

## **LEGISLATIVE COUNCIL BRIEF**

Securities and Futures Commission Ordinance  
(Chapter 24)

### **FINANCIAL RESOURCES RULES**

Commodities Trading Ordinance  
(Chapter 250)

#### **COMMODITIES TRADING (ACCOUNTS AND AUDIT) (AMENDMENT) RULES 2000**

#### **INTRODUCTION**

Pursuant to section 28 of the Securities and Futures Commission Ordinance (Cap. 24), the Securities and Futures Commission (“the Commission”), after consultation with the Financial Secretary, made the Financial Resources Rules on 12 April 2000. The text of the FRR is attached hereto as Annex 1.

2. As the FRR introduce a new set of liquid capital requirements to replace the “adjusted net admissible assets” requirements for commodities dealers, the Commodities Trading (Accounts and Audit) (Amendment) Rules 2000 were also made by the Commission on the same date pursuant to section 109 of the Commodities Trading Ordinance (Cap. 250) to reflect the relevant changes. The text of these Rules is attached hereto as Annex 2.

#### **THE FINANCIAL RESOURCES RULES ("FRR")**

#### **BACKGROUND**

3. The existing FRR, which stipulate the financial resources requirements of securities and futures intermediaries, have been in operation since 1 December 1993. In March 1997, the Commission completed a review of the FRR and issued a consultation paper on the

results of the review. This was considered necessary at the time to cater for changes in market practices and strategies, diversification into new products, such as new derivative products, and anomalies and deficiencies identified in operating the FRR.

4. Amendments then contemplated have however not been made due to the “necessity” and “essentiality” requirements for submission of legislation to the Provisional Legislative Council and the pre-occupation with the Asian financial turmoil that followed.

5. In December 1997, following the recommendation of the SFC, an inter-agency working group (“the Working Group”) was established under Financial Services Bureau to study the issue of regulating the share margin financing activities carried out by finance companies associated with securities dealers in particular. The C. A. Pacific incident added impetus and urgency to the deliberations of the Working Group.

6. The main features of the Working Group's recommendations were given effect to in the Securities (Margin Financing) (Amendment) Ordinance 2000, enacted on 15 March 2000, thereby creating a new class of registrant called “securities margin financier”. The regulatory regime now brings securities margin financing activities into the purview of the Securities Ordinance and subjects them to the supervision of the SFC. One of the key objectives of the FRR is to extend appropriate financial regulation to securities margin financiers (“financiers”).

7. Besides focussing on aspects which relate to the regulation of securities margin financing and incorporating the proposals contained in the 1997 consultation, the FRR also take into consideration other factors such as recent market volatilities and the merger and demutualization of the two Exchanges.

## **MAIN FEATURES**

8. The major features of the FRR are summarized as follows:-

In relation to securities and futures dealers and financiers:

- (a) to standardize the approach towards setting the required regulatory capital for securities and futures dealers and financiers;

- (b) to standardize (subject to exceptions) the minimum required liquid capital for all dealers and financiers at \$3 million;
- (c) to introduce a minimum paid up share capital requirement (or equivalent in the case of sole proprietors) of \$10 million to financiers and securities dealers providing securities margin financing and \$5 million to other dealers (subject to exceptions);
- (d) to base the variable parameter test on adjusted total liabilities as at the computation date;
- (e) to amend the position and counterparty risk adjustments as appropriate;
- (f) to grant capital relief to offsetting positions in shares, stock futures contracts, stock options contracts and derivative warrants issued;
- (g) to better address risks arising from off-exchange (i.e. over-the-counter) positions;
- (h) to apply concentration discounting factor to individual or related collateral received from margin clients;
- (i) to introduce concentrated risk adjustments arising from individual or related margin accounts;
- (j) to relax the requirements for giving value to bank deposits overseas;
- (k) to exclude all assets in currencies which are subject to exchange controls;
- (l) to require monthly returns to be lodged together with summary on banking facilities, selected margin clients, securities collateral, and proprietary derivative positions, profit and loss account and analysis of client assets;

In relation to advisers:

- (m) to require net tangible assets of not less than \$500,000.

## **STRUCTURE**

9. Part I of the FRR provides for application and commencement, as well as definitions, interpretations, accounting treatment to be adopted and computation basis of assets and liabilities.

10. Part II sets specific capital requirements for dealers and securities margin financiers. Advisers are subject to a net tangible asset requirement, with the minimum asset requirement raised.

11. Part III provides for the treatment of specified asset classes for the purpose of including them in liquid assets.

12. Part IV provides for financial adjustments in respect of specified transactions and the liabilities to be provided for as ranking liabilities.

13. Part V specifies the reporting and notification requirements by dealers, securities margin financiers and advisers. In addition, this Part also requires a registered person to respond to Commission's request for information in relation to his financial resources.

14. Part VI empowers the Commission to approve stock borrowing and lending counterparties, banks formed or established outside Hong Kong and credit rating agencies for the purposes of applying these rules, and impose conditions for such approvals.

15. The 13 Schedules set out, inter alia, specific standards regarding haircut percentages applicable to specified classes of investments and rates for making financial adjustments in respect of financial commitments, and prescribe a list of recognized stock, futures and option markets. They also contain prescribed forms for monthly returns.

## **COMMODITIES TRADING (ACCOUNTS AND AUDIT) (AMENDMENT) RULES 2000**

16. The rules replace the references to and definitions of "adjusted net admissible assets" and "clearing house" with references to and definitions of "liquid capital" and "futures or options clearing house" in order to reflect the changes in the FRR.

## **PUBLIC CONSULTATION**

17. There was public consultation on the initial review of the FRR in March 1997 as well as on the proposed regulation of securities margin financing in May 1998. 19 submissions were received in 1997 with 88 received in 1998. All of these comments have been carefully considered and incorporated where appropriate.

18. In addition, the FRR in draft form have also been submitted to the Bills Committee of the Securities (Margin Financing) (Amendment) Bill 1999 for reference in order to facilitate its consideration of the proposed regulatory regime for securities margin financing. In particular, its suggestion of excluding constituent stocks of the Hang Seng Index from the concept of “related collateral” in the calculation of the concentration risk adjustments on securities collateral has been adopted by the Commission and is reflected in the FRR. That apart, the FRR are materially the same as the FRR in draft form previously considered by the Bills Committee.

19. The changes to the Commodities Trading (Accounts and Audit) Rules are mainly changes of a minor nature to reflect changes in the FRR where no consultation is considered to be necessary.

## **FINANCIAL AND STAFFING IMPLICATIONS**

20. There are no financial and staffing implications for the Government.

## **COMMENCEMENT DATE**

21. The commencement date for the FRR and the Commodities Trading (Accounts and Audit) (Amendment) Rules 2000 will be on 12 June 2000. This date is set to coincide with the commencement date of the Securities (Margin Financing) (Amendment) Ordinance 2000, which is now proposed to be 12 June 2000.

22. The above notwithstanding, a 6-month grace period will be given to existing securities dealers providing securities margin financing for the purpose of complying with the following requirements, including related notification and reporting requirements:

- (a) minimum capital requirement of \$10 million;
- (b) concentration discounting factor as applied to individual or related collateral received from margin clients; and
- (c) concentrated risk adjustments arising from individual or related margin accounts.

## **PUBLICITY**

23. Both the FRR and Commodities Trading (Accounts and Audit) (Amendment) Rules 2000 will be published in the Gazette on 20 April 2000. SFC has started to conduct the necessary activity to publicize the FRR to registrants.

## **ENQUIRIES**

24. For any enquiries on this brief, please contact Mrs Yvonne Mok at 2842 7638 in the Intermediaries and Investment Products Division or Ms Helen H.Y. Lee at 2840 9246 in the Legal Services Division.

The Securities and Futures Commission  
18 April 2000

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# COMMODITIES TRADING (ACCOUNTS AND AUDIT) (AMENDMENT) RULES 2000

(Made by the Securities and Futures Commission under  
section 109 of the Commodities Trading  
Ordinance (Cap. 250))

## 1. Commencement

These Rules shall come into operation on 12 June 2000.

## 2. Interpretation

Section 2 of the Commodities Trading (Accounts and Audit) Rules (Cap. 250 sub. leg.)  
is amended -

- (a) by repealing the definitions of "adjusted net admissible assets" and "clearing house";
- (b) by adding -
  - ""futures or options clearing house" (期貨或期權結算所) has the same meaning as in the Financial Resources rules (L.N. of 2000);
  - "liquid capital" (速動資金) has the same meaning as in the Financial Resources Rules (L.N. of 2000)."

**3. Forms of profit and loss account and balance sheet**

Section 3(2) is amended by repealing "adjusted net admissible assets" and substituting "liquid capital".

**4. Auditor's report**

Section 4(b) (v) is amended by repealing "adjusted net admissible assets" and substituting "liquid capital".

**5. Schedule amended**

Form 2 of the Schedule is amended by repealing "clearing houses" wherever it appears and substituting "futures or options clearing houses".

Chairman,  
Securities and Futures Commission

12/4/2000

**Explanatory Note**

These Rules amend the Commodities Trading (Accounts and Audit) Rules (Cap. 250 sub. leg.) to reflect changes made in the new Financial Resources Rules (L.N. of 2000) which introduce a new set of liquid capital requirements to replace the adjusted net admissible assets requirements for commodities dealers.



# FINANCIAL RESOURCES RULES

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# FINANCIAL RESOURCES RULES

(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)

## PART I

### PRELIMINARY

#### 1. Commencement

Subject to section 38, these Rules shall come into operation on 12 June 2000.

#### 2. Interpretation

In these Rules, unless the context otherwise requires -

"adviser" (顧問) means an investment adviser or an investment advisers' partnership

registered under the Securities Ordinance (Cap. 333) or a commodity trading adviser registered under the Commodities Trading Ordinance (Cap. 250);

"amount of margin required to be deposited" (規定保證金額) means the sum of money or other forms of security required to be deposited as margin upon opening a position or for maintaining an existing position in a futures contract or an options contract, including all subsequent or maintenance margin deposits required from time to time until the futures or options position is closed out, calculated as the highest amongst -

- (a) the prevailing amount stipulated by the exchange company operating the relevant market in which the futures or options contract is traded;
- (b) the prevailing amount stipulated by the clearing house who registers such trade;

- (c) the prevailing amount stipulated by the agent who executes such trade for the dealer;
- (d) the prevailing amount stipulated by the counterparty who executes such trade with the dealer; and
- (e) the prevailing amount stipulated by the dealer;

"approved bank formed or established outside Hong Kong" (核准境外成立銀行) means -

- (a) a bank (other than a merchant bank or an investment bank) incorporated or established by or under the law or other authority of any jurisdiction outside Hong Kong, including its branches and wholly owned banking subsidiaries (but excluding any merchant banking or investment banking subsidiaries), which is approved by the Commission for the purposes of these Rules, whether or not such approval is subject to conditions; or
- (b) a prescribed bank formed or established outside Hong Kong;

"approved redeemable shares" (核准可贖回股份) means shares in the share capital of a corporation which is a dealer or securities margin financier which are redeemable at the option of the holder of the shares or that of the corporation, and which are approved by the Commission for the purposes of these Rules, whether or not such approval is subject to conditions;

"approved securities borrowing and lending counterparty" (核准證券借貸對手方) for the purposes of these Rules, means -

- (a) the Hong Kong Securities Clearing Company Limited; or
- (b) a person whose activities or objects include the provision of services for the interposition of itself as counterparty to both sides of a securities borrowing

and lending arrangement, including administering the security deposited in connection therewith and registration and settlement thereof, who is approved by the Commission for the purpose of exempting the dealer who is engaged in securities borrowing and lending with this person from complying with financial adjustments in relation to such securities borrowing and lending which will otherwise be required by these Rules, whether or not such approval is subject to conditions;

"approved stand-by subordinated loan facility" (核准備用後償貸款融通) means a loan facility provided to a dealer or securities margin financier for drawdown, which is approved by the Commission for the purposes of these Rules, whether or not such approval is subject to conditions, and under which the lender's claim in respect of any drawdown by the borrower shall be subordinated to the prior payment, or provision for payment, in full of all claims of all other present and future creditors of the borrower;

"approved subordinated loan" (核准後償貸款) means a loan provided to a dealer or securities margin financier which is approved by the Commission for the purposes of these Rules, whether or not such approval is subject to conditions, and under which the lender's claim is subordinated to the prior payment, or provision for payment, in full of all claims of all other present and future creditors of the borrower;

"authorized institution" (認可機構) has the meaning assigned to it by section 2(1) of the Securities Ordinance (Cap. 333), and, for the purposes of these Rules -

- (a) in the case of a licensed bank, includes its branches and wholly-owned banking subsidiaries but excludes any merchant banking or investment banking subsidiaries; and
- (b) in the case of a restricted licence bank or deposit taking company, is restricted to its Hong Kong office or branch;

"business day" (營業日) has the meaning assigned to it by section 2(1) of the Securities Ordinance (Cap. 333);

"capital account" (資本帳) for the purposes of these Rules, means the amount of capital injected into the business of a sole proprietor or a partnership;

"collateral" (抵押品) for the purposes of these Rules, means -

- (a) securities which are deposited as security by a dealer or securities margin financier with another person and such securities are of a type described in section 15;
- (b) securities of a type described in section 15 deposited as security by a person with a dealer and such securities are -
  - (i) unencumbered, in the possession or control of the dealer and readily realizable by him; or
  - (ii) in case the dealer is a securities dealer, encumbered only by being lent, deposited or pledged by him in accordance with the requirements of the Securities Ordinance (Cap. 333); or
  - (iii) in case the dealer is a futures dealer, encumbered only by being deposited by him

with another futures dealer, a futures or options clearing house or its clearing member or clearing participant in the ordinary course of trading in futures or options contracts;

- (c) securities of a type described in section 15 deposited as security by a person with a securities margin financier and such securities are -
  - (i) unencumbered, in the possession or control of the financier and readily realizable by him; or
  - (ii) encumbered only by being deposited or pledged by him in accordance with the requirements of the Securities Ordinance (Cap. 333);

