



Financial Resources Rules Liquid Capital Computation

Part 2

**Requirements generally applicable to
other securities transactions**



Amount receivable from clients

[s.23]

- on a transaction-by-transaction basis

If securities are purchased on a cash-against-delivery basis -

- a) Admit in full if ageing not exceeding 5 days
- b) Ageing >5 days but < 1 month, cap at MV of the securities
- c) Fully write off if ageing of 1 month or above

If securities are purchased on a free delivery basis -

- a) If the clearing system of the exchange settles on this basis, admit in full if ageing not exceeding 2 weeks
- b) Otherwise, only admit balance which has not been overdue



Amount receivable from clients for securities subscription [s.21(5)]

On a transaction-by-transaction basis, at the lower of the following two amounts:

- 90% of the total cost of subscription
- amount receivable from clients for the subscription



Amount receivable from clearing houses [s.28]

Cash deposited and amount receivable from the following clearing houses admitted as liquid assets:

- Recognized clearing houses (other than client money held in segregated account)
- Euroclear Bank S.A./N.V. 、 Euroclear France S.A.
- Clearstream Banking S.A. 、 Clearstream Banking AG
- Korea Securities Finance Corporation



Ranking liabilities in respect of introducing business

- include in ranking liabilities the amount by which its required liquid capital would have been increased had one or more of the introduced transactions been included in the calculation of its variable required liquid capital [s.51]
- exceptions :
 - already accounted for such transaction; or
 - express agreement / clear market practice that exempts it from any liability in relation to such transaction; or
 - introduced to a group company which has entered into an execution or clearing agreement with the client and the licensed corporation is not liable to the client



Securities Borrowing and Lending

[s.15(1)]

Securities borrower

- Deemed to remain the owner of collateral provided by it (if beneficially owned by it)
- Deem cash deposited with lender as amount receivable [admit as liquid assets under s.32]
- Deemed not to own the securities borrowed



Securities Borrowing and Lending

[s.15(2)]

Securities lender

- Deemed to remain the owner of securities lent (if beneficially owned by it)
- Deemed not to own the collateral received by it
- Deem to have an amount payable to the borrower in the same amount as the cash deposit received from the borrower [include in ranking liabilities under s.45(4)]*

* except where the amount has been segregated and not included in its liquid assets



SBL risk adjustment as ranking liabilities [s.45(1)]

Securities Borrower

[cash deposit + (collateral's MV – haircut amount)]
– Securities' MV x 110%* or 50%**

- * Applicable to shares listed on specified exchange / qualifying debt securities / special debt securities
- ** Applicable to all other securities



SBL risk adjustment as ranking liabilities [s.45(2)]

Securities Lender (beneficially owner of the securities)

[Securities's MV – haircut amount]

– [bank guarantee + cash deposit + (collateral * MV – haircut amount) + (collateral ** MV x 50%)]

- * Applicable to shares listed on specified exchange / qualifying debt securities / special debt securities
- ** Applicable to all other securities



SBL risk adjustment as ranking liabilities [s.45(3)]

Securities Lender (NOT beneficially owner of the securities)

Securities's MV

– [bank guarantee + cash deposit + (collateral * MV – haircut amount) + (collateral ** MV x 50%)

- * Applicable to shares listed on specified exchange / qualifying debt securities / special debt securities
- ** Applicable to all other securities



Repurchase agreement [s.16(1)]

Securities buyer in the first instance

- Deem to have an amount receivable from the seller in the same amount as the purchase consideration [include in liquid assets under s.33]
- Deemed not to own the securities purchased by it



Repurchase agreement [s.16(2)]

Securities seller in the first instance

- Deemed to remain the owner of securities sold
- Deem to have an amount payable to the buyer in the same amount as the sale consideration [include in ranking liabilities under s.46(3)]



Repo risk adjustment as ranking liabilities [s.46(1)]

Securities buyer in the first instance

Purchase consideration

– Securities' MV x 110%* or 50%**

* Applicable to shares listed on specified exchange / qualifying debt securities / special debt securities

** Applicable to all other securities



Repo risk adjustment as ranking liabilities [s.46(2)]

Securities seller in the first instance

[Securities's MV – haircut amount]

– [bank guarantee + sale consideration + (collateral * MV – haircut amount) + (collateral ** MV x 50%)]

* Applicable to shares listed on specified exchange / qualifying debt securities / special debt securities

** Applicable to all other securities



Simple one-to-one offsetting positions relief

- Shares / Options / Futures hedging
- Shares + Call warrant issue
- Stock borrowing + short selling / cover call stock option

Illustrative example 2



Q & A