract	12 000 long or short position delta limit for all contract months combined, provided the position delta for the Mini-Hang Seng China Enterprises Index futures contracts shall not at any time exceed 2 400 long or short for all contract months combined	500 open Hang Seng China Enterprises Index futures contracts for any one contract month; 500 open Hang Seng China Enterprises Index options contracts for any one series and 2 500 open Mini-Hang Seng China Enterprises Index futures contracts for any one contract
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- month”;
- (b) by adding –
- “5A. Hang Seng China 10 000 long or 500 open contracts
H-Financials Index short position delta for any one
futures contract limit for all contract month”.
contract months
combined

Chief Executive Officer,
Securities and Futures Commission

14th March 2008

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 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 specified in Schedule 1 to the Securities and Futures (Contracts Limits and Reportable Positions) Rules (Cap. 571 sub. leg. Y). Schedule 1 is now amended by including the prescribed limit and reportable position for the new Mini-Hang Seng China Enterprises Index futures contract and the Hang Seng China H-Financials Index futures contract.