"collateralised warrants" (有抵押權證) are derivative warrants listed on the Unified

Exchange and where the issuer owns all of the underlying securities or other assets to which the collateralised warrants relate and grants a charge over such securities or assets in favour of an independent trustee which acts for the benefit of the warrant holders;

"common clients" (共同客戶) for the purposes of these Rules, means clients of a securities dealer who are also clients of a securities margin financier and whose dealings in securities through that dealer are settled by that securities margin financier on their behalf;

"concentration discounting factor" (集中折扣系數) of a security which is received by a dealer or a securities margin financier from margin clients as collateral, means -



- (a) in case that security is listed shares issued by a corporation which is the issuer of a constituent stock of the Hang Seng Index or any related securities of such stock, the lower of -
  - (i) 1; and
  - (ii) the factor derived by dividing 20% of the total market value of all collateral received from all margin clients by the total market value of that security and all related securities of that security which are so received as collateral;
- (b) to the extent not already covered in paragraph (a) above, in case that security is listed shares issued by a corporation which is the issuer of a constituent stock of the Hang Seng 100 Index or any related securities of such stock, the lower of -
  - (i) 1; and
  - (ii) the factor derived by dividing 15% of the total market value of all collateral received from all margin clients by the total market value of that security and all related securities of that security which are so received as collateral;
- (c) to the extent not already covered in paragraph (a) or (b) above, in case that security is listed shares issued by a corporation which is not the issuer of a constituent stock of the Hang Seng 100 Index or any related securities of such shares, the lower of -
  - (i) 1; and

- (ii) the factor derived by dividing 10% of the total market value of all collateral received from all margin clients by the total market value of that security and all related securities of that security which are so received as collateral;

"corporation" (法團) has the meaning assigned to it by section 2(1) of the Securities Ordinance (Cap. 333);

"dealer" (交易商) means a securities dealer or a futures dealer;

"FIBV" (國際證交所聯會) means Fédération Internationale Des Bourses De Valeurs;

"financial accommodation" (財務通融) has the meaning assigned to it by section 2(1) of the Securities Ordinance (Cap. 333);

"foreign currency" (外幣) in relation to a dealer or securities margin financier, means any currency other than -

- (a) the currency used, or intended to be used, by him in his annual accounts; and
- (b) any currency which has an exchange rate which is linked to the currency referred to in paragraph (a);

"foreign exchange agreement" (外匯協議) means an agreement, other than a currency futures contract and a currency options contract, whereby 2 parties agree to exchange different currencies at a future time;

"free delivery" (信用交付) means -

- (a) a delivery of securities which takes place irrespective of whether the seller has received payment; or
- (b) a payment made in settlement of a liability arising from a sale of securities on behalf of a client, or a purchase of securities from a client or a counterparty,

irrespective of whether the securities so sold or purchased have been delivered;

"futures dealer" (期貨交易商) means a dealer registered under the Commodities Trading Ordinance (Cap. 250);

"futures non-clearing dealer" (期貨非結算交易商) means an exchange participant of the Commodity Exchange who is not a clearing participant of the HKFE Clearing Corporation Limited;

"futures or options clearing house" (期貨或期權結算所) means a person whose activities or objects include the provision of services for the registration, clearing and settlement of futures or options contracts traded on a futures or options market specified in Schedule 6 or, where applicable, the Unified Exchange or a stock market specified in Part I of Schedule 5 and for the central administration of the margin requirements of such contracts;

"group of related margin clients" (一組關連保證金客戶) for the purposes of these Rules, means any two or more margin clients of a dealer or a securities margin financier -

- (a) of whom one is the spouse of another margin client;
- (b) of whom one is in control, either alone or with his spouse, of 35% or more of the voting rights of that other margin client or each of those other margin clients; or
- (c) which are members of the same group of companies;

"haircut amount" (扣減數額) in relation to any securities or other investments, means an amount equals to the haircut percentage multiplied by the market value of such securities or other investments;

"haircut percentage" (扣減百分率) in relation to any securities or other investments, means the applicable percentage as specified in Schedule 1, 2 or 3;

"initial margin requirement" (規定開倉保證金) means the sum of money or other forms of security required to be deposited as margin upon opening a position in a futures or options contract, calculated for the purposes of these Rules as the highest amongst -

- (a) the prevailing amount stipulated by the exchange company operating the relevant market in which the futures or options contract is traded;
- (b) the prevailing amount stipulated by the clearing house who registers such trade;
- (c) the prevailing amount stipulated by the agent who executes such trade for the dealer;
- (d) the prevailing amount stipulated by the counterparty who executes such trade with the dealer; and
- (e) the prevailing amount stipulated by the dealer;

"interest rate swap agreement" (掉期息率協議) means an agreement whereby 2 parties agree to exchange a series of interest payments over time;

"in-the-money amount" (價內值) means -

- (a) in the case of a call stock option, the number of shares underlying the option multiplied by the amount by which the market price of the underlying share exceeds the strike price of the option;
- (b) in the case of a put stock option, the number of shares underlying the option multiplied by the amount by which the strike price of the option exceeds the market price of the underlying share;

- (c) in the case of a call warrant on shares, the number of shares underlying the warrant multiplied by the amount by which the market price of the underlying share exceeds the exercise price of the warrant;
- (d) in relation to a call option on other asset, the amount by which the market value of the asset underlying the option exceeds the value of such asset stated at the strike price of the option; or
- (e) in relation to a put option on other asset, the amount by which the value of the asset underlying the option stated at the strike price of the option exceeds the market value of such asset;

"introducing broker" (介紹經紀) means a dealer who has satisfied the Commission that -

- (a) he, in respect of the business for which he is registered, conducts no business other than -
  - (i) receiving from another person offers to effect dealings in securities or tradings in futures or options contracts and communicating the same in the name of such person to exchange participants of the Unified Exchange, or members or exchange participants of a stock market specified in Schedule 5 or a futures or options market specified in Schedule 6; or
  - (ii) introducing another person to exchange participants of the Unified Exchange, or members or exchange participants of a stock market specified in Schedule 5 or a futures

or options market specified in Schedule 6, in order that such person may -

- (A) effect dealings in securities;
- (B) make offers to acquire or dispose of securities;
- (C) trade in futures or options contracts; or
- (D) make offers to trade in futures or options contracts;

(b) he does not handle clients' assets; and

(c) in connection with the offers or person so introduced he incurs no legal liability to any party save for his own negligence, wilful default or fraud;

"liquid assets" (速動資産) means such assets as are prescribed as liquid assets by Part III;

"liquid capital" (速動資金) means the amount by which liquid assets exceeds ranking liabilities;

"liquid capital deficiency" (速動資金短欠數額) means the amount by which required liquid capital exceeds liquid capital;

"margin client" (保證金客戶) means -

(a) in relation to a securities dealer, a client -

- (i) on whose behalf the dealer acquires securities; and
- (ii) to whom the dealer provides financial accommodation in order to facilitate the acquisition of securities, and where applicable, the continued holding of those securities by that client, whether or not those securities, cash, bank guarantee or

any other types of security are provided as security for such financial accommodation; or

- (b) a client of a securities margin financier;

"margined account" (以保證金形式操作的帳戶) for the purposes of section 5(5)(e)(iii),

means -

- (a) a margin account;
- (b) a short selling account;
- (c) a futures trading account;
- (d) an options trading account;
- (e) a securities borrowing and lending account; and
- (f) an account held for the purpose of effecting repurchase transactions;

"net tangible assets" (有形資產淨值) in relation to an adviser, means -

- (a) in the case of a sole proprietorship or a partnership, its total assets less its total liabilities (but excluding approved subordinated loans obtained by it); or
- (b) in the case of a corporation, the sum of its shareholders' funds and approved subordinated loans obtained by it,

excluding, in each case, intangible assets such as goodwill, copyrights, patents and licences;

"net underwriting commitment" (包銷承擔淨額) means the total costs of subscribing for or purchasing securities underwritten or sub-underwritten by a dealer other than securities which are sub-underwritten or subscribed for in writing through or from that dealer by another person;

"non-collateralised warrants" (非抵押權證) are derivative warrants listed on the Unified

Exchange and where the performance of the obligations of the issuer is secured in a form other than by way of a charge over the underlying securities or assets;

"note issuance facility" (票據發行融通) means an arrangement whereby a borrower is able to issue short-term notes which a guarantor undertakes to purchase if unsold;

"OECD countries" (經合組織國家) means countries belonging to the Organisation for Economic Co-operation and Development;

"other investments" (其他投資項目) for the purposes of these Rules, means the items set out under the heading "Other investments" in Schedule 3;

"other securities" (其他證券) for the purposes of these Rules, means the items set out under the heading "Other securities" in Schedule 3;

"out-of-the-money amount" (價外值) means -

- (a) in the case of a call stock option, the number of shares underlying the option multiplied by the amount by which the strike price of the option exceeds the market price of the underlying share;
- (b) in the case of a put stock option, the number of shares underlying the option multiplied by the amount by which the market price of the underlying share exceeds the strike price of the option; or
- (c) in the case of a call warrant on shares, the number of shares underlying the warrant multiplied by the amount by which the exercise price of the warrant exceeds the market price of the underlying share;



"prescribed bank formed or established outside Hong Kong" (訂明境外成立銀行) for the

purposes of these Rules, means a bank (other than a merchant bank or an investment bank) incorporated or established by or under the law or other authority of any OECD country or of Singapore, including its branches and wholly-owned banking subsidiaries but excluding any merchant banking or investment banking subsidiaries;

"qualifying debt securities" (合資格債務證券) means debenture stock, loan stock, debentures, bonds, notes and any securities or instruments acknowledging, evidencing or creating indebtedness -

- (a) which are issued or guaranteed by the central government or central bank of the People's Republic of China;
- (b) which are issued or guaranteed by the Government of the Hong Kong Special Administrative Region;
- (c) which are issued or guaranteed by the Hong Kong Exchange Fund;
- (d) which are issued by the Hong Kong Mortgage Corporation;
- (e) which are listed on the Unified Exchange;
- (f) the issuer of which has an issue or issues currently rated by Moody's Investors Service at either Baa or Prime-3 or above, or by Standard & Poor's Corporation at either BBB or A-3 or above;
- (g) the guarantor of which has an issue or issues currently rated by Moody's Investors Service at either A or Prime-2 or above, or by Standard & Poor's Corporation at either A or A-2 or above;

- (h) the issuer of which has an issue or issues currently rated at or above a specified grade by a credit rating agency approved by the Commission; or
- (i) the guarantor of which has an issue or issues currently rated at or above a specified grade by a credit rating agency approved by the Commission,

but does not include special debt securities, IOUs and securities or instruments acknowledging, evidencing or creating subordinated debts or debts due from a company within a group of companies of which the holder of the securities or instruments is a member;

"ranking liabilities" (認可負債) means such liabilities and financial adjustments as are prescribed as ranking liabilities by Part IV;

"related securities" (關連證券) means -

- (a) in relation to a class of listed shares issued by a corporation -
  - (i) listed warrants on such shares;
  - (ii) other classes of listed shares issued by that corporation;
  - (iii) listed shares issued by a corporation which holds, directly or indirectly, 30% or more of the equity of that first-mentioned corporation;
  - (iv) listed shares issued by a corporation where 30% or more of the equity of that corporation is held, directly or indirectly, by that first-mentioned corporation; or

- (v) securities which are considered as related securities of the listed shares mentioned in subparagraph (ii), (iii) or (iv), except that a constituent stock of the Hang Seng Index does not form a related security of another constituent stock of the Hang Seng Index;
- (b) in relation to a description of listed warrants on a class of listed shares issued by a corporation -
  - (i) such shares; or
  - (ii) securities which are considered as related securities of such shares;

"repurchase transaction" (回購交易) means a sale of securities whereby the seller is obliged to repurchase from the buyer, or the buyer is obliged to resell to the seller, securities of the same description, at a pre-determined price and date;

"required liquid capital" (規定速動資金) means the amount of liquid capital required by section 6 to be maintained by a dealer or securities margin financier;

"securities borrowing and lending" (證券借貸) means any transaction whereby a person borrows or lends securities pursuant to any arrangement where the borrower undertakes to return securities of the same description to the lender and includes the meaning of "stock borrowing" (證券借用) as defined in section 19(16) of the Stamp Duty Ordinance (Cap. 117);

"securities dealer" (證券交易商) means a dealer or a dealing partnership registered under the Securities Ordinance (Cap. 333);

"securities margin financier" (證券保證金融資人) means a securities margin financier registered under the Securities Ordinance (Cap. 333);

"securities margin financing" (證券保證金融資) has the meaning assigned to it by section 2(1) of the Securities Ordinance (Cap. 333);

"settlement date" (交收日期) in relation to any dealing in securities, means -

- (a) in the case of transactions on any stock market, the date on which payment for the securities is first due in accordance with the rules of the stock market;
- (b) in any other case, the date on which payment for the securities is first due as agreed between the parties to the transaction,

but in any case, not exceeding 20 business days after the trade date;

"short selling" (賣空) for the purposes of these Rules, means a sale of securities where at the time of the sale -

- (a) the seller does not have a presently exercisable and unconditional right to vest the securities in the purchaser of them; or
- (b) the seller has a presently exercisable and unconditional right to vest the securities in the purchaser of them by virtue of having entered into an arrangement with another person and under that arrangement the seller is obliged to deliver at a future date to that person a quantity of securities that relates to the sale or an equivalent amount of money or money's worth;

"special debt securities" (特別債務證券) means indexed bonds, convertible debt securities, bonds with non-detachable warrants and non-interest bearing debt securities -

