

**21. Amounts receivable from clients in respect of purchase of and subscription for securities**

- (2) A licensed corporation may elect in respect of all its clients to set-off, on a client-by-client basis, any amount receivable from, and amount payable to, a client where such amounts arise from the purchase and sale of securities by the client on a cash-against-delivery basis, and the licensed corporation has obtained from the client a written authorization to –
- (a) set-off such amounts against each other; and
  - (b) dispose of securities held for the client for the purpose of settling any of the amounts payable by the client to the licensed corporation.
- (3) Subject to subsection (7), where a licensed corporation makes an election under subsection (2), it shall include in its liquid assets in respect of the amount receivable by it from and the amount payable by it to a client which arise from the purchase and sale of securities by the client on a cash-against-delivery basis the amount which is the lower, when calculated on a client-by-client basis, of –
- (a) any amount receivable that remains after the set-off referred to in subsection (2) less any specific provision for bad or doubtful debts made in respect of such amount receivable; and
  - (b) the market value of the securities held for the client, less the haircut amounts in relation to the securities.

**Remark:** This sections offers licensed corporations an alternative treatment of client receivable and payables instead of the gross basis. Licensed corporations can continue to adopt the gross basis if they do not wish to apply this section.

**Example:**

On 10.2.2003

- (a) Bought 100,000 shares of “A Ltd” at \$3,000,000
- (b) Sold 50,000 shares of “B Ltd” at \$2,000,000

Stock held for the client at day end:

	(on trade date basis)	(on settlement date basis)
“A Ltd”	100,000 shares (MV\$3,200,000)	
“B Ltd”		50,000 shares (MV\$1,900,000)
“C Ltd”	80,000 shares (MV\$500,000)	80,000 shares (MV\$500,000)

Haircut percentage for stock “A Ltd”, “B Ltd” and “C Ltd” is 30%

**Answer:**

Net receivable remains after setting off the purchase and sale items in (a) and (b)

$$\begin{aligned} &= \$3,000,000 - \$2,000,000 \\ &= \$1,000,000 \end{aligned}$$

After-haircut-value of stocks held for the client

$$\begin{aligned} &= [\$3,200,000 \times 70\% + \$500,000 \times 70\%] \\ &= [\$2,240,000 + \$ 350,000] \\ &= \$2,590,000 \end{aligned}$$

Amount to be included in liquid assets

$$= \$1,000,000$$

Remarks: In calculating liquid capital, amounts payable that have already been set off with amounts receivable under this section need not be counted as adjusted liabilities. If the set off results in a net payable, such net payable should be included in the adjusted liabilities.