GENERAL INDEFINITE BACKWARD STOCHASTIC LINEAR-QUADRATIC OPTIMAL CONTROL PROBLEMS

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Abstract. A general backward stochastic linear-quadratic optimal control problem is studied, in which both the state equation and the cost functional contain the nonhomogeneous terms. The main feature of the problem is that the weighting matrices in the cost functional are allowed to be indefinite, and the cross-product terms in the control and the state processes are present. Necessary and sufficient conditions for the solvability of the problem are obtained, and a characterization of the optimal control in terms of forward-backward stochastic differential equations is derived. By a Riccati equation approach, a general procedure for constructing optimal controls is developed and the value function is obtained explicitly.

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1. Introduction

Due to its wide range of applications, the theory of stochastic optimal control developed rapidly in the past few decades. Stochastic control is a natural and effective method that can solve uncertainty, interference, and ambiguity emerging in real-world control problems. As an important class of optimal control problems, the forward stochastic linear-quadratic (LQ, for short) problem has been studied by a lot of researchers (see Wonham [18] and Davis [4], and the references cited therein).

In the historical development of stochastic optimal control, the backward stochastic differential equation (BSDE, for short) plays a central role, which was introduced by Bismut [1] for the linear case and by Pardoux–Peng [10] for the nonlinear situation. Linear BSDEs serve as the adjoint equation of the state equation in the study of the maximum principle of stochastic optimal control problems (see Bismut [1] and Yong–Zhou [19]). Control problems of BSDEs are also attractive and important, not only due to the theoretical level, but also...
their applications in finance; see, for example, Ma–Yong [9], Pham [11], Peng [12], Zhang [20], Wen–Li–Xiong [17], and the references cited therein.

In this paper, we study a class of quadratic control problems for linear BSDEs with nonhomogeneous terms, in which the weighting matrices in the cost functional are allowed to be indefinite and cross-product terms in the control and the state processes are present. To precisely state our problem, let \((\Omega, F, \mathbb{P})\) be a complete filtered probability space on which a one-dimensional standard Brownian motion \(W = \{W(t); t \geq 0\}\) is defined, where \(F = \{F_t\}_{t \geq 0}\) is usual augmentation of the natural filtration generated by \(W\). For a random variable \(\xi\), we write \(\xi \in F_t\) if \(\xi\) is \(F_t\)-measurable; and for a stochastic process \(\varphi\), we write \(\varphi \in F\) if it is progressively measurable with respect to \(F\). Consider the following controlled linear BSDE on a finite horizon \([0, T]\):

\[
\begin{aligned}
    dY(t) &= [A(t)Y(t) + B(t)u(t) + C(t)Z(t) + f(t)]dt + Z(t)dW(t), \\
    Y(T) &= \xi,
\end{aligned}
\]

(1.1)

where the coefficients \(A, C : [0, T] \to \mathbb{R}^{n \times n}\) and \(B : [0, T] \to \mathbb{R}^{n \times m}\) of the state equation (1.1) are given bounded deterministic functions; the nonhomogeneous term \(f : [0, T] \times \Omega \to \mathbb{R}^n\) is an \(F\)-progressively measurable process; and the terminal value \(\xi\) belongs to the space

\[
L^2_{F_T}(\Omega; \mathbb{R}^n) \triangleq \left\{\xi : \Omega \to \mathbb{R}^n \mid \xi \in F_T \text{ and } \mathbb{E}|\xi|^2 < \infty\right\}.
\]

The control process \(u\), valued in \(\mathbb{R}^m\), is taken from

\[
\mathcal{U} \triangleq \left\{u : [0, T] \times \Omega \to \mathbb{R}^m \mid u \in F \text{ and } \mathbb{E} \int_0^T |u(s)|^2 ds < \infty\right\}.
\]