- (a) which are issued or guaranteed by the central government or central bank of the People's Republic of China;
- (b) which are issued or guaranteed by the Government of the Hong Kong Special Administrative Region;
- (c) which are issued or guaranteed by the Hong Kong Exchange Fund;
- (d) which are issued by the Hong Kong Mortgage Corporation;
- (e) which are listed on the Unified Exchange;
- (f) the issuer of which has an issue or issues currently rated by Moody's Investors Service at either Baa or Prime-3 or above, or by Standard & Poor's Corporation at either BBB or A-3 or above;
- (g) the guarantor of which has an issue or issues currently rated by Moody's Investors Service at either A or Prime-2 or above, or by Standard & Poor's Corporation at either A or A-2 or above;
- (h) the issuer of which has an issue or issues currently rated at or above a specified grade by a credit rating agency approved by the Commission;  
or
- (i) the guarantor of which has an issue or issues currently rated at or above a specified grade by a credit rating agency approved by the Commission,

but does not include IOUs and securities or instruments acknowledging, evidencing or creating subordinated debts or debts due from a company within a group of companies of which the holder of the securities or instruments is a member;

"stock futures" (股票期貨) means a contract the effect of which is that -

- (a) one party agrees to deliver to the other party at an agreed future time an agreed quantity of a specific share at an agreed price; or
- (b) two parties will make an adjustment between them at an agreed future time according to whether at that time an agreed quantity of a specific share is worth more or less than a value agreed at the time of making of the contract,

and such contract is traded on a futures or options market listed in Schedule 6 or, where applicable, the Unified Exchange or a stock market listed in Part I of Schedule 5;

"stock option" (股票期權) means a contract the effect of which is that one party agrees to provide to the other party the right to purchase or sell at an agreed price an agreed quantity of a specific share on or before an agreed future time and such contract is traded on the Unified Exchange, a stock market listed in Part I of Schedule 5, or, where applicable, a futures or options market listed in Schedule 6;

"subsidiary" (附屬公司) has the meaning assigned to it by section 2 of the Companies Ordinance (Cap. 32);

"total liabilities" (負債總額) for the purpose of computing the required liquid capital of a dealer or securities margin financier, means all of his on balance sheet liabilities, calculated in accordance with sections 4 and 5, including provisions but excluding -

- (a) amounts payable to clients for -
  - (i) clients' money held by that dealer or securities margin financier in a designated trust account or a segregated account in accordance with the Securities Ordinance

(Cap. 333) and the Commodities Trading Ordinance (Cap. 250);

- (ii) balances held in a segregated client account with a futures or options clearing house;
- (iii) balances held with a futures dealer, whether registered in Hong Kong or elsewhere, or a clearing member or clearing participant of a futures or options clearing house as margin in relation to futures or options contracts traded on behalf of clients; and

(b) approved subordinated loans;

"trader" (買賣商) means a dealer who does not handle clients' orders or assets and who, in respect of the business for which he is registered, conducts no business other than effecting, or offering to effect, dealings in securities or tradings in futures or options contracts for his own account.

### **3. Application**

(1) Subject to subsection (2), all registered persons shall comply with these Rules.

(2) These Rules shall not apply to an individual who is registered as a registered person only because he is a director, a partner or an employee of another registered person.

(3) Where any of these Rules is expressed to provide for net tangible assets, liquid assets or ranking liabilities of a registered person which is not a corporation, or to refer to the total liabilities or capital account of such a registered person, that provision shall be construed as -

- (a) providing for net tangible assets, liquid assets or ranking liabilities; or

(b) referring to total liabilities or capital account, as the case may be, of the registered person in the business for which he is registered and any other business carried on by him under the same name as appears in the certificate of registration issued by the Commission under the Securities Ordinance (Cap. 333) or the Commodities Trading Ordinance (Cap. 250).

#### **4. Accounting treatment**

(1) For the purposes of these Rules, a registered person shall calculate all assets and liabilities in accordance with generally accepted accounting principles unless otherwise specified.

(2) For the purposes of these Rules, a registered person shall account for all assets and liabilities in such a way that recognizes the substance of a transaction, an arrangement or a position, including in the case of a structured bond, the registered person shall account for it as a derivative product and not as a debt security.

(3) For the purposes of these Rules, a registered person shall ensure that his accounting policies are in accordance with this section and seek the Commission's approval before adopting a different accounting policy.

#### **5. Computation basis**

(1) For the purposes of calculating total liabilities, liquid assets and ranking liabilities of a dealer or securities margin financier -

- (a) all assets and liabilities arising from dealing in securities, trading in futures or options contracts or the provision of securities margin financing shall be accounted for on a trade date basis, or in the case of off-exchange transactions, on the date when he enters



into agreement with the counterparty of the transaction;

- (b) balance of securities or collateral shall include securities receivable from and exclude securities deliverable to a clearing house or securities dealer (who is either registered in Hong Kong or registered or authorized by a regulatory body outside Hong Kong) in respect of purchases or sales of securities which are not yet due for settlement according to their settlement date.

(2) All investments, trading positions and collateral held by a dealer or securities margin financier, whether traded on an exchange or otherwise, shall be revalued at market value for the purposes of calculation of liquid assets, ranking liabilities and total liabilities under these Rules, save that -

- (a) debt securities, in the absence of a market price, shall be valued at -
  - (i) the average of quotations obtained from at least 2 market makers;
  - (ii) in case of long position and the quotations in subparagraph (i) are not available, nil value;
  - (iii) in case of short position and the quotations in subparagraph (i) are not available, face value of the debt securities;
- (b) long positions in securities which have been suspended from trading for 3 or more business days shall be stated at nil value; and

- (c) short positions in securities which have been suspended from trading for 3 or more business days shall be stated at the last closing price before the suspension,

unless otherwise stipulated by these Rules.

(3) Where a dealer enters into a pair of transactions which have identical or similar terms except that the respective roles of the dealer in those transactions are opposite, such transactions shall be accounted for as separate transactions for the purposes of calculating total liabilities, liquid assets and ranking liabilities of the dealer.

(4) For the purposes of calculating total liabilities, liquid assets and ranking liabilities of a dealer which is a sole proprietorship or a partnership, amounts receivable from, or payable to, an individual operating the sole proprietorship or a partner of the partnership which arise from dealing in securities, trading in futures or options contracts, or the provision of securities margin financing, shall be treated as amounts receivable from, or payable to, third party clients and shall be subject to the same deductions or financial adjustments as are required by these Rules to be applied thereto.

(5) Unless otherwise provided in these Rules, all assets and liabilities of a dealer or securities margin financier shall be treated separately on a gross basis and shall not be set off with each other for the purposes of calculating total liabilities, liquid assets and ranking liabilities except -

- (a) balances held with the Hong Kong Securities Clearing Company Limited and which can be set off for settlement purpose under its rules;

- (b) balances held with the SEHK Options Clearing House Limited and which can be set off for settlement purpose under its rules;
- (c) balances held with the HKFE Clearing Corporation Limited and which can be set off for settlement purpose under its rules;
- (d) amounts receivable and payable which do not arise from dealing in securities, trading in futures or options contracts, or the provision of securities margin financing, and such amounts are receivable from and payable to the same person, and the dealer or securities margin financier is entitled to set off these amounts under a legally enforceable right to set off;
- (e) amounts receivable from and payable to the same client which arise from -
  - (i) dealings in securities which are due to be settled on a cash-against-delivery basis and which relate to the same securities and the dealer is authorized by the client to set off amounts arising from these transactions;
  - (ii) the provision of securities margin financing to that client by the dealer or securities margin financier; or
  - (iii) transactions in different margined accounts maintained by that client with the dealer or securities margin financier, and the dealer or securities margin financier is authorized by the client to set off amounts arising from these transactions; in which case the dealer

or securities margin financier shall not set off the amounts but can apply any surplus cash, collateral and, where applicable, bank guarantee in any of that client's margined accounts, after effecting all appropriate deductions and financial adjustments in respect of that account, to reduce the financial adjustments or deductions from liquid assets which would otherwise arise in respect of another margined account of that client;

- (f) in the case of a dealer and the dealer is a securities dealer, amounts receivable from and payable to a securities margin financier by the dealer arising from dealings in securities by their common clients; or
- (g) in the case of a securities margin financier, amounts receivable from and payable to a securities dealer by the financier arising from dealings in securities by their common clients.

(6) A dealer shall, immediately upon the exercise of any option purchased or written by him on his own account, include in his liquid assets and ranking liabilities all liquid assets and ranking liabilities arising from such exercise as if the transaction were a purchase or sale of the underlying assets, as the case may be.

(7) A dealer shall, immediately upon the exercise of any option purchased, written or cleared by him on behalf of another person, include in his liquid assets and ranking liabilities all liquid assets and ranking liabilities arising from such exercise as if the

transaction were a purchase or sale of the underlying assets, as the case may be, on behalf of that other person.

(8) For the purposes of these Rules, any assignment of amounts receivable by a dealer or securities margin financier from, and of collateral or any other types of security provided by, clients shall be disregarded.

(9) Where a dealer borrows securities in a securities borrowing and lending for the purpose of short selling on his own account, to the extent that the number of shares borrowed matches the number of shares short sold by the dealer, sections 24(2) and (3) and 26(1) shall not apply to these transactions and he shall include in his ranking liabilities the higher of -

- (a) the financial adjustment that would otherwise arise under section 24(2) and (3) if not for this subsection; or
- (b) the financial adjustment that would otherwise arise under section 26(1) if not for this subsection.

(10) Where a dealer beneficially owns shares and issues call non-collateralised warrants on the same shares, to the extent that the number of the shares owned matches the number of shares underlying the call non-collateralised warrants issued by him which are outstanding, sections 15(a) and 24(1) shall not apply to those shares and warrants and he shall include those shares in his liquid assets at the lower of -

- (a) the market value less the applicable haircut amount; or
- (b) the number of those shares multiplied by the exercise price of the warrants.

(11) Where a dealer beneficially owns shares which are charged for the purpose of issuing call collateralised warrants on those shares, sections 15(a) and 24(1) to (3) shall not apply to those shares and warrants and he shall include those shares in his liquid assets at the lower of -

- (a) the market value less the applicable haircut amount; or
- (b) the number of those shares multiplied by the exercise price of the warrants.

(12) Subsections (13) to (23) shall not apply to stock futures or stock options contracts which have been grouped with other positions for the purpose of calculating a net amount of margin required to be deposited.

(13) Where a dealer beneficially owns shares and writes a call stock option on the same shares, whether or not those shares are deposited with a futures or options clearing house or its clearing member or clearing participant to cover the option, to the extent that the number of shares underlying the call stock option matches the number of the shares owned by the dealer, sections 15(a) and 22(3) and (4) shall not apply to those shares and the option and he shall include those shares in his liquid assets at the lower of -

- (a) the market value less the applicable haircut amount; or
- (b) the number of those shares multiplied by the strike price of the call stock option.

(14) Where a dealer beneficially owns shares and holds a short position in stock futures contracts in respect of the same shares, to the extent that the number of shares underlying the stock futures position matches the number of shares owned by the dealer, sections

15(a) and 22(4) shall not apply to those shares and the futures contracts and he shall include those shares in his liquid assets at market value.

(15) Where a dealer beneficially owns shares and holds a put stock option in respect of the same shares and such put stock option has been paid for in full and is therefore not subject to a margin requirement, to the extent that the number of shares underlying the put stock option matches the number of shares owned by the dealer, he may elect (there is no obligation to inform the Commission of any such election) not to apply sections 15(a) and 16(e) to those shares and the option, in which event he shall include those shares in his liquid assets at the higher of -

- (a) the market value less the applicable haircut amount; or
- (b) the number of those shares multiplied by the strike price of the put stock option.

(16) Where a dealer borrows shares for the purpose of depositing the same to cover a call stock option written by him, to the extent that the number of shares underlying the call stock option matches the number of shares so borrowed, he may elect (there is no obligation to inform the Commission of any such election) not to apply sections 22(3) and (4) and 26(1) to the option and the securities borrowing and lending, in which case he shall include in his ranking liabilities the in-the-money amount of the call stock option, plus the higher of -

- (a) the applicable haircut amount of those shares as if they were beneficially owned by him; or
- (b) the financial adjustment that would otherwise arise under section 26(1) if not for this subsection.

(17) Where a dealer sells shares short and holds a long position in stock futures contracts in respect of the same shares, to the extent that the number of shares underlying the stock futures position matches the number of shares sold short by him, sections 22(4) and 24(2) and (3) shall not apply to the short selling and stock futures contracts.

(18) Where a dealer sells shares short and writes a put stock option in respect of the same shares, to the extent that the number of shares underlying the put stock option matches the number of shares sold short by him, sections 22(3) and (4) and 24(2) and (3) shall not apply to the put stock option and the short selling and he shall include in his ranking liabilities the higher of -

- (a) the financial adjustment that would otherwise arise under section 24(2) and (3) if not for this subsection; or
- (b) the in-the-money amount of the put stock option.

(19) Where a dealer sells shares short and holds a call stock option in respect of the same shares, and such stock option has been paid in full and is not therefore subject to a margin requirement, to the extent that the number of shares underlying the call stock option matches the number of shares sold short, he may elect (there is no obligation to inform the Commission of any such election) not to apply sections 16(e) and 24(1), (2) and (3) to the call stock option and the short selling, in which event he shall include in his ranking liabilities the lower of -

- (a) the sum of the market value of the shares sold short and the financial adjustment that would otherwise arise under section 24(2) and (3) if not for this subsection; or



- (b) the number of shares short sold multiplied by the strike price of the call stock option.

(20) Where a dealer holds a long position in stock futures contracts and writes a call stock option in respect of the same underlying shares, to the extent that the numbers of shares underlying the 2 positions match each other, section 22(3) and (4) shall not apply to the call stock option and stock futures contracts and he shall include in his ranking liabilities the higher of -

- (a) the in-the-money amount of the call stock option; or
- (b) the amount of margin required to be deposited in respect of the stock futures contracts.

(21) Where a dealer holds a long position in stock futures contracts, and holds a put stock option in respect of the same underlying shares, and such put stock option has been paid for in full and is not therefore subject to a margin requirement, to the extent that the numbers of shares underlying the 2 positions match each other, sections 16(e) and 22(4) shall not apply to the put stock option and the stock futures contracts and he shall include in his liquid assets the market value of the put stock option, provided that where the put stock option is out-of-the-money, he shall also include in his ranking liabilities the lower of -

- (a) the out-of-the-money amount of the put stock option; or
- (b) the amount of margin required to be deposited in respect of the stock futures contracts.

