

## **Notes on Financial Reporting Obligations to the SFC**

**(Brief note only for guidance on general obligations)**

**(Information as of January 2014)**

### **Disclaimer**

Please note that this list is not exhaustive. For all details, you should check information on the SFC website [www.sfc.hk](http://www.sfc.hk) regularly. You should regularly check with your other relevant service providers who may be responsible for these items such as auditors, external lawyers, prime brokers, custodians, administrators, company secretaries etc.

### **(1) Financial Resources Return Filing (FRR)**

Points to note:

- All SFC licensed corporations are required to comply with the Securities and Futures (Financial Resources) Rules (“FRR Rules”) on their minimum paid-up capital and liquid capital requirements (please see Appendix)
- Daily monitoring of the required Liquid Capital
- Regular filing with the SFC of the FRR to demonstrate compliance with the FRR Rules
- For Type 1, 2, 3, 7 & 8 – monthly filing with a filing deadline of 21 calendar days of the monthly period end (i.e. on or before 21 Feb for period ending Jan)
- For Type 4, 5, 6, 9 & 10 (subject to the licensing condition of not holding clients’ assets) – bi-annual filing with a filing deadline of 21 calendar days of the bi-annual period end (i.e. on or before 21 calendar days after the period ending June or December)
- Filing must be done electronically as such licensed corporations must apply for a E-FRR token from the SFC, application form may be downloaded from the SFC website

<http://www.sfc.hk/sfc/html/EN/forms/supervision/return/return.html>

- The E-filing should be completed by the Company and reviewed by the Responsible Officer prior to filing with the SFC

**Notification Obligations to the SFC**

The relevant SFC licensed corporation shall notify the SFC in writing as soon as reasonably practicable and in any event within **1 business day** of becoming aware of any of the following matters:

- (a) its liquid capital falls below 120% of the required liquid capital (e.g. if it falls below HK\$3,600,000 for Type 1 licensed corporation, HK\$120,000 for Type 4 & 9 licensed corporation not holding clients' assets);
- (b) a required liquid capital deficit occurs, but the relevant SFC licensed corporation is regarded as having complied with the minimum required liquid capital requirement by virtue of section 6(3) of the FRR;
- (c) its liquid capital falls below 50% of the last reported liquid capital;
- (d) any information contained in any of its previous returns submitted to the SFC has become false or misleading in a material particular;
- (e) its liquid capital falls below the required liquid capital if it did not have any approved subordinated loan;
- (f) it exceeds any borrowing limits, is unable to meet any repayment demands from lenders, or any lenders have liquidated or have notified an intention to liquidate any collateral security;
- (g) the aggregate of its commitments etc. or claims made against it, exceeds HK\$5 million, or if deducted from its liquid capital, would reduce it to below 120% of the required liquid capital;
- (h) if it has made any insurance claim under its professional indemnity insurance policy;
- (i) any commitment, including a guarantee, has been provided on its behalf by a group company to an exchange or clearing house.

**(2) Financial Record Keeping**

The Company shall keep its records in sufficient detail to establish readily whether all of the requirements under the financial resources rules are being complied with and where required by the SFC, make its records available to the SFC within 5 business days.

Where the SFC reasonably believes that the Company is unable to maintain, or to ascertain whether it maintains, financial resources in accordance with the specified amount requirements, the SFC has the power, in certain circumstances, to suspend the Company's licence.

A person who contravenes the above commits an offence and is liable on conviction to a fine and imprisonment.

### **(3) Submission of Audited Account**

- Filing deadline: within 4 months after the end of each financial year (i.e. financial year end of 31 Dec, filing deadline will be on or before 30 April of the following year)
- Filing can either be done by the licensed corporation, external accountant or the licensed corporation auditor
- Documents to be filed include:
  - Audited account statement (audited report);
  - Audit Questionnaire (prepared by auditor enclosing the immediate relevant year end FRR);
  - Account Disclosure Documents for Licensed Corporation (auditor will review); and
  - Business and Risk Management Questionnaire.

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**APPENDIX**

**Minimum paid-up share capital and liquid capital requirements**

<b>Regulated activity</b>	<b>Minimum paid-up share capital (in HK\$)</b>	<b>Minimum liquid capital (in HK\$)</b>
<b>Type 1</b>		
(a) in the case where the corporation is an approved introducing agent or a trader	Not applicable	\$500,000
(b) in the case where the corporation provides securities margin financing	\$10,000,000	\$3,000,000
(c) in any other case	\$5,000,000	\$3,000,000
<b>Type 2</b>		
(a) in the case where the corporation is an approved introducing agent, a trader or a futures non-clearing dealer	Not applicable	\$500,000
(b) in any other case	\$5,000,000	\$3,000,000
<b>Type 3</b>		
(a) in the case where the corporation is an approved introducing agent	\$5,000,000	\$3,000,000
(b) in any other case	\$30,000,000	\$15,000,000

**Type 4**

(a) in the case where in relation to Type 4 regulated activity, the corporation is subject to the licensing condition that it shall not hold client assets	Not applicable	\$100,000
(b) in any other case	\$5,000,000	\$3,000,000

**Type 5**

(a) in the case where in relation to Type 5 regulated activity, the corporation is subject to the licensing condition that it shall not hold client assets	Not applicable	\$100,000
(b) in any other case	\$5,000,000	\$3,000,000

“Approved introducing agent” means a licensed corporation approved as such under section 58(4) of the *Securities and Futures (Financial Resources) Rules*.

“Trader” means a licensed corporation licensed for Type 1 or Type 2 regulated activity which does not hold client assets or handle clients’ orders and, in carrying on the regulated activity for which it is licensed, conducts no business other than effecting, or offering to effect, dealings in securities, futures contracts or options contracts for its own account.

“Futures non-clearing dealer” means a licensed corporation licensed for Type 2 regulated activity which is an exchange participant of a recognized futures market, but is not a clearing participant of a recognized clearing house.

**Type 6**

(a) in the case where in relation to Type 6 regulated activity, the corporation is subject to the licensing condition that it shall not hold client assets	Not applicable	\$100,000
(b) in any other case	\$5,000,000	\$3,000,000

<b>Type 7</b>	\$5,000,000	\$3,000,000
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<b>Type 8</b>	\$10,000,000	\$3,000,000
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**Type 9**

(a) in the case where in relation to Type 9 regulated activity, the corporation is subject to the licensing condition that it shall not hold client assets	Not applicable	\$100,000
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(b) in any other case	\$5,000,000	\$3,000,000
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**Type 10**

(a) in the case where the licensed corporation in question is subject to the specified licensing condition that it shall not hold client assets	Not applicable	\$100,000
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(b) in any other case	\$5,000,000	\$3,000,000
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