From :
The Institute of Securities Dealers Limited

CB(1)1470/98-99(01)

31st May 1999

To: Honorable Ronald Arculli
Chairman of the Legislative Council Bills Committee (Attn : Miss Szeto)

Re: Securities (Margin Financing) (Amendment) Bill 1999

We, the Institute of Securities Dealers Ltd., would like to raise the following points to the Committee for reference:

1. There is a need to regulate margin financing companies to avoid the risk of their mismanagement and to raise the confidence of the investing public. However, details of the provisions should be established by the Stock Exchange and the Securities and Futures Commission.
2. The set up of margin financing companies by non Stock Exchange members e.g. banks should be allowed to improve market turnover and flexibility.
3. The minimum paid up capital of a margin financing company should be HK$ 10 million.
4. In working out the concentrated position of a particular stock, one should consider its nature. We suggest that if the percentage of a Hang Seng Index stock is below 30% of the total value of the collateral, a Hang Seng Index 100 stock is below 15% and other non blue chip stock is below 10% of such value, the situation should not be regarded as concentrated position of a particular stock.
5. The restriction of margin financing to the shares of associated blue chip companies should be excluded.
6. In working out the concentrated position of a particular client, including its related parties, we suggest that its borrowing should exceed 20% of the value of the total loan.
7. The Bill proposes that if a securities dealer and its related margin financing company issue separate monthly statements to their clients, the statements do not need to specify whether the stocks are in custody or are held as collateral.
   For cash clients, their stocks are in the custody of the dealer and their monthly statements would indicate that such custody is in accordance with S81 of the Securities Ordinance and there is no need to specify the location of the custody. For margin clients, their stocks would automatically be held as collateral in the margin financing company. The agreement of a margin financing company has detailed such situation in the Risk Disclosure section, which is acknowledged by the client, and we believe that such disclosure on every monthly statement again is superfluous.
8. Similarly, the agreement of a margin financing company would have indicated the

period of authorization, the stating of such information on every monthly statement again is superfluous.

In conclusion, the fact that margin financing companies are not subject to any control is a loophole. The most simple way to regulate is to prohibit the formation of finance companies. They should merge with the securities companies, which are regulated by the Securities Ordinance. If the provisions of the Ordinance are inadequate, we should amend them.

In addition, the determination of concentrated position of a particular client (including its related party) should depend on individual case. If a firm has less than 10 margin clients, all of them could be 'concentrated'. In a hypothetical situation, if a firm has only 10 margin clients who borrow the same amount of money and the firm liquidates one of the accounts, the other 9 clients will become 'concentrated' at once.