The criterion for the performance of \(u\) is given by the following quadratic functional

\[
J(\xi; u) \triangleq \mathbb{E}\left\{\langle GY(0), Y(0) \rangle + 2\langle g, Y(0) \rangle + \int_0^T \left[\begin{array}{cccc}
    Z(t) & Z(t) \\
    u(t) & u(t)
\end{array}\right] \left[\begin{array}{cccc}
    Q(t) & S_1^T(t) & S_2^T(t) \\
    S_1(t) & R_{11}(t) & R_{12}(t) \\
    S_2(t) & R_{21}(t) & R_{22}(t)
\end{array}\right] \left[\begin{array}{cccc}
    Y(t) \\
    Z(t) \\
    u(t)
\end{array}\right] dt
\right\} + 2\left(\begin{array}{c}
    q(t) \\
    \rho_1(t) \\
    \rho_2(t)
\end{array}\right) \left(\begin{array}{c}
    Y(t) \\
    Z(t) \\
    u(t)
\end{array}\right),
\]

(1.2)

where the superscript \(\top\) denotes the transpose of a matrix; \(G\) is a symmetric \(n \times n\) constant matrix; \(g\) is a constant vector in \(\mathbb{R}^n\); and \(q, \rho_1\) and \(\rho_2\) are \(F\)-progressively measurable processes; and

\[
Q, \quad S = \begin{pmatrix} S_1 \\ S_2 \end{pmatrix}, \quad R = \begin{pmatrix} R_{11} & R_{12} \\ R_{21} & R_{22} \end{pmatrix}
\]

are bounded deterministic matrix-valued functions of proper dimensions over \([0, T]\) such that the blocked matrix in the cost functional is symmetric. The backward stochastic optimal control problem of interest is as follows.

**Problem (BSLQ).** For a given terminal state \(\xi \in L^2_{F_T}(\Omega; \mathbb{R}^n)\), find a control \(u^* \in \mathcal{U}\) such that

\[
J(\xi; u^*) = \inf_{u \in \mathcal{U}} J(\xi; u) \equiv V(\xi).
\]

(1.3)
Due to the linearity of the backward state equation (1.1) and the quadratic form of the cost (1.2), we call the above problem a backward stochastic linear-quadratic (BSLQ, for short) optimal control problem. A process \( u^* \in U \) satisfying (1.3) is called an optimal control of Problem (BSLQ) for the terminal state \( \xi \), and the corresponding adapted solution \((Y^*, Z^*)\) of the state equation (1.1) is called an optimal state process. The function \( V \) is called the value function of Problem (BSLQ). When the coefficients \( f, g, q, \rho_1, \rho_2 \) vanish, we denote the corresponding Problem (BSLQ) by Problem (BSLQ)_0. The corresponding cost functional and value function are denoted by \( J^0(\xi; u) \) and \( V^0(\xi) \), respectively.

The BSLQ optimal control problem without nonhomogeneous terms was first studied by Lim–Zhou [7], where all the weighting matrices are assumed to be positive semidefinite and the quadratic cost functional is independent of the cross terms of \((Y, Z, u)\). Applying a forward formulation and a limiting procedure, together with the completion-of-squares technique, a complete solution for such a BSLQ optimal control problem was obtained in [7]. A couple of follow-up works have appeared afterward; see, for instance, Huang–Wang–Xiong [5] and Wang–Wu–Xiong [15] considered BSLQ optimal control problem with partial information; Huang–Wang–Wu [6] investigated a backward mean-field linear-quadratic-Gaussian game with full and partial information; Wang–Xiao–Xiong [16] studied BSLQ optimal control problem with asymmetric information; a dynamic game of linear BSDE systems with mean-field interactions was studied in Du–Huang–Wu [3]; a thorough investigation on BSLQ optimal control problem with random coefficients was further carried out in Sun–Wang [13]; a general mean-field BSLQ optimal control problem was investigated in Li–Sun–Xiong [8]; and based on [7, 8], a theory of optimal control for controllable stochastic linear systems was developed in Bi–Sun–Xiong [2]. It is worth pointing out that, the key point of the above-mentioned works is that they assume the positive/nonnegative definiteness condition imposed on the weighting matrices, and most of their cost functionals are independent of the cross terms in \((Y, Z, u)\) and nonhomogeneous terms are not present.

