

## LEGISLATIVE COUNCIL BRIEF

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

### SECURITIES AND FUTURES (CONTRACTS LIMITS AND REPORTABLE POSITIONS) (AMENDMENT) RULES 2013

#### INTRODUCTION

1. The Securities and Futures Commission (the “**Commission**”) has made the Securities and Futures (Contracts Limits and Reportable Positions) (Amendment) Rules 2013 at the Annex on 18 January 2013 (the “**Amendment Rules**”).

#### BACKGROUND AND ARGUMENT

2. There are various futures contracts traded on Hong Kong Futures Exchange Limited (“**HKFE**”). In order to minimise the potential impact of the futures contracts on the financial market stability and to facilitate market surveillance, HKFE imposes large open position (the “**LOP**”) reporting requirements and / or position limits on the futures contracts. A market participant holding a position that has reached the LOP reporting level is required to notify HKFE of that position. In general, no market participant is allowed to hold a position in excess of the position limit.
3. 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 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 HSI Volatility Index futures contract (“**VHSI futures contract**”)*

4. On 21 February 2011, Hang Seng Indexes Company Limited launched the HSI Volatility Index (“**VHSI**”). The VHSI measures the 30-calendar-day implied volatility of the Hang Seng Index using the prices of the two nearest-term expiration months of HSI options currently traded on **HKFE**.
5. On 20 February 2012, Hong Kong Exchanges and Clearing Limited (“**HKEx**”) launched the VHSI futures contract, which is a volatility index futures contract based on the VHSI. The futures contract will have a contract multiplier of HK\$5,000 and will be settled in cash.
6. The Commission proposes to set a position limit of 10 000 open contracts for any one contract month and the LOP reporting level at 1 000 open contracts for any one contract month for the VHSI futures contract. These proposed requirements follow the position limit and LOP reporting level specified in the contract specifications of HKFE for the VHSI futures contract.

7. The proposed position limit of 10 000 contracts is the same as that of HSI futures and options, and it is tighter than the position limits for similar products set by Chicago Board Options Exchange (CBOE). As the accumulation of a huge position of VHSI futures contracts will not have direct impact on the level of VHSI, we are of the view that the proposed level of 10,000 is reasonable.

*Position limit and reportable position of US Dollar vs Renminbi (Hong Kong) futures contract (“USD/CNH futures contract”)*

8. On 17 September 2012, HKEx launched the USD/CNH futures contract, which is a futures contract based on the exchange rates between USD and CNH. CNH refers to the Renminbi (“RMB”) circulated in Hong Kong. This futures contract has a contract size of USD 100,000 and is a physical delivery contract settled in RMB. Upon expiration of the contract, sellers will be required to deliver the principal (the contract size in USD) and the buyers will deliver RMB based on the final settlement price. The final settlement price will be based on the spot USD/CNY (HK) fixing published at 11:15 am on the last trading day (i.e. two business days prior to the third Wednesday of the contract month) by the Treasury Markets Association of Hong Kong. In general, the difference between the original execution price of the contract and the final settlement price is used to calculate the profit/loss of buyer/seller.
9. The Commission proposes to set (a) a position limit of 8 000 net long or short contracts for all contract months combined except that the limit for the spot month contract during the last 5 trading

days is set at 2 000 open contracts, and (b) the LOP reporting level at 500 open contracts for any one contract month for the USD/CNH futures contract. These proposed requirements follow the position limit and LOP reporting level specified in the contract specifications of HKFE for the USD/CNH futures contract.

10. The rationale behind setting a lower position limit for spot month contract on the last five days before expiry is to ensure that the USD/CNH futures contract would not adversely affect the CNH spot market (i.e. cash market) near expiration. The level at 2,000 contracts was determined with reference to the level of CNH spot daily turnover in Hong Kong, which is about 10% of the current CNH spot daily turnover (about US\$200 million), whereas the position limit of 8,000 contracts represents 40% of current CNH spot daily turnover (about US\$800 million). The LOP reporting level of 500 contracts is the same as the other major products, i.e. HSI futures.

#### *Proposed Amendments to the Rules*

11. The Commission proposes to amend the Rules to set a position limit and reportable position for each of the VHSI futures contract and the USD/CNH futures contract.

#### **THE AMENDMENT RULES**

12. Section 3 of the Amendment Rules amends the Rules by adding the VHSI futures contract and the USD/CNH futures contract and their

respective position limits and reportable positions to Schedule 1 of the Rules.

## **PUBLIC CONSULTATION**

13. The VHSI futures contract and the USD/CNH futures contract were launched on 20 February 2012 and 17 September 2012, respectively. HKFE has consulted market participants on the LOP reporting levels and position limits before the launch of these contracts. In the case of USD/CNH futures contract, HKFE has also consulted the Hong Kong Monetary Authority. Since market participants are required to comply with the reporting requirements and the position limits specified in the HKFE rules, the Commission does not consider it necessary to conduct any public consultation on the Amendment Rules because they set the same reporting levels and position limits in respect of the VHSI futures contract and the USD/CNH futures contract respectively as those in HKFE's rules.

## **FINANCIAL AND STAFFING IMPLICATIONS**

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

## **COMMENCEMENT**

15. The Amendment Rules will come into operation on 12 April 2013.

## **PUBLICITY**

16. The Amendment Rules will be gazetted on 1 February 2013.

## **ENQUIRIES**

17. For any enquiries on this brief, please contact Stanley Ng, Senior Manager of the Supervision of Markets Division of the Commission (at 2231 1133).

**The Securities and Futures Commission**

**28 January 2013**

Securities and Futures (Contracts Limits and Reportable Positions) (Amendment)  
Rules 2013

Section 1

1

## Securities and Futures (Contracts Limits and Reportable Positions) (Amendment) Rules 2013

(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 12 April 2013.

### 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. Schedule 1 amended (prescribed limit and reporting level for futures contracts)

Schedule 1, after item 11—

#### Add

“12.	HSI Volatility Index futures contract	10 000 open contracts for any one contract month	1 000 open contracts for any one contract month
13.	US Dollar vs Renminbi (Hong Kong) futures contract	8 000 net long or short contracts for all contract months combined except that the limit for the spot month contract	500 open contracts for any one contract month”.

Securities and Futures (Contracts Limits and Reportable Positions) (Amendment)  
Rules 2013

Section 3

2

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during the last 5  
trading days is  
2 000 open  
contracts

Chief Executive Officer,  
Securities and Futures Commission

2013

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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 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 specified in Schedule 1 to the Securities and Futures (Contracts Limits and Reportable Positions) Rules (Cap. 571 sub. leg. Y). Schedule 1 is amended by adding the HSI Volatility Index futures contract and the US Dollar vs Renminbi (Hong Kong) futures contract.