

L.N. 196 of 2018

**Securities and Futures (Financial Resources)
(Amendment) Rules 2018**

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Securities and Futures (Financial Resources) (Amendment) Rules 2018

(Made by the Securities and Futures Commission under section 145 of the Securities and Futures Ordinance (Cap. 571) after consultation with the Financial Secretary)

1. Commencement

- (1) Subject to subsection (2), these Rules come into operation on 1 April 2019.
- (2) Sections 1, 2, 3(2), (3) and (4) and 30 come into operation on 1 January 2019.

2. Securities and Futures (Financial Resources) Rules amended

The Securities and Futures (Financial Resources) Rules (Cap. 571 sub. leg. N) are amended as set out in sections 3 to 37.

3. Section 2 amended (interpretation)

- (1) Section 2(1), definition of *adjusted liabilities*, paragraph (a)(v)—

Repeal

“options contracts”

Substitute

“unlisted options contracts”.

- (2) Section 2(1), definition of *adjusted liabilities*, paragraph (a)(v)—

Repeal

“; and”

Substitute a semicolon.

- (3) Section 2(1), definition of *adjusted liabilities*, paragraph (b), after “provided to it;”—

Add

“and”.

- (4) Section 2(1), definition of *adjusted liabilities*, after paragraph (b)—

Add

“(c) any amount of its on-balance sheet liabilities which—

- (i) arises from a tenancy agreement entered into by it in respect of any premises which it uses in carrying on the regulated activity for which it is licensed; and

- (ii) is equal to the total value of its assets arising from the tenancy agreement which are not included in its liquid assets under any provision in Division 3 of Part 4;”.

- (5) Section 2(1), definition of *amount of margin required to be deposited*—

Repeal

“options contract,”

Substitute

“unlisted options contract,”.

- (6) Section 2(1), definition of *amount of margin required to be deposited*, paragraph (c)—

Repeal

“options contract”

Substitute

“unlisted options contract”.

- (7) Section 2(1), definition of *basic amount*, paragraphs (b) and (c)—

Repeal

“options contracts”

Substitute

“unlisted options contracts”.

- (8) Section 2(1), definition of *clearing house*, paragraph (a)—

Repeal

“options contracts”

Substitute

“unlisted options contracts”.

- (9) Section 2(1), definition of *equity linked instruments*—

Repeal

“equity linked”

Substitute

“equity-linked”.

- (10) Section 2(1), definition of *floating losses*, paragraph (g)—

Repeal

“or”.

- (11) Section 2(1), definition of *floating losses*, after paragraph (h)—

Add

“(i) an illiquid investment; or

(j) a miscellaneous investment;”.

- (12) Section 2(1), definition of *floating profits*, paragraph (g)—

Repeal

“or”.

- (13) Section 2(1), definition of *floating profits*, after paragraph (h)—

Add

- “(i) an illiquid investment; or
(j) a miscellaneous investment;”.

- (14) Section 2(1), definition of *futures or options clearing house*, paragraphs (a) and (b)(i)(A) and (B)—

Repeal

“options contracts”

Substitute

“unlisted options contracts”.

- (15) Section 2(1)—

Repeal the definition of *gross foreign currency position*

Substitute

“*gross foreign currency position* (外幣總持倉量)—see section 2A;”.

- (16) Section 2(1)—

Repeal the definition of *haircut amount*

Substitute

“*haircut amount* (扣減數額)—see section 2B;”.

- (17) Section 2(1)—

Repeal the definition of *haircut percentage*

Substitute

“*haircut percentage* (扣減百分率)—see section 2C;”.

- (18) Section 2(1), definition of *initial margin requirement*—

Repeal

“options contract;”

Substitute

“unlisted options contract,”.

- (19) Section 2(1), definition of *initial margin requirement*, paragraph (a)—

Repeal

“options contract”

Substitute

“unlisted options contract”.

- (20) Section 2(1), definition of *in-the-money amount*—

Repeal

everything after ““N” represents—”

Substitute

- “(i) if the asset underlying the options contract or warrant is shares—the number of such shares;
- (ii) if the asset underlying the options contract is an asset other than shares—the number of units of such asset; or
- (iii) if an index underlies the options contract—the contract multiplier;

“M” represents—

- (i) if the asset underlying the options contract or warrant is shares—the market value of one such share;
- (ii) if the asset underlying the options contract is an asset other than shares—the market value of one unit of such asset; or
- (iii) if an index underlies the options contract—the current level of the index; and

“S” represents the strike price of the options contract or the exercise price of the warrant—

- (i) if the asset underlying the options contract or warrant is shares—for one such share;
- (ii) if the asset underlying the options contract is an asset other than shares—for one unit of such asset; or
- (iii) if an index underlies the options contract—for the index;”.

(21) Section 2(1)—

Repeal the definition of *listed*

Substitute

“*listed* (上市)—see section 2D;”.

(22) Section 2(1), definition of *marking to market*, paragraph (g)—

Repeal

“or”.

(23) Section 2(1), English text, definition of *marking to market*, paragraph (h)—

Repeal the comma

Substitute a semicolon.

(24) Section 2(1), definition of *marking to market*, after paragraph (h)—

Add

- “(i) an illiquid investment; or
- (j) a miscellaneous investment;”.

(25) Section 2(1), English text, definition of *no sponsor work licensing condition*—

Repeal

“shall”

Substitute

“must”.

- (26) Section 2(1), definition of *qualifying debt securities*—

Repeal paragraph (a)(iii).

- (27) Section 2(1), definition of *qualifying debt securities*, paragraph (a)(iv)(B)—

Repeal

“; or”

Substitute a semicolon.

- (28) Section 2(1), definition of *qualifying debt securities*, after paragraph (a)(iv)(B)—

Add

“(BA) Fitch Ratings at either BBB or F3 or above; or”.

- (29) Section 2(1), definition of *qualifying debt securities*, paragraph (a)(v)(B)—

Repeal

“; or”

Substitute a semicolon.

- (30) Section 2(1), definition of *qualifying debt securities*, after paragraph (a)(v)(B)—

Add

“(BA) Fitch Ratings at either A or F2 or above; or”.

- (31) Section 2(1), definition of *qualifying debt securities*, paragraph (a)(vii)—

Repeal

“and”.

- (32) Section 2(1), definition of *qualifying debt securities*, paragraph (a)(viii)—

Repeal

“; or”

Substitute a semicolon.

- (33) Section 2(1), definition of *qualifying debt securities*, after paragraph (a)(viii)—

Add

- “(ix) any structured product other than a bond—
- (A) that has a coupon rate which has an inverse relationship to a money market or interbank reference interest rate that is widely quoted; or
 - (B) under which the principal value or coupon payments are linked to an inflation rate;
- (x) any securities or instrument the terms and conditions of which provide that, on the occurrence of one or more events specified in the terms and conditions, one or both of the following must apply in relation to the principal value—
- (A) the principal value is to be fully or partially converted into or exchanged for shares of the issuer or a related corporation of the issuer;
 - (B) the principal value is to be fully or partially written down; or
- (xi) an illiquid investment; or”.

- (34) Section 2(1)—

Repeal the definition of *segregated account*

Substitute

“*segregated account* (獨立帳戶), in relation to a licensed corporation, means an account established and maintained by it, which—

- (a) is a segregated account within the meaning of section 2 of the Securities and Futures (Client Money) Rules (Cap. 571 sub. leg. I); or
- (b) is an account for holding client money which is separate from its own account;”.

- (35) Section 2(1), definition of *special debt securities*—

Repeal

everything after “means” and before “and non-interest bearing”

Substitute

“structured notes, specified convertible debt securities, specified bonds”.

- (36) Section 2(1), definition of *special debt securities*—

Repeal paragraph (c).

- (37) Section 2(1), definition of *special debt securities*, paragraph (d)(ii)—

Repeal

“; or”

Substitute a semicolon.

- (38) Section 2(1), definition of *special debt securities*, after paragraph (d)(ii)—

Add

“(iia) Fitch Ratings at either BBB or F3 or above; or”.

- (39) Section 2(1), definition of *special debt securities*, paragraph (e)(ii)—

Repeal

“; or”

Substitute a semicolon.

- (40) Section 2(1), definition of *special debt securities*, after paragraph (e)(ii)—

Add

“(iia) Fitch Ratings at either A or F2 or above; or”.

- (41) Section 2(1), definition of *special debt securities*, paragraph (f)—

Repeal

“and”.

- (42) Section 2(1), definition of *special debt securities*, after paragraph (g)—

Add

“(h) any securities or instrument the terms and conditions of which provide that, on the occurrence of one or more events specified in the terms and conditions, one or both of the following must apply in relation to the principal value—

(i) the principal value is to be fully or partially converted into or exchanged for shares of the issuer or a related corporation of the issuer;

(ii) the principal value is to be fully or partially written down; or

(i) an illiquid investment;”.

- (43) Section 2(1)—

Repeal the definition of *specified investments*

Substitute

“*specified investment* (指明投資項目) means an investment specified in column 2 of Table 8 in Schedule 2, but does not include an illiquid investment;”.

- (44) Section 2(1), English text, definition of *specified licensing condition*—

Repeal

“shall”

Substitute

“must”.

- (45) Section 2(1), definition of *specified securities*, after “in Schedule 2”—

Add

“, but does not include an illiquid investment”.

- (46) Section 2(1), definition of *stock options contract*—

Repeal

“a contract”

Substitute

“an unlisted options contract”.

- (47) Section 2(1), definition of *trade date*, paragraph (g)—

Repeal

“or”.

- (48) Section 2(1), definition of *trade date*, paragraph (h)—

Repeal the comma

Substitute a semicolon.

- (49) Section 2(1), definition of *trade date*, after paragraph (h)—

Add

“(ha) an illiquid investment; or

(hb) a miscellaneous investment,”.