We say that the stochastic LQ optimal control is indefinite, if the weighting matrices in the cost functional \( J(\xi, u) \), are not necessarily positive semi-definite. Not assuming the positive definiteness/semi-definiteness on the weighting matrices will bring great challenge for solving Problem (BSLQ). Recently, Sun–Wu–Xiong [14] considered a homogeneous backward stochastic LQ optimal control problem and obtained the optimal control for the indefinite case. However, their model is not general enough due to the lack of homogeneous terms. For this reason, their results cannot directly apply to solving some related problems, especially the two-person zero-sum Stackelberg game. In this paper, we study a general indefinite BSLQ optimal control problem, in which both the state equation and the cost functional contain nonhomogeneous terms. As we shall see in Section 4, the nonhomogeneous terms bring lots of difficulties when constructing the optimal control of Problem (BSLQ). For example, we need to reconstruct the representation of the solution \( Z \) and the optimal control \( u \) in terms of \( X \), the solution of the corresponding forward dual process. We shall first derive necessary and sufficient conditions for the existence of optimal controls, and then characterize the optimal control by means of forward-backward stochastic differential equations (FBSDEs, for short). Finally, with this characterization, we develop a general procedure for constructing the optimal control and the value function of Problem (BSLQ).

The rest of the paper is structured as follows. In Section 2, we give some notations firstly and then present a characterization of the optimal control by means of FBSDEs. In Section 3, we simplify Problem (BSLQ) and construct the optimal control under a simple situation. In Section 4, we construct the optimal control of the general Problem (BSLQ). Finally, Section 5 concludes the paper.

### 2. A Characterization of Optimal Controls in Terms of FBSDEs

In this section, we first introduce some notation and then give a characterization of the optimal control in terms of FBSDEs. Let \( \mathbb{R}^{n \times m} \) be the Euclidean space of \( n \times m \) real matrices, equipped with the Frobenius inner product

\[
\langle M, N \rangle = \text{tr}(M^T N), \quad M, N \in \mathbb{R}^{n \times m},
\]
where $\text{tr}(M^TN)$ is the trace of $M^TN$. The norm induced by the Frobenius inner product is denoted by $| \cdot |$. The identity matrix of size $n$ is denoted by $I_n$. When no confusion arises, we often suppress the index $n$ and write $I$ instead of $I_n$. Let $\mathbb{S}^n$ be the subspace of $\mathbb{R}^{n \times n}$ consisting of symmetric matrices. For $\mathbb{S}^n$-valued functions $M$ and $N$, we write $M \geq N$ (respectively, $M > N$) if $M - N$ is positive semidefinite (respectively, positive definite) almost everywhere (with respect to the Lebesgue measure), and write $M \gg 0$ if there exists a constant $\delta > 0$ such that $M \geq \delta I_n$. For a subset $\mathbb{H}$ of $\mathbb{R}^{n \times m}$, we denote by $C([0,T];\mathbb{H})$ the space of continuous functions from $[0,T]$ into $\mathbb{H}$, and by $L^\infty(0,T;\mathbb{H})$ the space of Lebesgue measurable, essentially bounded functions from $[0,T]$ into $\mathbb{H}$. Besides the space $L^2_{\mathcal{F}}(\Omega;\mathbb{R}^n)$ introduced previously, the following spaces of stochastic processes will also be frequently used in the sequel:

$$L^2_{\mathcal{F}}(0,T;\mathbb{H}) = \left\{ \varphi : [0,T] \times \Omega \to \mathbb{H} \mid \varphi \text{ is } \mathcal{F}\text{-progressively measurable and} \right.$$  

$$\mathbb{E} \int_0^T |\varphi(t)|^2 dt < \infty \right\},$$

$$L^2_{\mathcal{F}}(\Omega;C([0,T];\mathbb{H})) = \left\{ \varphi : [0,T] \times \Omega \to \mathbb{H} \mid \varphi \text{ has continuous paths, } \mathcal{F}\text{-adapted and} \right.$$  

$$\mathbb{E} \left[ \sup_{0 \leq t \leq T} |\varphi(t)|^2 \right] < \infty \right\},$$

$$L^2_{\mathcal{F}}(\Omega;L^1([0,T];\mathbb{H})) = \left\{ \varphi : [0,T] \times \Omega \to \mathbb{H} \mid \varphi \text{ is } \mathcal{F}\text{-progressively measurable and} \right.$$  

$$\mathbb{E} \left( \int_0^T |\varphi(t)| dt \right)^2 < \infty \right\}.$$

For the coefficients of the state equation (1.1) and the weighting matrices of the cost functional (1.2), we impose the following conditions.

