

45 forex firms ask SFC for licences

By DUNCAN HUGHES

THE Securities and Futures Commission (SFC) says 45 companies have applied to be authorised leveraged foreign exchange traders.

It has also received 2,063 applications from representatives — or agents — of the companies to continue trading while their applications are processed.

Companies which failed to apply for a licence by last Saturday and which continue to do business face fines or imprisonment.

Michael Wu, executive director of the commission, said the final number of applications was in line with its revised estimates of 50 companies and 2,500 representatives.

One company made applications for 700 representatives, and in another case the directors of a company were the only applicants.

The commission would not estimate how long it would take to process the applications but, based on experience in other financial sectors, it could be up to three months.

Companies whose applications were rejected would be obliged to wind down their businesses within 14 days of the date of rejection.

A team of 10 was selected

to undertake the licensing, supervision and enforcement of dealing.

The new regulations were brought into effect on September 1 and companies and their representatives were given 30 days to apply for a licence.

Mr Wu said: "It is not possible to say how many will be approved at this time because we have not had time to assess the applications."

The central plank of the reforms is stringent capital and liquidity requirements to ensure that licensed traders have adequate resources to cover the risks involved in the highly volatile markets.

A licensed trader would have to maintain issued and paid-up capital of at least \$30 million and liquid capital — liquid assets less ranking liabilities — of not less than \$25 million.

Intermediaries who introduce brokers to clients may apply for a lower share capital requirement of \$5 million and a liquid capital requirement of \$3 million.

The aggregate gross position for all foreign currencies of a licensed trader must not be higher than 60 times its liquid capital.

Mr Wu said the number of applications should allay fears that the regulations would lead to leveraged foreign exchange dealing being

monopolised by banks and large financial houses.

He said: "Assuming those that applied for licences receive them, 45 is not a bad number. It should give investors sufficient choice."

Moves by the monetary authorities to bring their regulations in line with the commission's should ensure a level playing field, he added.

Regulatory authorities and police developed a plan to crack down on unauthorised dealing within the territory.

Mr Wu said: "I am extremely relieved that fear of companies folding or running away with investors' money during the transitional period did not materialise."

But there are growing concerns that some dealers could try to beat the regulations by moving their business into either China or Macau.

Mr Wu said: "I would think moving across the border to China would be highly unlikely. The authorities have clamped down very hard on financial futures activities. There have been very clear indications and edicts from Beijing that they would not allow companies to produce futures products and foreign exchange contracts."

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Forex firms apply to SFC

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"There have been reports that companies have been setting up shop in Macau. I have no information. The commission has no authority on restricting choice of investors to invest in overseas markets. There is no way we can restrict [unauthorised leveraged foreign exchange dealers] or detect them. But companies that feel they cannot survive in a regulated market should pose a doubt in the investors' minds about their integrity."

Mr Wu denied suggestions that the licensing criteria was too strict, claiming that it had received support from the industry.

He said the 14-day winding down period for those companies whose applications are rejected would ensure that business would be transferred in an orderly fashion.

"The commission does not have any information about the number that were in the business prior to the announcement of the legislation. I therefore cannot assess the number that have not applied for a licence. We also have no idea as to how many might have moved to China or Macau."