

**L.N. 131 of 2019**

**Securities and Futures (Investor Compensation—Levy)  
(Amendment) Rules 2019**

**Contents**

Section	Page
1. Commencement .....	B3967
2. Securities and Futures (Investor Compensation—Levy) Rules amended .....	B3967
3. Section 2 amended (interpretation) .....	B3967
4. Part 2 heading amended (levy payable in respect of sale and purchase of securities) .....	B3969
5. Section 3 amended (application of Part 2) .....	B3969
6. Section 4 amended (securities) .....	B3971
7. Section 5 amended (no levy on stock options) .....	B3971
8. Section 7A amended (no levy on sale and purchase of securities by securities market maker permit holders) .....	B3973
9. Section 24 amended (Commission to cause financial statement to be audited) .....	B3973
10. Section 25 amended (Commission to publish exemption notice) .....	B3975
11. Section 26 amended (Commission to publish termination of exemption notice) .....	B3977

Section	Page
12.	Section 27 added .....B3981
27.	Exemption notice published on 11 November 2005 .....B3981

**L.N. 131 of 2019**

**Securities and Futures (Investor Compensation—Levy)  
(Amendment) Rules 2019**

(Made by the Chief Executive in Council under section 244(1) of the Securities and Futures Ordinance (Cap. 571))

**1. Commencement**

These Rules come into operation on 1 January 2020.

**2. Securities and Futures (Investor Compensation—Levy) Rules amended**

The Securities and Futures (Investor Compensation—Levy) Rules (Cap. 571 sub. leg. AB) are amended as set out in sections 3 to 12.

**3. Section 2 amended (interpretation)**

Section 2—

**Add in alphabetical order**

“*Claims Rules* (《申索規則》) means the Securities and Futures (Investor Compensation—Claims) Rules (Cap. 571 sub. leg. T);

*Hong Kong securities* (香港證券) means any securities that are listed or traded, or to be listed or traded, on a recognized stock market;

*northbound link* (北向通) has the meaning given by section 2 of the Claims Rules;

*southbound link* (南向通), in relation to a Stock Connect arrangement, means the facilities provided or

arranged by the operator of the relevant Stock Connect market under the arrangement—

- (a) for routing orders for the sale or purchase of securities for execution on a recognized stock market operated by the Stock Exchange Company; and
- (b) for handling matters relating to those securities;

*Stock Connect arrangement* (互聯互通安排) has the meaning given by section 2 of the Claims Rules;

*Stock Connect market* (互聯互通市場) has the meaning given by section 2 of the Claims Rules;

*Stock Connect securities* (互聯互通證券) has the meaning given by section 2 of the Claims Rules;”.

**4. Part 2 heading amended (levy payable in respect of sale and purchase of securities)**

Part 2, heading—

**Repeal**

“and”

**Substitute**

“or”.

**5. Section 3 amended (application of Part 2)**

Section 3—

**Repeal subsection (1)**

**Substitute**

“(1) This Part applies only to—

- (a) a sale or purchase of Hong Kong securities—

- (i) that is recorded on a recognized stock market or notified to a recognized exchange company under its rules; and
  - (ii) the order for which is not routed through the southbound link of a Stock Connect arrangement; and
- (b) a sale or purchase of Stock Connect securities, the order for which is routed through the northbound link of a Stock Connect arrangement.”.

**6. Section 4 amended (securities)**

Section 4—

**Repeal**

everything after “levy”

**Substitute**

“is payable to the Commission—

- (a) for a sale of securities—by the seller at the rate of 0.002% of the consideration for the sale; and
- (b) for a purchase of securities—by the purchaser at the rate of 0.002% of the consideration for the purchase.”.

**7. Section 5 amended (no levy on stock options)**

Section 5—

**Repeal**

“and purchase of a stock option shall be”

**Substitute**

“or purchase of a stock option is”.

- 8. Section 7A amended (no levy on sale and purchase of securities by securities market maker permit holders)**
- (1) Section 7A, heading—  
**Repeal**  
“and”  
**Substitute**  
“or”.
- (2) Section 7A, English text—  
**Repeal**  
“shall be”  
**Substitute**  
“is”.
- 9. Section 24 amended (Commission to cause financial statement to be audited)**
- (1) Section 24(1)—  
**Repeal**  
“\$1,400,000,000 as at that day, the Commission shall”  
**Substitute**  
“\$3 billion as at that day, the Commission must”.
- (2) Section 24(2)—  
**Repeal**  
“\$1,000,000,000 as at that day, the Commission shall”  
**Substitute**  
“\$2 billion as at that day, the Commission must”.