(A1) The coefficients of the state equation (1.1) satisfy

$$A \in L^\infty(0,T;\mathbb{R}^{n \times n}), \quad B \in L^\infty(0,T;\mathbb{R}^{n \times m}), \quad C \in L^\infty(0,T;\mathbb{R}^{n \times n}), \quad f \in L^2_{\mathcal{F}}(\Omega;L^1(0,T;\mathbb{R}^n)).$$

(A2) The coefficients among the nonhomogeneous term and the weighting matrices in the cost functional (1.2) satisfy

$$G \in \mathbb{S}^n, \quad Q \in L^\infty(0,T;\mathbb{S}^n), \quad S \in L^\infty(0,T;\mathbb{R}^{(n+m) \times n}), \quad R \in L^\infty(0,T;\mathbb{S}^{n+m}),$$

$$g \in \mathbb{R}^n, \quad q \in L^2_{\mathcal{F}}(\Omega;L^1(0,T;\mathbb{R}^n)), \quad \rho_1 \in L^2_{\mathcal{F}}(\Omega;L^1(0,T;\mathbb{R}^n)), \quad \rho_2 \in L^2_{\mathcal{F}}(0,T;\mathbb{R}^m).$$

We now present a characterization of the optimal control in terms of forward-backward stochastic differential equations, which will be used to prove the control constructed later to be optimal.

**Theorem 2.1.** Let (A1) and (A2) hold and let the terminal state $\xi \in L^2_{\mathcal{F}}(\Omega;\mathbb{R}^n)$ be given. A control $u^* \in \mathcal{U}$ is optimal for $\xi$ if and only if the following two conditions hold:

(i) $J^0(0;u) \geq 0$ for all $u \in \mathcal{U}$. 


(ii) The adapted solution \((X^*, Y^*, Z^*)\) to the following decoupled FBSDE

\[
\begin{aligned}
\text{d}X^*(t) &= \left[ -A^\top(t)X^*(t) + Q(t)Y^*(t) + S_1^\top(t)Z^*(t) + S_2^\top(t)u^*(t) + q(t) \right] \text{d}t \\
&\quad + \left[ -C(t)X^*(t) + S_1(t)Y^*(t) + R_{11}(t)Z^*(t) + R_{12}(t)u^*(t) + \rho_1(t) \right] \text{d}W(t), \\
\text{d}Y^*(t) &= \left[ A(t)Y^*(t) + B(t)u^*(t) + C(t)Z^*(t) + f(t) \right] \text{d}t + Z^*(t) \text{d}W(t), \quad t \in [0, T], \\
X^*(0) &= GY^*(0) + g, \quad Y^*(T) = \xi,
\end{aligned}
\]

satisfies

\[
S_2(t)Y^*(t) + R_{21}(t)Z^*(t) - B^\top(t)X^*(t) + R_{22}u^*(t) + \rho_2(t) = 0, \quad t \in [0, T].
\]

**Proof.** Note that \(u^* \in U\) is optimal for \(\xi\) if and only if

\[
J(\xi; u^* + \varepsilon u) - J(\xi; u^*) \geq 0, \quad \forall u \in U, \quad \varepsilon \in \mathbb{R}.
\]

Let \(u \in U\) and \(\varepsilon \in \mathbb{R}\) be fixed but arbitrary. Denote by \((Y, Z)\) the adapted solution of the following BSDE,

\[
\begin{aligned}
\text{d}Y(t) &= \left[ A(t)Y(t) + B(t)u(t) + C(t)Z(t) \right] \text{d}t + Z(t) \text{d}W(t), \quad t \in [0, T], \\
Y(T) &= 0,
\end{aligned}
\]

and denote by \((Y^\varepsilon, Z^\varepsilon)\) the adapted solution of

\[
\begin{aligned}
\text{d}Y^\varepsilon(t) &= \left[ A(t)Y^\varepsilon(t) + B(t)[u^*(t) + \varepsilon u(t)] + C(t)Z^\varepsilon(t) + f(t) \right] \text{d}t + Z^\varepsilon(t) \text{d}W(t), \quad t \in [0, T], \\
Y^\varepsilon(T) &= \xi.
\end{aligned}
\]

