Date: 31 May 2011
Subject: Submission of Comments regarding Consultation Paper

We set out below our comments regarding a consultation paper entitled "Proposed Amendments to the Securities and Futures (Financial Resources) Rules":

Our firm is a financial industry consulting firm specialising in compliance for intermediaries. We work with a large number of financial intermediaries on compliance topics including work relating to Cap571N of the laws of Hong Kong.

The views expressed in this submission are those of our firm and do not necessarily represent the views of any client of our firm.

We support the proposed amendments to Cap571N.

We are disappointed that the Commission has not used this opportunity to further amend Cap571N. There are many difficulties encountered by firms regulated by the SFC in Hong Kong in respect of Cap571N that require attention. These issues briefly are:

1 - the anomaly that a firm selling its own collective investment schemes ("CIS") requires significantly more issued and liquid capital than a firm also selling its own CIS but exercising management of that CIS in Hong Kong. We submit that the required liquid and issued capital should be the same as both business present the same prudential risk.
2 - the anomaly that funds deposited with a bank in Hong Kong are given full value for the purposes of calculating liquid capital whereas funds deposited with Clearing Brokers outside of Hong Kong are not. We submit that the definition should be broader to include these types of deposits.
3 - the anomaly that a corporation cannot apply for a subordinated loan during the licensing process but must wait until it is licensed to do so. We submit that an application should be able to be made at any time.
4 - the anomaly that a liability arising from a trade between trade date and settlement must be calculated as a liability despite the fact that it is highly likely to settle. We submit that only failed trades should be treated in this manner.
5 - the anomaly that Type 9 licensed firms in Hong Kong should complete any form of liquid capital calculation. We submit that they should only complete an annual declaration of solvency without the requirement to monitor or report on any of the

current requirements of Cap571N.
In each of these cases the result is increased compliance costs, increased audit costs and over capitalisation of entities in Hong Kong. Hong Kong can make itself a more attractive target for institutional investment in operations without any increase in risk to the investing public in Hong Kong with these changes.

Sincerely,

ComplianceAsia
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