LEGISLATIVE COUNCIL BRIEF

COMMODITIES TRADING ORDINANCE

COMMODITIES TRADING (CONTRACT LEVY) (AMENDMENT) (NO. 2) RULES 2001

INTRODUCTION

1. The Securities and Futures Commission ("the Commission") has made the Commodities Trading (Contract Levy) (Amendment) (No. 2) Rules 2001 ("the Amendment Rules") at the Annex.

BACKGROUND AND ARGUMENT

2. By virtue of section 79A(1) of the Commodities Trading Ordinance (Cap.250) ("the Ordinance"), the Hong Kong Futures Exchange Limited ("the HKFE") is required to pay to the Commission a contract levy ("the compensation fund levy") on every contract traded on its Exchange. This levy is then paid into the compensation fund established pursuant to section 77 of the Ordinance.

3. The power to prescribe the rate of such levy is vested in the Commission by section 79A(2)(a) of the Ordinance. The levy currently prescribed by the Commission is :

   (1) in relation to Mini-Hang Seng Index Futures Contracts, $0.10 per leviable transaction; and

   (2) in relation to all other contracts traded on the HKFE's Exchange, $0.50 per leviable transaction.

4. Since the merger of the two exchanges and their three associated clearing houses in March 2000, the Hong Kong Exchanges and Clearing Limited (HKEx) has been rationalising various aspects of its business so as to achieve the synergy which the merger intended to create. As part of its efforts, HKEx harmonised the stock futures and stock options markets on 27 August 2001 by standardising the contract multiplier[1] for stock futures contracts and bringing it in line with the standard adopted for stock options contracts.

5. Before the rationalisation, the size of the contract multipliers for most stock futures contracts was equivalent to five board lots of the underlying stock, whereas that for all stock options contracts have been standardised as one board lot. Following the rationalisation, contract multipliers for all stock futures contracts have been adjusted to one board lot of the underlying stock. Adopting the board lot size as the contract multiplier makes the stock futures contracts more user friendly, as it is easier for investors to calculate the contract size. A smaller contract size also makes the contracts more affordable to investors. Furthermore, synchronising the contract multipliers for products in the stock derivatives market facilitates trading, back-to-back hedging and arbitrage activities.

6. Following rationalisation of the contract multipliers, the size of most stock futures contracts was reduced to one-fifth of their original size. To rationalise the transaction cost correspondingly, the SFC proposes to reduce the levy in relation to all stock futures contracts from $0.50 to $0.10 per leviable transaction.

THE AMENDMENT RULES

7. The Amendment Rules amend the Commodities Trading (Contract Levy) Rules to the effect that the compensation fund levy payable in respect of all stock futures contracts shall be $0.10 on every leviable transaction.

[1] The contract multiplier is the fixed number of underlying shares for one futures contract.

PUBLIC CONSULTATION

8. Public consultation is considered unnecessary, as the amendments are straightforward and technical in nature.

FINANCIAL AND STAFFING IMPLICATIONS

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

COMMENCEMENT DATE

10. The Amendment Rules shall come into operation on 16 November 2001.

PUBLICITY

11. The Amendment Rules will be published in the Gazette on 28 September 2001. The HKFE will issue a circular to its participants when the new levy takes effect.

ENQUIRIES

12. For any enquiries on this brief, please contact Ms Thrity Mukadam, Senior Counsel of the Legal Services Division of the Commission, at 2840-9209 or Mr Stanley Ng, Senior Manager of the Supervision of Markets Division of the Commission, at 2283 6133.

The Securities and Futures Commission
8 October 2001