

Example 2

<u>Assets</u>	(HK\$'000)	Note
ABC 5% 28/02/2007 Bond (S&P rating: A)	100,000	1 & 2
10,000 shares in "X Ltd" (a HSI constituent)	1,000	3 & 4
"X Ltd" \$95 put option (underlying 4000 shares, traded on the recognised stock market)	20	4
Cash deposit with stock lender in respect of 100,000 shares "Y Ltd" borrowed (a non-HSI constituent)	1,200	5
Cash at bank and in hand (1 month time deposit + savings)	<u>27,780</u>	
Total	<u>130,000</u>	
<u>Liabilities</u>		
Short position in 100,000 shares in "Y Ltd" (at MV)	1,000	5 & 6
Payable to group companies	<u>99,000</u>	
Total	<u>100,000</u>	
Shareholders funds	<u><u>30,000</u></u>	

Note

1. ABC 5% 28/02/2007 Bond:
 Haircut percentage = 2% (Table 4 Schedule 2) + 4% (Table 5 Schedule 2) = 6%
 Liquid assets = \$100,000,000 x (100 – 6) % = \$94,000,000
2. Concentration adjustment for proprietary position
 ABC 5% 28/02/2007 Bond: \$100,000,000 x 10% = \$10,000,000
3. 6000 shares in "X Ltd"
 Liquid assets = (\$1,000,000 /10000) x 6000 x (100 – 15) % = \$510,000
4. 4000 shares in "X Ltd" and "X Ltd" \$95 put option
 Liquid assets = \$380,000, i.e. the higher of the following amounts:
 - (a) 4000 x \$95 = \$380,000
 - (b) (\$1,000,000/10,000) x 4000 x (100 – 15) % + \$20,000 x 60% = \$352,000
5. "Y Ltd" shares - Stock borrowing for short selling
 Ranking liabilities financial adjustment = \$300,000, i.e. the higher of the following amounts:
 - (a) Ranking liabilities financial adjustment for stock borrowing
 = \$1,200,000 - \$1,000,000 x 110% = \$100,000
 - (b) Ranking liabilities financial adjustment for short selling "Y Ltd" shares
 = \$1,000,000 x 30% = \$300,000
6. Ranking liabilities for short selling "Y Ltd" shares = \$1,000,000

Item	Assets	section ref. (Note 3)		Amounts included in		
				Liquid capital computation (HK\$'000)	Balance sheet (HK\$'000)	
5	Bank balances - held in segregated accounts - held in other accounts and cash in hand (Note 4)	20	[1007]			[1008]
			[1009]	27780	27780	[1010]
6	Amounts receivable from margin clients (Note 5)	22(1) & (2)	[1011]			[1012]
7	Amounts receivable from clients for subscription of securities	21(5)	[1013]			[1014]
8	Amounts receivable from rolling balance cash clients	21(2), (3) & (6)	[1015]			[1016]
9	Other amounts receivable from clients arising from dealing in securities	21(1), (4) & (6)	[1017]			[1018]
10	Amounts receivable from licensed corporations licensed for securities margin financing	24(2) & 25	[1019]			[1020]
11	Proprietary positions in securities and specified investments	27	[1021]	94890	101000	[1022]
12	Proprietary positions in exchange traded options contracts	31	[1023]	0	20	[1024]
13	Amounts receivable from clients arising from dealing in exchange traded options contracts	30	[1025]			[1026]
14	Amounts receivable from securities dealers arising from dealing in securities	23 & 24(1)	[1027]			[1028]
15	Amounts receivable from securities/futures dealers or clearing participants arising from dealing in futures or options contracts	29	[1029]			[1030]
16	Amounts receivable from clearing houses - Hong Kong Securities Clearing Company Limited ("HKSCC") - The SEHK Options Clearing House Limited ("SEOCH") - HKFE Clearing Corporation Limited ("HKFECC") - Euroclear Bank S.A./N.V., Euroclear France S.A., Clearstream Banking S.A., Clearstream Banking AG or Korea Securities Finance Corporation - other clearing houses	28	[1031]			[1032]
			[1033]			[1034]
			[1035]			[1036]
			[1037]			[1038]
			[1039]			[1040]
17	Amounts receivable from recognized counterparties and floating profits in respect of open positions arising from leveraged foreign exchange trading	34	[1041]			[1042]
18	Other assets arising from - advising on securities and/or futures contracts - advising on corporate finance - asset management - amounts receivable from group companies or other related parties - others	26, 32, 33 & 35	[1043]			[1044]
			[1045]			[1046]
			[1047]			[1048]
			[1050]	1200	1200	[1049]
			[1051]			[1051]
19	Total liquid assets (aggregate of amounts in items 5 to 18)		[1052]	123870		
20	Fixed assets					[1053]
21	Total assets (aggregate of amounts in items 5 to 18 & 20)				130000	[1054]

