

LEGISLATIVE COUNCIL

PANEL ON FINANCIAL AFFAIRS

SUMMARY OF MODIFICATIONS OF THE FINANCIAL RESOURCES RULES

INTRODUCTION

Members discussed the report on the implementation of the Financial Resources Rules (“FRR”) at the meeting of the Panel held on 5 February 2001. At the meeting, the Administration agreed to provide Members with details of the three FRR modifications granted by the Securities and Futures Commission (“SFC”) in the light of special circumstances of the business of each applicant. The background to granting modifications in those three cases is summarised below.

GENERAL PRINCIPLES

2. In granting each of those modifications, the SFC has been satisfied that—
 - (a) compliance with the relevant FRR requirement would be unduly burdensome for the applicant having regard to the benefit which compliance would confer on the investing public; and
 - (b) granting the modification was not contrary to the interest of the investing public.

THE MODIFICATIONS

Modification 1

3. The applicant, being a futures dealer, transacts futures contracts for its clients through clearing members of certain overseas exchanges and clearing houses which are not presently specified in the FRR. As such, the client margin deposits and other amounts receivable from the clearing members could not be counted as liquid assets of the applicant. The modification allows these overseas exchanges and clearing houses to be included under the FRR for the calculation of liquid assets. The modification was granted on the basis that adequate regulatory controls are in place to govern these overseas exchanges and clearing houses.

Modification 2

4. The applicant, being a securities dealer, was exempted from applying haircut adjustment on shares which were purchased and set aside by it for meeting any potential claims by clients arising from an alleged misappropriation of stocks by an account executive.

Modification 3

5. The modification was granted to facilitate bond trading by the applicant in Hong Kong. Bond trading differs from equities trading in many aspects such as settlement and clearing procedures. The nature of the applicant's bond trading merits the modification of certain FRR requirements that were designed for regulating equities trading, subject to certain safeguards and controls.

6. The key features of the above modifications have been published in SFC's website to ensure transparency.

Securities and Futures Commission

28 February 2001