(50) Section 2(1)—

Add in alphabetical order

“**authorized fund** (認可基金) means a unit trust or mutual fund that is authorized by the Commission under section 104 of the Ordinance;

controlled asset (受管制資產) means an asset—

- (a) that is an amount of a currency which, because a relevant prohibition applies to the currency, cannot (or cannot without approval from an authority or regulatory organization)—
 - (i) be remitted to Hong Kong; or
 - (ii) be exchanged into another currency which can be remitted to Hong Kong; or
- (b) the proceeds of which on realization cannot (or cannot without approval from an authority or regulatory organization) be remitted to Hong Kong, because a relevant prohibition applies to the proceeds;

coupon payment (票息付款), in relation to any securities or instrument, means a payment of interest (or other periodic return of a similar nature) to the holder of the securities or instrument during the tenor of securities or instrument, that is calculated by reference to the principal value in accordance with the terms and conditions of the securities or instrument;

equities (股本) means shares issued by a corporation (including shares in a mutual fund) and units in a unit trust;

general clearing participant of HKSCC (香港結算公司全面結算所參與者) means a clearing participant of HKSCC that is authorized in accordance with the rules of HKSCC to provide general clearing services to exchange participants of the Stock Exchange Company;

HKSCC (香港結算公司) means the recognized clearing house known as Hong Kong Securities Clearing Company Limited;

illiquid investment (低流通性投資項目) means—

- (a) shares that are not listed, except shares in a mutual fund that do not fall within paragraph (b);
- (b) units in a unit trust or shares in a mutual fund, where the unit trust or mutual fund—
 - (i) is not an authorized fund, a recognized jurisdiction fund or a specified exchange traded fund; or
 - (ii) is an authorized fund or a recognized jurisdiction fund, but—
 - (A) is not a specified exchange traded fund; and
 - (B) the units or shares are not redeemable within 30 days;
- (c) debt securities that are not marketable debt securities;
- (d) listed securities that have been suspended from trading for at least 3 trading days or ceased trading on any exchange on which the securities were listed, except where the securities can

continue to be traded on any other exchange on which the securities are listed; or

- (e) a commodity that is not a tradable commodity;

marketable debt securities (有價債務證券) means—

- (a) certificates of deposit issued by an authorized financial institution or an approved bank incorporated outside Hong Kong; or

- (b) debt securities (other than certificates of deposit referred to in paragraph (a)) in respect of which—

- (i) there are genuine offers to buy and sell so that a price reasonably related to the last sales price or current bid and offer quotations can be determined within 1 business day, and transactions can be settled at that determined price promptly in accordance with trading conventions; or

- (ii) quotations are available within 1 business day from any combination of 2 or more of the following persons who customarily deal in the debt securities—

(A) market makers;

(B) banks;

(C) securities dealers outside Hong Kong;

(D) licensed corporations;

miscellaneous investment (雜項投資項目)—see section 2E;

principal value (本金額), in relation to any securities or instrument, means the nominal, face, par or similar value of the securities or instrument;

recognized jurisdiction fund (認可司法管轄區基金) means a unit trust or mutual fund that—

- (a) is regulated in a jurisdiction outside Hong Kong, regardless of whether it is also an authorized fund; and
- (b) falls within all of the criteria (including, as to the jurisdiction outside Hong Kong in which it is regulated, the applicable laws of that jurisdiction and the type of scheme that it constitutes under those laws) published on the Commission's website for the purposes of the provisions of UT Code relating to recognition of certain overseas collective investment schemes;

relevant prohibition (相關禁制), in relation to a controlled asset or the proceeds of a controlled asset, means a prohibition imposed under the laws of, or by an authority or regulatory organization in, a jurisdiction, and includes a prohibition that does not apply to a person in relation to the controlled asset or proceeds only if the person obtains approval from a particular authority or regulatory organization in the jurisdiction;

specified bond (指明債券) means a bond with non-detachable warrants under which the holder of the bond has the right (but not the obligation) to buy a specified number of shares in the issuer (or a related corporation of the issuer) of the bond;

specified convertible debt securities (指明可轉換債務證券) means convertible debt securities under which the holder of the securities has the right (but not the obligation) to buy a specified number of shares in the

issuer (or a related corporation of the issuer) of the securities;

specified exchange traded fund (指明交易所買賣基金) means a unit trust or mutual fund the units or shares of which are listed on a specified exchange;

structured note (結構性票據)—see section 2F;

tradable commodity (流通商品) means a physical commodity of a quantity, quality and condition suitable for delivery under a tradable contract;

tradable contract (流通合約) means a futures contract or an unlisted options contract that is traded on a specified exchange;

trading day (交易日), in relation to listed securities, means a day on which the exchange on which the securities are listed is open for trading;

unlisted options contract (非上市期權合約) means an options contract that is not listed securities;

UT Code (《單位信託守則》) means the Code on Unit Trusts and Mutual Funds published by the Commission under section 399 of the Ordinance;”.

(51) Section 2—

Repeal subsection (2).

4. Sections 2A to 2G added

Part 1, after section 2—

Add

“2A. Meaning of *gross foreign currency position*

(1) In these Rules—

gross foreign currency position (外幣總持倉量), in relation to a licensed corporation's position in a foreign currency, means the total of—

- (a) the aggregate of—
 - (i) the value of assets, other than fixed assets, beneficially owned by the licensed corporation which are denominated in the foreign currency; and
 - (ii) all of the licensed corporation's on-balance sheet liabilities, other than excluded liabilities, which are denominated in the foreign currency; and
 - (b) subject to subsection (2), the aggregate of—
 - (i) the total amount of the foreign currency in respect of which the licensed corporation is exposed to the risk of a decline in the value of the foreign currency under outstanding contracts (including spot contracts); and
 - (ii) the total amount of the foreign currency in respect of which the licensed corporation is exposed to the risk of a rise in the value of the foreign currency under outstanding contracts (including spot contracts).
- (2) In respect of a pair of outstanding contracts referred to in subsection (3), the licensed corporation must include in the amounts referred to in paragraph (b) of the definition of ***gross foreign currency position*** in subsection (1) the amounts specified in subsection (4).

- (3) Subsection (2) applies in respect of a pair of outstanding contracts which the licensed corporation holds with a client (except a client whose account with the licensed corporation is an omnibus account) if the licensed corporation—
- (a) under one of the contracts (*contract 1*), is exposed to the risk of a decline in the value of an amount of a currency (*currency A*) and to the risk of a rise in the value of an amount (*amount X*) of another currency (*currency B*); and
 - (b) under the other contract (*contract 2*), is exposed to the risk of a decline in the value of amount X of currency B and to the risk of a rise in the value of an amount of currency A.
- (4) The amounts specified are—
- (a) in relation to currency A—the higher of the amounts in respect of which the licensed corporation is exposed to the risk of a decline in the value of currency A under contract 1 and to the risk of a rise in the value of currency A under contract 2; and
 - (b) in relation to currency B—the amount X.

2B. Meaning of *haircut amount*

- (1) In these Rules—

haircut amount (扣減數額), subject to subsection (2), means, in relation to—

- (a) any listed shares (except shares that are specified securities or an illiquid investment)—an amount derived by multiplying the market value of the shares by the haircut percentage in relation to the shares;

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- (b) any qualifying debt securities—an amount derived by multiplying the market value of the qualifying debt securities by the haircut percentage in relation to the qualifying debt securities;
 - (c) any special debt securities—an amount derived by multiplying the market value of the special debt securities by the haircut percentage in relation to the special debt securities;
 - (d) any specified securities—an amount derived by multiplying the market value of the specified securities by the haircut percentage in relation to the specified securities;
 - (e) a specified investment—an amount derived by multiplying the market value of the specified investment by the haircut percentage in relation to the specified investment;
 - (f) an illiquid investment—an amount derived by multiplying the market value of the illiquid investment by the haircut percentage in relation to the illiquid investment; or
 - (g) a miscellaneous investment—an amount derived by multiplying the market value of the miscellaneous investment by the haircut percentage in relation to the miscellaneous investment.
- (2) In relation to any securities or investment referred to in paragraph (a), (b), (c), (d), (e), (f) or (g) of the definition of *haircut amount* in subsection (1) that aims to deliver a daily return on the securities or investment that is equivalent to a certain multiple (*leverage factor*) of the daily return on a particular

index or particular reference asset, *haircut amount* (扣減數額) means—

- (a) if the maximum loss that may be incurred in relation to the securities or investment is the market value of the securities or investment and the relevant holding is not a short position—the lower of—
 - (i) the market value; and
 - (ii) an amount derived by multiplying the amount referred to in paragraph (a), (b), (c), (d), (e), (f) or (g) of the definition of *haircut amount* in subsection (1) (as applicable) by the leverage factor; or
- (b) in any other case—an amount derived by multiplying the amount referred to in paragraph (a), (b), (c), (d), (e), (f) or (g) of the definition of *haircut amount* in subsection (1) (as applicable) by the leverage factor.

2C. Meaning of *haircut percentage*

(1) In these Rules—

haircut percentage (扣減百分率) means, in relation to—

- (a) any listed shares (except shares that are specified securities or an illiquid investment)—the percentage specified in subsection (2) or (3);
- (b) any qualifying debt securities—the percentage specified in subsection (4);
- (c) any special debt securities—the percentage specified in subsection (5);
- (d) any specified securities—the percentage specified in subsection (6);

- (e) a specified investment—the percentage specified in subsection (7); or
 - (f) an illiquid investment or a miscellaneous investment—the percentage specified in subsection (8).
- (2) Subject to subsection (3), in relation to any listed shares (except shares that are specified securities or an illiquid investment), the percentage specified for the purposes of paragraph (a) of the definition of *haircut percentage* in subsection (1) is—
- (a) subject to paragraphs (b) and (c), the percentage specified in column 3 of Table 1 in Schedule 2 (**Table 1**) opposite the applicable description set out in column 2 of Table 1;
 - (b) if the shares fall within more than one of the descriptions set out in column 2 of Table 1—the percentage specified in column 3 of Table 1 opposite any of the applicable descriptions set out in column 2 of Table 1, as elected by a licensed corporation; or
 - (c) if the shares fall within a description set out in—
 - (i) item 1(a) or (b) in column 2 of Table 1—the percentage specified in column 3 of Table 1 opposite the description set out in item 1(c) in column 2 of Table 1, if elected by a licensed corporation;
 - (ii) item 2(a)(i) in column 2 of Table 1—the percentage specified in column 3 of Table 1 opposite the description set out in item 2(a)(ii) in column 2 of Table 1, if elected by a licensed corporation;

- (iii) item 3(a)(i) in column 2 of Table 1—the percentage specified in column 3 of Table 1 opposite the description set out in item 3(a)(ii) in column 2 of Table 1, if elected by a licensed corporation;
 - (iv) item 4(a)(i) in column 2 of Table 1—the percentage specified in column 3 of Table 1 opposite the description set out in item 4(a)(ii) in column 2 of Table 1, if elected by a licensed corporation; or
 - (v) item 5(a) in column 2 of Table 1—the percentage specified in column 3 of Table 1 opposite the description set out in item 5(b) in column 2 of Table 1, if elected by a licensed corporation.
- (3) For the purpose of calculating the haircut amount under section 22(1)(b)(i), in relation to any listed shares (except shares that are specified securities or an illiquid investment) that are listed on a recognized stock market and specified in column 2 of Table 1A in Schedule 2 (**Table 1A**), the percentage specified for the purposes of paragraph (a) of the definition of **haircut percentage** in subsection (1) is—
- (a) subject to paragraphs (b) and (c) (and regardless of whether the shares also fall within any of the descriptions set out in column 2 of Table 1), the percentage specified in column 3 of Table 1A opposite the applicable description set out in column 2 of Table 1A;
 - (b) if, in a particular month, the shares described in item 1(a), (b), (c) or (d) in column 2 of Table 1A cease to be a constituent of the applicable index and the cessation would result in the

- assignment to the shares of a percentage specified in column 3 of Table 1A that is higher than the percentage which applied to the shares immediately prior to the cessation (*original percentage*)—the original percentage, but only in relation to the particular month and for the period of the next 3 consecutive months; or
- (c) if the shares fall within a description set out in item 1(a), (b), (c) or (d) in column 2 of Table 1A—the percentage specified in column 3 of Table 1A opposite the applicable description set out in item 1(e) in column 2 of Table 1A, if elected by a licensed corporation.
- (4) In relation to any qualifying debt securities, the percentage specified for the purposes of paragraph (b) of the definition of *haircut percentage* in subsection (1) is the aggregate of—
- (a) the percentage specified in column 3 of Table 4 in Schedule 2 opposite the applicable description set out in column 2 of that Table; and
 - (b) the percentage specified in column 2 or 3 (as the case may be) of Table 5 in Schedule 2 opposite the applicable description set out in column 1 of that Table.
- (5) In relation to any special debt securities, the percentage specified for the purposes of paragraph (c) of the definition of *haircut percentage* in subsection (1) is the percentage specified in column 3 of Table 6 in Schedule 2 opposite the applicable description set out in column 2 of that Table.