By the uniqueness of the adapted solution of BSDEs, it is clearly that \((Y^\varepsilon, Z^\varepsilon) = (Y^* + \varepsilon Y, Y^* + \varepsilon Z)\). Therefore,

\[
\begin{aligned}
J(\xi; u^* + \varepsilon u) - J(\xi, u^*)
&= 2\varepsilon \mathbb{E} \left\{ \langle GY^*(0), Y(0) \rangle + \langle g, Y(0) \rangle ight. \\
&\quad + \int_0^T \left[ \left\langle \begin{pmatrix} Q(t) & S_1^\top(t) & S_2^\top(t) \\ S_1(t) & R_{11}(t) & R_{12}(t) \\ S_2(t) & R_{21}(t) & R_{22}(t) \end{pmatrix} \left( \begin{array}{c} Y^*(t) \\ Z^*(t) \\ u^*(t) \end{array} \right), \left( \begin{array}{c} Y(t) \\ Z(t) \\ u(t) \end{array} \right) \right\rangle + \left\langle \begin{pmatrix} q(t) \\ \rho_1(t) \\ \rho_2(t) \end{pmatrix}, \left( \begin{array}{c} Y(t) \\ Z(t) \\ u(t) \end{array} \right) \right\rangle \right] \text{d}s \\
&\quad + \varepsilon^2 \mathbb{E} \left\{ \langle GY(0), Y(0) \rangle \right. \\
&\quad + \int_0^T \left[ \left\langle \begin{pmatrix} Q(t) & S_1^\top(t) & S_2^\top(t) \\ S_1(t) & R_{11}(t) & R_{12}(t) \\ S_2(t) & R_{21}(t) & R_{22}(t) \end{pmatrix} \left( \begin{array}{c} Y(t) \\ Z(t) \\ u(t) \end{array} \right), \left( \begin{array}{c} Y(t) \\ Z(t) \\ u(t) \end{array} \right) \right\rangle \\
&\quad + \left\langle \begin{pmatrix} q(t) \\ \rho_1(t) \\ \rho_2(t) \end{pmatrix}, \left( \begin{array}{c} Y(t) \\ Z(t) \\ u(t) \end{array} \right) \right\rangle \right] \text{d}s \\
&\quad + \varepsilon^2 J^0(0; u). \quad (2.3)
\end{aligned}
\]
Using the integration by parts formula to \( \langle X^*, Y \rangle \), we have

\[
-\langle GY^*(0) + g, Y(0) \rangle = \mathbb{E} \int_0^T \left[ \langle QY^* + S_1^T Z^* + S_2^T u^* + q, Y \rangle + \langle S_1 Y^* + R_{11} Z^* + R_{12} u^* + \rho_1, Z \rangle + \langle B^\top X^*, u \rangle \right] dt.
\]

(2.4)

Substitute (2.4) in (2.3) yields that

\[
J(\xi; u^* + \varepsilon u) - J(\xi, u^*) = \varepsilon^2 J^0(0, u) + 2\varepsilon \mathbb{E} \int_0^T \langle S_2 Y^* + R_{21} Z^* - B^\top X^* + R_{22} u^* + \rho_2, u \rangle dt.
\]

From the above, it is easy to see that (2.2) holds if and only if (2.1) holds and \( J^0(0, u) \geq 0 \) for every \( u \in \mathcal{U} \).

3. Construction of optimal control: simple situation

In this section, we would like to consider a simple Problem (BSLQ) and construct the optimal control under the following situation:

\[
G = 0, \quad Q(t) = 0, \quad R_{12}(t) = R_{21}(t) = 0, \quad \forall t \in [0, T].
\]

(3.1)

Note that due to the indefiniteness of the weighting matrices, it is not easy to decide whether Problem (BSLQ) admits an optimal control for a given terminal state when \( J^0(0, u) \) is merely positive (see Thm. 2.1). However, if \( J^0(0, u) \) is uniformly positive, then we are able to overcome the challenge brought by the indefiniteness of the weighting matrices. So in the following, we are going to construct the optimal control of Problem (BSLQ) under the following uniform positivity condition:

(A3) There is a constant \( \delta > 0 \) such that

\[
J^0(0, u) \geq \delta \mathbb{E} \int_0^T |u(t)|^2 dt, \quad \forall u \in \mathcal{U}.
\]

(3.2)

We observe that the uniform positivity condition (A3) implies \( R_{22} \gg 0 \) (see Remark 5.4 of Sun–Wu–Xiong [14]). Moreover, it is easy to see that under the condition (3.1), the initial Problem (BSLQ) is equivalent to minimizing the following cost functional

\[
J(\xi; u) = \mathbb{E} \left\{ 2\langle g, Y(0) \rangle + \int_0^T \left[ \begin{pmatrix} 0 & S_1^T(t) & S_2^T(t) \\ S_1(t) & R_{11}(t) & 0 \\ S_2(t) & 0 & R_{22}(t) \end{pmatrix} \begin{pmatrix} Y(t) \\ Z(t) \\ u(t) \end{pmatrix}, \begin{pmatrix} Y(t) \\ Z(t) \\ u(t) \end{pmatrix} \right] \\
+ 2 \begin{pmatrix} q(t) \\ \rho_1(t) \\ \rho_2(t) \end{pmatrix}, \begin{pmatrix} Y(t) \\ Z(t) \\ u(t) \end{pmatrix} \right\} ds \right\}
\]

(3.3)
subject to the initial state equation (1.1). Next, in order to construct the optimal control of Problem (BSLQ), we introduce the following Riccati equation

\[
\begin{aligned}
\dot{\Sigma}(t) - A(t)\Sigma(t) - \Sigma(t)A(t)^\top + B(t, \Sigma(t)) [R_{22}(t)]^{-1} B(t, \Sigma(t))^\top \\
+ C(t, \Sigma(t)) [R(t, \Sigma(t))]^{-1} \Sigma(t)C(t, \Sigma(t))^\top = 0, \quad t \in [0, T],
\end{aligned}
\]

(3.4)

where \(\Sigma : [0, T] \rightarrow S^n\) is an \(S^n\)-valued function, and

\[
\begin{aligned}
B(t, \Sigma(t)) &= B(t) + \Sigma(t)S_2(t)^\top, \\
C(t, \Sigma(t)) &= C(t) + \Sigma(t)S_1(t)^\top, \\
R(t, \Sigma(t)) &= I + \Sigma(t)R_{11}(t).
\end{aligned}
\]

(3.5)

Combining (A1)–(A2) and (3.5), we see that the last term in the left-hand side of Riccati equation (3.4) is symmetric.

When there is no risk for confusion, in the following for simplicity presentation, we would like to frequently suppress the argument \(t\) from our notations and write \(B(t, \Sigma(t)), C(t, \Sigma(t))\) and \(R(t, \Sigma(t))\) as \(B(\Sigma), C(\Sigma),\) and \(R(\Sigma)\), respectively. For Riccati equation (3.4), we have the following result concerning the existence and uniqueness, which essentially is Theorem 6.2 of Sun–Wu–Xiong [14].

**Proposition 3.1.** Let (A1)–(A3) and (3.1) hold. Then the Riccati equation (3.4) admits a unique positive semidefinite solution \(\Sigma \in C([0, T]; \mathbb{S}^n)\) such that \(R(\Sigma)\) is invertible a.e. on \([0, T]\) and \(R(\Sigma)^{-1} \in L^\infty(0, T; \mathbb{R}^n)\).

With the solution \(\Sigma\) to the Riccati equation (3.4), before constructing the optimal control of Problem (BSLQ), we further introduce the following linear BSDE:

\[
\begin{aligned}
\left\{ \begin{array}{l}
d\varphi(t) = \alpha(t, \Sigma(t))dt + \beta(t)dW(t), \quad t \in [0, T], \\
\varphi(T) = \xi,
\end{array} \right.
\end{aligned}
\]

(3.6)

where

\[
\alpha(\Sigma) = \left\{ A - B(\Sigma)R_{22}^{-1}S_2 - C(\Sigma)R(\Sigma)^{-1}\Sigma S_1 \right\} \varphi + C(\Sigma)R(\Sigma)^{-1}\beta \\
- \left\{ C(\Sigma)R(\Sigma)^{-1}\Sigma \rho_1 - \Sigma S_1^\top R(\Sigma)^{-1}\Sigma \rho_1 - BR_{22}^{-1}\rho_2 - \Sigma S_2^\top R_{22}^{-1}\rho_2 + \Sigma q + f \right\}
\]