(22) Where a dealer holds a short position in stock futures contracts, and holds a call stock option in respect of the same underlying shares, and such call stock option has been paid for in full and is not therefore subject to a margin requirement, to the extent

that the numbers of shares underlying the 2 positions match each other, sections 16(e) and 22(4) shall not apply to the call stock option and the stock futures contracts and he shall include in his liquid assets the market value of the call stock option, provided that where the call stock option is out-of-the-money, he shall also include in his ranking liabilities the lower of -

- (a) the out-of-the-money amount of the call stock option; or
- (b) the amount of margin required to be deposited in respect of the stock futures contracts.

(23) Where a dealer holds a short position in stock futures contracts, and writes a put stock option in respect of the same underlying shares, to the extent that the numbers of shares underlying the 2 positions match each other, section 22(3) and (4) shall not apply to the put stock option and the stock futures contracts and he shall include in his ranking liabilities the higher of -

- (a) the in-the-money amount of the put stock option; or
- (b) the amount of margin required to be deposited in respect of the stock futures contracts.

(24) Where a dealer lends securities in a securities borrowing and lending, he is considered for the purposes of these Rules -

- (a) to remain the owner of the securities lent; and
- (b) not to be the owner of any collateral or cash provided to him as security by the borrower of the securities and shall not include the same in his liquid assets.

(25) Where a dealer borrows securities in a securities borrowing and lending, he is considered for the purposes of these Rules -

- (a) to remain the owner of any collateral or cash provided by him as security to the lender of the securities; and

- (b) not to be the owner of the securities borrowed and shall not include the same in his liquid assets.

(26) Where a dealer is in the first instance the seller of securities in a repurchase transaction, he is considered for the purposes of these Rules -

- (a) to remain the owner of the securities sold; and
- (b) to be liable to the buyer of the securities for an amount equals to the price at which he sold those securities.

(27) Where a dealer is in the first instance the buyer of securities in a repurchase transaction, he is considered for the purposes of these Rules -

- (a) to be the beneficiary of an amount receivable from the seller of those securities in the amount of the price at which he purchased those securities; and
- (b) not to be the owner of those securities purchased.

## PART II

### FINANCIAL RESOURCES REQUIREMENTS

#### **6. Liquid capital requirement for dealers and securities margin financiers**

(1) Subject to section 7, a dealer (other than a futures non-clearing dealer, an introducing broker and a trader) or securities margin financier shall have and at all times maintain in the business for which he is registered, liquid capital of no less than his required liquid capital, namely the higher of -

- (a) \$3,000,000;
- (b) an amount which is equal to 5% of the aggregate of -
  - (i) his total liabilities;

- (ii) the initial margin requirement in respect of open positions in futures or options contracts held by him on behalf of clients; and
- (iii) the amount of margin required to be deposited in respect of open positions in futures or options contracts held by him on behalf of clients to the extent that those futures or options contracts have not been subject to the initial margin requirement described in subparagraph (ii).

(2) Subject to section 7, a futures non-clearing dealer, an introducing broker or a trader shall have and at all times maintain in the business for which he is registered, liquid capital of no less than his required liquid capital, namely the higher of -

- (a) \$500,000;
- (b) an amount which is equal to 5% of his total liabilities, or in the case of a futures non-clearing dealer, 5% of the aggregate of -
  - (i) his total liabilities;
  - (ii) the initial margin requirement in respect of open positions in futures or options contracts held by him on behalf of clients; and
  - (iii) the amount of margin required to be deposited in respect of open positions in futures or options contracts held by him on behalf of clients to the extent that those futures or options contracts have not been subject to

the initial margin requirement described in subparagraph (ii).

## **7. Compliance with liquid capital requirement**

A dealer or securities margin financier is considered to have maintained in the business for which he is registered, liquid capital of no less than his required liquid capital where he has an approved stand-by subordinated loan facility sufficient to meet his liquid capital deficiency which would otherwise arise, provided that such deficiency -

- (a) is caused by an increase in the required liquid capital by 20% or more compared to the required liquid capital at the close of business on the previous business day due to -
  - (i) in the case of a securities dealer, an increase in gross value of dealings in securities on behalf of clients or aggregate margin loans granted to margin clients;
  - (ii) in the case of a futures dealer, an increase in open positions in futures or options contracts held on behalf of clients;
  - (iii) in the case of a securities margin financier, an increase in aggregate margin loans granted to margin clients; and
- (b) does not occur during any 5 business days over any 2 consecutive months.

## **8. Net tangible assets requirement for advisers**

An adviser shall have and at all times maintain in the business for which he is registered net tangible assets of not less than

\$500,000.

**9. Capital requirement for dealers**

(1) A dealer (other than a futures non-clearing dealer, an introducing broker and a trader) which is a corporation shall have and at all times maintain paid up share capital of -

- (a) in the case where it provides securities margin financing, not less than \$10,000,000; or
- (b) where paragraph (a) does not apply, not less than \$5,000,000.

(2) A dealer (other than a futures non-clearing dealer, an introducing broker and a trader) which is a sole proprietorship shall have and at all times maintain a capital account of -

- (a) in the case where it provides securities margin financing, not less than \$10,000,000; or
- (b) where paragraph (a) does not apply, not less than \$5,000,000.

(3) A dealer (other than a futures non-clearing dealer, an introducing broker and a trader) which is a partnership shall have and at all times maintain an aggregate of partners' capital accounts of -

- (a) in the case where it provides securities margin financing, not less than \$10,000,000; or
- (b) where paragraph (a) does not apply, not less than \$5,000,000.

**10. Capital requirement for securities margin financiers**

A securities margin financier shall have and at all times maintain paid up capital of not less than \$10,000,000.

PART III  
LIQUID ASSETS

**11. Calculation of liquid assets**

(1) Subject to subsections (2) to (4) and section 5, the assets described in, and calculated in accordance with, sections 12 to 18 which are held by a dealer or a securities margin financier constitute his liquid assets for the purposes of these Rules.

(2) In the event that a dealer or a securities margin financier operates a branch outside Hong Kong, and he is required to maintain at all times certain assets in order to obtain or maintain the necessary licence, registration or membership for that branch, such assets shall not be included in his liquid assets.

(3) Any assets beneficially owned by a dealer or securities margin financier which are provided to others as security for any liabilities or obligations shall not be included as his liquid assets except where such assets are provided -

- (a) as security to a dealer, an authorized institution or an approved bank formed or established outside Hong Kong, as the case may be, for credit facilities provided to the dealer or securities margin financier;
- (b) as security in a securities borrowing and lending in which the dealer is the borrower of securities;
- (c) as margin deposited in respect of short selling by the dealer;
- (d) as margin deposited in respect of trading in futures or options contracts by the dealer;
- (e) to obtain a bank guarantee for the purpose of participating in the Fidelity Fund established under the Rules of the Unified Exchange by the dealer;

- (f) as security to, or as security to obtain a bank guarantee in favour of, the Hong Kong Securities Clearing Company Limited for the purpose of meeting all the obligations of the dealer under its Rules (except those related to the Guarantee Fund);
- (g) as security to, or as security to obtain a bank guarantee in favour of, the SEHK Options Clearing House Limited for the purpose of meeting all the obligations of the dealer under its Rules (except those related to the Reserve Fund); or
- (h) as security to, or as security to obtain a bank guarantee in favour of, the HKFE Clearing Corporation Limited for the purpose of meeting all the obligations of the dealer under its Rules (except those related to the Reserve Fund).

(4) All assets held in a currency that is subject to exchange control, or the proceeds of which upon realization or liquidation are not freely remittable to Hong Kong, shall be excluded from liquid assets unless the dealer or securities margin financier reasonably believes that remittance approval can be obtained within 1 week of application for approval to make such remittance to Hong Kong.

## **12. Cash in hand and at bank**

The following items shall be included in the liquid assets of a dealer or securities margin financier provided he is the beneficial owner thereof and holds them directly in his own name -

- (a) cash in hand;
- (b) money which is held on account with an authorized institution or an approved bank formed or established outside Hong Kong, as follows -



- (i) demand deposits;
- (ii) time deposits which will mature in 6 months or less;
- (iii) accrued interest on time deposits maturing in 3 months or less.

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

(1) A dealer shall include in his liquid assets amounts receivable from clients arising from dealings in securities which are settled on a cash-against-delivery basis and the amounts receivable have been outstanding for not more than 5 business days after the settlement date.

(2) In respect of amounts receivable from clients arising from dealings in securities which are settled on a cash-against-delivery basis, and the amounts receivable have been outstanding for 6 or more business days but less than 1 month after the settlement date, a dealer shall include in his liquid assets, calculated on a transaction-by-transaction basis, the lower of -

- (a) the amounts receivable less any provision made for bad or doubtful debts; and
- (b) the market value of the securities purchased by or on behalf of the respective clients.

(3) In respect of amounts receivable from clients arising from dealings in securities which are settled on a free delivery basis, a dealer shall include in his liquid assets the following amounts, calculated on a transaction-by-transaction basis -

- (a) where the local clearing system settles only on a free

delivery basis, amounts receivable which have been outstanding for not more than 2 weeks after the settlement date; or

- (b) in all other cases, amounts receivable which are not yet due for settlement in accordance with the rules or regulations of the stock market in which the securities are traded.

(4) A dealer or a securities margin financier shall include in his liquid assets amount receivable from a margin client arising from the provision of securities margin financing, less the higher of -

- (a) any provision for bad or doubtful debts; and
- (b) the margin shortfall amount, calculated as the amount by which the amount receivable exceeds the aggregate of -
  - (i) the market value of collateral provided by the client less the applicable haircut amount and multiplied by the applicable concentration discounting factor;
  - (ii) the amount of cash deposited as security by the client; and
  - (iii) in the case of a dealer, the maximum amount that can be drawn by him under a bank guarantee which is provided by the client to him and which is issued by an authorized institution or an approved bank formed or established outside Hong Kong.

(5) In calculating the margin shortfall under subsection (4) (b), the dealer or securities margin financier may elect to exclude, for all margin clients and on a client by client basis, from the amounts

receivable amounts attributable to dealings in securities which are not yet due for settlement according to their settlement date, and in which case section 5(1) (b) shall not apply to the calculation of the balance of collateral provided by clients.

(6) If a dealer or a securities margin financier elects to calculate margin shortfall in accordance with subsection (5), he is not allowed to change his election except with the prior approval of the Commission.

(7) Amounts receivable from a securities margin financier, other than amounts included in liquid assets under subsection (8), shall be included in the liquid assets of a dealer at the lower of -

- (a) the amounts receivable less any provision made for bad or doubtful debts; and
- (b) the aggregate of -
  - (i) the amount of cash deposited as security by the securities margin financier;
  - (ii) the market value of any collateral provided by the securities margin financier less the applicable haircut amount; and
  - (iii) the maximum amount that can be drawn by him under a bank guarantee issued by an authorized institution or an approved bank formed or established outside Hong Kong and provided by the securities margin financier.

(8) A dealer shall include in his liquid assets net amount receivable from a securities margin financier arising from dealing in securities by their common clients, to the extent that such amount represents receivables from dealings which are not yet due for settlement according to their settlement date.

(9) Where a dealer subscribes for securities on behalf of clients, he shall include in his liquid assets, calculated on a transaction-by-transaction basis, the lower of -

- (a) 90% of the total costs of subscribing for the securities; and
- (b) the amounts receivable from the respective clients in respect of such subscription for securities.

**14. Amounts receivable from counterparties, etc. arising from dealings in securities or the provision of securities margin financing**

(1) Where a dealer or securities margin financier sells securities on a cash-against-delivery basis to another dealer, whether that other dealer is registered in Hong Kong or registered or authorized by a regulatory body outside Hong Kong, he shall include in his liquid assets the following amounts receivable from that other dealer arising from such sales of securities -

- (a) amount receivable which has been outstanding for not more than 2 weeks after the settlement date; and
- (b) amount receivable which has been outstanding for more than 2 weeks but less than 1 month after the settlement date, at the lower of -
  - (i) the amount receivable, calculated on a transaction-by-transaction basis, less any provision made for bad or doubtful debts; and
  - (ii) the market value of the securities sold to that other dealer.

(2) Where a dealer or securities margin financier sells securities on a free delivery basis to another dealer, whether that other dealer is registered in Hong Kong or registered or authorized

by a regulatory body outside Hong Kong, he shall include in his liquid assets the following amounts receivable from that other dealer arising from such sales of securities, calculated on a transaction-by-transaction basis -

- (a) where the local clearing system only settles on a free delivery basis, those amounts receivable which have been outstanding for not more than 2 weeks after the settlement date; and
- (b) in all other cases, those amounts receivable which are not yet due for settlement in accordance with the rules or regulations of the stock market in which the securities are traded.

(3) A dealer shall include in his liquid assets amounts receivable from, and cash deposited with, the Hong Kong Securities Clearing Company Limited, other than admission fees paid to it and contributions towards its Guarantee Fund.

(4) A dealer shall include in his liquid assets amounts receivable from, and cash deposited with Euroclear or Centrale de Livraison de Valeurs Mobilieres (Cedel), other than, where applicable, admission fees paid to it and cash deposited as security against the dealer's general obligations.

(5) A securities margin financier shall include in his liquid assets net amount receivable from a dealer, whether that dealer is registered in Hong Kong or registered or authorized by a regulatory body outside Hong Kong, arising from dealings in securities by their common clients through that dealer to the extent that such amount represents receivables arising from dealings which are not yet due for settlement according to their settlement date.

(6) A dealer shall include in his liquid assets cash provided as security to another dealer (whether that other dealer is registered in Hong Kong or registered or authorized by a regulatory body outside Hong Kong), to the Unified Exchange or a stock market specified in Part I of Schedule 5, or to a clearing house of such stock market or a clearing member or clearing participant of such clearing house, and any interest accrued thereon, in respect of short selling of securities by the dealer, whether on his own account or on behalf of his client, provided that the dealer has not yet delivered the securities to the counterparty for settlement.