- (6) In relation to any specified securities, the percentage specified for the purposes of paragraph (d) of the definition of *haircut percentage* in subsection (1) is the percentage specified in column 3 of Table 7 in Schedule 2 opposite the applicable description set out in column 2 of that Table.
- (7) In relation to a specified investment, the percentage specified for the purposes of paragraph (e) of the definition of *haircut percentage* in subsection (1) is the percentage specified in column 3 of Table 8 in Schedule 2 opposite the applicable description set out in column 2 of that Table.
- (8) In relation to an illiquid investment or a miscellaneous investment, the percentage specified for the purposes of paragraph (f) of the definition of *haircut percentage* in subsection (1) is the percentage specified in column 3 of Table 9 in Schedule 2 opposite the applicable description set out in column 2 of that Table.

2D. Meaning of *listed*

(1) In these Rules—

listed (上市), in relation to securities which—

- (a) for the purposes of the definition of *listed* in section 1 of Part 1 of Schedule 1 to the Ordinance are regarded as listed on a recognized stock market—has the meaning given by that section;
- (b) are regarded as listed on an exchange located in a jurisdiction outside Hong Kong under the laws or regulations of the jurisdiction—means listed on that exchange; or

-
- (c) are admitted to trading on an exchange—means listed on that exchange if—
- (i) under the laws or regulations of the jurisdiction in which the exchange is located, the securities are regarded as listed on a different exchange located in the same jurisdiction; or
 - (ii) under the laws or regulations of a jurisdiction other than the jurisdiction in which the exchange is located, the securities are regarded as listed on an exchange located in that other jurisdiction.
- (2) For the purposes of the definition of *listed* in subsection (1), securities are to continue to be regarded as listed on, or admitted to trading on, a particular exchange during a period of suspension of dealings in the securities on that exchange.
- (3) Despite the definition of *listed* in subsection (1), securities are not to be regarded as listed on, or admitted to trading on, a particular exchange merely because the exchange provides (directly or indirectly) facilities for—
- (a) effecting transactions in the securities on a different exchange; or
 - (b) transmitting or otherwise communicating by any means offers to effect transactions in the securities on a different exchange.
- (4) Despite the definition of *listed* in subsection (1), securities that are options contracts with standardized contractual terms and conditions specified by a particular exchange are not to be regarded as listed

on the particular exchange or on any other exchange on which they are admitted to trading.

2E. Meaning of *miscellaneous investment*

(1) In these Rules—

miscellaneous investment (雜項投資項目), subject to subsection (2), means any asset or instrument held by a person for the purpose, or with the intention, of—

- (a) resale;
- (b) securing a profit from fluctuations in the value of the asset or instrument;
- (c) locking in arbitrage profits; or
- (d) hedging any risks of any other asset or instrument held by the person which falls within paragraph (a), (b) or (c).

(2) A *miscellaneous investment* does not include the following assets or instruments held by a person—

- (a) any securities that fall within any of the descriptions set out in—
 - (i) column 2 of Table 1, 1A, 4, 6 or 7 in Schedule 2;
 - (ii) column 2 or 3 of Table 5 in Schedule 2; or
 - (iii) item 2 in column 2 of Table 8 in Schedule 2;
- (b) any securities that are unlisted options contracts;
- (c) a derivative contract that is not securities;
- (d) a specified investment;
- (e) an illiquid investment;
- (f) a foreign exchange agreement;

- (g) a leveraged foreign exchange contract;
- (h) a fixed asset;
- (i) cash;
- (j) a bank deposit;
- (k) any loan, advance, credit facility or other financial accommodation provided by the person to another person;
- (l) any amount receivable by the person.

2F. Meaning of *structured note*

(1) In these Rules—

structured note (結構性票據) means an instrument—

- (a) that is in the form of a bond, debenture or note;
- (b) that acknowledges, evidences or creates indebtedness, regardless of whether—
 - (i) the holder of the instrument has the right to receive the principal value on or before maturity; or
 - (ii) the issuer of the instrument has the right to terminate the instrument before maturity;
- (c) that is a structured product within the meaning of section 1A of Part 1 of Schedule 1 to the Ordinance, except a structured product that—
 - (i) falls within subsection (1)(a)(ii) or (iii) or (b) of that section; or
 - (ii) is an OTC derivative product; and
- (d) under the terms and conditions of which the holder is to receive a bearish return or a bullish return (whether or not subject to any deduction

or payment of any expense or charge under those terms and conditions) that is determined by comparing the strike price and the settlement price of—

- (i) a permitted underlying asset; or
- (ii) a permitted underlying type of rate or index.

(2) For the purposes of the definition of **structured note** in subsection (1)—

bearish return (看跌式回報), in relation to an instrument, means—

- (a) both of the following—
 - (i) on or before maturity or termination, one or more coupon payments;
 - (ii) on or after maturity or termination, an amount referred to in paragraph (b); or
- (b) any of the following, on or after maturity or termination—
 - (i) if the settlement price is below the strike price—settlement amount 1;
 - (ii) if the settlement price exceeds the strike price—settlement amount 4;
 - (iii) if the settlement price is equal to the strike price—
 - (A) settlement amount 1; or
 - (B) settlement amount 4;

bullish return (看漲式回報), in relation to an instrument, means—

- (a) both of the following—

-
- (i) on or before maturity or termination, one or more coupon payments;
 - (ii) on or after maturity or termination, an amount or quantity referred to in paragraph (b); or
- (b) any of the following, on or after maturity or termination—
- (i) if the settlement price exceeds the strike price—settlement amount 1;
 - (ii) if the settlement price is below the strike price and the instrument has a permitted underlying asset—
 - (A) the settlement quantity;
 - (B) settlement amount 2; or
 - (C) an amount and a number of units of the permitted underlying asset which together are equivalent in value to settlement amount 2;
 - (iii) if the settlement price is below the strike price and the instrument has a permitted underlying type of rate or index—settlement amount 3;
 - (iv) if the settlement price is equal to the strike price and the instrument has a permitted underlying asset—
 - (A) the settlement quantity;
 - (B) settlement amount 1;
 - (C) settlement amount 2; or

- (D) an amount and a number of units of the permitted underlying asset which together are equivalent in value to settlement amount 2;
- (v) if the settlement price is equal to the strike price and the instrument has a permitted underlying type of rate or index—
 - (A) settlement amount 1; or
 - (B) settlement amount 3;

maturity (到期), in relation to an instrument, means the date on which the instrument is due to mature;

permitted interest rate (許可利率) means a money market or interbank reference interest rate that is widely quoted in a market that is domiciled in a jurisdiction which is rated by—

- (a) Moody's Investors Service at either Baa or Prime-3 or above;
- (b) Standard & Poor's Corporation at either BBB or A-3 or above; or
- (c) Fitch Ratings at either BBB or F3 or above;

permitted securities (許可證券) means securities other than—

- (a) special debt securities;
- (b) an illiquid investment;
- (c) a miscellaneous investment;
- (d) a derivative contract; or
- (e) a structured product;

permitted underlying asset (許可相關資產), in relation to an instrument, means a single asset that is—

- (a) permitted securities; or
- (b) a tradable commodity;

permitted underlying type of rate or index (屬許可類別的相關比率或指數), in relation to an instrument, means a single type of—

- (a) permitted interest rate;
- (b) currency exchange rate;
- (c) tradable securities index;
- (d) tradable commodity index; or
- (e) tradable currency exchange rate index;

settlement amount 1 (交收數額1), in relation to an instrument, means the sum of the principal value and the outstanding coupon payments;

settlement amount 2 (交收數額2), in relation to an instrument that has a permitted underlying asset, means the value of the settlement quantity calculated in accordance with the following formula—

settlement quantity × settlement price;

settlement amount 3 (交收數額3), in relation to an instrument that has a permitted underlying type of rate or index, means an amount calculated in accordance with the following formula—

$$\frac{\text{settlement amount 1}}{\text{strike price}} \times \text{settlement price};$$

settlement amount 4 (交收數額4), in relation to an instrument, means the higher of—

- (a) an amount calculated in accordance with the following formula—

$$\text{settlement amount } 1 - \frac{\text{settlement amount } 1}{\text{strike price}} \times$$

(settlement price – strike price); and

- (b) zero;

settlement price (交收價) means a price or value of 1 unit of a permitted underlying asset or a level of a permitted underlying type of rate or index that, for the purposes of determining the bearish return or the bullish return under the terms and conditions of an instrument, is—

- (a) quoted in a market specified in those terms and conditions at a time specified in, or to be determined in accordance with a method specified in, those terms and conditions; or
- (b) determined in accordance with a method specified in those terms and conditions;

settlement quantity (交收數量), in relation to an instrument that has a permitted underlying asset, means the number of units of the asset calculated in accordance with the following formula—

$$\text{settlement amount } 1 \div \text{strike price};$$

strike price (行使價) means a price or value of 1 unit of a permitted underlying asset or a level of a permitted underlying type of rate or index that is specified in the terms and conditions of an instrument for the purposes of determining the bearish return or the bullish return under those terms and conditions;

termination (終止), in relation to an instrument, means a date before maturity on which the instrument terminates in accordance with the terms and conditions of the instrument or by agreement between the parties to the instrument;

tradable commodity index (流通商品指數) means a tradable index that is calculated by reference to changes in the price or value of a basket of tradable commodities;

tradable currency exchange rate index (流通貨幣匯率指數) means a tradable index that is calculated by reference to changes in the level of a combination of more than one type of currency exchange rate;

tradable index (流通指數) means an index that is traded under a tradable contract;

tradable securities index (流通證券指數) means a tradable index that is calculated by reference to changes in the price or value of a basket of permitted securities.

2G. References to exchange and clearing house

In these Rules, a reference to—

- (a) an exchange includes a reference to any market operated by that exchange; and
- (b) an exchange or clearing house that is specified by name and, after the day on which it is specified—
 - (i) changes its name, is to be read as if it is a reference to the name by which the exchange or clearing house is presently known; or

- (ii) is succeeded by another exchange or clearing house (whether by reason of merger, amalgamation or otherwise), is to be read as if it is a reference to the successor exchange or clearing house.”.

5. Section 3 amended (accounting treatment)

- (1) Section 3(1), English text—

Repeal

“shall”

Substitute

“must”.

- (2) Section 3(1)(b)—

Repeal

everything after “arrangement or position”

Substitute a full stop.

- (3) Section 3(2), English text—

Repeal

“shall”

Substitute

“must”.

6. Section 6 amended (liquid capital requirement for licensed corporations)

- (1) Section 6(1), English text—

Repeal

“shall”

Substitute

“must”.

(2) Section 6(3)(d)(ii)—

Repeal

“options contracts”

Substitute

“unlisted options contracts”.

7. Section 8 amended (accounting for transactions on trade date basis)

Section 8—

Repeal

everything after “required liquid capital,”

Substitute

“must account on a trade date basis for all transactions effected by it, whether as principal or agent, in relation to any dealing or trading in, or entering into—

- (a) a futures contract;
- (b) any securities;
- (c) an options contract;
- (d) a derivative contract;
- (e) a specified investment;
- (f) a leveraged foreign exchange contract;
- (g) a foreign exchange agreement;
- (h) an interest rate swap agreement;
- (i) an illiquid investment; or
- (j) a miscellaneous investment.”.

