

LEGISLATIVE COUNCIL BRIEF

SECURITIES AND FUTURES ORDINANCE (CAP. 571)

SECURITIES AND FUTURES (CONTRACTS LIMITS AND REPORTABLE POSITIONS) (AMENDMENT) RULES 2015

INTRODUCTION

1. The Securities and Futures Commission (the “**Commission**”) has made the Securities and Futures (Contracts Limits and Reportable Positions) (Amendment) Rules 2015 at the Annex on 16 November 2015 (the “**Amendment Rules**”).

BACKGROUND AND ARGUMENT

2. There are various futures and options contracts traded on Hong Kong Futures Exchange Limited (“**HKFE**”) and The Stock Exchange of Hong Kong Limited (“**SEHK**”). In order to minimise the potential impact of the futures and options contracts on the financial market stability and to facilitate market surveillance, HKFE and SEHK impose large open position (the “**LOP**”) reporting requirements and / or position limits on the futures and options contracts. A market participant holding a position that has reached the LOP reporting level is required to notify HKFE or SEHK (as applicable) of that position. In general, no market participant is allowed to hold a position in excess of the position limit.

3. Section 35(1) of the Securities and Futures Ordinance (Cap. 571) provides that the Commission may make rules to prescribe limits on the number of futures and options contracts that may be held or controlled by a person and to require a person holding or controlling a reportable position to notify the recognised exchange company or the Commission. These limits and reportable positions are prescribed in the Securities and Futures (Contracts Limits and Reportable Positions) Rules (Cap. 571, sub. leg. Y) (the “**CLRP Rules**”). In general, they mirror those specified in the rules of HKFE or SEHK.

*Position limits and reportable positions of London Copper Mini futures contract, London Aluminium Mini futures contract and London Zinc Mini futures contract (collectively, “**London Metal Mini futures contracts**”)*

4. On 1 December 2014, Hong Kong Exchanges and Clearing Limited (“**HKEx**”) launched three types of London Metal Mini futures contracts, which are similar to the corresponding metal futures contracts traded on the London Metal Exchange. The contracts are based on the same underlying metals as those traded on the London Metal Exchange but have a smaller contract size and are denominated in RMB and cash-settled without physical delivery of the underlying metals.
5. For the purpose of the CLRP Rules, the Commission proposes to set: (a) the reportable position at 500 open contracts for any one contract month for each of the three types of London Metal Mini futures contracts, (b) a prescribed limit of 50 000 net long or short contracts for all contract months combined for the London Copper

Mini futures contract, and (c) a prescribed limit of 25 000 net long or short contracts for all contract months combined each for the London Aluminium Mini futures contract and the London Zinc Mini futures contract. These proposed requirements mirror the corresponding LOP reporting levels and position limits specified in the contract specifications of HKFE for these three types of London Metal Mini futures contracts. The proposed prescribed limits are generally in line with the levels established by major overseas exchanges for similar contracts. In reviewing the proposed prescribed limits, the Commission took into account the need to strike a proper balance between maintaining financial stability and facilitating market development.

Introduction of general terms to cover all stock futures and stock options contracts on exchange traded funds

6. At present, all stock futures and stock options contracts on individual shares are covered by the following general terms in Schedules 1 and 2 to the CLRP Rules respectively, which were introduced by amendments to the CLRP Rules that commenced in February 2006 -
 - (a) stock futures contracts on shares listed on a stock market operated by the Stock Exchange Company; and
 - (b) stock options contracts on shares listed on a stock market operated by the Stock Exchange Company.

7. With these general terms, when HKEx launches new stock futures and stock options contracts based on individual shares, the

Commission does not need to make rules to include them one by one in the CLRP Rules. The new stock futures and options contracts will be subject to the requirements set out in Schedules 1 and 2 to the CLRP Rules.

8. However, for new stock futures and stock options contracts on exchange traded funds (“ETFs”), it is necessary to make rules to include each of them in Schedules 1 and 2 to the CLRP Rules respectively. In February 2006, there was no stock futures contract on ETFs and only one stock options contract on ETF (i.e. the stock options contract on the Tracker Fund). In view of the rapid growth of the ETFs market in Hong Kong in recent years, HKEx now has three stock futures contracts and six stock options contracts on ETFs. HKEx expects to launch more stock futures and stock options contracts on ETFs in the coming years to meet market demand.
9. Similar to the stock futures and stock options contracts on individual shares, the Commission proposes to introduce the following general terms in Schedules 1 and 2 to the CLRP Rules to cover all stock futures and stock options contracts on ETFs respectively (while defining ETF and its related expressions in the CLRP Rules) –
 - (a) stock futures contracts on shares or units of exchange traded funds;
 - (b) stock options contracts on shares or units of exchange traded funds.

Proposed Amendments to the CLRP Rules

10. The Commission proposes to amend the CLRP Rules to: (a) set a prescribed limit and a reportable position for each of the London Metal Mini futures contracts; and (b) introduce general terms to cover all stock futures and stock options contracts on ETFs (and for that purpose, add definitions of ETF and its related expressions).

