

# Working Group on Review of the Financial Regulatory Framework for Licensed Corporations

The WG's recommended measures will benefit:

- **1,000,000** investors;
- **the securities market**;
- **Hong Kong's position as an IFC.**

## Core Measure 1: Setting a Re-pledging Limit

- Other major international financial centres **do not** permit the re-pledging of collateral belonging to clients who have not borrowed. **HK does.**
- WG recommends setting an upper limit on re-pledging (at **130% to 150%** of total loans lent).
- **Advantage:** at least a portion of client collateral would not be re-pledged.
- This measure is modelled after the US.

## Core Measure 2: Increasing Haircut % under the FRR

- **FRR haircut %** on clients' collateral is used to calculate the amount of capital a SMF provider is required to put in to buffer against **market and liquidity risks**.
- Current percentages **do not reflect** market and volatility risks.
- The proposal to increase haircut percentages under the FRR means that brokers who lend on **aggressive** margin ratios would have to put in their **own capital as risk buffer**.
- This measure does **NOT** stop an investor from trading in any stocks, or a broker from lending against any stocks.
- The new percentages are still **more lenient** than those applied by banks or average brokers.

# Two Supplementary Proposals: Code of Conduct & Investor Education

## ■ Code of Conduct

- ❖ To require notification to the SFC on
  - margin loans secured by illiquid collateral;
  - bank line utilisation.
- ❖ To enhance disclosure to clients of
  - risks associated with maintaining a margin account.

## ■ Investor education

- ❖ Step up public awareness of the pooling risk.

# Way Forward

- The SFC wishes to **consult the market** on the WG's proposals. The SFC maintains an open mind. We are here to seek the views of FAP Members.
- Only a **small number** of SMF providers would be impacted by the core measures. The SFC will work closely with any affected firm during the transitional period.
- The SFC also echoes the views of the minority of WG members that going forward, Hong Kong needs to **converge with international standards** – to achieve **complete segregation of non borrowing client collateral** and **tiering of capital requirements** to the risks assumed by firms.
- The SFC will also form an **internal working group** to study whether an independent manager-type person should be appointed to manage a firm in financial difficulties to maximize and preserve value.