

## LEGISLATIVE COUNCIL BRIEF

### SECURITIES AND FUTURES ORDINANCE (CAP. 571)

#### SECURITIES AND FUTURES (CONTRACTS LIMITS AND REPORTABLE POSITIONS) (AMENDMENT) RULES 2011

#### INTRODUCTION

1. The Securities and Futures Commission (the “**Commission**”) has made the Securities and Futures (Contracts Limits and Reportable Positions) (Amendment) Rules 2011 at the Annex on 30 June 2011 (the “**Amendment Rules**”).

#### BACKGROUND AND ARGUMENT

2. Section 35(1) of the Securities and Futures Ordinance (Cap. 571) provides that the Commission may make rules to prescribe limits on the number of futures contracts and options contracts that may be held or controlled by a person and to require a person holding or controlling a specified reportable position to notify the recognised exchange company or the Commission. These limits and reportable positions are prescribed in the Securities and Futures (Contracts Limits and Reportable Positions) Rules (Cap. 571, sub. leg. Y) (the “**Rules**”).

*Position limit and reportable position of A50 ETF stock options contract and CSI 300 ETF stock options contract*

3. On 12 July 2010, the Stock Exchange of Hong Kong Limited (“**SEHK**”) launched new stock options contracts on two A-shares related exchange-traded funds: (1) iShares FTSE A50 China Index ETF (which was named iShares FTSE/Xinhua A50 China Index ETF at the time of the launch) (“**A50 ETF**”) and (2) W.I.S.E. – CSI 300 China Tracker (“**CSI 300 ETF**”). The contract sizes of A50 ETF stock options contract and CSI 300 ETF stock options contract are 50 board lots and five board lots respectively.

4. The SFC proposes to set a position limit of 50,000 open contracts for both the A50 ETF and the CSI 300 ETF stock options contract. The SFC proposes to set the large open position reporting levels for both the A50 ETF and the CSI 300 ETF stock options contract at 1,000 open contracts per options class per expiry month. These proposed requirements largely parallel the large open position reporting level and position limit for most stock options contracts traded on SEHK.

*Position limit and reportable position of HSI Dividend Point Index futures contract and HSCEI Dividend Point Index futures contract*

5. On 1 November 2010, the Hong Kong Futures Exchange Limited (“**HKFE**”) launched the HSI Dividend Point Index futures contracts and the HSCEI Dividend Point futures contract. The contract multiplier for the HSI Dividend Point Index futures contract and the HSCEI Dividend Point Index futures contract is HKD50 per Index point.
6. Under the rules of the HKFE, the large open position reporting levels for HSI Dividend Point Index futures contract and HSCEI Dividend Point Index futures contract are both 1,000 open contracts in any one contract month. The SFC’s proposed amendments to the Rules will follow the reporting level for HSI Dividend Point Index futures contracts and HSCEI Dividend Point Index futures contracts in HKFE’s rules.
7. There will be no statutory position limit for the HSI Dividend Point Index futures contract and the HSCEI Dividend Point Index futures contract. This is because market participants will not be able to manipulate the levels of the underlying dividend point indices of these futures contracts. There is also no position limit on these futures contracts under the contract specifications of the HKFE.

*Proposed Amendments to the Rules*

8. The Commission proposes to amend the Rules to set a position limit and reportable position for each of the A50 ETF stock options contract, the CSI

300 ETF stock options contract, the HSI Dividend Point Index futures contract and the HSCEI Dividend Point Index futures contract. The Commission also proposes to repeal Schedules 1 and 2 of the Rules so that the items can be re-numbered for ease of reference.

## **THE AMENDMENT RULES**

9. Section 3 of the Amendment Rules amends the Rules by repealing Schedules 1 and 2 and substituting new Schedules 1 and 2.
10. The new Schedule 1 re-numbers the existing items and adds items 9 and 10 to Schedule 1 to specify the large open position reporting levels of the HSI Dividend Point Index futures contract and HSCEI Dividend Point Index futures contract. No statutory position limit will be set for these dividend point index futures contracts. The additions to Schedule 1 follow the large open position reporting level and position limits specified in the contract specifications of HKFE.
11. The new Schedule 2 re-numbers the existing items and adds items 3 and 4 to Schedule 2 to specify the position limits and large open position reporting levels for the A50 ETF stock options contract and the CSI 300 ETF stock options contract. The additions to Schedule 2 largely follow the position limits and the large open position reporting levels stipulated in the rules for most stock options contracts on shares listed on a stock market operated by SEHK.

## **PUBLIC CONSULTATION**

12. The HSI Dividend Point Index futures contract and HSCEI Dividend Point Index futures contract were launched on 1 November 2010 and the A50 ETF stock options contract and the CSI 300 ETF stock options contract were launched on 12 July 2010. Since market participants are required to comply with the reporting requirements and the position limits specified in the HKFE

and SEHK rules, the Commission does not consider it necessary to conduct any public consultation on the Amendment Rules because they mainly set the same reporting level and position limit in respect of the HSI Dividend Point Index futures contracts and HSCEI Dividend Point Index futures contracts as in HKFE's rules and for the A50 ETF stock options contract and the CSI 300 ETF stock options contract as in SEHK's rules.

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

13. There are no financial or staffing implications for the Government or for the Commission.

#### **COMMENCEMENT**

14. The Amendment Rules will come into operation on 25 November 2011.

#### **PUBLICITY**

15. The Amendment Rules will be gazetted on 8 July 2011.

#### **ENQUIRIES**

16. For any enquiries on this brief, please contact Stanley Ng, Senior Manager of the Supervision of Markets Division of the Commission (at 2283 6133) or Annabel Lee, Counsel of the Legal Services Division of the Commission (at 2283 6183).

