



Pan Asia Securities Lending Association Limited
Proposed Guidelines for Securities Margin Financing Activities

The proposed guidelines provide qualitative guidance and, where appropriate, quantitative benchmarks on seven key risk control areas, namely:

- i) Total margin loans controls
- ii) Margin client credit limit controls
- iii) Securities collateral concentration controls
- iv) Margin client concentration controls
- v) Haircuts for securities collateral
- vi) Margin calls, stopping further advances and forced liquidation
- vii) Stress testing

Total margin loans controls

1. Do you agree that an SMF broker should control its total margin loans with reference to the amount of its capital? **Yes**
2. Do you agree that the proposed guidelines should provide a benchmark for the total margin loans-to-capital multiple? **Yes**
3. During the soft consultations, some respondents recommended setting the benchmark for total margin loans-to-capital multiple at two to five times. Within the suggested range of two to five times, what do you think is the appropriate quantitative benchmark for total margin loans-to-capital multiple? Please provide the rationale for your comment or suggestion. **We suggest an appropriate quantitative benchmark of two depending. The multiple should be based on the SMF liquidity profile and capital and the clients risk profiles**
4. Do you agree that a higher benchmark for total margin loans-to-capital multiple should apply to a broker that does not use approved subordinated loans as regulatory capital than to a broker that does? **Yes** .

Margin client credit limit controls

5. While “group of related margin clients” is defined in section 42(3) of the FRR, do you agree that the coverage of related margin clients should be extended, eg, to include margin accounts which are held by the same beneficial owner for the purposes of monitoring aggregate credit risk exposures? **Yes**

Securities collateral concentration controls

6. Do you agree that exposures to different securities held as collateral which are highly correlated should be aggregated for the purposes of monitoring concentration risk? **Yes**
7. Do you agree with the definition of “highly correlated securities” set out in paragraph 38 above? **Yes**



8. Do you consider that constituent stocks of any other stock indices should also be treated as index stocks for the purposes of paragraph 43 above? Please provide the rationale for your suggestion. Yes as long as the assets are high quality assets

9. During the soft consultations, some respondents suggested setting X% at between 30% and 50%, and Y% at between 20% and 25%. Within these suggested ranges, what percentages do you consider as appropriate benchmarks? Please provide the rationale for your suggestion. We suggest a 20% range as appropriate to mitigate potential risk

Margin client concentration controls

10. Do you think that as a quantitative benchmark, margin client concentration should be measured with reference to the broker's shareholders' funds? If not, what is your alternative suggestion? Please provide the rationale for your suggestion. Yes. Shareholders funds should only be one consideration and not the sole determining factor. The amount that a broker engages in from a capital perspective is important as an overall decision, but the quality of the collateral and the liquidity of that pool are equally important.

11. During the soft consultations, some respondents recommended setting the quantitative benchmark for margin client concentration at between 20% and 40% of a broker's shareholders' funds. Within this suggested range, what percentage do you think is appropriate for benchmarking purpose? Please provide the rationale for your suggestion. It would depend on the type of bank and their funding strategy / durability. 25% but with the aforementioned considerations allowing that to be higher if the lending is deemed higher quality, or lower if there were concentration risks.

12. Do you have any comment on the basis for determining whether a margin loan is a significant margin loan? This would be two fold. Firstly where you are lending money against multiple days of ADV, on an overall basis as well as an individual loan. It would also be where you start to lend more than 10% of your total SMF capacity to a single counterparty.

13. What should be the appropriate percentage with reference to the broker's shareholders' funds for determining whether a margin loan is significant? Please provide the rationale for your suggestion. It should not be just based on the % of shareholders funds as a determination of significant. Single loans that represent more than 1% of the banks equity should require closer monitoring, but is not too large. Anything exceeding 5% of equity capital would be significant, or 20% of the total margin capacity.

Haircuts for securities collateral

14. During the soft consultations, some respondents commented that X% in paragraph 64(b) above should be set at 15% to 20%. What percentage point within this range do you think is appropriate? Please provide the rationale for your suggestion. The percentage should be dependent on the quality of the collateral, and, as suggested, not lower than the haircut assigned by its lending banks. The liquidity and concentration of the collateral portfolio will be taken into consideration when determining the quality of the collateral.



Margin calls, stopping further advances, forced liquidation

15. Do you agree that total unsettled margin calls should not exceed the shareholders' funds of an SMF broker? Please provide the reason for your comment. **Yes, we would suggest margin calls to be settled on T+1 basis**

16. During the soft consultations, some respondents indicated that a margin call which has remained outstanding for more than 30 days to 90 days should be treated as a long-outstanding margin call. Within this suggested range, at which point do you think a margin call should be treated as a long-outstanding margin call? **As per above**

17. During the soft consultations, some respondents recommended limiting total long-outstanding margin calls to between 20% and 25% of an SMF broker's shareholders' funds. Within this suggested range, what percentage do you think is appropriate? Please provide the rationale for your suggestion. **We suggest a lower amount to mitigate potential risk**

Stress testing

18. During the soft consultations, some respondents suggested applying a 15% to 30% hypothetical price drop where the collateral pool mainly comprised index stocks, whereas for a collateral pool comprised few index stocks, the hypothetical price drop should be between 30% and 50%. Do you have any suggestions on the hypothetical price drop percentage to be applied in each of the scenarios (ie, X%, Y% and Z%) suggested in paragraph 85 above? Please provide the reason for your suggestion.

19. As regards the weighting of index stocks in the collateral pool in each of the hypothetical scenarios suggested in paragraph 85 above (ie, 75% and 25%), do you agree with the suggested thresholds as the dividing line for distinguishing a high-quality collateral pool from a low-quality collateral pool? Please provide the reason for your suggestion.

20. Do you consider that constituent stocks of any other stock indices should be treated as index stocks for the purposes of paragraph 85 above? Please provide the reason for your suggestion. **Yes we recommend taking into account Tier 1 capital under Basel 3 definition**

21. Do you agree that 10% is an appropriate threshold for the definition of "significant group of highly correlated securities"? Please provide the reason for your suggestion.

22. Do you agree that 10% is an appropriate threshold for the definition of "significant re-pledged securities collateral" and "significant group of highly correlated re-pledged securities collateral"? Please provide the reason for your suggestion.

Implementation timeline



23. Do you think that a six-month transition period is appropriate? Please provide the reason for your suggestion. Yes given that monitoring processes are already in place at SMF brokers, the proposed guidelines are defining the parameters