



SECURITIES AND  
FUTURES COMMISSION  
證券及期貨事務監察委員會

LC Paper No. CB(1)1067/17-18(03)

# Legislative Council Panel on Financial Affairs

## Agenda Item V: Legislative proposals to update the financial resources requirements for licensed corporations

4 June 2018

# Background

- In light of market development, the SFC consulted the public on a set of proposed amendments to the Securities and Futures (Financial Resources) Rules (“FRR”) in July - August 2017
- Respondents to the consultation generally welcome and support the proposed changes to the FRR. The SFC has taken into account their responses in finalizing the proposals

# Overview of key proposed changes



# Key proposed changes

- To allow currency or asset subject to exchange control which can be freely applied to meet an existing liability or obligation of the licensed corporation (“LC”) settling in the same currency to be admitted as liquid assets (subject to applicable haircut)
- To apply a 1.5% capital charge in form of ranking liabilities on one side of the matched opposite onshore and offshore positions in a non-freely floating foreign currency



# Key proposed changes (cont'd)

- To add certain Mainland and other futures exchanges to the list of specified exchanges in Schedule 3 to the FRR such that amounts receivable from and cash deposited with their clearing houses or clearing participants of such clearing houses can be admitted as liquid assets

## China

- China Financial Futures Exchange
- Dalian Commodity Exchange
- Shanghai Futures Exchange
- Shanghai International Energy Exchange Co., Ltd.
- Zhengzhou Commodity Exchange



## Japan

- Tokyo Commodity Exchange, Inc.



## Taiwan

- The Taiwan Futures Exchange Corporation



## Thailand

- Thailand Futures Exchange Public Company Limited



# Key proposed changes (cont'd)

- To add stock exchanges of certain emerging markets to the list of specified exchanges in Schedule 3 to the FRR such that the haircut % for shares listed on these exchanges will be lowered to 30% from 50%

## China

- Shanghai Stock Exchange
- Shenzhen Stock Exchange



## Brazil

- B3 S.A. – Brasil, Bolsa, Balcao



## India

- National Stock Exchange of India Limited
- BSE Ltd.



## Taiwan

- Taiwan Stock Exchange Corporation



# Key proposed changes (cont'd)

- To introduce/update haircut percentages for certain securities/investments

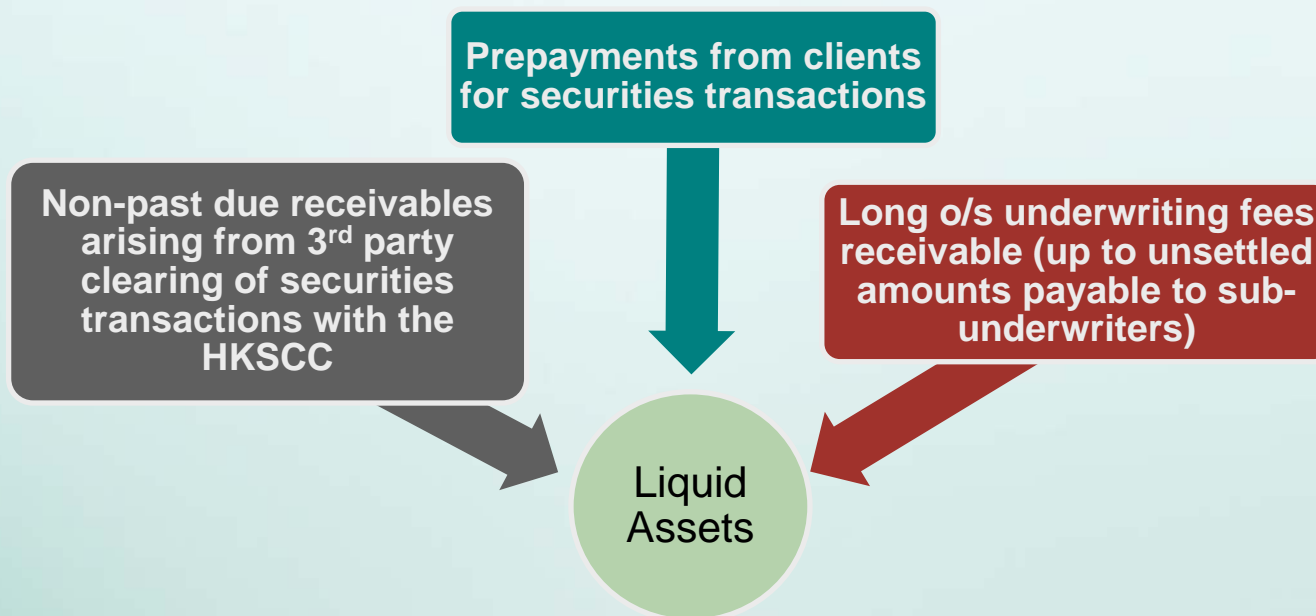
Investment type	Haircut %
Constituents of Euro Stoxx 50 Index	15% (from 20%)
Constituents of Hang Seng Composite LargeCap Index	20%
Equity or debt securities basket or index	(i) Highest of the % that apply to its constituents; or (ii) weighted average approach (subject to SFC's approval)
Exchange traded funds traded on specified exchanges	Same as for SFC-authorized funds
Money market and cash management funds	5% (from 20%)
Real estate investment trusts	30%
Structured funds and funds that invest in financial derivative instruments	40%
Index funds that track an equity or debt securities index	Same as for the index
Illiquid investments and miscellaneous investments <sup>1</sup>	100%
Leveraged products	Scale up with the embedded leverage

1. Miscellaneous investments mean those investments which are not specified in Schedule 2 to the FRR



## Key proposed changes (cont'd)

- To allow LCs to include as liquid assets:



- To allow LCs to exclude from ranking liabilities and variable required liquid capital calculation certain liabilities arising from tenancy agreements for business premises under a new accounting standard



## Key proposed changes (cont'd)

- Other technical changes e.g.
  - recognizing credit ratings issued by Fitch Ratings
  - rationalizing the definitions of “qualifying debt securities” and “special debt securities”

# Way forward

- We aim to table the FRR amendment rules before the Legislative Council in Q4 2018 for negative vetting

# Thank you

SFC website: [www.sfc.hk](http://www.sfc.hk)