**15. House positions - securities and other investments**

The following items shall be included in the liquid assets of a dealer or securities margin financier provided he is the beneficial owner thereof -

- (a) subject to section 5(10), (11), (13), (14) and (15), shares specified in Schedule 1 at market value less the applicable haircut amounts calculated by reference to the haircut percentages specified in either Part I or II, as he elects (there is no obligation to inform the Commission of any such election), and Part III, of Schedule 1;
- (b) the full amount of dividends receivable on shares listed on the Unified Exchange or a stock market specified in Schedule 5, provided such shares are traded on an ex-dividend basis;
- (c) qualifying debt securities at market value less the applicable haircut amounts;
- (d) special debt securities at market value less the

applicable haircut amounts;

- (e) interest accrued on qualifying or special debt securities provided that such debt securities are traded on an ex-interest basis;
- (f) an amount paid in respect of subscription for shares specified in Schedule 1, warrants specified in Schedule 3, qualifying debt securities or special debt securities by a dealer on his own account less such amounts multiplied by 50% of the haircut percentages applicable to the shares, warrants, qualifying debt securities or special debt securities which are so subscribed for;
- (g) other securities at market value less the applicable haircut amounts; and
- (h) other investments at market value less the applicable haircut amounts.

#### **16. Futures and options trading**

The following items shall be included in the liquid assets of a dealer -

- (a) amounts receivable from, and cash deposited with, the SEHK Options Clearing House Limited other than clients' monies deposited in a designated account maintained with it, admission fees paid to it and contributions towards its Reserve Fund by the dealer;
- (b) amounts receivable from, and cash deposited with, the HKFE Clearing Corporation Limited other than clients' monies deposited in a designated account maintained with it, admission fees paid to it and contributions towards its Reserve Fund by the dealer;

- (c) subject to paragraphs (a) and (b), where a dealer trades in futures or options contracts on his own account or on behalf of his clients, amounts receivable from, and cash deposited with, a futures dealer, futures or options clearing house or any of its clearing members or clearing participants in the ordinary course of trading in futures or options contracts, other than, where applicable, admission fees paid to it and cash deposited as security against the dealer's general obligations;
- (d) amounts receivable from a client in relation to a purchase of an option traded on the Unified Exchange, a stock market listed in Part I of Schedule 5 or a futures or options market listed in Schedule 6, calculated on a transaction-by-transaction basis, which have been outstanding for not more than 5 business days from the day of that purchase; and
- (e) subject to section 5(15), (19), (21) and (22), where a dealer purchases on his own account options traded on a futures or options market specified in Schedule 6 or, where applicable, the Unified Exchange or a stock market specified in Part I of Schedule 5 -
  - (i) in case such options are included in the calculation of a net amount of margin required to be deposited in respect of the options and any other futures or options positions, any net credit balance arising from that calculation that is maintained with a futures dealer, futures or options



clearing house or any of its clearing members or clearing participants provided it has not already been included in liquid assets under paragraph (a), (b) or (c);  
or

- (ii) in any other case, 60% of the market value of such options.

**17. Securities borrowing and lending and repurchase transactions**

(1) Where a dealer is the borrower of securities in a securities borrowing and lending, the amount receivable from the lender of such securities upon the dealer returning securities of the same description to the lender, comprising the cash provided by the dealer as security to the lender of such securities shall be included in his liquid assets provided the amount of such cash has not already been included in his liquid assets.

(2) Where a dealer is in the first instance the buyer of securities in a repurchase transaction, an amount receivable from the seller of those securities in the amount of the price at which he purchased those securities shall be included in his liquid assets.

**18. Miscellaneous**

The following items shall be included in the liquid assets of a dealer or securities margin financier provided that he is the beneficial owner thereof and holds them directly in his own name -

- (a) fees, commissions, commission rebates and interest charges which have accrued and will be first due for billing within 3 months and fees, commissions, commission rebates and interest charges which have been billed and have been outstanding for not more than 2

weeks after their billing date, provided that they arise from dealing in securities, trading in futures or options contracts, providing of securities margin financing, engaging in securities borrowing and lending, or the rendering of investment advice or commodity trading advice;

- (b) transfer deed stamps;
- (c) deposits paid to the Unified Exchange in accordance with the provisions of the Stamp Duty Ordinance (Cap. 117);
- (d) prepaid operating expenses where such expenses will be incurred within 3 months;
- (e) tax reserve certificates issued in accordance with the Tax Reserve Certificates Ordinance (Cap. 289); and
- (f) where a dealer or securities margin financier is a party to an interest rate swap agreement, interest accrued under the agreement, other than any amount which remains outstanding after it is first due for payment.

#### PART IV

#### RANKING LIABILITIES

##### **19. Calculation of ranking liabilities**

Subject to section 5, all liabilities and financial adjustments (to the extent that the dealer or securities margin financier has not otherwise made provision for such adjustments) of a dealer or securities margin financier described in, and calculated in accordance with, sections 20 to 31, constitute ranking liabilities for the purposes of these Rules.

**20. Dealing in securities**

- (1) A dealer shall include the following amounts in his ranking liabilities -
  - (a) amounts payable to clients arising from dealing in securities, except where they represent amounts payable to clients out of monies held by that dealer in a designated trust account in accordance with the Securities Ordinance (Cap. 333);
  - (b) amounts payable to a securities margin financier arising from sales of securities by their common clients; and
  - (c) amounts payable to counterparties and clearing houses arising from dealing in securities.

(2) Subject to subsection (3), where a dealer sells securities on behalf of a client, and -

- (a) the client has been in default of his obligation to deliver the securities for more than 2 weeks after the settlement date; and
- (b) the dealer has not settled the sale with securities purchased on his own account,

he shall include in his ranking liabilities the amount by which the market value of the securities exceeds the price at which the securities were sold.

- (3) Where a dealer sells securities on behalf of a client, and -
  - (a) the client has been in default of his obligation to deliver the securities for more than 5 business days after the settlement date;
  - (b) the dealer has not settled the sale with securities purchased on his own account; and

- (c) the market value of the securities is more than 200% of the price at which they were sold,

he shall include in his ranking liabilities the amount by which the market value of the securities exceeds the price at which the securities were sold.

## **21. Provision of securities margin financing**

A dealer or securities margin financier shall include the following amounts in his ranking liabilities -

- (a) amounts payable to margin clients except where they represent amounts payable to clients out of monies held by that dealer or securities margin financier in a designated trust account in accordance with the Securities Ordinance (Cap. 333); and
- (b) in the case of securities margin financier, net amount payable to a dealer by him arising from dealings in securities by their common clients through that dealer.

## **22. Futures and options trading**

(1) A dealer shall include the following amounts in his ranking liabilities -

- (a) amounts payable to clients arising from trading in futures or options contracts except where they represent amounts payable to clients out of monies held by that dealer in a designated trust account in accordance with the Securities Ordinance (Cap. 333), a segregated account in accordance with the Commodities Trading Ordinance (Cap. 250) or a designated account maintained by the dealer with the HKFE Clearing

Corporation Limited or the SEHK Options Clearing House Limited; and

- (b) amounts payable to counterparties and clearing houses arising from trading in futures or options contracts.

(2) Subject to subsection (6), where a dealer, on behalf of another person, trades in futures contracts, writes options or clears futures or options contracts, he shall include in his ranking liabilities any amount, to be calculated on an account by account basis, by which the amount of margin required to be deposited with him by that other person, less any floating profits made and add any floating losses incurred by that person, exceeds the aggregate of -

- (a) the amount of cash deposited by that other person as security;
- (b) the market value of collateral deposited with him by that other person less the applicable haircut amounts;
- (c) the market value of other investments deposited with him as security by that other person less the applicable haircut amounts; and
- (d) the maximum amount that can be drawn by the dealer under a bank guarantee which is provided by that person and which is issued by an authorized institution or an approved bank formed or established outside Hong Kong.

(3) Subject to section 5(13), (16), (18), (20) and (23), where a dealer on his own account writes options which are traded on a futures or options market specified in Schedule 6 or, where applicable, the Unified Exchange or a stock market specified in Part I of Schedule 5, he shall include in his ranking liabilities the market value of any such options written by him or part thereof to the extent that such market value or part thereof has not been included in the calculation

of the amount of margin required to be deposited by him in respect of such options positions.

(4) Subject to section 5(13), (14), (16), (17), (18) and (20) to (23), a dealer shall include in his ranking liabilities the amount of margin required to be deposited by him in respect of -

- (a) futures contracts traded on his own account; and
- (b) options purchased or written by him on his own account which are traded on a futures or options market specified in Schedule 6 or, where applicable, the Unified Exchange or a stock market specified in Part I of Schedule 5.

(5) Where a dealer on his own account writes an option which is not traded on a futures or options market specified in Schedule 6, the Unified Exchange or a stock market specified in Part I of Schedule 5, he shall include in his ranking liabilities the highest of -

- (a) twice the market value of the option;
- (b) twice the in-the-money amount of the option; or
- (c) twice the amount of margin required to be deposited by the dealer with the holder of the option or the agent who executes the trade for the dealer,

provided that in the case of a put option, the amount to be included in his ranking liabilities will be limited to the value of the underlying assets stated at the strike price of that option.

(6) No amount shall be included in the ranking liabilities of a dealer under subsection (2) during any period in which he is allowed under the rules, regulations or guidelines of the market in which the futures or options contract is traded to collect from the client margin required to be deposited by him.

### **23. Concentration of margin clients**

A dealer or a securities margin financier shall include in his ranking liabilities the amount by which any amount receivable from a margin client, or aggregated amounts receivable from a group of related margin clients, as calculated and included in liquid assets under section 13(4), exceeds 10% of the aggregate of amounts receivable from all margin clients calculated and included in liquid assets in accordance with that subsection.

**24. Short positions in securities and other investments**

(1) Subject to subsections (2) to (5) and section 5(10), (11) and (19), where a dealer holds on his own account a short position in securities or other investments by short selling or otherwise, he shall include in his ranking liabilities the market value of the short position.

(2) Subject to subsections (3) to (5) and section 5(9), (11), (17), (18) and (19), where a dealer holds a short position in securities or other investments which are of a type described in section 15 on his own account by short selling or otherwise, the amount to be included in his ranking liabilities under subsection (1) shall be increased by the applicable haircut amounts.

(3) Subject to subsections (4) and (5) and section 5(9), (11), (17), (18) and (19), where a dealer holds a short position in securities or other investments on his own account by short selling or otherwise and where -

- (a) they are not of a type described in section 15;
- (b) they constitute more than 5% by market value of all securities, or of any class of securities, issued by a particular corporation; or

- (c) they are shares or warrants which have been suspended from trading for 3 business days or more,

the amount to be included in his ranking liabilities under subsection (1) shall be increased by the market value of the securities or the other investments short sold.

(4) Where a dealer issues call non-collateralised warrants on shares, to the extent that the dealer does not cover such warrants which are outstanding by holding the underlying shares, the amount to be included in his ranking liabilities under subsection (1) shall be increased by the amount by which the haircut amount which would be applicable to the shares underlying such warrants exceeds the aggregate out-of-the-money amounts of such warrants.

(5) Where a dealer issues non-collateralised warrants on any assets other than shares, the amount to be included in his ranking liabilities under subsection (1) shall be increased by 30% of the market value of the assets which underlie such outstanding warrants.

(6) Subject to subsection (7), where a dealer sells securities short on behalf of a client, he shall include in his ranking liabilities the amount by which the aggregate of the market value of the securities sold short and the applicable haircut amount exceeds the aggregate of -

- (a) the amount of cash deposited by that client or withheld by the dealer as security;
- (b) the maximum amount that can be drawn by the dealer under a bank guarantee which is provided to him by that client and which is issued by an authorized institution or an approved bank formed or established outside Hong Kong; and



- (c) the market value of any collateral deposited with the dealer by that client less the applicable haircut amount.

(7) No financial adjustment shall be made to the ranking liabilities of a dealer under subsection (6) if -

- (a) the client has delivered the securities to him; or
- (b) the securities that were sold short are not yet due for settlement.

## **25. Concentrated house positions**

Where the net market value of a description of securities or other investments or a group of related securities held by a dealer or securities margin financier on his own account, calculated by netting item by item the long and the short positions in such securities, other investments or securities forming that group of related securities, equals or exceeds 25% of his required liquid capital, he shall include in his ranking liabilities such net market value multiplied by the percentage of net market value specified in Table A below -

TABLE A

Percentage of net market value in required liquid capital be included in ranking liabilities	Percentage of net market value to be included in ranking liabilities
25% to 50%	5%
Over 50%	10%

## **26. Securities borrowing and lending and repurchase transactions**

(1) Subject to section 5(9) and (16), where a dealer is the borrower of securities in a securities borrowing and lending (except

where the lender is an approved securities borrowing and lending counterparty) or is the buyer of securities in a repurchase transaction, he shall include in his ranking liabilities the amount by which the amount of cash plus the market value of collateral provided by the dealer to the lender of the securities, less the applicable haircut amount; or the amount receivable from the seller of securities which is included in his liquid assets under section 17(2), as the case may be, exceeds -

- (a) where the securities borrowed or repurchased are -
  - (i) shares listed on the Unified Exchange or a stock market listed in Part I of Schedule 5; or
  - (ii) qualifying or special debt securities, 110% of their market value; or
- (b) in any other case, 50% of the market value of the securities borrowed or repurchased.

(2) Subject to subsection (3), where a dealer is the lender of securities in a securities borrowing and lending (except where the borrower is an approved securities borrowing and lending counterparty) or is the seller of securities in a repurchase transaction, he shall include in his ranking liabilities the amount by which the market value of the securities lent or sold by the dealer, less the applicable haircut amount, exceeds the sum of -

- (a) the maximum amount that can be drawn by the dealer under a bank guarantee which is issued by an authorized institution or an approved bank formed or established outside Hong Kong and provided by the borrower or the buyer;

- (b) the amount of cash deposited by the borrower as security, or the amount of sale proceeds received from the buyer, as the case may be;
- (c) the market value of collateral provided by the borrower or the buyer which is in the form of shares listed on the Unified Exchange or on a stock market listed in Part I of Schedule 5, or qualifying or special debt securities, less the applicable haircut amount; and
- (d) 50% of the market value of collateral, other than those prescribed in paragraph (c), provided by the borrower or the buyer.

