

立法會
Legislative Council

LC Paper No. CB(1) 202/11-12
(These minutes have been seen
by the Administration)

Ref : CB1/SS/16/10/1

**Subcommittee on Securities and Futures (Contracts Limits and Reportable
Positions) (Amendment) Rules 2011**

**Minutes of the first meeting
held on Wednesday, 12 October 2011, at 2:30 pm
in Conference Room 2B of the Legislative Council Complex**

Members present : Hon James TO Kun-sun (Chairman)
Hon WONG Ting-kwong, BBS, JP
Hon CHIM Pui-chung

Public officers attending : **For item II**

Ms Sara TSE
Acting Principal Assistant Secretary for Financial
Services and the Treasury (Financial Services)

Securities and Futures Commission

Mr Keith LUI
Executive Director
Supervision of Markets Division

Mr Rico LEUNG
Senior Director
Supervision of Markets Division

Mr Stanley NG
Senior Manager
Supervision of Markets Division

Clerk in attendance : Miss Becky YU
Chief Council Secretary (1)1

Staff in attendance : Mr Timothy TSO
Assistant Legal Adviser 2

Mrs Mary TANG
Senior Council Secretary (1)1

Miss Mandy POON
Legislative Assistant (1)1

I. Election of Chairman

Mr James TO, the member who had the highest precedence among those present at the meeting, presided at the election of Chairman of the Subcommittee. Mr James TO invited nominations for the chairmanship.

2. Mr WONG Ting-kwong nominated Mr James TO and the nomination was seconded by Mr CHIM Pui-chung. Mr James TO accepted the nomination.

3. There being no other nominations, Mr James TO was declared Chairman of the Subcommittee.

II. Meeting with the Administration

(LC Paper No. CB(1) 22/11-12(01) — Marked-up copy of the Securities and Futures (Contracts Limits and Reportable Positions) (Amendment) Rules 2011)

Background information

(Securities and Futures (Contracts Limits and Reportable Positions) (Amendment) Rules 2011 (L.N. 117) (Amendment Rules)

Issued by the Securities and Futures Commission on 4 July 2011 — The Legislative Council Brief

LC Paper No. LS88/10-11(01) — Legal Service Division Report)

4. The Subcommittee deliberated (Index of proceedings attached in **Annex**).

5. The Administration was requested to -
- (a) provide the background leading to the introduction of the Amendment Rules;
 - (b) advise the bases upon which the prescribed limits and reporting levels for the stock options contracts of iShares FSTE A50 China Index ETF and W.I.S.E. – CSI 300 China Tracker, as well as the future contracts of HSI Dividend Point Index and HSCEI Dividend Point Index were arrived at;
 - (c) advise the effects of substantial fluctuations in the stock options market on the stock market, and the actions taken or to be taken by the authorities with illustrations over the past two years; and
 - (d) advise the measures in place to prevent circumvention of the prescribed limits for stock options contracts using different companies.

6. Members noted that a resolution would be moved to extend the period for amending the Amendment Rules from 19 October to 9 November 2011. They also agreed that the need for another meeting will be decided upon receipt of the Administration's response. If no meeting is required, the following legislative timetable for the Amendment Rules would apply –

Date of House Committee meeting	Deadline for giving notice of motion to amend the Amendment Rules	Date of Council meeting
21 October 2011	26 October 2011	2 November 2011