Item	Liabilities	section ref.		Amounts included in		
				Liquid capital computation (HK\$'000)	Balance sheet (HK\$'000)	
22	Short positions in securities and specified investments held for own account	43(1)	[1055]	1000	1000	[1056]
23	Amounts payable to clients	37 & 38	[1057]			[1058]
24	Amounts payable to securities dealers arising from provision of securities margin financing to common clients	39(2)	[1059]			[1060]
25	Amounts payable to clearing houses	37				
	- HKSCC		[1061]			[1062]
	- SEOCH		[1063]			[1064]
	- HKFECC		[1065]			[1066]
	- Euroclear Bank S.A./N.V., Euroclear France S.A., Clearstream Banking S.A., Clearstream Banking AG or Korea Securities Finance Corporation		[1067]			[1068]
	- other clearing houses		[1069]			[1070]
26	Amounts payable to licensed corporations licensed for securities margin financing and other securities dealers in respect of dealing in securities	37 & 39(1)	[1071]			[1072]
27	Amounts payable to securities/futures dealers or clearing participants in respect of dealing in futures or options contracts	37	[1073]			[1074]
28	Other payables and liabilities	53(1)(a) – (e) & (h)				
	- loans and overdrafts from authorized financial institutions		[1075]			[1076]
	- loans and overdrafts from other financial institutions		[1077]			[1078]
	- amounts payable to group companies or other related parties		[1079]	99000	99000	[1080]
	- accruals, amounts payable and other liabilities other than approved subordinated loan		[1081]			[1082]
29	Provisions for contingent liabilities and floating losses	41(1)(b), 53(1)(f) & (g)	[1083]			[1084]
30	Approved subordinated loan	53(2)(a)				[1085]
31	Ranking liabilities relating to					
	- gearing adjustment in respect of securities margin financing	42(2)	[1086]			
	- short selling of securities on behalf of clients	43(10)	[1087]			
	- futures & options contracts	40	[1088]			
	- concentration of margin clients	42(1)	[1089]			
	- increase in amounts in respect of short positions held for own account	43(2) - (9)	[1090]	300		
	- concentrated proprietary positions	44	[1091]	10000		
	- securities borrowing and lending and repurchase transactions	45 & 46	[1092]			
	- introduction of transactions to another person for execution or clearing	51	[1093]			
	- net underwriting commitments	47	[1094]			
	- off-exchange traded derivative contracts and interest rate swap agreements	48 & 49	[1095]			
	- guarantees and other financial commitments	52(1)(a)	[1096]			
	- foreign exchange agreements and foreign currency positions	50 & 52(1)(d)	[1097]			

Item	Liabilities	section ref.		Amounts included in	
				Liquid capital computation (HK\$'000)	Balance sheet (HK\$'000)
	- insufficient margin received for leveraged foreign exchange trading - miscellaneous ranking liabilities	41(1)(a) & 41(2) 52(1)(b) & (e)	[1098] [1099]		
32	Total liabilities (aggregate of amounts in items 22 to 30)				100000 [1100]
33	Redeemable shares (other than approved redeemable shares)	52(1)(c)	[1101]		
34	Total ranking liabilities (aggregate of amounts in items 22 to 29, 31 & 33)		[1102]	110300	
35	Liquid capital (amount in item 19 less amount in item 34)		[1103]	13570	
36	Required liquid capital	2	[1104]	5000	
37	Excess liquid capital/(Required liquid capital deficit) (amount in item 35 less amount in item 36)		[1105]	8570	
38	Shareholders' funds (amount in item 21 less amount in item 32) (Note 6)				30000 [1106]

Note 3: Unless specified otherwise, references to sections/subsections in the financial return are to sections/subsections of the Securities and Futures (Financial Resources) Rules and are made for the purpose of identifying the amounts to be included in the financial return.

Note 4: Amounts of "bank balances held in other accounts and cash in hand" included in liquid assets are comprised of:

Bank balances –	(HK\$'000)	
- Encumbered or pledged		[1107]
- Unencumbered		[1108]
Cash in hand		[1109]
Amounts included in cell 1009		[1110]

Note 5: Margin shortfall under section 22(2) is calculated on:

	(Select where appropriate)	
- Trade date basis	()	[1111]
- Settlement date basis	()	[1112]

Note 6: Analysis of shareholders' funds section ref.

	(HK\$'000)	
Paid-up share capital	5	[1113]
Retained profits/(accumulated losses)		[1114]
Other reserves		[1115]
Amounts included in cell 1106		[1116]

**FORM 2 REQUIRED LIQUID CAPITAL COMPUTATION
AS OF THE END OF THE REPORTING MONTH**

	section ref.	(HK\$'000)
(I) Floor requirement: HK\$100,000, HK\$500,000, HK\$3,000,000 or HK\$15,000,000 (A)	Table 2 in Schedule 1	3000 <small>[2000]</small>
(II) Variable required liquid capital	2	(HK\$'000)
On-balance sheet liabilities including provisions made for liabilities already incurred or for contingent liabilities (B)		100000 <small>[2001]</small>
Less: Accounts payable to clients for:		
- client money held in segregated account in accordance with Securities & Futures (Client Money) Rules (C)		<small>[2002]</small>
- other client money held in segregated account with authorized financial institutions and/or with approved banks incorporated outside Hong Kong (D)		<small>[2003]</small>
- client money held in segregated account with futures or options clearing house (E)		<small>[2004]</small>
Client money held by clearing house other than futures or options clearing house, clearing participant, futures dealer or securities dealer as margin (F)		<small>[2005]</small>
Approved subordinated loan (G)		<small>[2006]</small>
Adjusted liabilities (H) = (B) – (C) – (D) – (E) – (F) – (G)	2	100000 <small>[2007]</small>
Add: Aggregate of initial margin requirements and amounts of margin required to be deposited in respect of outstanding futures and options contracts held on behalf of clients (I)		<small>[2008]</small>
Aggregate of adjusted liabilities and clients' margin (J) = (H) + (I)		100000 <small>[2009]</small>
Basic amount (K) = (J) x 5%	2	5000 <small>[2010]</small>
Add: 1.5% of aggregate gross foreign currency position for licensed corporation licensed for leveraged foreign exchange trading (L)		<small>[2011]</small>
Variable required liquid capital (M) = (K) + (L)		5000 <small>[2012]</small>
(III) Required liquid capital (being the higher of (A) and (M))	2	5000 <small>[2013]</small>