(3) Where the securities lent, referred to in subsection (2), are clients' securities which a dealer can apply in a securities borrowing and lending without the provision of adequate collateral, cash deposited or bank guarantees to the client as security, the market value of the securities lent to be included in the calculation of his ranking liabilities under subsection (2) shall be increased by -

- (a) where such securities are of a type referred to in section 15, twice the applicable haircut amount; or
- (b) where such securities are not of a type referred to in section 15, the market value of such securities.

## **27. Introduction of transactions**

Where a dealer introduces transactions to another dealer (whether that other dealer is registered in Hong Kong or registered or authorized by a regulatory body outside Hong Kong) for execution or clearing on behalf of clients and does not account on his balance sheet for amounts receivable or payable arising in respect of those transactions, or subject such amounts receivable or payable to deductions and financial adjustments as provided elsewhere in these Rules, and where such dealer

may be subject to the recourse of the clients or that other dealer, except where there is an express agreement or a clear market practice to the contrary, he shall include in his ranking liabilities -

- (a) in case the transactions introduced are dealings in securities, the aggregate of -
  - (i) the amount of any outstanding claim made by the clients or that other dealer in respect of transactions so introduced; and
  - (ii) 5% of the amount by which \$60,000,000 is exceeded by the sum of the dealer's total liabilities and the total value of the consideration, computed on a gross basis, of transactions so introduced (but other than transactions in respect of which a claim has been made under subparagraph (i)) which has not been fully settled by the clients or that other dealer;
- (b) in case the transactions introduced are trading in futures or options contracts, the aggregate of -
  - (i) the amount of any outstanding claim made by the clients or that other dealer in respect of transactions so introduced; and
  - (ii) 5% of the amount by which \$60,000,000 is exceeded by the sum of the dealer's total liabilities and the aggregate of the amounts of margin required to be deposited in respect of the futures or options transactions so introduced (other than transactions in respect of which a claim has been made under

subparagraph (i)) which have not been closed out by the clients.

## **28. Underwriting and sub-underwriting commitments**

(1) Subject to subsections (2) and (3), where a dealer underwrites or sub-underwrites an issue or a sale of securities, he shall include in his ranking liabilities -

- (a) in the case of a rights issue -
  - (i) if the market value of the securities is less than or equal to their subscription price, the aggregate of -
    - (A) 50% of the applicable haircut percentage multiplied by the net underwriting commitment; and
    - (B) the amount by which the net underwriting commitment exceeds the market value of the securities; or
  - (ii) if the market value of the securities is greater than their subscription price, 5% of the applicable haircut percentage multiplied by the net underwriting commitment; or
- (b) in other cases, 50% of the applicable haircut percentage multiplied by the net underwriting commitment.

(2) A dealer is considered to have taken up an underwriting or a sub-underwriting commitment when -

- (a) he has committed himself to underwrite or sub-underwrite the securities; or

- (b) the lead underwriter, or co-lead underwriter, has signed the underwriting agreement with the issuer,

whichever is the later.

(3) A dealer is not required to make any financial adjustments in respect of an underwriting or a sub-underwriting commitment on the day it is taken up and on the subsequent business day.

## **29. Off-exchange products**

(1) A dealer shall include floating losses in relation to positions in off-exchange derivative products in his ranking liabilities and where the dealer has entered into a bilateral netting agreement with the counterparty with whom he maintains these positions, the amount of floating losses so included shall be reduced by any floating profits in relation to positions in other off-exchange derivative products maintained with that counterparty provided that all the above-mentioned positions are covered by that netting agreement.

(2) Where a dealer or securities margin financier is a party to an interest rate swap agreement, he shall include in his ranking liabilities the notional principal amount on which any interest payment by him under the agreement is calculated multiplied by the applicable percentage specified in Part I of Schedule 4.

(3) Where a dealer or securities margin financier is a party to a foreign exchange agreement, he shall include in his ranking liabilities the amount of currency to be delivered by him under the agreement multiplied by the applicable percentage specified in Part II of Schedule 4.

## **30. Other liabilities**

(1) Subject to subsection (2), a dealer or a securities margin financier shall include all other liabilities in his ranking liabilities, including -

- (a) overdrafts and loans from authorized institutions or banks formed or established outside Hong Kong and interest accrued thereon;
- (b) accrued expenses;
- (c) the amount by which any tax payable exceeds prepaid tax, provided that such tax is of the same kind and levied by the same taxation authority;
- (d) other tax payable;
- (e) where a dealer is in the first instance the seller of securities in a repurchase transaction, an amount which he is deemed to be liable to the buyer under section 5(26); and
- (f) provisions made for contingent liabilities and floating losses for trading positions held for his own account which have not been included in ranking liabilities under other sections of this Part.

(2) The following liabilities of a dealer or securities margin financier shall not be included in his ranking liabilities -

- (a) any liability that is not required to be settled within 12 months and is secured by a first legal charge on real estate property beneficially owned by him which is used in the business for which he is registered, to the extent of the net realizable value of such property; and
- (b) any approved subordinated loan.

### **31. Miscellaneous financial adjustments**

- (1) A dealer or securities margin financier shall include in his ranking liabilities -
- (a) 10% of the amount of any guarantee, indemnity or any other similar financial commitment provided by him, directly or indirectly (including the pledging of assets for the purpose of obtaining a bank guarantee), other than the following -
    - (i) any guarantee provided to the Hong Kong Securities Clearing Company Limited for the purpose of meeting his obligations under its Rules (except those related to the Guarantee Fund);
    - (ii) any guarantee provided to the SEHK Options Clearing House Limited for the purpose of meeting his obligations under its Rules (except those related to the Reserve Fund);
    - (iii) any guarantee provided to the HKFE Clearing Corporation Limited for the purpose of meeting his obligations under its Rules (except those related to the Reserve Fund); or
    - (iv) any guarantee, indemnity or financial commitment provided in respect of his own liabilities and obligations;
  - (b) any amount by which the total liabilities of any subsidiary of the dealer (if the dealer is a corporation) or the securities margin financier, other than any amounts due from the subsidiary to the dealer



- or the securities margin financier, exceed the assets of that subsidiary;
- (c) the consideration at which redeemable shares other than any approved redeemable shares have been issued by him but not redeemed;
- (d) subject to subsection (2), 5% of the difference between -
- (i) the aggregate of the value of assets held by the dealer or securities margin financier which are denominated in a foreign currency and the amount of the same foreign currency which he is obliged to purchase under any foreign exchange agreement; and
  - (ii) the aggregate of his liabilities which are denominated in that foreign currency and the amount of that foreign currency which he is obliged to sell under any foreign exchange agreement;
- (e) where a dealer is a guarantor to a note issuance facility, the total costs of purchasing short-term notes which he undertakes to purchase if unsold, multiplied by the percentage specified in Table B below -

TABLE B

	Remaining term of the note issuance facility	Percentage
Less than 1 year		1%

1 year to less than 5 years	2.5%
5 years or more	5%

(2) A dealer or securities margin financier may elect (there is no obligation to inform the Commission of any such election) to exclude the value of any assets which are not included in his liquid assets in computing the aggregate of the value of assets as required for the purpose of subsection (1) (d) (i).

## PART V

### RETURNS AND NOTIFICATIONS TO COMMISSION

#### **32. Registered persons to notify Commission of changes in accounting policies**

(1) Subject to subsection (2), where a registered person alters any of his accounting policies and the alteration may have a material effect on his liquid capital, required liquid capital or net tangible assets, as the case may be, he shall notify the Commission in writing in advance of the alteration and of the reasons for the alteration.

(2) Subsection (1) does not apply to any alteration of accounting policies made pursuant to a requirement of the Statements of Standard Accounting Practice issued by the Council of the Hong Kong Society of Accountants.

#### **33. Dealers or securities margin financiers to notify Commission of changes in circumstances**

(1) A dealer or securities margin financier shall immediately notify the Commission in writing whenever -

- (a) his liquid capital, at the date of first obtaining his registration, is below 120% of his required liquid

- capital, or subsequently falls below 120% of his required liquid capital;
- (b) his liquid capital falls below his required liquid capital;
  - (c) his liquid capital would have fallen below his required liquid capital if not for the approved stand-by subordinated loan facility;
  - (d) his paid up share capital or capital account (in case of a dealer which is a sole proprietorship or partnership) falls below the amount he is required to have and maintain under section 9 or 10, as the case may be;
  - (e) his liquid capital falls below 50% of the amount of liquid capital stated in his latest return lodged with the Commission;
  - (f) the information stated in any of his previous returns lodged with the Commission has become misleading in a material respect;
  - (g) aggregate amounts drawn down on bank loans, advances or other credit facilities exceed the total limits of such facilities;
  - (h) he has been or will be unable to meet in whole or in part calls or demands for payment or repayment, as the case may be, from any of his lenders or credit providers for 3 consecutive business days; or
  - (i) any of his lenders or credit providers has exercised, or has informed him that it will exercise, its right to liquidate security provided by the dealer or securities margin financier in order to reduce the

outstanding loan, advance or other credit facility balance, and shall specify in such notification the reasons for the change in the circumstances and details of the steps which he is taking, or has taken, to remedy or prevent a liquid capital deficiency or to improve his liquidity.

(2) Where a securities dealer who provides securities margin financing or a securities margin financier has reason to believe that a financial adjustment is to be, or has been, made under section 23, or that the concentration discounting factor of any stock or warrant received from his margin clients as collateral falls below 1, he shall immediately notify the Commission in writing.

(3) Where a dealer or securities margin financier has, prior to the enactment of these Rules, taken on or entered into any off-balance sheet exposure which is not captured by Part IV or any position in off exchange derivative product which is not captured by Part IV save for section 29(1), he shall immediately notify the Commission in writing of the details of such exposure and position.

(4) Where a dealer or securities margin financier intends to take on or enter into any off-balance sheet exposure which is not captured by Part IV or any position in off exchange derivative product which is not captured by Part IV save for section 29(1), he shall notify the Commission in writing of the details of the intended exposure or position at least 10 business days in advance of his taking on or entering into such exposure or position.

(5) Where a dealer or securities margin financier becomes aware of any of the following, he shall immediately notify the Commission in writing -

- (a) the aggregate of the maximum amounts that can be drawn against him under guarantees, indemnities and other similar financial commitments provided by him, where -
  - (i) the aggregate amount exceeds \$5,000,000; or
  - (ii) the deduction of the aggregate amount from his liquid capital will cause it to fall below 120% of his required liquid capital;
- (b) the total outstanding claims made in writing by or against him where -
  - (i) the total amounts claimed or disputed exceed or are likely to exceed \$5,000,000; or
  - (ii) the deduction of the total amounts claimed or disputed against him from his liquid capital will cause it to fall below 120% of his required capital;
- (c) any claim made by him against any professional indemnity or any other insurance policy required under the provisions of the Securities Ordinance (Cap. 333), or rules or regulations of an exchange or clearing house to which he is subject; or
- (d) any financial commitment, including a guarantee, provided for or on behalf of the dealer by another member of the same group of companies as the dealer in favour of an exchange or clearing house.

**34. Advisers to notify Commission of changes in circumstances**

An adviser shall immediately notify the Commission in writing whenever his net tangible assets fall below \$500,000 together with the

reasons for the change in the circumstances and details of the steps which he is taking, or has taken, to rectify the deficiency.

**35. Dealers or securities margin financiers to lodge monthly returns**

(1) A dealer or a securities margin financier shall in respect of the end of each calendar month prepare, and cause to be lodged with the Commission not later than 3 weeks after the end of the calendar month, the following returns -

- (a) a liquid capital computation containing the particulars set out in Schedule 7 and, in addition, such further schedules as may be required by the Commission from time to time;
- (b) a summary of bank loans, advances and other credit facilities available to him, containing the particulars set out in Schedule 8;
- (c) an analysis of margin clients, containing the particulars set out in Schedule 9;
- (d) an analysis of collateral received from margin clients, containing the particulars set out in Schedule 10;
- (e) a profit and loss account, containing the particulars set out in Schedule 11;
- (f) an analysis of client assets, containing the particulars set out in Schedule 12; and
- (g) a report on his proprietary derivative positions containing the particulars set out in Schedule 13,

or, where a nil return would be made or an analysis would not be applicable, a statement to that effect.

(2) The returns referred to in subsection (1) may be submitted on a floppy disk or other electronic medium as may be prescribed by the Commission by notice in writing from time to time.

**36. Registered persons to provide information**

Registered persons shall respond, within the time and in the manner specified therein, to a request for information made in writing by the Commission from time to time. Such request may be issued to selected registered persons, a specific class of registered persons or all registered persons, where the Commission considers that the provision of the information requested may assist in assessing the financial resources of registered persons.

PART VI  
MISCELLANEOUS

**37. Publication of approvals**

(1) Where the Commission approves, whether or not such approval is subject to conditions, any bank formed or established outside Hong Kong, credit rating agency or securities borrowing and lending counterparty, it shall cause to be published notice thereof in the Gazette at such time and in such manner as it thinks fit.

(2) Where the Commission grants approval to a credit rating agency pursuant to subsection (1), it may at any time specify the appropriate tier in Table 1, Part I of Schedule 2 into which debt securities rated at or above a specified grade by such credit rating agency shall fall.

(3) The Commission may at any time revoke or amend an approval referred to in subsection (1), and where it revokes or amends any such

approval, it shall cause to be published notice thereof in the Gazette at such time and in such manner as it thinks fit.

(4) The Commission may at any time, as it thinks fit, revoke, amend or supplement any condition attached to an approval referred to in subsection (1).

### **38. Transitional**

- (1) Notwithstanding the commencement provision in section 1 -
- (a) section 9(1) (a), (2) (a) and (3) (a);
  - (b) section 13(4) (b) (i) (in relation to "and multiplied by the applicable concentration discounting factor" only);
  - (c) section 23;
  - (d) section 33(2);
  - (e) section 35(1) (d); and
  - (f) Note 2 to Table 2 of Schedule 9,

of the Rules shall not apply to securities dealers registered with the Commission immediately before 13 June 2000.