III. Any other business

7. There being no other business, the meeting ended at 3:25 pm.

**Subcommittee on Securities and Futures (Contracts Limits and Reportable Positions)
(Amendment) Rules 2011**

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Time marker	Speaker	Subject(s)	Action required
<i>Agenda Item I - Election of Chairman</i>			
001433 - 001809	Mr James TO Mr WONG Ting-kwong Mr CHIM Pui-chung	Mr James TO was elected Chairman of the Subcommittee	
<i>Agenda Item II - Meeting with the Administration</i>			
001810 - 002013	Chairman Mr Keith LUI, Securities and Futures Commission (SFC)	SFC's explanation on the Securities and Futures (Contracts Limits and Reportable Positions) (Amendment) Rules 2011(the Amendment Rules).	
002014 - 002803	Chairman Mr Keith LUI, SFC Mr Rico LEUNG,SFC	<p>Chairman's enquiry on the bases upon which the prescribed limits and reporting levels under the Amendment Rules were arrived at.</p> <p>SFC's explanation -</p> <p>(a) SFC and the Stock Exchange of Hong Kong Limited (SEHK) would regularly review the contract limits and reportable levels of stock options and futures contracts;</p> <p>(b) the prescribed limits would take into account the underlying market i.e. the trading volume and the market value of the underlying securities;</p> <p>(c) the proposal to set the reportable positions of iShares FSTE A50 China Index ETF(A50 ETF) and W.I.S.E. – CSI 300 China Tracker (CSI 300 ETF) at 1 000 open contracts per options class per expiry month was in line with existing stock option contracts traded on SEHK; and</p> <p>(d) the proposed reporting level of 1 000 open contracts in any one contract month for future contracts of HSI</p>	The Administration to advise the bases upon which the prescribed limits and reporting levels for the stock options contracts of A50 ETF and CSI 300 ETF, as well as the future contracts of HSI Dividend Point Index and HSCEI Dividend Point Index were arrived at.

Time marker	Speaker	Subject(s)	Action required
		<p>Dividend Point Index and HSCEI Dividend Point Index also largely followed that specified in the contract specification of the Hong Kong Futures Exchange Limited (HKFE).</p>	
002804 - 003327	<p>Chairman Mr CHIM Pui-chung Mr Keith LUI,SFC</p>	<p>Mr CHIM Pui-chung's enquiries -</p> <p>(a) whether there were any disputes over the prescribed limits and reporting levels for stocks options and futures contracts;</p> <p>(b) whether the contract limits and reportable levels were applicable to both professional traders and general members of the public; and</p> <p>(c) the major participants in the trading of stocks options and futures contracts.</p> <p>SFC's explanation -</p> <p>(a) mechanism was in place in resolving disputes between options/futures brokers and clients; SFC seldom received complaints on this matter.</p> <p>(b) brokers were required to explain to their clients the risk involved in trading of derivatives; and</p> <p>(c) 70% of trading in the stock options market involved market makers.</p>	
003328 - 004328	<p>Chairman Mr Rico LEUNG,SFC Mr Keith LUI,SFC</p>	<p>Chairman's enquiries -</p> <p>(a) the formula for determining the contract limits and reportable levels of stock options and futures contracts; and</p> <p>(b) the effects of substantial fluctuations in the stock options market on the stock market and the actions taken or to be taken by the authorities with illustrations over the past two years.</p> <p>SFC's explanation -</p> <p>(a) risk management and regulatory</p>	<p>The Administration to advise the effects of substantial fluctuations in the stock options market on the stock market, and the actions taken or to be taken by the authorities with illustrations over the past two years.</p>

Time marker	Speaker	Subject(s)	Action required
		<p>measures were put in place to ensure orderly functioning and stability of the market; and</p> <p>(b) non-compliance with the prescribed contract limits and reportable levels in the holding of options and futures contracts would be subject to penalties.</p>	
004329 - 004526	<p>Chairman Mr WONG Ting-kwong Mr Keith LUI,SFC</p>	<p>Mr WONG Ting-kwong's concern about circumvention of the prescribed limits for stock options contracts using different companies.</p> <p>SFC's response -</p> <p>(a) under the existing regulatory regime, no person could hold or control positions of options and futures contracts in excess of the prescribed limits; and</p> <p>(b) there would be close monitoring on the market situation to prevent abuse of the prescribed limits.</p>	<p>The Administration to advise the measures in place to prevent circumvention of the prescribed limits for stock options contracts using different companies.</p>
004527 - 004942	<p>Chairman Mr Keith LUI,SFC Mr Rico LEUNG,SFC</p>	<p>Discussion on the mechanism on adjustment of the prescribed limits.</p>	
004943 - 005208	<p>Chairman Mr Keith LUI,SFC Mr Rico LEUNG,SFC</p>	<p>Chairman's enquiry on the background leading to the introduction of the Amendment Rules.</p>	<p>SFC to provide the background leading to the introduction of the Amendment Rules.</p>
005209 - 005415	<p>Chairman Mr Keith LUI,SFC</p>	<p>Members' agreement that the need for another meeting would be decided upon receipt of the Administration's response.</p>	
005416 - 005424	<p>Chairman</p>	<p>Legislative timetable</p>	