8. Section 9 substituted

Section 9—

Repeal the section

Substitute

“9. Valuations

- (1) This section applies to the following instruments or assets—
 - (a) a futures contract;
 - (b) any securities;
 - (c) an options contract;
 - (d) a derivative contract;
 - (e) a specified investment;
 - (f) a leveraged foreign exchange contract;
 - (g) a foreign exchange agreement;
 - (h) an interest rate swap agreement;
 - (i) an asset underlying a non-collateralized warrant that is issued by a licensed corporation;
 - (j) an asset, other than shares, underlying an options contract;
 - (k) an illiquid investment;
 - (l) a miscellaneous investment.
- (2) Any reference in these Rules to the market value of an instrument or asset referred to in subsection (1) is, if there is no published market price in respect of the instrument or asset, to be construed as referring to the fair value (as determined in accordance with generally accepted accounting principles) of the instrument or asset.

- (3) A licensed corporation must, for the purposes of calculating its liquid capital and required liquid capital, value at market value any open position in an instrument or asset referred to in subsection (1).
- (4) Despite subsection (2) or (3), for the purposes of calculating the liquid capital and required liquid capital of a licensed corporation, any reference in these Rules to the market value of the securities referred to in subsection (5), (6) or (7) is to be construed as referring to the value (including any nil value) at which the securities are required to be valued under subsection (5), (6) or (7).
- (5) Listed securities that have been suspended from trading for at least 3 trading days or ceased trading on any exchange on which the securities were listed must, unless the securities can continue to be traded on any other exchange on which the securities are listed, be valued—
 - (a) for long positions—at nil; or
 - (b) for short positions—at the higher of fair value and the last closing price before the suspension or cessation of trading.
- (6) Marketable debt securities, in respect of which there is no published market price, must be valued—
 - (a) for certificates of deposit—at the value quoted by the issuer; or
 - (b) for debt securities other than certificates of deposit—
 - (i) at the average value of quotations obtained from any combination of 2 or more of the following persons who customarily deal in the debt securities—

- (A) market makers;
 - (B) banks;
 - (C) securities dealers outside Hong Kong;
 - (D) licensed corporations; or
- (ii) if the quotations referred to in subparagraph (i) cannot be obtained—at fair value.
- (7) Debt securities that are not marketable debt securities must be valued—
- (a) for long positions—at nil; or
 - (b) for short positions—at the higher of fair value and the face value of the debt securities.”.

9. Section 11 amended (no set-off)

- (1) Section 11(1)—

Repeal

“(5) and (6)”

Substitute

“(5), (6) and (7)”.

- (2) Section 11(1), English text—

Repeal

“shall” (wherever appearing)

Substitute

“must”.

- (3) Section 11(3), English text—

Repeal

everything after “licensed corporation from” and before “person, where”

Substitute

“a person, and any amounts payable by it to the”.

- (4) Section 11(3)—

Repeal paragraph (a)**Substitute**

“(a) such amounts—

- (i) do not arise from the carrying on of any regulated activity for which it is licensed; and
- (ii) do not include—
 - (A) amounts receivable by it from, and amounts payable by it to, a general clearing participant of HKSCC which arise from transactions in securities that are cleared for it or its clients by the participant with HKSCC;
 - (B) if the licensed corporation is a general clearing participant of HKSCC—amounts receivable by it from the person, and amounts payable by it to the person, which arise from transactions in securities that are cleared for the person by it with HKSCC; or
 - (C) amounts receivable referred to in section 23(1)(f); and”.

- (5) After section 11(6)—

Add

“(7) If a licensed corporation has obtained an approval under section 58(5)(i), subsection (1) does not apply in respect of amounts receivable (except amounts receivable referred to in section 23(1)(f)) by it from,

and amounts payable by it to, a general clearing participant of HKSCC which arise from transactions in securities that are cleared for it or its clients by the participant with HKSCC.”.

10. Section 12 amended (transactions in margined accounts)

- (1) Section 12(1), (3) and (4), English text—

Repeal

“shall”

Substitute

“must”.

- (2) Section 12(6)(b)(iii)—

Repeal

“options contracts”

Substitute

“unlisted options contracts”.

11. Section 18 amended (exclusions from liquid assets)

- (1) Section 18, heading—

Repeal

“Exclusions from liquid assets”

Substitute

“Exclusion of branch assets required to be maintained outside Hong Kong”.

- (2) Section 18(1), English text—

Repeal

“shall”

Substitute

“must”.

(3) Section 18—

Repeal subsection (2).

12. Section 18A added

After section 18—

Add

“18A. Exclusion of assets where remittance or exchange controls apply

- (1) Except in the circumstances referred to in subsections (2) and (3), a licensed corporation must not include a controlled asset in its liquid assets.
- (2) A licensed corporation must include a controlled asset in its liquid assets (in an amount calculated in accordance with the provisions of this Division which apply to it in relation to the controlled asset) if, in relation to the relevant prohibition applicable to the controlled asset or the proceeds of the controlled asset, it reasonably believes that it will be able to obtain the required approval from the relevant authority or regulatory organization within 1 week after applying for the approval.
- (3) Subject to subsection (4), a licensed corporation may elect to include in its liquid assets a controlled asset (other than a controlled asset referred to in subsection (2)) that it is able to freely apply to meet its existing obligations or liabilities that are denominated in the same currency as the asset.

- (4) If a licensed corporation makes an election under subsection (3) in relation to a controlled asset, the amount to be included in its liquid assets in respect of the controlled asset is to be calculated—
- (a) in accordance with the provisions of this Division which apply to it in relation to the controlled asset; and
 - (b) on the basis that sections 27(2), (3), (4), (6) and (7) and 31(2) and (3) do not apply to it in relation to the controlled asset.”.

13. Section 19 amended (assets provided to others as security)

Section 19(2)(d)—

Repeal

“options contracts”

Substitute

“unlisted options contracts”.

14. Section 20 amended (cash in hand and at bank)

(1) Section 20, English text—

Repeal

“shall”

Substitute

“must”.

(2) Section 20(b), after “and holds in”—

Add

“an account in”.

- (3) Section 20(b)(ii)—

Repeal

“and”.

- (4) Section 20(c)—

Repeal the full stop

Substitute

“; and”.

- (5) After section 20(c)—

Add

“(d) money which it holds on behalf of a client in an account in its name, or in a segregated account, with an authorized financial institution or an approved bank incorporated outside Hong Kong, and which it has received from the client for the purposes of settling a purchase of, or subscription for, securities by it on behalf of the client.”.

15. Section 21 amended (amounts receivable from clients in respect of purchase of and subscription for securities)

- (1) Section 21—

Repeal subsection (1)

Substitute

“(1) Subject to subsections (3) and (7), a licensed corporation must include in its liquid assets the following amounts arising from the purchase by any of its clients of securities on a cash-against-delivery basis—

- (a) any amount receivable from the client which, when calculated on a transaction-by-transaction basis, is not yet due for settlement according to the settlement date or has been outstanding for 5 business days or less after the settlement date;
- (b) in respect of any amount receivable from the client which, when calculated on a transaction-by-transaction basis, has been outstanding for more than 5 business days but less than 1 month after the settlement date—the amount which, when calculated on a transaction-by-transaction basis, is the lower of—
 - (i) the amount receivable less any specific provision for bad or doubtful debts made in respect of the amount receivable; and
 - (ii) the market value of the securities to which the amount receivable relates.”.

- (2) Section 21(2)—

Repeal

everything after “licensed corporation may” and before “to set-off”

Substitute

“, subject to subsection (2A), elect”.

- (3) Section 21(2), English text—

Repeal

“basis, and”

Substitute

“basis, if”.

- (4) After section 21(2)—

Add

“(2A) An election made by a licensed corporation under subsection (2) must be in respect of all of its clients from whom it has obtained a written authorization referred to in that subsection.”.

(5) Section 21(3), English text—

Repeal

“shall”

Substitute

“must”.

(6) Section 21—

Repeal subsection (4)

Substitute

“(4) Subject to subsection (7), a licensed corporation must include in its liquid assets any amount receivable from any of its clients arising from the purchase by the client of securities on a free delivery basis which, when calculated on a transaction-by-transaction basis—

(a) in the case where the clearing system of the exchange on which the securities are traded effects settlement only on a free delivery basis—

(i) is not yet due for settlement according to the settlement date; or

(ii) has been outstanding for 2 weeks or less after the settlement date; or

(b) in any other case—is not yet due for settlement according to the settlement date.”.

(7) Section 21(5), English text—

Repeal

“shall”

Substitute

“must”.

- (8) Section 21(5)(b), English text—

Repeal

“the amount receivable”

Substitute

“any amount receivable”.

- (9) Section 21(6), English text—

Repeal

“shall”

Substitute

“must”.

- (10) Section 21(6), English text—

Repeal

“the amount receivable”

Substitute

“any amount receivable”.

- (11) Section 21(7), English text—

Repeal

“shall”

Substitute

“must”.

- (12) Section 21(8)—

Repeal

“subsection (2),”

Substitute

“subsections (2) and (2A),”.

16. Section 22 amended (amounts receivable in respect of providing securities margin financing)

(1) Section 22(1), English text—

Repeal

“shall”

Substitute

“must”.

(2) Section 22(2), English text—

Repeal

“shall apply”

Substitute

“applies”.

(3) Section 22(3), English text—

Repeal

“shall”

Substitute

“must”.

(4) Section 22(4)(c)—

Repeal

“listed for”

Substitute

“listed on a particular exchange for”.

(5) Section 22(4)(c)—

Repeal

“trading)”

Substitute

“trading on the exchange”).

- (6) Section 22(4)(d)(ii)—

Repeal

“Hang Seng Hong Kong”

Substitute

“Hang Seng Composite”.

- (7) Section 22(4)(d)—

Repeal subparagraphs (iii), (iv) and (v)

Substitute

- “(iii) FTSE 100 Index;
(iv) Nikkei Stock Average; or
(v) S&P 500 Index.”.

- (8) Section 22(4)(d)—

Repeal subparagraph (vi).

- (9) Section 22(5), definition of *average monthly turnover*—

Repeal

“any exchange”

Substitute

“a particular exchange”.

- (10) Section 22(5), definition of *average monthly turnover*—

Repeal

“trading)”

Substitute

“trading on the exchange”).

17. Section 23 amended (amounts receivable from counterparties in respect of dealings in securities)

- (1) Section 23, heading—

Repeal

everything after “**from**”

Substitute

“**other dealers and clearing participants etc. in respect of securities**”.

