

L.N. 74 of 2020

**Stamp Duty Ordinance (Amendment of Schedule 8)
Regulation 2020**

(Made by the Financial Secretary under section 63(c) of the Stamp
Duty Ordinance (Cap. 117))

1. Commencement

This Regulation comes into operation on 1 August 2020.

2. Stamp Duty Ordinance amended

The Stamp Duty Ordinance (Cap. 117) is amended as set out in
section 3.

**3. Schedule 8 amended (transactions and transfers relating to
exchange traded funds)**

- (1) Schedule 8, Part 1, section 1, definition of *purchase, sale
and sale or purchase*—

Repeal

“19(16).”

Substitute

“19(16);”.

- (2) Schedule 8, Part 1, section 1—

Add in alphabetical order

“*allotment* (分配), in relation to a share or unit of an
exchange traded fund, means an issue of the share or
unit, where—

- (a) the issue arises from market making or liquidity providing activities in respect of the shares or units of the fund; and
- (b) those activities are conducted through, or recorded on, the trading system of the Stock Exchange Company;

allotment period (分配時段), in relation to the allotment of a share or unit of an exchange traded fund, means the period between the following 2 days (both days inclusive)—

- (a) the day on which the order for the allotment is placed by a market maker of the fund;
- (b) the day on which the allotment is settled;

market maker (莊家), in relation to an exchange traded fund, means a person approved by or registered with the Stock Exchange Company for performing, in accordance with rules made by the Stock Exchange Company, market making or liquidity providing activities in respect of the shares or units of the fund;

participating dealer (參與證券商), in relation to an exchange traded fund, means a person who is authorized by the trustee or manager of the fund to accept orders for the allotment and redemption of shares or units of the fund;

redemption (贖回), in relation to a share or unit of an exchange traded fund, means a cancellation of the share or an extinguishment of the unit, after the share or unit is eventually transferred to the fund, where—

- (a) the cancellation or extinguishment arises from market making or liquidity providing activities in respect of the shares or units of the fund; and
- (b) those activities are conducted through, or recorded on, the trading system of the Stock Exchange Company;

redemption period (贖回時段), in relation to the redemption of a share or unit of an exchange traded fund, means the period between the following 2 days (both days inclusive)—

- (a) the day on which the order for the redemption is placed by a market maker of the fund;
- (b) the trading day immediately after the day on which the relevant Hong Kong stock is delivered to the market maker for the redemption;

Stock Exchange Company (聯交所) has the meaning given by section 1 of Part 1 of Schedule 1 to the Securities and Futures Ordinance (Cap. 571).”.

- (3) Schedule 8, Part 2, after item 2—

Add

“3. Each of the following transactions that is made for the allotment of a share or unit of an exchange traded fund—

- (a) a purchase of Hong Kong stock, made by a market maker of the fund, that is settled within the allotment period;
- (b) both the sale and purchase of a transaction of Hong Kong stock (if any) that satisfies both of the following conditions—

- (i) the sale is made by a market maker of the fund and the purchase is made by a participating dealer of the fund;
 - (ii) the transaction is settled within the allotment period.

- 4. Each of the following transactions that is made for the redemption of a share or unit of an exchange traded fund—
 - (a) both the sale and purchase of a transaction of Hong Kong stock (if any) that satisfies both of the following conditions—
 - (i) the sale is made by a participating dealer of the fund and the purchase is made by a market maker of the fund;
 - (ii) the transaction is effected within the redemption period;
 - (b) a sale of Hong Kong stock, made by a market maker of the fund, that is effected within the redemption period.”.

Paul CHAN Mo-po
Financial Secretary

11 May 2020

Explanatory Note

This Regulation amends the Stamp Duty Ordinance (Cap. 117) (*SDO*) to implement an initiative in the 2020–21 Budget of the Government.

2. The objective of the Regulation is to reduce the transaction costs relating to exchange traded funds, which in turn may narrow bid-ask spreads of the shares or units of exchange traded funds.
3. Section 19(1) of the SDO requires the making, execution and stamping of contract notes for the sale and purchase of Hong Kong stock. The Regulation amends Schedule 8 to the SDO to disapply that section 19(1) to the following transactions settled or effected within a specified period—
 - (a) the following transactions made by a market maker of an exchange traded fund—
 - (i) a purchase of Hong Kong stock made for the allotment of a share or unit of the fund;
 - (ii) a sale of Hong Kong stock made for the redemption of a share or unit of the fund;
 - (b) the sale and purchase of Hong Kong stock between a market maker of an exchange traded fund and a participating dealer of the fund for the allotment or redemption of a share or unit of the fund.