



**Meeting of the Panel on Financial Affairs**

**on Monday, 4 February 2013 at 9:00am**

**SFC's response to the Hon Mrs. Regina Ip's enquiries**

We refer to the letter dated 7 January 2013 from the Clerk to the Legislative Council Panel on Financial Affairs (the "**Panel**") to the Secretary for Financial Services and the Treasury, under which it is noted that the Panel members would like to discuss policy issues concerning possible impact of the acquisition of the London Metal Exchange Holdings Limited ("**LME**") by the Hong Kong Exchanges and Clearing Limited ("**HKEx**") on the Hong Kong Mercantile Exchange ("**HKMEx**") and the respective roles of the two commodity exchanges, at the Panel meeting to be held on 4 February 2013. Please find below our response to these issues.

**Background**

1. HKMEx launched its business in Hong Kong in May 2011.
2. HKEx and LME entered into a framework agreement in June 2012 regarding the acquisition of the entire issued and outstanding ordinary share capital of LME by HKEx. The acquisition of LME was completed in December 2012.
3. In terms of commodity futures trading business, at present, HKEx offers one gold futures contract to the market and HKMEx has one gold futures contract and one silver futures contract.
4. Both HKEx and HKMEx are subject to the regulation and supervision of the Securities and Futures Commission ("**SFC**").

**Regulation of the Commodity Futures Market under the Securities and Futures Ordinance (the "**SFO**")**

5. One of the regulatory objectives of the SFC under section 4(a) of the SFO is to maintain and promote the fairness, efficiency, competitiveness, transparency and orderliness of the securities and futures industry. It is one of the SFC's functions in section 5 of the SFO to take such steps as it considers appropriate to meet this objective, so far as reasonably practicable. In addition, the SFC has the function to supervise, monitor and regulate the activities carried on by, among others, recognized exchange companies, recognized exchange controllers and persons carrying on activities regulated by the SFC under any of the relevant statutory provisions.



6. In accordance with section 6 of the SFO, in performing its functions, the SFC is, so far as practicable, to have regard to, inter alia, the principle that competition among persons carrying on activities regulated by the Commission under any of the relevant provisions should not be impeded unnecessarily.
7. However, it is for individual market players to determine how best to structure and manage their businesses and operations so as to ensure that their products and services meet market demand and also address commercial competition from other participants.

## **Securities and Futures Commission**

**January 2013**