**10. Section 25 amended (Commission to publish exemption notice)**

(1) Section 25(1)—

**Repeal**

“\$1,400,000,000, the Commission shall”

**Substitute**

“\$3 billion, the Commission must”.

(2) Section 25(1)—

**Repeal**

“sale and”

**Substitute**

“sale or”.

(3) Section 25(1)(a), English text—

**Repeal**

“shall”

**Substitute**

“may”.

(4) Section 25(2), English text—

**Repeal**

“shall”

**Substitute**

“may”.

(5) Section 25(3), English text—

**Repeal**

“shall”

**Substitute**

“may”.

- (6) Section 25(4)—

**Repeal**

“\$1,000,000,000”

**Substitute**

“\$2 billion”.

- (7) Section 25(5)—

**Repeal**

“\$1,000,000,000”

**Substitute**

“\$2 billion”.

- (8) Section 25(5), English text—

**Repeal**

“shall”

**Substitute**

“must”.

**11. Section 26 amended (Commission to publish termination of exemption notice)**

- (1) Section 26(1)(a)—

**Repeal**

“\$1,000,000,000”

**Substitute**

“\$2 billion”.

- (2) Section 26(1), English text—

**Repeal**

“Commission shall”



**Substitute**

“Commission must”.

- (3) Section 26(1), English text—

**Repeal**

“date shall”

**Substitute**

“date may”.

- (4) Section 26(2), English text—

**Repeal**

“shall”

**Substitute**

“does”.

- (5) Section 26(3)—

**Repeal**

“\$1,400,000,000”

**Substitute**

“\$3 billion”.

- (6) Section 26(4)—

**Repeal**

“\$1,400,000,000”

**Substitute**

“\$3 billion”.

- (7) Section 26(4), English text—

**Repeal**

“shall”

**Substitute**

“must”.

**12. Section 27 added**

After section 26—

**Add**

**“27. Exemption notice published on 11 November 2005**

- (1) The Commission’s declaration that no person is required to pay any levy under Part 2 or 3, by the exemption notice published on 11 November 2005 under section 25(1), continues to have effect until the date to be specified for the exemption notice by a termination of exemption notice published under section 26(1).
- (2) To avoid doubt, subsection (1) applies—
  - (a) despite the amendments made to this Part by sections 9, 10 and 11 of the Securities and Futures (Investor Compensation—Levy) (Amendment) Rules 2019; and
  - (b) regardless of the net asset value of the compensation fund on 1 January 2020.”.

Wendy LEUNG  
Clerk to the Executive Council

COUNCIL CHAMBER

17 September 2019

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## Explanatory Note

Section 236 of the Securities and Futures Ordinance (Cap. 571) established the Investor Compensation Fund (*ICF*). The Securities and Futures (Investor Compensation—Levy) Rules (Cap. 571 sub. leg. AB) (*Levy Rules*) provide for levy payable for the purposes of the ICF.

2. Under the arrangements commonly known as Stock Connect—
  - (a) there is mutual market access between The Stock Exchange of Hong Kong Limited (*SEHK*) and the following exchanges—
    - (i) the Shanghai Stock Exchange (*SSE*);
    - (ii) the Shenzhen Stock Exchange (*SZE*); and
  - (b) investors may—
    - (i) sell or purchase certain securities traded on a market operated by the SSE or SZE through the northbound links of Stock Connect (*northbound sale or purchase*); or
    - (ii) sell or purchase certain securities traded on a market operated by the SEHK through the southbound links of Stock Connect (*southbound sale or purchase*).
3. These Rules amend the Levy Rules to provide that—
  - (a) a levy is payable for a northbound sale or purchase; and
  - (b) no levy is payable for a southbound sale or purchase.

4. Part 5 of the Levy Rules provides for a levy suspension and reinstatement mechanism. If the ICF's net asset value exceeds \$1.4 billion, the Securities and Futures Commission (*SFC*) may suspend any levy. After a suspension, the *SFC* may reinstate the levy if the ICF's net asset value falls below \$1 billion. These Rules adjust those 2 trigger values to \$3 billion and \$2 billion respectively.