- (2) Section 23—

Repeal subsection (1)

Substitute

“(1) Subject to subsection (2), a licensed corporation must include in its liquid assets the following amounts—

- (a) any amount receivable from any securities dealer which—

- (i) arises from the sale of securities by it to or through the securities dealer on a cash-against-delivery basis; and

- (ii) when calculated on a transaction-by-transaction basis—

(A) is not yet due for settlement according to the settlement date; or

(B) has been outstanding for 2 weeks or less after the settlement date;

- (b) in respect of any amount receivable from any securities dealer which arises from the sale of securities by it to or through the securities dealer on a cash-against-delivery basis, and which, when calculated on a transaction-by-

transaction basis, has been outstanding for more than 2 weeks but less than 1 month after the settlement date—the amount which, when calculated on a transaction-by-transaction basis, is the lower of—

- (i) the amount receivable less any specific provision for bad or doubtful debts made in respect of the amount receivable; and
 - (ii) the market value of the securities to which the amount receivable relates;
- (c) any amount receivable from any securities dealer which—
- (i) arises from the sale of securities by it to or through the securities dealer on a free delivery basis; and
 - (ii) when calculated on a transaction-by-transaction basis—
 - (A) in the case where the clearing system of the exchange on which the securities are traded effects settlement only on a free delivery basis—
 - (I) is not yet due for settlement according to the settlement date; or
 - (II) has been outstanding for 2 weeks or less after the settlement date; or
 - (B) in any other case—is not yet due for settlement according to the settlement date;

-
- (d) any amount receivable from a general clearing participant of HKSCC which—
 - (i) arises from a transaction in securities that is cleared for it or its clients by the participant with HKSCC and is to be settled on a cash-against-delivery basis; and
 - (ii) when calculated on a transaction-by-transaction basis, is not yet due for settlement according to the settlement date;
 - (e) if it is a general clearing participant of HKSCC—any amount receivable from a person which—
 - (i) arises from a transaction in securities that is cleared for the person by it with HKSCC and is to be settled on a cash-against-delivery basis; and
 - (ii) when calculated on a transaction-by-transaction basis, is not yet due for settlement according to the settlement date;
 - (f) any amount receivable from a China Connect General Clearing Participant which—
 - (i) arises from transactions in China Connect Securities on a China Connect Market that have been or are to be cleared for it or its clients by the participant; and
 - (ii) is receivable in respect of amounts paid by it to the participant for the purposes of fulfilling the participant's obligation to provide to HKSCC amounts of Mainland Settlement Deposit or Mainland Security Deposit in accordance with the rules of HKSCC.”.

- (3) Section 23(2)—

Repeal

everything after “under subsection (1)” and before “referred to in”

Substitute

“must not exceed the aggregate of amounts receivable from the persons”.

- (4) After section 23(2)—

Add

- “(3) In this section—

China Connect General Clearing Participant (中華通全面結算所參與者) means a general clearing participant of HKSCC that is registered by HKSCC as a “China Connect Clearing Participant” in accordance with the rules of HKSCC;

China Connect Market (中華通市場) means a stock market that is determined by the Stock Exchange Company to be a “China Connect Market” in accordance with the rules of the Stock Exchange Company;

China Connect Securities (中華通證券) means securities that are determined by the Stock Exchange Company to be “China Connect Securities” in accordance with the rules of the Stock Exchange Company;

Mainland Security Deposit (內地結算備付金) means an amount that is determined by HKSCC to be “Mainland Security Deposit” in accordance with the rules of HKSCC;

Mainland Settlement Deposit (內地證券結算保證金)
means an amount that is determined by HKSCC to be “Mainland Settlement Deposit” in accordance with the rules of HKSCC.”.

18. Section 28 amended (amounts receivable from clearing houses, etc.)

- (1) Section 28(1), English text—

Repeal

“shall”

Substitute

“must”.

- (2) Section 28(1)(e)—

Repeal

“maintained”.

- (3) Section 28—

Repeal subsections (2) and (3)

Substitute

“(2) A licensed corporation must include in its liquid assets amounts receivable from, and cash deposited with, a prescribed clearing house (except admission fees it has paid to the prescribed clearing house, and cash it has deposited with the prescribed clearing house as security against its general obligations), in respect of—

- (a) any dealing or trading by it in, or its entering into—
- (i) a futures contract;
 - (ii) any securities;

-
- (iii) an options contract;
 - (iv) a derivative contract;
 - (v) a specified investment;
 - (vi) a leveraged foreign exchange contract;
 - (vii) a foreign exchange agreement; or
 - (viii) an interest rate swap agreement; or
- (b) any clearing by it with the prescribed clearing house (whether for its own account or on behalf of its clients) of a transaction in—
- (i) a futures contract;
 - (ii) any securities;
 - (iii) an options contract;
 - (iv) a derivative contract;
 - (v) a specified investment;
 - (vi) a leveraged foreign exchange contract;
 - (vii) a foreign exchange agreement; or
 - (viii) an interest rate swap agreement.
- (3) A licensed corporation must include in its liquid assets amounts receivable from, and cash deposited with, a futures or options clearing house other than a recognized clearing house (except admission fees it has paid to the futures or options clearing house, and cash it has deposited with the futures or options clearing house as security against its general obligations), in respect of—
- (a) any dealing by it in futures contracts or unlisted options contracts;
 - (b) any trading by it in leveraged foreign exchange contracts; or

- (c) any clearing by it with the futures or options clearing house (whether for its own account or on behalf of its clients) of a transaction in a futures contract, unlisted options contract or leveraged foreign exchange contract.

(4) In this section—

prescribed clearing house (訂明結算所) means—

- (a) Euroclear Bank S.A./N.V.;
- (b) Euroclear France S.A.;
- (c) Clearstream Banking S.A.;
- (d) Clearstream Banking AG; or
- (e) Korea Securities Finance Corporation.”.

19. Sections 29 and 30 substituted

Sections 29 and 30—

Repeal the sections

Substitute

“29. Amounts receivable from other dealers and clearing participants in respect of futures contracts, unlisted options contracts and leveraged foreign exchange contracts

- (1) Subject to subsection (2), a licensed corporation must include in its liquid assets amounts receivable from, and cash deposited with, a licensed corporation licensed for Type 1 or Type 2 regulated activity

(*dealer*) or a clearing participant of a futures or options clearing house (*participant*), in respect of—

- (a) any dealing by it in futures contracts or unlisted options contracts;
 - (b) any trading by it in leveraged foreign exchange contracts; or
 - (c) any clearing by the dealer or the participant for it (whether for its own account or on behalf of its clients) of a transaction in a futures contract, unlisted options contract or leveraged foreign exchange contract.
- (2) Subsection (1) does not apply to—
- (a) admission fees the licensed corporation has paid to the dealer or the participant; and
 - (b) cash the licensed corporation has deposited with the dealer or the participant as security against its general obligations.

30. Amounts receivable from clients in respect of purchase of exchange-traded unlisted options contracts

A licensed corporation must include in its liquid assets any amount receivable from any of its clients arising from the purchase of any unlisted options contract traded on a specified exchange which, when calculated on a transaction-by-transaction basis—

- (a) is not yet due for settlement according to the settlement date; or
- (b) has been outstanding for 5 business days or less after the settlement date.”.

20. Section 31 amended (exchange-traded options contracts trading for own account)

- (1) Section 31, heading, after “**Exchange-traded**” —

Add

“**unlisted**”.

- (2) Section 31(1)—

Repeal

everything after “own account any” and before “include in its”

Substitute

“unlisted options contract traded on a specified exchange, it must”.

- (3) Section 31(1)(a)—

Repeal

“options contract has”

Substitute

“unlisted options contract has”.

- (4) Section 31(1)(a)(ii)—

Repeal

“options contract.”

Substitute

“unlisted options contract.”.

- (5) Section 31(1)(b)—

Repeal

“options contract.”

Substitute

“unlisted options contract.”.

- (6) Section 31(2) and (3), English text—

Repeal

“shall”

Substitute

“must”.

21. Section 35 amended (miscellaneous assets)

- (1) Section 35, English text—

Repeal

“shall”

Substitute

“must”.

- (2) After section 35(a)—

Add

“(ab) if fees receivable by it in respect of its underwriting of an issue or a sale of securities (*underwriting fees*) do not fall within paragraph (a)(i) or (ii) and, in respect of the issue or sale it has entered into one or more sub-underwriting agreements under which it is obliged to pay fees to the sub-underwriters—the amount of the underwriting fees—

(i) but only up to the total amount of the fees which it is obliged to pay to the sub-underwriters; and

(ii) only if the fees which it is obliged to pay to the sub-underwriters will not fall due for payment until on or after the day on which it receives the underwriting fees;”.

- (3) Section 35(b), English text—

Repeal

“maintained”

Substitute

“maintains”.

22. Section 36A added

After section 36—

Add

“36A. Controlled assets where election made under section 18A(3)

If a licensed corporation makes an election under section 18A(3) to include a controlled asset in its liquid assets, the amount to be included in its ranking liabilities in respect of the controlled asset is to be calculated—

- (a) in accordance with the provisions of this Division which apply to it in relation to the controlled asset; and
- (b) on the basis that sections 40(7) and (8) and 43(6) do not apply to it in relation to the controlled asset.”.

23. Section 37 amended (amounts payable to clients, etc.)

- (1) Section 37, English text—

Repeal

“shall”

Substitute

“must”.

- (2) Section 37—

Repeal paragraph (a)

Substitute

- “(a) an amount payable to any of its clients in respect of client money held by it—
- (i) in a segregated account with an authorized financial institution, an approved bank incorporated outside Hong Kong or a recognized clearing house (except money included in its liquid assets under section 20(d)); or
 - (ii) in a segregated account—
 - (A) that is referred to in paragraph (a) of the definition of *segregated account* in section 2(1); and
 - (B) with a person approved by the Commission under section 4(2) of the Securities and Futures (Client Money) Rules (Cap. 571 sub. leg. I) for the purposes of those Rules; and”.

24. Section 40 amended (futures contracts and options contracts dealing, etc.)

- (1) Section 40, heading—

Repeal

“options contracts dealing,”

Substitute

“unlisted options contracts dealing”.

- (2) Section 40(1), English text—

Repeal

“shall”

Substitute

“must”.

- (3) Section 40(1)(b) and (c)—

Repeal

“options contract”

Substitute

“unlisted options contract”.

- (4) Section 40(2)—

Repeal

“options” (wherever appearing)

Substitute

“unlisted options”.

- (5) Section 40(3), English text—

Repeal

“shall”

Substitute

“must”.

- (6) Section 40(3)—

Repeal

“options” (wherever appearing)

Substitute

“unlisted options”.

- (7) Section 40(4), English text—

Repeal

“shall”

Substitute

“must”.

- (8) Section 40(4)(b)—

Repeal

“options contract”

Substitute

“unlisted options contract”.

- (9) Section 40(5), (6), (7), (8) and (9), English text—

Repeal

“shall”

Substitute

“must”.

- (10) Section 40(11)—

Repeal

everything after “A licensed corporation” and before “options contract”

Substitute

“must include in its ranking liabilities, in respect of any unlisted options contract (other than a put unlisted”.

- (11) Section 40(11)(a) and (b)—

Repeal

“options contract;”

Substitute

“unlisted options contract;”.

- (12) Section 40(12)—

Repeal

everything after “A licensed corporation” and before “options contract;”

Substitute

“must include in its ranking liabilities, in respect of any put unlisted options contract which is written by it for its own account and traded other than on a specified exchange or not exchange traded, an amount, not exceeding the value of the assets underlying the unlisted options contract stated at the strike price of the unlisted”.

- (13) Section 40(12)(a) and (b)—

Repeal

“options contract;”

Substitute

“unlisted options contract;”.

25. Section 43 amended (short positions in securities (other than options contracts) and specified investments)

- (1) Section 43, heading—

Repeal

everything after “**than**”

Substitute

“**unlisted options contracts) and investments**”.

- (2) Section 43(1)—

Repeal

everything after “securities (other than”

Substitute

“unlisted options contracts), specified investments, illiquid investments or miscellaneous investments, whether by short selling or otherwise, must include in its ranking liabilities the market value of those securities or investments.”.

- (3) Section 43(2)(d)—

Repeal

“or”.

- (4) Section 43(2)(e)—

Repeal the comma

Substitute a semicolon.

