

# **LEGISLATIVE COUNCIL BRIEF**

## **COMMODITIES TRADING ORDINANCE (CAP. 250)**

### **COMMODITIES TRADING (TRADING LIMITS AND POSITION LIMITS) (AMENDMENT) (No. 2) RULES 2002**

#### **INTRODUCTION**

1. The Securities and Futures Commission (“the Commission”) has made the Commodities Trading (Trading Limits and Position Limits) (Amendment) (No. 2) Rules 2002 (“the Amendment Rules”) at the Annex. The Amendment Rules amend the names of three stock futures contracts and the options on one stock futures contract, and add two new stock futures contracts, a 3-year Exchange Fund Notes (“EFN”) futures contract and a Mini-Hang Seng Index (“Mini-HSI”) options contract. They also specify the trading and position limits for the new products.

#### **BACKGROUND AND ARGUMENT**

2. Section 59 of the Commodities Trading Ordinance (Cap. 250) provides that the Commission may, by rule, establish and fix the trading and position limits in relation to futures contracts. The limits are prescribed in the Commodities Trading (Trading and Position Limits) Rules, and also in the rules of the Hong Kong Futures Exchange Limited (“the HKFE”).

#### *Change of names of existing contracts*

3. Due to changes in the names of the underlying companies, the HKFE proposed to change the names of three stock futures contracts and the options on one stock futures contract. The changes are set

out as follows:

- (i) Since 28 March 2002, Legend Holdings Limited has changed its name to Legend Group Limited.
  - (ii) Since 1 April 2002, Korea Telecom Corporation has changed its name to KT Corporation.
  - (iii) Since 9 August 2002, Pacific Century CyberWorks Limited has changed its name to PCCW Limited.
4. It is therefore proposed that references to “Legend Holdings Ltd”, “Korea Telecom Corporation” and “Pacific Century CyberWorks Ltd.” in the Schedule to the Commodities Trading (Trading Limits and Position Limits) Rules be repealed and substituted by “Legend Group Ltd.”, “KT Corporation” and “PCCW Ltd.” respectively.

#### New products

##### *(A) Two new stock futures contracts*

5. HKFE also proposed to introduce new stock futures contracts on CNOOC Limited and Huaneng Power International Inc. The contract specifications for these two new contracts will be the same as those for other existing stock futures contracts.
6. Both CNOOC Limited and Huaneng Power International Inc. are designated securities eligible for short selling. They have high market capitalization and turnover. Their derivative warrants are listed in Hong Kong, the active trading of which shows that there is market interest in other types of their derivative products.

##### *(B) 3-year EFN futures contract and Mini-HSI options contract*

7. In November 2001, the Commission approved the HKFE’s proposal to introduce the 3-year EFN futures contract and EFN futures contracts have been trading since then. Trading and position limits are in place pursuant to non-statutory rules made by the HKFE. For effective risk management, the Commission considers it necessary

to impose statutory trading and position limits to encourage compliance by market players. To empower the Commission to set trading and position limits in respect of EFN futures contracts under the CTO, the Commodities Trading Ordinance (Amendment of Schedule 1) Order 2002 (“the Order”) was made by the Chief Executive in Council to amend Part 1 of Schedule 1 of the Ordinance by adding “fixed income instruments which generate fixed periodic interest payment until the return of the principal” to the list of “specified commodities” set out therein. The Order has come into operation since 12 July 2002.

8. HKFE proposed to introduce Mini-HSI options in November 2002 following the success of Mini-HSI futures that was introduced in October 2000. According to HKFE, the turnover of Mini-HSI futures has increased steadily since its introduction and local retail investors account for 88% of the turnover. Mini-HSI options and futures are one-fifth of the size of the HSI options and futures respectively and HKFE believed that there is market demand for these smaller size contracts. The trading and position limits for Mini-HSI options are the same as those for Mini-HSI futures contracts.
9. The Commission proposes to add CNOOC Limited stock futures contract, Huaneng Power International, Inc. stock futures contract, 3-year EFN futures contract and Mini-HSI options contract and their respective trading and position limits to the Schedule to the Commodities Trading (Trading Limits and Position Limits) Rules.

## **THE AMENDMENT RULES**

10. The Amendment Rules amend the Schedule to the Commodities Trading (Trading Limits and Position Limits) Rules by **amending** the names of three stock futures contracts and the options on one stock futures contract, and **adding** two new stock futures contracts, a 3-year EFN futures contract and a Mini-HSI options contract, as well as their respective trading and position limits.