**The Securities and Futures Commission**

**4 July 2011**

## Securities and Futures (Contracts Limits and Reportable Positions) (Amendment) Rules 2011

(Made by the Securities and Futures Commission under section 35(1) of the Securities and Futures Ordinance (Cap. 571))

### 1. Commencement

These Rules come into operation on 25 November 2011.

### 2. Securities and Futures (Contracts Limits and Reportable Positions) Rules amended

The Securities and Futures (Contracts Limits and Reportable Positions) Rules (Cap. 571 sub. leg. Y) are amended as set out in section 3.

### 3. Schedules 1 and 2 substituted

Schedules 1 and 2—

**Repeal the Schedules**

**Substitute**

**“Schedule 1** [ss. 2(1) & 5(a)]

### Prescribed Limit and Reporting Level for Futures Contracts

Item	Futures contract	Prescribed limit	Reporting level
1.	Stock futures contracts on shares listed on a stock market operated by the	5 000 open contracts for any one contract month	1 000 open contracts for any one contract month

Item	Futures contract	Prescribed limit	Reporting level
	Stock Exchange Company		
2.	Three-Month Hong Kong Interbank Offered Rate futures contract	Nil	1 000 open contracts for any one contract month; 4 000 open contracts for all contract months
3.	One-Month Hong Kong Interbank Offered Rate futures contract	Nil	1 000 open contracts for any one contract month; 4 000 open contracts for all contract months
4.	Hang Seng Index futures and options contracts, and Mini-Hang Seng Index futures contracts and options contracts	10 000 long or short position delta limit for all contract months combined, provided the position delta for the Mini-Hang Seng Index futures contracts or Mini-Hang Seng Index options contracts shall not at any time exceed 2 000 long or short for all	500 open Hang Seng Index futures contracts for any one contract month; 500 open Hang Seng Index options contracts for any one series; 2 500 open Mini-Hang Seng Index futures contracts for any one contract month and 2 500 open Mini-Hang Seng

Securities and Futures (Contracts Limits and Reportable Positions) (Amendment)  
Rules 2011

Section 3

3

Item	Futures contract	Prescribed limit	Reporting level
		contract months combined	Index options contracts for any one series
5.	Hang Seng China Enterprises Index futures contracts and options contracts, and Mini-Hang Seng China Enterprises Index futures contract	12 000 long or short position delta limit for all contract months combined, provided the position delta for the Mini-Hang Seng China Enterprises Index futures contracts shall not at any time exceed 2 400 long or short for all contract months combined	500 open Hang Seng China Enterprises Index futures contracts for any one contract month; 500 open Hang Seng China Enterprises Index options contracts for any one series and 2 500 open Mini-Hang Seng China Enterprises Index futures contracts for any one contract month
6.	Hang Seng China H-Financials Index futures contract	10 000 long or short position delta limit for all contract months combined	500 open contracts for any one contract month
7.	Gold futures contract	Nil	500 open contracts for any one contract month

Securities and Futures (Contracts Limits and Reportable Positions) (Amendment)  
Rules 2011

Section 3

4

Item	Futures contract	Prescribed limit	Reporting level
8.	Three Year Exchange Fund Note (EFN) futures contract	5 000 open contracts for any one contract month except that the limit for the spot month contract during the last 6 trading days is 1 000 open contracts	1 000 open contracts for any one contract month except that the reportable position for the spot month contract during the last 6 trading days is 200 open contracts
9.	FTSE/Xinhua China 25 Index futures and options contracts	6 000 long or short position delta limit for all contract months combined	500 open FTSE/Xinhua China 25 Index futures contracts for any one contract month and 500 open FTSE/Xinhua China 25 Index options contracts for any one series
10.	HSI Dividend Point Index futures contract	Nil	1 000 open contracts for any one contract month
11.	HSCEI Dividend Point Index futures contract	Nil	1 000 open contracts for any one contract month

Item	Futures contract	Prescribed limit	Reporting level
<b>Schedule 2</b>			[ss. 2(1) & 5(b)]

**Prescribed Limit and Reporting Level for Stock Options Contracts**

Item	Stock options contract	Prescribed limit	Reporting level
1.	Stock options contracts on shares listed on a stock market operated by the Stock Exchange Company	50 000 open contracts per option class in any one market direction for all expiry months combined	1 000 open contracts per option class per expiry month
2.	Tracker Fund of Hong Kong stock options contract	50 000 open contracts per option class in any one market direction for all expiry months combined	1 000 open contracts per option class per expiry month
3.	iShares FTSE A50 China Index ETF stock options contract	50 000 open contracts per option class in any one market direction for all expiry months combined	1 000 open contracts per option class per expiry month
4.	W.I.S.E. – CSI 300 China Tracker stock	50 000 open contracts per option class in	1 000 open contracts per option class per

Item	Stock options contract	Prescribed limit	Reporting level
	options contract	any one market direction for all expiry months combined	expiry month".

Alexa Lam

Acting Chief Executive Officer,  
Securities and Futures Commission

4 July 2011

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**Explanatory Note**

Under section 35(1) of the Securities and Futures Ordinance (Cap. 571), the Securities and Futures Commission may prescribe limits on the number of futures contracts and options contracts that may be held or controlled by any person. It may also prescribe the reportable positions in respect of such contracts.

2. Those limits and reportable positions are established and fixed for the futures contracts and stock options contracts specified respectively in Schedules 1 and 2 to the Securities and Futures (Contracts Limits and Reportable Positions) Rules (Cap. 571 sub. leg. Y). Schedule 1 is amended by adding 2 new dividend point index futures contracts and Schedule 2 is amended by adding 2 new stock options contracts. Items in both Schedules are also renumbered for tidiness sake.