

LEGISLATIVE COUNCIL BRIEF

SECURITIES ORDINANCE

SECURITIES (EXCHANGE – TRADED STOCK OPTIONS) (AMENDMENT) RULES 2000

INTRODUCTION

At its meeting on 17 January 2000, the Securities and Futures Commission (“the Commission”) made the Securities (Exchange – Traded Stock Options)(Amendment) Rules 2000 (the “Amendment Rules”) (Annex 1).

BACKGROUND AND ARGUMENT

2. The Stock Exchange of Hong Kong Limited (“SEHK”) began trading in stock options in September 1995.
3. The Commission has made position and reporting limits in relation to those stock options under section 146(1)(rb) of the Securities Ordinance (Cap. 333) which parallel the limits set by the SEHK Options Clearing House Ltd. in its Operational Clearing Procedures for Options Trading Members.
4. The Commission recently made similar limits in relation to one new stock options class, Tracker Fund of Hong Kong stock options contract, as set out in Annex 1. SEHK proposes to launch the trading of these stock options whenever market conditions are favourable.
5. The proposal will further enhance the liquidity of the Tracker Fund by providing investors with an alternative instrument for the purposes of hedging and arbitrating. The limits are necessary to facilitate market surveillance and risk management.

THE AMENDMENT RULES

6. The Amendment Rules amend the Schedule to the Rules with the addition of one new stock options class, Tracker Fund of Hong Kong stock options contracts, and the repeal of one existing stock options class, Peregrine Investments Holdings Ltd. stock options contracts, since the underlying company is no longer listed on SEHK.

PUBLIC CONSULTATION

7. Both the Commission and SEHK support the introduction of the new stock options class.

FINANCIAL AND STAFFING IMPLICATIONS

8. There are no financial and staffing implications for the Government.

COMMENCEMENT DATE

9. The commencement date for the Amendment Rules will be 30 March 2000.

PUBLICITY

10. The Amendment Rules will be published in the Gazette on 18 February 2000. SEHK will make an announcement when the new stock options contracts begin trading.

ENQUIRIES

11. For any enquiries on this brief, please contact Ms. Cynthia Li, Counsel of the Legal Services Division, at 2840 9208 or Mr. George Tam, Senior Manager of the Supervision of Markets Division, at 2840 9223.

The Securities and Futures Commission
16 February 2000

**SECURITIES (EXCHANGE - TRADED STOCK OPTIONS)
(AMENDMENT) RULES 2000**

(Made by the Securities and Futures Commission
under section 146(1)(rb) of the Securities
Ordinance (Cap. 333))

1. Commencement

These Rules shall come into operation on 30 March 2000.

2. Schedule amended

The Schedule to the Securities (Exchange - Traded Stock Options) Rules (Cap. 333 sub. leg.) is amended -

(a) by repealing item 39;

(b) by adding –

“52. Tracker Fund of 25,000 contracts 5,000 contracts
Hong Kong stock in any one in any one
options contract expiry month expiry month”.

Andrew Sheng
Chairman,
Securities and Futures Commission

16 February 2000

Explanatory Note

Under section 146(1)(rb) of the Securities Ordinance (Cap. 333), the Securities and Futures Commission may prescribe limits on the number of stock options contracts traded on the Unified Exchange that may be held or controlled by any person.

2. Such limits are prescribed for the stock options contracts specified in the Schedule to the Securities (Exchange - Traded Stock Options) Rules (Cap. 333 sub. leg.). That Schedule is now amended by the addition of 1 new option class and the repeal of 1 existing option class.