THE AMENDMENT RULES

11. The main provisions of the Amendment Rules are as follows -
 - (a) section 3 adds definitions of ETF and its related expressions to Section 2 of the CLRP Rules;
 - (b) section 4 adds three types of London Metal Mini futures contracts and stock futures contracts on shares or units of ETFs and their respective prescribed limits and reportable positions to Schedule 1 to the CLRP Rules; and
 - (c) section 5 repeals three existing stock options contracts on individual ETFs (i.e. items 2 to 4 of Schedule 2 to the Rules) and adds the general term of stock options contracts on shares or units of ETFs together with its prescribed limit and reportable position to Schedule 2 to the CLRP Rules.

PUBLIC CONSULTATION

12. The Amendment Rules mirror the position limits and LOP reporting levels that currently apply to the London Metal Mini futures contracts and the stock futures and stock options contracts on ETFs by HKFE rules and SEHK rules (as applicable). In view of the fact that market participants are already required to comply

with these requirements, the Commission does not consider it necessary to conduct any public consultation on the Amendment Rules.

FINANCIAL AND STAFFING IMPLICATIONS

13. There are no financial or staffing implications for the Government or for the Commission.

COMMENCEMENT

14. The Amendment Rules will come into operation on 15 January 2016.

PUBLICITY

15. The Amendment Rules will be gazetted on 20 November 2015.

ENQUIRIES

16. For any enquiries on this brief, please contact Stanley Ng, Associate Director of the Supervision of Markets Division of the Commission at 2231 1133.

The Securities and Futures Commission

17 November 2015

Securities and Futures (Contracts Limits and Reportable Positions) (Amendment)
Rules 2015

Section 1

1

Securities and Futures (Contracts Limits and Reportable Positions) (Amendment) Rules 2015

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

1. Commencement

These Rules come into operation on 15 January 2016.

2. Securities and Futures (Contracts Limits and Reportable Positions) Rules amended

The Securities and Futures (Contracts Limits and Reportable Positions) Rules (Cap. 571 sub. leg. Y) are amended as set out in sections 3, 4 and 5.

3. Section 2 amended (interpretation)

Section 2(1)—

Add in alphabetical order

“constitutive documents (組成文件), in relation to a collective investment scheme, means the principal documents governing the establishment of the scheme;

exchange traded fund (交易所買賣基金) means an open-ended collective investment scheme the shares or units of which are listed or traded on a recognized stock market;

offering document (要約文件), in relation to a collective investment scheme, means a document—

- (a) inviting participation in the scheme by prospective shareholders or prospective unit holders of the scheme; and
- (b) containing information relating to the establishment or administration of the scheme;

open-ended collective investment scheme (開放式集體投資計劃) means a collective investment scheme the shares or units of which may be repurchased or redeemed at the request of any of its shareholders or unit holders—

- (a) at a price calculated wholly or mainly by reference to the net asset value of the scheme; and
- (b) in accordance with the frequency for repurchase or redemption, requirements and procedures set out in the offering document or constitutive documents of the scheme;”.

4. Schedule 1 amended (prescribed limit and reporting level for futures contracts)

Schedule 1—

Add

“14.	London Copper Mini futures contract	50 000 net long or short contracts for all contract months combined	500 open contracts for any one contract month
15.	London Aluminium Mini futures contract	25 000 net long or short contracts for all contract months combined	500 open contracts for any one contract month
16.	London Zinc Mini futures	25 000 net long or short contracts	500 open contracts for

	contract	for all contract months combined	any one contract month
17.	Stock futures contracts on shares or units of exchange traded funds	5 000 open contracts for any one contract month	1 000 open contracts for any one contract month”.

5. Schedule 2 amended (prescribed limit and reporting level for stock options contracts)

(1) Schedule 2—

Repeal item 2

Substitute

“2.	Stock options contracts on shares or units of exchange traded funds	50 000 open contracts per option class in any one market direction for all expiry months combined	1 000 open contracts per option class per expiry month”.
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(2) Schedule 2—

Repeal items 3 and 4.

Securities and Futures (Contracts Limits and Reportable Positions) (Amendment)
Rules 2015

4



Ashley Alder
Chief Executive Officer,
Securities and Futures Commission

17 November 2015

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. Those 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) (**Rules**) and for the stock options contracts specified in Schedule 2 to the Rules.
3. For the purpose of introducing to Schedules 1 and 2 to the Rules contracts on shares or units, of open-ended collective investment schemes, listed or traded on a recognized stock market, definitions of ***exchange traded fund*** and related expressions are added to section 2(1) of the Rules.
4. Schedule 1 to the Rules is amended by adding 3 commodity futures contracts as well as all stock futures contracts on shares or units of exchange traded funds.
5. Schedule 2 to the Rules is amended by deleting 3 existing stock options contracts on exchange traded funds and adding all stock options contracts on shares or units of exchange traded funds.