- (2) Subsection (1) shall expire on 12 December 2000.

### **39. Repeal**

The Financial Resources Rules (Cap. 24 sub. leg.) are repealed.



SCHEDULE 1  
HAIRCUT PERCENTAGES FOR SHARES

PART I

HK, US, UK AND JAPANESE SHARES (WITH DIFFERENTIATION)

Item	Description	Haircut %
1.	Shares which are listed on the Unified Exchange	
(a)	being a constituent of the Hang Seng Index	15
(b)	being a constituent of the Hang Seng 100 Index	20
(c)	being any other share	30
2.	Shares which are listed on a stock market in the US, UK or Japan	
(a)	being a constituent of the FTSE-100 Index, Nikkei 500 Index or Standard & Poor's 500 Index	15
(b)	being any other share	20

PART II

HK, US, UK AND JAPANESE SHARES (WITHOUT DIFFERENTIATION)

Item	Description	Haircut %
1.	Shares which are listed on the Unified Exchange	30
2.	Shares which are listed on a stock market in the US, UK or Japan <sup>*</sup>	20

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\* Being a stock market specified in Schedule 5

PART III  
OTHER SHARES

Item	Description	Haircut %
1.	Shares listed on a stock market specified in Part I of Schedule 5 other than a stock market in the US, UK or Japan	20
2.	Shares listed on a stock market specified in Part II of Schedule 5	30
3.	Shares traded on the National Association of Securities Dealers Automatic Quotations - National Market System, the Japanese Association of Securities Dealers Automated Quotations or Stock Exchange Automated Quotations International (SEAQ International)	30
4.	Shares listed on any other stock market which is a FIBV member	50
5.	All other listed shares	75

SCHEDULE 2

[ss. 2 & 37]

HAIRCUT PERCENTAGES FOR QUALIFYING AND  
SPECIAL DEBT SECURITIES

PART I

HAIRCUT PERCENTAGES FOR QUALIFYING DEBT SECURITIES

A dealer or securities margin financier shall apply to qualifying debt securities the aggregate of the haircut percentages specified in Tables 1 and 2 below -

TABLE 1 - "Issuer"

Tiers	Haircut %
Tier 1	0
where the issuer or guarantor -	
(i) is the central government or central bank in the People's Republic of China;	
(ii) is the Government of the Hong Kong Special Administrative Region;	
(iii) is the Hong Kong Exchange Fund;	
(iv) has an issue or issues currently rated by Moody's Investors Services at Aaa or Prime-1; or	
(v) has an issue or issues currently rated by Standard & Poor's Corporation at AAA or A-1	
Tier 2	2
to the extent not already covered in Tier 1	
(a) in the case where the issuer or guarantor -	
(i) has an issue or issues currently rated by Moody's Investors Services at Aa, A or Prime-2;	
(ii) has an issue or issues currently rated by Standard & Poor's Corporation at AA, A or A-2; or	
(b) in the case where the issuer is the Hong Kong Mortgage Corporation; or	
(c) in the case of debt securities listed on the Unified Exchange	
Tier 3	5
to the extent not already covered in Tier 1 or 2	
in the case where the issuer -	
(i) has an issue or issues currently rated by Moody's Investors Services at Baa or Prime-3; or	
(ii) has an issue or issues currently rated by Standard & Poor's Corporation at BBB or A-3	

TABLE 2 - "Maturity"

		Fixed coupon bonds/ normal floating rate bonds	
	Remaining term to maturity	Haircut %	Any other bonds Haircut %
(a)	less than 6 months	1	1
(b)	6 months to less than 3 years	3	3
(c)	3 years to less than 5 years	4	5
(d)	5 years to less than 10 years	7	10
(e)	10 years or more	10	22

## PART II

## HAIRCUT PERCENTAGES FOR SPECIAL DEBT SECURITIES

A dealer or securities margin financier shall apply the following haircut percentages to special debt securities -

	Description	Haircut %
(a)	indexed bonds	same as that applicable to the underlying assets
(b)	convertible debt securities or bonds with non-detachable warrants -	
	(i) where their market value is more than their par or nominal value	same as that applicable to the underlying securities

- (ii) where their market value is equal to, or less than, their par or nominal value same as would be applicable to the qualifying debt securities with the same issuer and remaining term to maturity
- (c) non-interest bearing debt securities 105% of haircut percentage which would be applicable to the qualifying debt securities of the same issuer and remaining term to maturity

## SCHEDULE 3

[ss. 2 &amp; 15]

## HAIRCUT PERCENTAGES FOR OTHER SECURITIES AND INVESTMENTS

Types of investments	Haircut %
<b>Other securities</b>	
(a) warrants that are listed on the Unified Exchange or on a stock market specified in Part I of Schedule 5	40
(b) units in any unit trust, and shares in any mutual fund corporation, which is authorized under section 15(1) of the Securities Ordinance (Cap. 333) or specified in the Code on Unit Trusts and Mutual Funds published by the Commission -	
(i) warrant funds, futures or options funds or leveraged funds referred to in that Code	40
(ii) other funds	20
<b>Other investments</b>	
(a) gold coin and gold bullion or investments which are specified as investment arrangements under the Protection of Investors (Gold Purchase) Order (Cap. 335 sub. leg.) and are authorized by the Commission under section 4(2) (g) of the Protection of Investors Ordinance (Cap. 335)	10
(b) physical commodities of a quantity, quality and condition suitable for delivery under a futures or options contract traded on a futures or options market specified in Schedule 6	40

SCHEDULE 4

FINANCIAL COMMITMENTS

PART I

INTEREST RATE SWAP AGREEMENTS

	Remaining term to maturity	Percentage
(a)	Less than 3 months	0%
(b)	3 months to less than 1 year	0.05%
(c)	1 year to less than 2 years	0.1%
(d)	Each additional year thereafter	0.1%

PART II

FOREIGN EXCHANGE AGREEMENTS

Item	Counterparty	Percentage
1.	Authorized institution or approved bank formed or established outside Hong Kong, with remaining term to maturity of -	
	(a) less than 3 business days	0%
	(b) 3 business days to less than 1 year	0.2%
	(c) 1 year or more	0.5% plus 0.3% for each additional full year in excess of 1 year, with maximum up to 5%
2.	Other person, with remaining term to maturity of -	
	(a) less than 3 business days	0%
	(b) 3 business days or more	5%

STOCK MARKETS

PART I

American Stock Exchange

Amsterdam Exchanges

Australian Stock Exchange

Brussels Exchanges

Copenhagen Stock Exchange

Eurex

Helsinki Stock Exchange

Italian Stock Exchange

Korea Stock Exchange

London Stock Exchange

Luxembourg Stock Exchange

Madrid Stock Exchange

The Montreal Exchange (Bourse de Montréal)

Nagoya Stock Exchange

New York Stock Exchange

New Zealand Stock Exchange

OM Stockholm Exchange

Osaka Securities Exchange

Oslo Stock Exchange

Paris Bourse

SWX Swiss Exchange

Tokyo Stock Exchange

Toronto Stock Exchange

Wiener Borse

PART II

Kuala Lumpur Stock Exchange  
Philippine Stock Exchange  
Singapore Exchange  
The Stock Exchange of Thailand

SCHEDULE 6

[ss. 2, 16 & 22 &  
Sch. 3]

FUTURES AND OPTIONS MARKETS

Amsterdam Exchanges  
Australian Options Market  
Chicago Board Options Exchange  
Chicago Board of Trade  
Chicago Mercantile Exchange  
Commodity Exchange, Inc. (New York)  
Eurex  
Hong Kong Futures Exchange Limited  
London International Financial Futures Exchange  
London Metal Exchange  
Marche a Terme International de France  
Marche des Options Negociables de Paris  
New York Cotton Exchange, Inc.  
New York Futures Exchange  
New York Mercantile Exchange  
New Zealand Futures and Options Exchange  
OM Stockholm Exchange



Osaka Securities Exchange  
Philadelphia Stock Exchange  
Singapore Exchange  
Stock Exchange of Hong Kong Limited  
Sydney Futures Exchange, Ltd  
Tokyo Grain Exchange  
Tokyo International Financial Futures Exchange  
Tokyo Stock Exchange  
Toronto Futures Exchange

SCHEDULE 7

[s. 35 & Sch. 9]

LIQUID CAPITAL COMPUTATION

SECURITIES AND FUTURES COMMISSION ORDINANCE

(Chapter 24)

FINANCIAL RESOURCES RULES

Liquid Capital Computation for dealers or securities margin financiers

- (1) Name of registrant -----  
CE number ()
- (2) Business name (if different from item (1)) -----
- (3) Reporting date -----
- (4) Status of registrant (tick where appropriate)  
Securities dealer (trading as a sole proprietor) ( )

Securities dealer (trading as a partnership)	( )
Securities dealer (trading as a corporation)	( )
Securities dealer who is a trader	( )
Securities dealer who has satisfied the Commission that he is an introducing broker	( )
Futures dealer	( )
Futures dealer who is a futures non-clearing dealer	( )
Futures dealer who is a trader	( )
Futures dealer who has satisfied the Commission that he is an introducing broker	( )
Securities margin financier	( )

Note: In this form, references to sections/subsections are to sections/subsections of the Financial Resources Rules (L.N. of 2000) made under section 28 of the Securities and Futures Commission Ordinance (Cap. 24), and are made for the purpose of identifying the amounts to be included in the liquid capital computation.

Item	ASSETS	section ref.	Amounts included in	
			Liquid Capital Computation	Balance Sheet
			(HK\$'000)	(HK\$'000)
5	Cash in hand and at bank (Note 1)	12		
6	Amounts receivable from margin clients (Note 2)	13(4)		
7	Amounts receivable from clients for subscription of securities	13(9)		
8	Other amounts receivable from clients arising from dealing in securities	13(1) to (3)		
9	Amounts receivable from securities margin financiers	13(7) and (8)		
10	House positions in securities and other investments	15		
11	House positions in exchange traded options	16(e)		
12	Amounts receivable from clients arising from trading in exchange traded options	16(d)		
13	Amounts receivable from other dealers arising from dealing in securities	14(1), (2) and (5)		
14	Amounts receivable from future dealers, clearing houses/clearing members/clearing participants arising from trading in futures or options contracts	16(c)		
15	– Amounts receivable from	– HKSCC	14(3)	
		– SEOCH	16(a)	
		– HKFECC	16(b)	
		– Euroclear and Cedel	14(4)	
16	Other assets	14(6), 17 and 18		
17	TOTAL LIQUID ASSETS (aggregate of amounts in items 5 to 16)			
18	Fixed assets			
19	TOTAL ASSETS (aggregate of amounts in items 5 to 16 & 18)			

Item	LIABILITIES AND FINANCIAL ADJUSTMENTS	section ref.	Amounts included in	
			Liquid Capital Computation	Balance Sheet
			(HK\$'000)	(HK\$'000)
20	Short position in securities and other investments	24(1)		
21	Amounts payable to clients	20(1) (a), (2) and (3), 21(a) and 22(1) (a)		
22	Amounts payable to dealer arising from provision of securities margin financing	21(b)		
23	Amounts payable to clearing houses - HKSCC - SEOCH - HKFECC - other clearing houses	20(1) (c)		
		22(1) (b)		
		22(1) (b)		
		20(1) (c) and 22(1) (b)		
24	Amounts payable to securities margin financier and other dealers from dealing in securities	20(1) (b) and 20(1) (c)		
25	Amounts payable to other dealers from trading in futures or options contracts	22(1) (b)		
26	Accruals, amounts payable, bank loans & overdrafts and other liabilities other than approved subordinated loans	30(1) (a) to (e)		
27	Provision for contingent liabilities and floating losses	30(1) (f)		
28	Approved subordinated loans	30(2) (b)		
29	Financial adjustments and provisions relating to - short selling of securities on behalf of clients - futures & options contracts - concentration of margin clients - short positions - concentrated house	24(6)		
		22(2) to 5)		
		23		
		24(2) to (5)		
		25		

Item	LIABILITIES AND FINANCIAL ADJUSTMENTS	section ref.	Amounts included in	
			Liquid Capital Computation	Balance Sheet
			(HK\$'000)	(HK\$'000)
	position			
	- securities borrowing and lending and repurchase transactions	26		
	- introduction of transactions	27		
	- underwriting/sub-underwriting commitments	28		
	- off-exchange products	29		
	- guarantee and other financial commitments	31(1) (a)		
	- foreign exchange	31(1) (d)		
	- miscellaneous	31(1) (b) and (e)		
30	TOTAL LIABILITIES (aggregate of amounts in items 20 to 28)			
31	Redeemable shares	31(1) (c)		
32	TOTAL RANKING LIABILITIES (aggregate of amounts in items 20 to 29 & 31)			
33	LIQUID CAPITAL (amount in item 17 less amount in item 32)			
34	REQUIRED LIQUID CAPITAL	6		
35	EXCESS/DEFICIENCY IN LIQUID CAPITAL (amount in item 33 less amount in item 34)			
36	SHAREHOLDERS'/PROPRIETOR'S/PARTNERSHIP'S FUNDS			

Note 1: Cash and bank balance in liquid assets is comprised of :

Bank balances -	
- Encumbered or pledged	\$ _____
- Unencumbered	_____
Cash in hand	_____
Total per item 5	\$ =====

Note 2: Margin shortfall under section 13(4) (b) is calculated on:

(Please tick)

- Trade date basis ( )
- Settlement date basis ( )

I certify that the foregoing information and the information in the following attachments to this computation is true and correct to the best of my knowledge and belief:

(Please tick)

- (a) Credit facility summary ( )
- (b) Margin client analysis ( )
- (c) Analysis of securities collateral ( )
- (d) Profit and loss account ( )
- (e) Analysis of client assets ( )
- (f) Report on proprietary derivative positions ( )

Signature:

Name in block letters:

Capacity: sole proprietor/general partner/dealing director/director who is registered as a dealer/director of securities margin financier who is approved under section 121I of the Securities Ordinance (Cap. 333)/officer or director approved by the Commission\*

Date:

\* Delete where inappropriate.

