

## **LEGISLATIVE COUNCIL BRIEF**

### **SECURITIES ORDINANCE**

#### **SECURITIES (EXCHANGE - TRADED STOCK OPTIONS) (AMENDMENT) (No.2) RULES 2000**

#### **INTRODUCTION**

1. At its meeting on 15 May 2000, the Securities and Futures Commission (“the Commission”) made the Securities (Exchange - Traded Stock Options) (Amendment) (No.2) Rules 2000 (“the Amendment Rules”). (Annex 1)

#### **BACKGROUND AND ARGUMENT**

2. The Stock Exchange of Hong Kong Limited (“the SEHK”) began trading in stock options in September 1995.
3. The Commission has, in the past, made position and reporting limits in relation to those stock options under section 146(1) of the Securities Ordinance (Cap. 333), which parallel the limits set by the SEHK Options Clearing House Limited in its Operational Clearing Procedures for Options Trading Exchange Participants.
4. The Commission recently made similar limits in relation to four new stock options classes as set out in Annex 1. The SEHK has launched trading in one of these and proposes to launch the trading of the other three stock options whenever market conditions are favourable.
5. The proposal will further promote interest in the traded options market by providing investors additional instruments for the purposes of trading, hedging and arbitraging. The limits are necessary to facilitate market surveillance and risk management.

#### **THE AMENDMENT RULES**

6. The Amendment Rules amend the Schedule to the Rules by adding four new stock options classes, namely, Dao Heng Bank Group Ltd. stock options contract, Legend Holdings Ltd. stock options contract, Pacific Century CyberWorks Ltd. stock options contract and SmarTone Communications Holdings Ltd. stock options contract.

#### **PUBLIC CONSULTATION**

7. Both the Commission and the SEHK support the amendments. Public consultation is considered unnecessary as the amendments are straightforward and technical in nature.

#### **FINANCIAL AND STAFFING IMPLICATIONS**

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

#### **COMMENCEMENT DATE**

9. The Commencement date for the Amendment Rules will be 14 February 2001.

#### **PUBLICITY**

10. The Amendment Rules will be gazetted in the Government Gazette on 5 January 2001. The SEHK will make an announcement when the new stock options contracts begin trading.

#### **ENQUIRIES**

11. For any enquiries on this brief, please contact Thrity Mukadam, Counsel of the Legal Services Division, at 2840-9209 or Veronica Chang, Manager of the Supervision of Markets Division, at 2840-9296.

The Securities and Futures Commission  
2 January 2001

**SECURITIES (EXCHANGE - TRADED STOCK OPTIONS)  
(AMENDMENT) (No. 2) RULES 2000**

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

**1. Commencement**

These Rules shall come into operation on 14 February 2001.

**2. Schedule amended**

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

"53.	Dao Heng Bank Group Ltd. stock options contract	25,000 contracts in any one expiry month	5,000 contracts in any one expiry month
54.	Legend Holdings Ltd. Stock options contract	5,000 contracts in any one expiry month	1,000 contracts in any one expiry month
55.	Pacific Century CyberWorks Ltd. Stock options contract	25,000 contracts in any one expiry month	5,000 contracts in any one expiry month
56.	SmarTone Communications Holdings Ltd. stock options contract	25,000 contracts in any one expiry month	5,000 contracts in any one expiry month".

Andrew Len Tao SHENG  
Chairman,  
Securities and Futures Commission

15 December, 2000

**Explanatory Note**

Under section 146(1)(p) 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 4 new options classes.