

**L.N. 131 of 2019**

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

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**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”.

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- 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.