- (5) After section 43(2)(e)—

Add

“(f) illiquid investments; or

(g) miscellaneous investments.”.

- (6) Section 43(2), English text—

Repeal

“shall”

Substitute

“must”.

- (7) Section 43(3)—

Repeal

everything after “or otherwise, which”

Substitute

“constitute more than 5% by market value of all securities of the same description issued by a particular corporation, must increase the amount required to be included in its ranking liabilities under subsection (1) by the market value of the securities.”.

- (8) Section 43(5), (6), (8), (9) and (10), English text—

Repeal

“shall”

Substitute

“must”.

26. Section 47 amended (net underwriting commitments)

(1) Section 47(1), English text—

Repeal

“shall”

Substitute

“must”.

(2) Section 47(1)—

Repeal paragraph (a)

Substitute

“(a) for a rights issue where the market price of the securities is less than or equal to their subscription price, the lower of—

(i) the aggregate of—

(A) 50% of the haircut percentage in relation to the securities multiplied by the net underwriting commitment; and

(B) the amount by which the net underwriting commitment exceeds the market value of the securities; and

(ii) the net underwriting commitment;

(ab) for a rights issue where the market price of the securities is greater than their subscription price, 5% of the haircut percentage in relation to the securities multiplied by the net underwriting commitment; or”.

27. Section 51 amended (introduction of transactions)

(1) Section 51(1)(b)—

Repeal

“options contract”

Substitute

“unlisted options contract”.

(2) Section 51(1), English text—

Repeal

“shall”

Substitute

“must”.

(3) Section 51(1)(g)—

Repeal

“options contract” (wherever appearing)

Substitute

“unlisted options contract”.

28. Section 51A added

After section 51—

Add

“51A. Foreign currency positions

(1) Subject to subsections (2) and (3), a licensed corporation must include in its ranking liabilities 5% of its net position in each foreign currency.

-
- (2) In calculating the net position in a foreign currency, a licensed corporation may elect to exclude from the calculation the value of any asset which is denominated in that foreign currency and not included in its liquid assets under any provision in Division 3.
- (3) If, in relation to a non-freely floating foreign currency, a licensed corporation has positions in the currency which are attributable to both the onshore and offshore markets in the currency, the licensed corporation must include in its ranking liabilities—
- (a) if its onshore net position in the currency and its offshore net position in the currency are both long positions or are both short positions—5% of the aggregate of the onshore net position and the offshore net position; or
 - (b) if paragraph (a) does not apply to it in relation to the currency—
 - (i) 1.5% of the lower of its onshore net position in the currency and its offshore net position in the currency; and
 - (ii) 5% of the difference between its onshore net position in the currency and its offshore net position in the currency.
- (4) In this section—
- net position** (淨持倉量), in relation to a licensed corporation's position in a foreign currency, means the difference between—
- (a) the aggregate of—

- (i) the value of assets, other than fixed assets, beneficially owned by the licensed corporation which are denominated in the foreign currency; and
 - (ii) the total amount of the foreign currency in respect of which the licensed corporation is exposed to the risk of a decline in the value of the foreign currency under outstanding contracts (including spot contracts); and
- (b) the aggregate of—
- (i) all of the licensed corporation's on-balance sheet liabilities, other than excluded liabilities, which are denominated in the foreign currency; and
 - (ii) the total amount of the foreign currency in respect of which the licensed corporation is exposed to the risk of a rise in the value of the foreign currency under outstanding contracts (including spot contracts);

non-freely floating foreign currency (非自由浮動外幣)

means a foreign currency in respect of which an authority of the jurisdiction of which the currency is the lawful currency specifies, in respect of one or more foreign exchange markets specified by the authority—

- (a) the rate at which the currency is permitted by the authority to be converted into one or more other currencies; or
- (b) a range of rates within which the currency is permitted by the authority to be converted into one or more other currencies;

offshore net position (境外淨持倉量), in relation to a licensed corporation's net position in a non-freely floating foreign currency, means its net position in the currency which is attributable to the offshore market in the currency;

onshore net position (境內淨持倉量), in relation to a licensed corporation's net position in a non-freely floating foreign currency, means its net position in the currency which is attributable to the onshore market in the currency.”.

29. Section 52 amended (miscellaneous)

(1) Section 52(1), English text—

Repeal

“shall”

Substitute

“must”.

(2) Section 52(1)—

Repeal paragraph (d)

Substitute

“(d) if it has made one or more elections under section 18A(3) in relation to one or more controlled assets denominated in a particular currency, the amount (if it exceeds zero) calculated in accordance with the following formula—

$$A - L$$

where—

“A” is the aggregate of the amounts that it is required to include in its liquid assets in respect of the controlled assets denominated in the currency; and

“L” is the aggregate of the amounts of its existing obligations or liabilities denominated in the currency (which the controlled assets may be freely applied to meet) that it is required (apart from by this paragraph) to include in its ranking liabilities; and”.

(3) Section 52—

Repeal subsections (2) and (3).

30. Section 53 amended (other liabilities)

(1) Section 53(1)—

Repeal

“subsection (2),”

Substitute

“subsections (1A) and (2),”.

(2) Section 53(1), English text—

Repeal

“shall”

Substitute

“must”.

(3) After section 53(1)—

Add

“(1A) In relation to any liabilities of a licensed corporation which arise from a tenancy agreement entered into by it in respect of any premises which it uses in

carrying on the regulated activity for which it is licensed, subsection (1) only applies to any amount by which its on-balance sheet liabilities arising from the tenancy agreement exceeds the total value of its assets arising from the tenancy agreement which are not included in its liquid assets under any provision in Division 3.”.

- (4) Section 53(2), English text—

Repeal

“shall”

Substitute

“must”.

31. Section 55 amended (licensed corporations to notify Commission of circumstances relating to financial resources and trading activities and to submit returns in certain cases)

- (1) Section 55(1), (2) and (3), English text—

Repeal

“shall”

Substitute

“must”.

- (2) Section 55(4)(a)—

Repeal

“options contract”

Substitute

“unlisted options contract”.

- (3) Section 55(4), English text—

Repeal

“shall”

Substitute

“must”.

- (4) Section 55(5), English text—

Repeal

“shall”

Substitute

“must”.

32. Section 56 amended (licensed corporations to submit returns to Commission)

- (1) Section 56(1), (2) and (3), English text—

Repeal

“shall”

Substitute

“must”.

- (2) Section 56(4), English text—

Repeal

“shall be”

Substitute

“is”.

- (3) Section 56(5) and (6)(a) and (b), English text—

Repeal

“shall”

Substitute

“must”.

33. Section 58 amended (approvals)

(1) Section 58(2), English text—

Repeal

“shall”

Substitute

“must”.

(2) Section 58(2)(b)—

Repeal

“Moody’s Investors Service or Standard & Poor’s Corporation.”

Substitute

“Moody’s Investors Service, Standard & Poor’s Corporation or Fitch Ratings.”.

(3) Section 58(3), English text—

Repeal

“shall”

Substitute

“must”.

(4) Section 58(4)(a)(ii)(A) and (B)(I) and (II)—

Repeal

“options contracts”

Substitute

“unlisted options contracts”.

(5) Section 58(5)(f)—

Repeal

“and”.

- (6) Section 58(5)(g)—

Repeal the full stop

Substitute a semicolon.

- (7) After section 58(5)(g)—

Add

“(h) the calculation of the haircut percentage applicable to an underlying basket of securities as the weighted average of the haircut percentages applicable to each of the securities which constitute the basket—

(i) for special debt securities which fall within the description set out in item 1(b)(iii) or 2(a)(ii) in column 2 of Table 6 in Schedule 2; or

(ii) for specified securities which fall within the description set out in item 2(b) or 3(a)(vii) in column 2 of Table 7 in Schedule 2; and

(i) for the purposes of section 11(7), the setting-off by the licensed corporation of amounts receivable (except amounts receivable referred to in section 23(1)(f)) by it from, and amounts payable by it to, a general clearing participant of HKSCC which arise from transactions in securities that are cleared for it or its clients by the participant with HKSCC.”.

- (8) Section 58(6), English text—

Repeal

“shall be”

Substitute

“is”.

- (9) Section 58(8), English text—

Repeal

“shall”

Substitute

“must”.

34. Section 59 amended (withdrawal of elections made under these Rules)

Section 59, English text—

Repeal

“shall be”

Substitute

“is”.

35. Schedule 2 amended (haircut percentages)

(1) Schedule 2—

Repeal

“2 & 43]”

Substitute

“2, 2C, 2E & 58]”.

(2) Schedule 2—

Repeal Tables 1 and 1A

Substitute

“Table 1**Haircut Percentages for Listed Shares**

Column 1	Column 2	Column 3
Item	Description	Haircut percentage %
1.	Except for the purpose of calculating the haircut amount under section 22(1)(b)(i), shares which are listed on a recognized stock market—	
	(a) being a constituent of the Hang Seng Index	15
	(b) not being a constituent of the Hang Seng Index but being a constituent of the Hang Seng Composite LargeCap Index	20
	(c) not being a constituent of the Hang Seng Index or the Hang Seng Composite LargeCap Index	30
2.	Shares which are listed on a specified exchange in the United Kingdom—	

Column 1	Column 2	Column 3
Item	Description	Haircut percentage %
(a)	other than shares which are listed on London Stock Exchange plc – SEAQ—	
(i)	being a constituent of the FTSE 100 Index	15
(ii)	not being a constituent of the FTSE 100 Index	20
(b)	being shares which are listed on London Stock Exchange plc – SEAQ	30
3.	Shares which are listed on a specified exchange in the United States of America—	
(a)	other than shares which are listed on the NASDAQ Stock Market LLC – NASDAQ Global Market or the NASDAQ Stock Market LLC – NASDAQ Global Select Market—	

Column 1	Column 2	Column 3
Item	Description	Haircut percentage %
	(i) being a constituent of the S&P 500 Index	15
	(ii) not being a constituent of the S&P 500 Index	20
	(b) being shares which are listed on the NASDAQ Stock Market LLC – NASDAQ Global Market or the NASDAQ Stock Market LLC – NASDAQ Global Select Market	30
4.	Shares which are listed on a specified exchange in Japan—	
	(a) other than shares which are listed on the Tokyo Stock Exchange, Inc. – JASDAQ—	
	(i) being a constituent of the Nikkei Stock Average	15

Column 1	Column 2	Column 3
Item	Description	Haircut percentage %
	(ii) not being a constituent of the Nikkei Stock Average	20
	(b) being shares which are listed on the Tokyo Stock Exchange, Inc. – JASDAQ	30
5.	Shares which are listed on a specified exchange specified in Part 1 of Schedule 3, other than an exchange in the United Kingdom, the United States of America or Japan—	
	(a) being a constituent of the Euro Stoxx 50 Index	15
	(b) not being a constituent of the Euro Stoxx 50 Index	20
6.	Shares which are listed on a specified exchange specified in Part 2 of Schedule 3	30

Column 1	Column 2	Column 3
Item	Description	Haircut percentage %
7.	Shares which are listed on a stock exchange (other than an exchange referred to in item 1, 2, 3, 4, 5 or 6) which is a member of the World Federation of Exchanges	50
8.	Shares which are listed on a stock exchange not referred to in item 1, 2, 3, 4, 5, 6 or 7	75

Table 1A

Haircut Percentages for Shares Listed in Hong Kong for Purpose of Calculating Haircut Amount under Section 22(1)(b)(i)

Column 1	Column 2	Column 3
Item	Description	Haircut percentage %
1.	For the purpose of calculating the haircut amount under section 22(1)(b)(i), shares which are listed on a recognized stock market—	

Column 1	Column 2	Column 3
Item	Description	Haircut percentage %
(a)	being a constituent of the Hang Seng Index	15
(b)	not being a constituent of the Hang Seng Index but being a constituent of the Hang Seng Composite LargeCap Index	20
(c)	not being a constituent of the Hang Seng Index or the Hang Seng Composite LargeCap Index but being a constituent of the MSCI Hong Kong Index or the MSCI China Index	30
(d)	not being a constituent of the Hang Seng Index, the Hang Seng Composite LargeCap Index, the MSCI Hong Kong Index or the MSCI China Index but being a constituent of the Hang Seng Composite Index	30

Section 35

Column 1	Column 2	Column 3
Item	Description	Haircut percentage %
	(e) not being a constituent of an index referred to in paragraph (a), (b), (c) or (d)—	
	(i) for a licensed corporation which does not repledge securities collateral	30
	(ii) for a licensed corporation which repledges securities collateral	60”.
(3)	Schedule 2— Repeal Tables 2 and 3.	
(4)	Schedule 2, Table 4— Repeal	
“Tier	Description	Haircut Percentage %”
Substitute		
“Column 1	Column 2	Column 3
Tier	Description	Haircut percentage %”.