## **PUBLIC CONSULTATION**

11. The proposed amendments to the three stock futures contracts and the options on one stock futures contract are consequential to the change of the names of the underlying companies and are therefore straightforward and technical in nature. Public consultation is considered unnecessary.
12. Hong Kong Exchanges and Clearing Limited (“HKEx”) has consulted the market makers of stock futures on the introduction of the two new stock futures contracts. Some market makers have indicated interest in making market for the proposed stock futures.
13. Trading of the 3-year EFN futures contract commenced on 19 November 2001. Non-statutory rules governing its trading and position limits are already present. The addition of the trading and position limits to the Commodities Trading (Trading and Position Limits) Rules are considered to be straightforward and technical in nature.
14. The majority of the exchange participants expressed to the HKFE that their customers would be or might be interested in trading Mini-HSI options. The introduction of the Mini-HSI options was endorsed by HKEx’s Derivatives Market Consultative Panel constituting of senior management of exchange participants of the HKFE. Two market makers have indicated interests in providing firm bid/ask prices for Mini-HSI options.

## **FINANCIAL AND STAFFING IMPLICATIONS**

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

## **COMMENCEMENT DATE**

16. The Amendment Rules will come into operation on 6 December 2002.

## **PUBLICITY**

17. The Amendment Rules will be gazetted on 11 October 2002. HKEx has published in the newspaper the new stock futures contracts and distributed promotional materials to exchange participants. Promotional flyers have also been distributed to retail investors through exchange participants. In respect of the Mini-HSI options, HKEx will release to the public and exchange participants educational and marketing programs including booklets, information sheets and flyers, and post the information on its website before the product is launched.

## **ENQUIRIES**

18. For any enquiries on this brief, please contact Monica To, Assistant Counsel of the Legal Services Division of the Commission at 2283 6123, or Bernadette Wong, Assistant Manager of the Supervision of Markets Division of the Commission at 2840 9386.

The Securities and Futures Commission  
11 October 2002

**COMMODITIES TRADING (TRADING LIMITS AND  
POSITION LIMITS)(AMENDMENT)  
(NO. 2) RULES 2002**

(Made by the Securities and Futures Commission under section 59 of  
the Commodities Trading Ordinance (Cap. 250))

**1. Commencement**

These Rules shall come into operation on 6 December 2002.

**2. Schedule amended**

The Schedule to the Commodities Trading (Trading Limits and Position Limits) Rules (Cap. 250 sub. leg.) is amended –

- (a) in item 31 –
  - (i) in column 1, by adding “and options” after “Mini-Hang Seng Index futures”;
  - (ii) in column 2, by adding “or Mini-Hang Seng Index options contracts” after “futures contracts”;
  - (iii) in column 3 –
    - (A) by repealing “and”;
    - (B) by adding “, and 1 250 open Mini-Hang Seng Index options contracts for any one series” after “1 250 open Mini-Hang Seng Index futures contracts for any one contract month”;
- (b) in item 39, in column 1, by repealing “Pacific Century Cyberworks” and substituting “PCCW”;
- (c) in item 41, in column 1, by repealing “Holdings” and substituting “Group”;
- (d) in item 78, in column 1, by repealing “Korea Telecom” and substituting “KT”;

(e) in item 98, in column 1, by repealing “Korea Telecom” and substituting “KT”;

(f) by adding –

“109. CNOOC Ltd. stock futures contract	5 000 open contracts for any one contract month	1 000 open contracts for any one contract month.
110. Huaneng Power International, Inc. stock futures contract	5 000 open contracts for any one contract month	1 000 open contracts for any one contract month.
111. Three-Year Exchange Fund Notes futures contract	5 000 open contracts for any one contract month except that for the spot month contract the trading limit is 1 000 open contracts during the last 6 trading days	1 000 open contracts for any one contract month except that for the spot month contract the position limit is 200 open contracts during the last 6 trading days.”.

Andrew Len Tao SHENG

Chairman,

Securities and Futures Commission

### **Explanatory Note**

These Rules amend the Schedule to the Commodities Trading (Trading Limits and Position Limits) Rules (Cap. 250 sub. leg.) by updating the names of 4 existing futures contracts, and adding 4 new futures contracts and the relevant trading limits and position limits.