SCHEDULE 8  
CREDIT FACILITY SUMMARY

Name of financial institution	Credit type and limit	Outstanding balance	Type of security provided	Market value of security provided	Acceptable discounted value of security provided
	(HK\$'000)	(HK\$'000)		(HK\$'000)	(HK\$'000)
Note 1	Note 2		Note 3	Note 4	Note 5
Total					

Note 1: Please report credit facilities obtained from banks or other financial institutions, including securities dealers and money lenders.

Note 2: Indicating the nature of credit facility, credit limit and its maturity date.

Note 3: Where security is not provided by the dealer or the securities margin financier, specifying the name of the provider or its relationship with the dealer or the securities margin financier.

Note 4: Suspended stocks for 3 business days or more to be stated at nil value.

Note 5: Being the amount of credit which the financial institution is prepared to extend against the security provided.





	19												
	20												
Sub-total													
Other													
Total (Note 4)													

- Note 1: Unadjusted loan balance means the loan balance receivable from each margin client after deducting any specific provision for bad or doubtful debts.
- Note 2: The largest 3 stock holdings within the collateral by market value provided by each client.
- Note 3: Please enter the stock code in case of stock listed on the Unified Exchange, or sedol number in case of other stocks.
- Note 4: Total loan balance should equal to balance sheet amount included under item 6 of Liquid Capital Computation.



Note 3: Total should equal to liquid assets included under item 6 of Liquid Capital Computation.



## SCHEDULE 11

[s. 35]

## PROFIT AND LOSS ACCOUNT

	Current month (HK\$'000)	Previous month (HK\$'000)	Year-to-date (HK\$'000)
<b>TURNOVER</b>			
Total value of transactions in securities dealing			
- own account			
- client account			
	_____	_____	_____
	=====	=====	=====
Total number of contract in futures and options trading			
- own account			
- client account			
	_____	_____	_____
	=====	=====	=====
<b>PROFIT AND LOSS ACCOUNT</b>			
Securities dealing:			
Commission income			
Less: Commission paid (Note 1)			
Sub-total (A)			
	_____	_____	_____
Futures and options trading:			
Commission income			
Less: Commission paid (Note 1)			
Sub-total (B)			
	_____	_____	_____
Trading profit and loss			
- in listed securities			
- in futures and options trading			
- in foreign exchange			
- in OTC derivatives trading			
- others (please specify if material)			
Sub-total (C)			
	_____	_____	_____
Other income			
Corporate finance advisory fees			
Fund management fees			
Others (please specify if material)			
Sub-total (D)			
	_____	_____	_____
Total income (A) + (B) + (C) + (D)	_____	_____	_____
Interest income/expense			
Interest income			
Less: Interest expense			
Sub-total			
	_____	_____	_____

Overheads

- Salary and staff benefits
- Office rental and utilities
- Depreciation
- Legal and professional expenses
- Provision for bad & doubtful debts
- Miscellaneous (please specify if material)
- Sub-total


Net profit/(loss)

Note 1: Commission expense includes commission paid to account executives and other dealers.

Note 2: For the purpose of this schedule, income and expense item exceeding 10% of the total revenue should be considered as material.

Note 3: Please analyse client profile as follows:

	No. of active clients*
Securities clients	
- cash clients	
- margin clients	
Futures and option clients	

\* Active clients are clients who have completed at least one transaction during the year.

## SCHEDULE 12

[s. 35]

## ANALYSIS OF CLIENT ASSETS

TABLE 1  
ANALYSIS OF CLIENT SECURITIES

	<b>Market Value (HK\$'000)</b>
<b>Client securities by client type (Note 1)</b>	
Cash client securities	
Margin client securities	
Futures and options clients	
Total client securities	
<b>Disposition of client securities</b>	
Pledged with authorized institutions	
Pledged with securities dealers	
Deposited with SEOCH	
Deposited with other futures or option clearing houses	
Deposited in CCASS designated accounts	
Deposited in safe custody with authorized institutions	
Deposited in safe custody with other securities dealers	
Deposited in other locations for safe custody	
Deposited in other locations for other purpose (Note 2)	
Others	
Total	

Note 1: Client securities are accounted for on: Please tick

- Trade date basis ( )

- Settlement date basis ( )

Note 2: Please specify in the space below the location of the client securities and purpose of the disposition.

TABLE 2  
ANALYSIS OF CLIENT SEGREGATED FUNDS

	(HK\$'000)
<b>Amount payable to clients included in balance sheet per item 21 of Liquid Capital Computation</b>	
Cash clients	
Margin clients	
Futures and options clients	
Total (A)	
<b>Segregated funds</b>	
Trust account maintained in accordance with Securities Ordinance (Cap. 333)	
Segregated account maintained in accordance with Commodities Trading Ordinance (Cap. 250)	
Designated account maintained with HKFECC/SEOCH	
Total (B)	
<b>Client funds not segregated (C) = (A) - (B)</b>	
<b>Amount included in ranking liabilities per item 21 of Liquid Capital Computation (D)</b>	
<b>Difference (C) - (D) (Note 1)</b>	

Note 1: Please explain in the space below the circumstances leading to the difference.



SCHEDULE 13

REPORT ON PROPRIETARY DERIVATIVE POSITIONS

**TABLE 1**  
**PROPRIETARY DERIVATIVE TRADING ACTIVITIES (Note 1)**  
 Notional amounts by underlying exposures as of reporting date  
 (HK\$'000)

Notional amounts (Note 2)	Equity contracts (Note 3)	Interest rate contracts	Foreign exchange contracts (Note 4)	Precious metals contracts	Other commodity contracts	Total
OTC contracts						
Forwards						
Swaps						
Purchased options						
Written options						
Others (please specify)						
Total OTC contracts						
Exchange-traded contracts						
Futures-long positions						
Futures-short positions						
Purchased options						
Written options						
Others (please specify)						
Total exchange-traded contracts						
Total OTC and exchange-traded contracts						

- Note 1:** Please describe the nature of the registered person's proprietary derivative trading activities under each broad category of risk (i.e. equity, interest rate etc.) on a separate sheet of paper. In such description a registered person should provide information to cover, at least, the following issues -
- (i) the nature of different trading strategies and the objectives of the trading positions/portfolios. (For instance, for equities, whether equity derivative trading is related to arbitrage or the hedging of derivative warrants or equity swaps; the types of derivative instruments used and details of other positions involved in the strategies)
  - (ii) the major sources of income derived from the derivative activities. (For instance, trading profits/losses, commissions, other fees etc.)
  - (iii) the future plan for the derivatives business under each broad category of risk.
- Note 2:** Notional amounts are gross notional amounts.
- Note 3:** For the purpose of the Schedule, derivative warrants listed on an exchange are classified as OTC equity options and convertible bonds are classified as OTC equity derivatives.
- Note 4:** This does not include spot foreign exchange contracts. For spot foreign exchange contracts, **please state the contract sum here: HK\$**\_\_\_\_\_ .

**TABLE 2**  
**PROPRIETARY DERIVATIVE TRADING ACTIVITIES**  
**Market values and unrealized values as of reporting date**  
**(HK\$'000)**

Market values (Note 1)	Equity contracts	Interest rate contracts	Foreign exchange contracts (Note 2)	Precious metals contracts	Other commodity contracts	Total
OTC contracts						
(a) Gross positive market value (Note 3)						
(b) Gross negative market value						
Unrealized values	Equity contracts	Interest rate contracts	Foreign exchange contracts	Precious metals contracts	Other commodity contracts	Total
Exchange-traded contracts						
(c) Gross unrealized gains						
(d) Gross unrealized losses						

**Note 1:** The market value of an OTC derivative contract is the amount at which a contract could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. If a quoted market price is not available, the registered person's best estimate of market value could be used, based on the quoted market price of a similar contract or on its valuation techniques (i.e. fair value).

**Note 2:** This does not include spot foreign exchange contracts. For spot foreign exchange contracts, please state the market values here

- Gross positive market value HK\$
- Gross negative market value HK\$

**Note 3:** Gross positive market value represents the loss that a registered person would incur in the event of a counterparty default, as measured by the cost of replacing the contract at current market prices or rates. For instance, for OTC forward and swap contracts, positive market value means the unrealized gain calculated on the valuation date. For OTC options contracts, positive market value is the market price or fair value of the option times the number of **long** options contracts. (This measure does not take into account any reduction in credit exposure that would occur under legally enforceable netting arrangements.)

**TABLE 3**  
**PROPRIETARY DERIVATIVE TRADING ACTIVITIES**

**OTC derivative contracts' notional amounts by time intervals as of reporting date**  
**(HK\$'000)**

Notional amounts by OTC contracts (Note 1)	1 year or less	Over 1 year through 5 years	Over 5 years	Total
(a) Equity contracts				
(b) Interest rate contracts				
(c) Foreign exchange contracts (Note 2)				
(d) Precious metals contracts				
(e) Other commodity contracts				

**Note 1:** The information in this table is based on the remaining maturity of the derivative instrument and notional amounts are gross notional amounts.

**Note 2:** This does not include spot foreign exchange contracts.

**TABLE 4**  
**PROPRIETARY DERIVATIVE TRADING ACTIVITIES**  
**Information on credit quality of OTC derivative contracts as of reporting date**  
**(HK\$'000)**

Counterparty credit quality (Note 1)	Exposure before collateral and guarantees		Collateral	Guarantees	Credit equivalent amount after collateral and guarantees
	Gross positive market value	Current credit exposure (Note 2)			
1					
2					
3					
Total					

**Note 1:** Counterparty credit quality categories are defined as follows -

- a) Category 1 identifies counterparties currently rated AA and above by Standard & Poor's Corporation or equivalent ratings.
- b) Category 2 identifies counterparties currently rated BBB and above and below AA by Standard & Poor's Corporation or equivalent ratings.
- c) Category 3 identifies counterparties currently rated below BBB by Standard & Poor's Corporation or equivalent ratings.

When basing the above categories on ratings, a registered person's equivalent internal credit grade ranking may be used when investment ratings are not available.

**Note 2:** Current credit exposure is the market value of a contract when that value is positive after taking into consideration the effects of applicable legally enforceable bilateral netting agreements. Current credit exposure should be derived as follows: determine whether a legally enforceable bilateral netting agreement is in place between the registered person and a counterparty. If such an agreement is in place, the market values of all applicable contracts with that counterparty that are included in the netting agreement are netted to a single amount. Next, for all other contracts that have positive market values, the total of the positive market values is determined. Then, current credit exposure is the sum of (i) the net positive market values of applicable contracts subject to legally enforceable bilateral netting agreements and (ii) the total positive market values of all other contracts.

**TABLE 5**  
**PROPRIETARY DERIVATIVE TRADING ACTIVITIES**  
**Information about past due OTC derivatives and credit losses as of reporting date**  
**(HK\$'000)**

Gross positive market value of derivatives past due 30-89 days	
Gross positive market value of derivatives past due 90 days or more ( <b>Note 1</b> )	
Credit losses on derivative instruments during the past month ( <b>Notes 2 &amp; 3</b> )	

**Note 1:** Information about derivatives that are past due 90 days or more should also include information about derivatives that, while not technically past due, are with counterparties that are not expected to pay the full amounts owed to the registered person under the derivative contracts.

**Note 2:** Credit losses include credit provisions made.

**Note 3:** Please describe the registered person's policy on making credit provisions below.

**TABLE 6**  
**PROPRIETARY DERIVATIVE TRADING ACTIVITIES**  
**Derivative-related trading revenues for the past month**  
**(HK\$'000)**

Derivative-related trading revenues (Note 1)	Equity contracts	Interest rate contracts	Foreign exchange contracts	Precious metals contracts	Other commodity contracts	Total
(a) Trading						
(b) Others s(please specify)						
(c) Total derivative-related trading revenues (a) + (b)						
(d) Total revenues of the registered person (Note 2)						
(e) Total derivative-related trading revenues as a percentage of registered person's total revenues (c)/(d) 100%						

**Note 1:** In the case where the derivative trading activities of the registered person include the trading of derivative instruments as well as related cash instruments, derivative-related trading revenues should include the trading revenues from both derivative instruments and related cash instruments. If a registered person has a different way of calculating the derivative-related trading revenues, please specify the underlying methods and approaches below.

**Note 2:** This means the total revenues of the registered person as a whole including all derivatives and non-derivatives businesses.

Chairman  
Securities and Futures Commission

12 April 2000

Explanatory Note

These Rules repeal and replace the Financial Resources Rules (Cap. 24 sub. leg.) made by the Securities and Futures Commission ("the Commission") under section 28 of the Securities and Futures Commission Ordinance (Cap. 24).

2. These Rules standardize the financial resources requirements of dealers who are registered under the Securities Ordinance (Cap. 333) and dealers who are registered under the Commodities Trading Ordinance (Cap. 250). They also set out similar financial resources requirements for securities margin financiers registered under the Securities Ordinance (Cap. 333).

3. These Rules are divided into 6 parts and comprise 13 Schedules.

4. Part I provides for commencement and application, as well as definitions, interpretations, accounting treatment to be adopted and the computation basis of assets and liabilities.

5. Part II sets specific capital requirements for dealers and securities margin financiers. Advisers are subject to a net tangible asset requirement, with the minimum asset requirement raised.

6. Part III provides for the treatment of specified asset classes for the purpose of including them in liquid assets.

7. Part IV provides for financial adjustments in respect of



specified transactions and the liabilities to be provided for as ranking liabilities.

8. Part V specifies the reporting requirements by dealers, securities margin financiers and advisers. In addition, this Part also requires a registered person to respond to the Commission's request for information in relation to his financial resources.

9. Part VI empowers the Commission to approve securities borrowing and lending counterparties, banks formed or established outside Hong Kong and credit rating agencies for the purposes of applying these Rules, and impose conditions for such approvals.

10. The 13 Schedules set out, inter alia, specific standards regarding haircut percentages applicable to specified classes of investments and rates for making financial adjustments in respect of financial commitments, and prescribe a list of recognized stock, futures and options markets. They also contain prescribed forms for monthly returns.