- (5) Schedule 2, Table 4, Tier 1(d)(i)—

Repeal

“; or”

Substitute a semicolon.

- (6) Schedule 2, Table 4, Tier 1(d)(ii), after “at AAA or A-1”—

Add

“; or”.

- (7) Schedule 2, Table 4, after Tier 1(d)(ii)—

Add

“(iii) Fitch Ratings at AAA or F1”.

- (8) Schedule 2, Table 4, Tier 3(a)(i)—

Repeal

“; or”

Substitute a semicolon.

- (9) Schedule 2, Table 4, Tier 3(a)(ii), after “at AA, A or A-2;”—

Add

“or”.

- (10) Schedule 2, Table 4, after Tier 3(a)(ii)—

Add

“(iii) Fitch Ratings at AA, A or F2; or”.

- (11) Schedule 2, Table 4, Tier 3(b)—

Repeal

“; or”.

- (12) Schedule 2, Table 4, Tier 3—

Repeal paragraph (c).

- (13) Schedule 2, Table 4, Tier 4(a)—

Repeal

“; or”

Substitute a semicolon.

- (14) Schedule 2, Table 4, Tier 4(b), after “at BBB or A-3”—

Add

“; or”.

- (15) Schedule 2, Table 4, after Tier 4(b)—

Add

“(c) Fitch Ratings at BBB or F3”.

- (16) Schedule 2—

Repeal Tables 5, 6, 7 and 8

Substitute

“Table 5

**Haircut Percentages for Qualifying Debt Securities, by
Remaining Term to Maturity**

Notes:

1. In this Table—

category 1 qualifying debt securities (第1類合資格債務證券) means qualifying debt securities having a fixed rate coupon or a floating rate coupon, except qualifying debt securities having no maturity date or a remaining term to maturity exceeding 30 years;

category 2 qualifying debt securities (第2類合資格債務證券) means qualifying debt securities that do not fall within category 1 qualifying debt securities.

2. In this Table, qualifying debt securities are regarded as having a fixed rate coupon if interest—
 - (a) is payable periodically throughout the term of the securities; and
 - (b) is calculated by reference to a predetermined fixed interest rate that does not change during the term of the securities.

3. In this Table, qualifying debt securities are regarded as having a floating rate coupon if interest—
 - (a) is payable periodically throughout the term of the securities; and
 - (b) is calculated by reference to a variable interest rate that is reset periodically to equate to the level of a money market or interbank reference interest rate that is widely quoted and is predetermined to apply throughout the term of the securities, plus or minus a predetermined specified rate (if any) that does not change during the term of the securities.

Column 1	Column 2	Column 3
Remaining term to maturity	Category 1 qualifying debt securities Haircut percentage %	Category 2 qualifying debt securities Haircut percentage %
(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, or infinite	10	22

Table 6**Haircut Percentages for Special Debt Securities**

Notes:

- In this Table, the following terms have the meaning given by section 2F(2)—
 - permitted interest rate* (許可利率);
 - permitted securities* (許可證券);
 - permitted underlying asset* (許可相關資產);

- (d) *permitted underlying type of rate or index* (屬許可類別的相關比率或指數);
 - (e) *tradable commodity index* (流通商品指數);
 - (f) *tradable currency exchange rate index* (流通貨幣匯率指數);
 - (g) *tradable securities index* (流通證券指數).
2. In this Table—
- category 1 special debt securities* (第1類特別債務證券) means special debt securities having a fixed rate coupon or a floating rate coupon, except special debt securities having no maturity date or a remaining term to maturity exceeding 30 years;
- category 2 special debt securities* (第2類特別債務證券) means special debt securities that do not fall within category 1 special debt securities.
3. For the purposes of the definition of *category 1 special debt securities* in Note 2, special debt securities are regarded as having—
- (a) a fixed rate coupon if interest—
 - (i) is payable periodically throughout the term of the securities; and
 - (ii) is calculated by reference to a predetermined fixed interest rate that does not change during the term of the securities; or
 - (b) a floating rate coupon if interest—
 - (i) is payable periodically throughout the term of the securities; and

- (ii) is calculated by reference to a variable interest rate that is reset periodically to equate to the level of a money market or interbank reference interest rate that is widely quoted and is predetermined to apply throughout the term of the securities, plus or minus a predetermined specified rate (if any) that does not change during the term of the securities.

4. In this Table—

P, in relation to special debt securities referred to in item 1(b)(i), 2(b) or 3 of this Table, means the percentage calculated in accordance with the following formula—

$$P = A + B$$

where—

“A” is the percentage specified in column 3 of Table 4 opposite a description set out in Tier 1, 3 or 4 in column 2 of Table 4 of an issuer or guarantor of qualifying debt securities, being a description which is applicable to—

- (a) for special debt securities referred to in item 1(b)(i) of this Table—the rating given by Moody’s Investors Service, Standard & Poor’s Corporation or Fitch Ratings to the applicable jurisdiction referred to in the definition of *permitted interest rate* in section 2F(2); or

- (b) for special debt securities referred to in item 2(b) or 3 of this Table—the issuer or guarantor of the special debt securities; and

“B” is—

- (a) for special debt securities referred to in item 1(b)(i) of this Table—the percentage specified in column 2 of Table 5 opposite the description of a remaining term to maturity of qualifying debt securities set out in column 1 of Table 5 which would, if the description was of the tenor of an interest rate, apply to the permitted interest rate underlying the special debt securities;
- (b) for special debt securities referred to in item 2(b) of this Table—the percentage specified in the following column of Table 5 opposite the description of a remaining term to maturity of qualifying debt securities set out in column 1 of Table 5 which would, if the description was of the remaining term to maturity of special debt securities, apply to the remaining term to maturity of the special debt securities—
 - (i) if the special debt securities are category 1 special debt securities—column 2; or

- (ii) if the special debt securities are category 2 special debt securities—column 3; or
- (c) for special debt securities referred to in item 3 of this Table—the percentage specified in column 3 of Table 5 opposite the description of a remaining term to maturity of qualifying debt securities set out in column 1 of Table 5 which would, if the description was of the remaining term to maturity of special debt securities, apply to the remaining term to maturity of the special debt securities.

Column 1	Column 2	Column 3
Item	Description	Haircut percentage
1.	Special debt securities being a structured note, where—	
	(a) the permitted underlying asset is—	
	(i) permitted securities	the percentage applicable to the permitted securities
	(ii) a tradable commodity	40%

Column 1	Column 2	Column 3
Item	Description	Haircut percentage
(b)	the permitted underlying type of rate or index is a single type of—	
	(i) permitted interest rate	P
	(ii) currency exchange rate or tradable currency exchange rate index	5%
	(iii) tradable securities index	the highest of the haircut percentages applicable to each of the permitted securities which constitute the basket underlying the index, or the weighted average percentage applicable to the basket as calculated in accordance with an approval granted under section 58(5)(h)(i)

Column 1	Column 2	Column 3
Item	Description	Haircut percentage
	(iv) tradable commodity index	40%
2.	Special debt securities being specified convertible debt securities or a specified bond, where—	
	(a) the market value is more than the par value or nominal value, where—	
	(i) the underlying asset is shares	the percentage applicable to the underlying shares
	(ii) the underlying asset is a basket of shares	the highest of the haircut percentages applicable to each of the shares which constitute the basket, or the weighted average percentage applicable to the basket as calculated in accordance with an approval granted under section 58(5)(h)(i)

Column 1	Column 2	Column 3
Item	Description	Haircut percentage
	(b) the market value is equal to, or less than, the par value or nominal value	P
3.	Special debt securities being non-interest bearing debt securities	105% of P

Table 7

Haircut Percentages for Specified Securities

Column 1	Column 2	Column 3
Item	Description	Haircut percentage
1.	Warrants listed on a specified exchange	100%
2.	Equity-linked instruments, where—	
	(a) the underlying asset is an equity	the percentage applicable to the underlying equity

Column 1	Column 2	Column 3
Item	Description	Haircut percentage
(b)	the underlying asset is a basket of equities, or the underlying index is calculated by reference to a basket of equities	the highest of the haircut percentages applicable to each of the equities which constitute the basket, or the weighted average percentage applicable to the basket as calculated in accordance with an approval granted under section 58(5)(h)(ii)
3.	Units in a unit trust or shares in a mutual fund (<i>fund</i>) which is an authorized fund, a recognized jurisdiction fund or a specified exchange traded fund, where the fund has features or characteristics that—	
	(a) satisfy the descriptions in the UT Code for—	
	(i) warrant funds	40%

Column 1	Column 2	Column 3
Item	Description	Haircut percentage
	(ii) futures and options funds	40%
	(iii) hedge funds	40%
	(iv) structured funds	40%
	(v) funds that invest in financial derivative instruments	40%
	(vi) money market and cash management funds	5%
	(vii) index funds, but only if the fund tracks an equity index (being an index that is calculated by reference to a basket of equities) or a debt securities index (being an index that is calculated by reference to a basket of debt securities)	the highest of the haircut percentages applicable to each of the equities or debt securities which constitute the basket, or the weighted average percentage applicable to the basket as calculated in accordance with an approval granted under section 58(5)(h)(ii)

Column 1	Column 2	Column 3
Item	Description	Haircut percentage
(b)	satisfy the descriptions in the Code on Real Estate Investment Trusts published by the Commission under section 399 of the Ordinance for a REIT	30%
(c)	fall within more than one of the descriptions set out in paragraph (a) or (b)	the highest of the haircut percentages applicable to each of the descriptions
(d)	do not fall within any of the descriptions set out in paragraph (a), (b) or (c)	20%

Table 8**Haircut Percentages for Specified Investments**

Column 1	Column 2	Column 3
Item	Description	Haircut percentage %
1.	Gold coin or gold bullion	10

Column 1	Column 2	Column 3
Item	Description	Haircut percentage %
2.	<p>Interests in a collective investment scheme which—</p> <p>(a) falls within the meaning of paragraph (b) of the definition of <i>collective investment scheme</i> in section 1 of Part 1 of Schedule 1 to the Ordinance; and</p> <p>(b) is authorized by the Commission under section 104 of the Ordinance</p> <p>Note—</p> <p>Paragraph (a) refers to arrangements for the purchase of gold coins or gold bullion, as described in item 1 of the Schedule to the Securities and Futures (Collective Investment Schemes) Notice (Cap. 571 sub. leg. M).</p>	10
3.	A tradable commodity	40

Table 9**Haircut Percentages for Illiquid and Miscellaneous Investments**

Column 1	Column 2	Column 3
Item	Description	Haircut percentage %
1.	Illiquid investments	100
2.	Miscellaneous investments	100”.

