

LN087-E

L.N. 87 of 2002

Financial Resources (Amendment) Rules 2002

(Made by the Securities and Futures Commission under section 28 of the Securities and Futures Commission Ordinance (Cap. 24) after consultation with the Financial Secretary)

1. Commencement

These Rules shall come into operation on 1 October 2002.

2. Amounts receivable from clients and securities margin financiers arising from dealings in securities or the provision of securities margin financing

Section 13 of the Financial Resources Rules (Cap. 24 sub. leg.) is amended--

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(a) in subsection (4)(b)---

(i) in subparagraph (i), by adding ", other than illiquid collateral," after "collateral";

(ii) by adding---

"(ia) the market value of all illiquid collateral provided by the client, multiplied by 20%";

(b) by adding---

"(10) In this section, "illiquid collateral" (非速動抵押品), in relation to collateral provided to a dealer or securities margin financier by a margin client, means any listed or traded share or warrant which is of the same description as that identified as the top 3 collateral where---

(a) if it is a share, the aggregate market value of all shares of the same description as that share provided to the dealer or securities margin financier by his margin clients as collateral is equal to or greater than---

(i) the average monthly turnover of that share; or

(ii) 5% of the total market capitalization of that share as at the end of the month immediately preceding the month prior to the month in which the calculation is made; or

(b) if it is a warrant, the aggregate market value of all warrants of the same description as that warrant provided to the dealer or securities margin financier by his margin clients as collateral is equal to or greater than---

(i) the average monthly turnover of that warrant; or

(ii) 5% of the warrant issue as at the end of the month immediately preceding the month prior to the month in which the calculation is made,

but does not include---

(c) any listed or traded share or warrant which has been listed or traded for less than 6 consecutive months (including any period during which the share or warrant is suspended from trading) immediately preceding the month prior to the month in which the calculation is made; and

(d) any listed share which is a constituent stock of any of the following indices---

- (i) Hang Seng Index;
- (ii) Hang Seng Hong Kong LargeCap Index;
- (iii) Hang Seng Hong Kong MidCap Index;
- (iv) FTSE-100 Index;
- (v) Nikkei 225 Index; or
- (vi) Standard & Poor's 500 Index.

(11) In this subsection and subsection (10)---

"average monthly turnover" (平均每月成交額), in relation to a listed or traded share or warrant, means one sixth of the aggregate value of transactions in that share or warrant on any stock market on which it is listed or traded for a period of 6 consecutive months (including any period during which the share or warrant is suspended from trading) immediately preceding the month prior to the month in which the calculation is made;

"calculation" (有關計算) means a calculation made for the purposes of subsection (4);

"market capitalization" (市場資本值), in relation to a share, means the total number of shares of the same class as that share issued by the issuer of that share, as multiplied by their market price;

"top 3 collateral" (首3位抵押品), in relation to a top margin client of a dealer or securities margin financier, means any of the 3 highest listed or traded shares or warrants in terms of market value among all shares or warrants provided by him to the dealer or securities margin financier as collateral;

"top margin client" (佔首位的保證金客戶), in relation to a dealer or securities margin financier, means---

(a) where he has less than 20 margin clients, each of his margin clients; or

(b) where he has 20 or more margin clients, each of the 20 margin clients with the largest outstanding margin loan balances;

"traded" (買賣), in relation to any share or warrant, means traded on a stock market."

3. Provision of securities margin financing

Section 21 is amended---

(a) by renumbering it as section 21(1);

(b) by adding---

"(2) Where a dealer or securities margin financier obtains financial

accommodation wholly or partly secured by collateral provided by his margin clients, he shall include in his ranking liabilities the amount by which such financial accommodation exceeds 65% of the aggregate amount receivable from his margin clients arising from the provision of securities margin financing."

4. Liquid capital computation

Schedule 7 is amended---

(a) in item 21, in column 3, by repealing "21(a)" and substituting "21(1)(a)";

(b) in item 22, in column 3, by repealing "21(b)" and substituting "21(1)(b)";

(c) in item 29, in columns 2 and 3, by adding---

"---gearing adjustment 21(2)"

before---

"---short selling of securities on 24(6)".

behalf of clients

Andrew Len Tao SHENG

Chairman,

Securities and Futures Commission

29 May 2002

Explanatory Note

The purpose of these Rules is to amend the Financial Resources Rules (Cap. 24 sub. leg.) ("the principal Rules") to limit the main financial and credit risks arising from the provision of margin loans by securities dealers and securities margin financiers.

2. Section 2 amends section 13 of the principal Rules to require the application of a steep discount to the market value of certain securities held by the securities dealers and securities margin financiers as collateral, for the purpose of calculating their liquid assets.

3. Section 3 amends section 21 of the principal Rules to require securities dealers and securities margin financiers to compare the total value of their margin loans to clients with the total value of borrowings they have obtained by re-pledging securities received from their margin clients. If the borrowings obtained by any securities dealer or securities margin financier exceed 65% of the total margin loans extended by him, the excess must be included in his ranking liabilities.

4. Section 4 amends Schedule 7 to the principal Rules by introducing consequential renumbering of references to section 21 of the principal Rules, and adding a new item relating to the gearing adjustment required under the new section 21(2).