

**Consultation Conclusions on the Draft  
Securities and Futures (Contract Limits  
and Reportable Positions) Rules**

Securities and Futures Commission  
Hong Kong

April 2002

## INTRODUCTION

1. On 28 March 2002, the Securities and Futures Commission ("SFC") issued a consultation paper to solicit comments on the draft Securities and Futures (Contracts Limits and Reportable Positions) Rules (the "draft Rules").
2. The draft Rules set out the limits on the number of specified futures contracts and specified stock options contracts which may be held or controlled by any person in any one contract month or expiry month. The draft rules also provide that the limits apply unless a person has an express authorization from a recognized exchange company and require a person holding or controlling a reportable position in such contracts to notify a recognized exchange company under its rules.
3. The consultation exercise ended on 16 April 2002.
4. It is advisable to read this document in conjunction with the consultation paper itself.

## CONSULTATION EXERCISE

5. A press release regarding the consultation exercise was issued on 28 March 2002. The consultation paper and the draft Rules were posted on the website of the SFC and distributed to all registrants through FinNet. Two submissions were received.
6. One respondent, the Institute of Securities Dealers Ltd., asked how often the SFC will update the schedules.

### *The SFC's Response*

7. The SFC will update the schedules whenever new products are introduced. Normally the Exchange will submit to the SFC contracts limits and reportable limits for proposed products. The SFC will then prepare the necessary legislative amendments.
8. The other respondent, Linklaters, which represents 5 financial institutions,<sup>1</sup> suggested increasing the reportable limits for Hang Seng Index futures contracts and Hang Seng Index options contracts from 250 to 500 contracts. It questioned why exchange participants are treated differently from non-exchange participants under rule 6 of the draft Rules and suggested extending rule 6 to require all persons who act for both their own accounts and for the accounts of their clients to 'disaggregate' their respective positions. Finally, this respondent also suggested that guidelines issued by the Exchange in

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<sup>1</sup> Deutsche Securities Asia Limited  
Goldman Sachs (Asia) L.L.C.  
Morgan Stanley Dean Witter Asia Limited  
Salomon Smith Barney Hong Kong Limited  
UBS Warburg Asia Limited

relation to the reporting of contracts limits and reportable limits should be issued for public consultation prior to publication.

*The SFC's Response*

9. The SFC is currently considering the proposal with the Hong Kong Exchanges and Clearing Company Limited (the Exchange). Increasing the limits would have implications on the enforcement of the Rules in practice on the part of the SFC and the Exchange. There is a need to weigh the benefit of the proposal against the impact on the effectiveness of cross-market surveillance. The SFC is currently working with the Exchange and will come to a considered view on the proposal in the next couple of months.
10. We do not consider that there is a difference in treatment of exchange participants and non-exchange participants. Reportable positions of clients of non-exchange participants are also required to be notified to the Exchange Company through exchange participants. The spirit of the draft Rules (and of the current Commodities Trading (Trading Limits and Position Limits) Rules is to ensure that reportable positions of all persons are notified.
11. With respect to Exchange guidelines on the reportable limits, we will convey the suggestion to the Exchange.

**CONSULTATION CONCLUSIONS**

12. After the completion of the consultation exercise, the SFC considers that no changes to the draft Rules would be required.