

LEGISLATIVE COUNCIL BRIEF

COMMODITIES TRADING ORDINANCE

COMMODITIES TRADING (TRADING LIMITS AND POSITION LIMITS)(AMENDMENT) RULES 1999

INTRODUCTION

At its meeting on 21 June 1999, the Securities and Futures Commission made the aforesaid Rules, the text of which is attached to the Annex hereto (the “Rules”). (Annex 1).

BACKGROUND AND ARGUMENT

2. The Hong Kong Futures Exchange Limited (“HKFE”) approved a proposed new Rule 632A of the HKFE Rules to establish position limits for Hang Seng Index (HSI) futures and options contracts. The proposed position delta limit of 10,000 contracts long or short is to avoid potentially destabilizing market conditions that may be related to concentrated positions accumulated by investors. It is designed to restrict positions of historically exceptional size, while allowing the vast majority of trading activity to proceed normally. Similar position limits are also in place in other international markets including the US.
3. The Commission’s assessment of international practices and the recent and historical levels of trading activity at the HKFE indicate that implementing a 10,000 position delta limit is consistent with the broad range of practices employed internationally. Position delta limits would prevent the build up of directional positions above the limit and therefore address the problem of outsized positions causing market disruption or adding systemic risks. After discussing the proposal with the Government, the Hong Kong Monetary Authority and the HKFE, the Commission decided to approve the proposal.
4. Under the proposal, Rule 632A will impose a 10,000 long or short position delta limit for HSI futures and options contracts, for all months combined. Delta is a measure of the relative change in the price of an options or futures contract for a small change in the price of the underlying security. When tabulating the 10,000 long or short contract position limit, the positions of the respective futures and options contracts are aggregated according to the side of the market they are on. That is, a long underlying futures contract, a long call option and a short put option are on the same side of the market. Similarly, a short underlying futures contract, a short call option and a long put option are on the same side of the market.
5. The Rules will also set trading and position limits for Hang Seng Sub-Index futures and options contracts and Hang Seng China Enterprises futures and

options contracts, which have approved by the HKFE Board and the SFC. A decision to launch the Hang Seng China Enterprises futures and options contracts has not yet been made by the HKFE.

PUBLIC CONSULTATION

6. The Board of HKFE has agreed to the proposal. Owing to the nature and technicality of the issue, no further public consultation is considered necessary.

FINANCIAL AND STAFFING IMPLICATIONS

7. There are no financial and staffing implications for Government.

COMMENCEMENT DATE

8. The commencement date for the Rules will be 30 July 1999.

PUBLICITY

9. The Amendment Rules will be published in the Gazette on 30 July 1999. HKFE will make an announcement in due course.

ENQUIRIES

10. For any enquiries on this brief, please contact Mr. Joseph Deets, Manager, at 2840 9203 in the Supervision of Markets Division or Ms. Alexandra Lo, Senior Counsel, at 2840 9252 in the Legal Services Division.

The Securities & Futures Commission
28 July 1999