36. Schedule 3 substituted

Schedule 3—

Repeal the Schedule**Substitute****“Schedule 3**

[s. 2 & Sch. 2]

Specified Exchanges**Part 1**

ASX Limited

Australian Securities Exchange Limited

Board of Trade of the City of Chicago, Inc.

Borsa Italiana S.p.A.
Cboe Exchange, Inc.
Chicago Mercantile Exchange, Inc.
Commodity Exchange, Inc.
Deutsche Börse AG
Eurex Frankfurt AG
Eurex Zürich AG
Euronext Amsterdam N.V.
Euronext Brussels S.A./N.V.
Euronext Paris S.A.
Hong Kong Futures Exchange Limited
ICE Futures Canada, Inc.

ICE Futures Europe
ICE Futures U.S., Inc.
Korea Exchange, Inc.
London Stock Exchange plc
Montréal Exchange Inc.
Nagoya Stock Exchange, Inc.
NASDAQ Copenhagen A/S
NASDAQ Helsinki Ltd
NASDAQ PHLX LLC
NASDAQ Stockholm AB
New York Mercantile Exchange, Inc.
New York Stock Exchange LLC
NYSE American LLC
NYSE Arca, Inc.

NZX Limited

Osaka Dojima Commodity Exchange

Osaka Exchange, Inc.

Oslo Børs ASA

SIX Swiss Exchange Ltd.

Sociedad Rectora de la Bolsa de Valores de Madrid, S.A.,
Sociedad Unipersonal

Société de la Bourse de Luxembourg S.A.

The London Metal Exchange Limited

The NASDAQ Stock Market LLC – NASDAQ Global Market

The NASDAQ Stock Market LLC – NASDAQ Global Select
Market

The Stock Exchange of Hong Kong Limited

Tokyo Commodity Exchange, Inc.

Tokyo Financial Exchange Inc.

Tokyo Stock Exchange, Inc.

TSX Inc.

Wiener Börse AG

Part 2

B3 S.A. – Brasil, Bolsa, Balcão

BSE Limited

Bursa Malaysia Derivatives Berhad

Bursa Malaysia Securities Berhad

China Financial Futures Exchange

Dalian Commodity Exchange

National Stock Exchange of India Limited

Shanghai Futures Exchange

Shanghai International Energy Exchange Co., LTD

Shanghai Stock Exchange

Shenzhen Stock Exchange

Singapore Exchange Derivatives Trading Limited

Singapore Exchange Securities Trading Limited

Taiwan Stock Exchange Corporation

Thailand Futures Exchange Public Company Limited
The Philippine Stock Exchange, Inc.
The Stock Exchange of Thailand
The Taiwan Futures Exchange Corporation
Zhengzhou Commodity Exchange”.

37. “must” substituted for “shall”

The following provisions, English text—

- (a) Section 4;
- (b) Section 5;
- (c) Section 7;
- (d) Section 10;
- (e) Section 13;
- (f) Section 14(1) and (2);
- (g) Section 16(1)(b);
- (h) Section 17;
- (i) Section 24(1) and (2);
- (j) Section 25(1) and (2);
- (k) Section 26;
- (l) Section 27(1), (2), (3), (4), (6) and (7);
- (m) Section 32;
- (n) Section 33;
- (o) Section 34(1) and (2);
- (p) Section 36;
- (q) Section 38;
- (r) Section 39(1) and (2);

- (s) Section 41(1) and (2);
- (t) Section 42(1) and (2);
- (u) Section 44(1);
- (v) Section 45(1), (2), (3), (4) and (5);
- (w) Section 46(1), (2) and (3);
- (x) Section 48(1) and (2);
- (y) Section 49(1);
- (z) Section 50;
- (za) Section 54(1) and (2);
- (zb) Section 57—

Repeal

“shall” (wherever appearing)

Substitute

“must”.

Ashley ALDER
Chief Executive Officer,
Securities and Futures Commission

12 October 2018

Explanatory Note

The main object of these Rules is to amend the Securities and Futures (Financial Resources) Rules (Cap. 571 sub. leg. N) (*principal Rules*) to clarify or expand certain requirements in the principal Rules relating to the manner in which a licensed corporation (*LC*), for the purposes of calculating its liquid capital and required liquid capital, is to account for its assets, liabilities and transactions.

2. Section 3 amends section 2 of the principal Rules to amend, repeal, substitute and add various definitions used in the principal Rules.
3. Section 4 adds new sections 2A, 2B, 2C, 2D, 2E, 2F and 2G to the principal Rules. New sections 2A, 2B, 2C, 2D, 2E and 2F respectively set out the meaning of *gross foreign currency position*, *haircut amount*, *haircut percentage*, *listed*, *miscellaneous investment* and *structured note*. New section 2G provides for the interpretation of references to “exchange” and “clearing house”.
4. Section 5 amends section 3(1)(b) of the principal Rules to repeal the reference to the manner in which a LC is to account for structured bonds.
5. Sections 6, 10, 13, 20, 24, 27, 31 and 33 respectively amend sections 6, 12, 19, 31, 40, 51, 55 and 58 of the principal Rules to make consequential amendments to refer to unlisted options contracts.

6. Sections 7, 8 and 9 amend Division 2 of Part 4 of the principal Rules to amend various matters concerning the computation basis for a LC's liquid capital and required liquid capital—
- (a) section 7 amends section 8 of the principal Rules to add requirements to account for illiquid and miscellaneous investments on a trade date basis;
 - (b) section 8 substitutes section 9 of the principal Rules to expand the list of instruments or assets to which that section 9 applies and to clarify how references to “market value” in the principal Rules are to be construed; and
 - (c) section 9 amends section 11 of the principal Rules to provide for the setting-off of certain amounts arising from cleared transactions in securities.
7. Sections 11 to 21 amend Division 3 of Part 4 of the principal Rules to amend various requirements relating to a LC's liquid assets—
- (a) section 12 adds new section 18A to the principal Rules to provide for the treatment of assets in respect of which remittance or exchange controls apply, and section 11 makes consequential amendments to section 18 of the principal Rules so that it does not apply to such assets;
 - (b) section 14 amends section 20 of the principal Rules to provide for the treatment of certain money held by a LC for the purposes of settling purchases of, or subscriptions for, securities;
 - (c) section 15 amends section 21 of the principal Rules to clarify the treatment of certain amounts receivable from clients in respect of purchases of, or subscriptions for, securities which are not yet due for settlement;

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- (d) section 16 amends section 22(4)(c), and the definition of *average monthly turnover* in section 22(5), of the principal Rules to clarify that a period of listing relates to a particular exchange, and section 22(4)(d) of the principal Rules to update the names of certain indexes;
 - (e) section 17 amends section 23 of the principal Rules to provide for the treatment of certain amounts receivable which are not yet due for settlement or which arise from cleared transactions in securities;
 - (f) section 18 amends section 28 of the principal Rules to provide for the treatment of certain amounts receivable by a LC from certain clearing houses arising from transactions cleared by the LC with the clearing houses;
 - (g) section 19 substitutes section 29 of the principal Rules to provide for the treatment of certain amounts receivable by a LC from futures or options clearing house participants arising from transactions cleared by them for the LC, and section 30 of the principal Rules to clarify the treatment of certain amounts receivable by a LC from clients in respect of purchases of exchange-traded unlisted options contracts; and
 - (h) section 21 amends section 35 of the principal Rules to provide for the treatment of certain underwriting fees receivable by a LC.
8. Sections 22 to 30 amend Division 4 of Part 4 of the principal Rules to amend various requirements relating to a LC's ranking liabilities—
- (a) section 22 adds new section 36A to the principal Rules to provide for the treatment of certain

- controlled assets which a LC elects to include in its liquid assets under new section 18A(3) of the principal Rules;
- (b) section 23 amends section 37 of the principal Rules to clarify the types of segregated accounts in which a LC may hold client money for the purposes of that section 37;
 - (c) section 25 amends section 43 of the principal Rules to provide for the treatment of illiquid and miscellaneous investments;
 - (d) section 26 amends section 47 of the principal Rules to clarify the treatment of certain net underwriting commitments;
 - (e) section 28 adds new section 51A to the principal Rules to provide for the treatment of certain foreign currency positions;
 - (f) section 29 amends section 52 of the principal Rules to make consequential amendments to remove references to foreign currency positions (to be provided for in new section 51A of the principal Rules), and to provide for the inclusion in ranking liabilities of certain amounts as a consequence of a LC electing to include certain controlled assets in its liquid assets under new section 18A(3) of the principal Rules; and
 - (g) section 30 amends section 53 of the principal Rules to provide for the treatment of certain liabilities arising from tenancy agreements in respect of premises used by a LC in carrying on a regulated activity.

9. Sections 32, 34 and 37 amend various sections of the principal Rules to make minor drafting amendments to the English text to substitute plain language expressions for the word “shall”.
10. Section 33 amends section 58 of the principal Rules to empower the Securities and Futures Commission to—
 - (a) specify ratings issued by Fitch Ratings for the purposes of approving a credit rating agency under section 58(1)(b) of the principal Rules;
 - (b) approve the calculation of haircut percentages relating to certain baskets of securities on a weighted average basis under new section 58(5)(h) of the principal Rules; and
 - (c) approve the setting-off of certain amounts for the purposes of new section 11(7) of the principal Rules.
11. Section 35 amends Schedule 2 to the principal Rules to vary certain haircut percentages applicable in certain calculations under Part 4 of the principal Rules, and to make consequential amendments to align the Schedule with the definitions of *haircut amount* and *haircut percentage* in new sections 2B and 2C of the principal Rules (as added by section 4)—
 - (a) section 35(2) substitutes Table 1 in the Schedule to set out haircut percentages for all listed shares, and to expand and restructure existing Tables 1, 2 and 3 in the Schedule for better presentation (section 35(3) repeals Tables 2 and 3), and substitutes Table 1A in the Schedule to set out haircut percentages for shares listed in Hong Kong for the purpose of calculating haircut amounts under section 22(1)(b)(i) of the principal Rules;
 - (b) section 35(5) to (15) amends Table 4 in the Schedule to add ratings by Fitch Ratings; and

- (c) section 35(16)—
 - (i) substitutes Table 5 in the Schedule to add definitions used in the Table and to amend the headings of the columns in the Table;
 - (ii) substitutes Table 6 in the Schedule to add definitions used in the Table and to set out more particular haircut percentages for certain special debt securities;
 - (iii) substitutes Table 7 in the Schedule to set out more particular haircut percentages for funds;
 - (iv) substitutes Table 8 in the Schedule for better clarity and presentation; and
 - (v) adds Table 9 in the Schedule to provide haircut percentages for illiquid and miscellaneous investments.

- 12. Section 36 substitutes Schedule 3 to the principal Rules to expand the list of specified exchanges and to update the names of several exchanges which are specified exchanges under the existing Schedule 3.