(3.7)

In terms of the solution \(\Sigma\) to the Riccati equation (3.4) and the adapted solution \((\varphi, \beta)\) to the BSDE (3.6), we now can construct the optimal control of Problem (BSLQ) as follows.
Theorem 3.2. Let (A1)–(A3) and (3.1) hold. Let \((\varphi, \beta)\) be the adapted solution to the BSDE (3.6) and \(X\) the solution to the following SDE:

\[
\frac{dX(t)}{dt} = \left\{ \left[ S_1^T \mathcal{R}(\Sigma)^{-1} \Sigma C(\Sigma)^T + S_2^T R_{22}^{-1} \mathcal{B}(\Sigma)^T - A^T \right] X \\
- \left[ S_1^T \mathcal{R}(\Sigma)^{-1} \Sigma S_1 + S_2^T R_{22}^{-1} S_2 \right] \varphi + S_1^T \mathcal{R}(\Sigma)^{-1} \beta - S_1^T \mathcal{R}(\Sigma)^{-1} \Sigma \rho_1 - S_2^T R_{22}^{-1} \rho_2 + q \right\} dt \\
- \left[ \mathcal{R}(\Sigma)^{-1} \right]^T \left( C(\Sigma)^T X - S_1 \varphi - R_{11} \beta - \rho_1 \right) dW(t),
\]

\(X(0) = g.\)

Then the optimal control of Problem (BSLQ) for the terminal state \(\xi\) is given by

\[
u(t) = [R_{22}(t)]^{-1} \left[ \mathcal{B}(t, \Sigma(t))^T X(t) - S_2(t) \varphi(t) - \rho_2(t) \right], \quad t \in [0, T].\]

Proof. Let us define for \(t \in [0, T],\)

\[
Y(t) = -\Sigma(t) X(t) + \varphi(t),
\]

\[
Z(t) = \mathcal{R}(t, \Sigma(t))^{-1} \left[ \Sigma(t) C(t, \Sigma(t))^T X(t) - \Sigma(t) S_1(t) \varphi(t) - \Sigma(t) \rho_1(t) + \beta(t) \right].
\]

We observe that

\[
R_{22} u = \mathcal{B}(\Sigma)^T X - S_2 \varphi - \rho_2 \\
= (B + \Sigma S_2^T)^T X - S_2 \varphi - \rho_2 \\
= B^T X + S_2(\Sigma X - \varphi) - \rho_2 \\
= B^T X - S_2 Y - \rho_2.
\]

Furthermore, using (3.9) and (3.11) we obtain

\[
S_1^T Z + S_2^T u \\
= S_1^T \mathcal{R}(\Sigma)^{-1} \left[ \Sigma C(\Sigma)^T X - \Sigma S_1 \varphi - \Sigma \rho_1 + \beta \right] + S_2^T R_{22}^{-1} \mathcal{B}(\Sigma)^T X - S_2^T R_{22}^{-1} S_2 \varphi - S_2^T R_{22}^{-1} \rho_2 \\
= \left[ S_1^T \mathcal{R}(\Sigma)^{-1} \Sigma C(\Sigma)^T + S_2^T R_{22}^{-1} \mathcal{B}(\Sigma)^T \right] X - \left[ S_1^T \mathcal{R}(\Sigma)^{-1} \Sigma S_1 + S_2^T R_{22}^{-1} S_2 \right] \varphi \\
+ S_1^T \mathcal{R}(\Sigma)^{-1} \beta - S_1^T \mathcal{R}(\Sigma)^{-1} \Sigma \rho_1 - S_2^T R_{22}^{-1} \rho_2,
\]

from which it implies that

\[
-A^T X + S_1^T Z + S_2^T u + q = \left[ S_1^T \mathcal{R}(\Sigma)^{-1} \Sigma C(\Sigma)^T + S_2^T R_{22}^{-1} \mathcal{B}(\Sigma)^T - A^T \right] X \\
- \left[ S_1^T \mathcal{R}(\Sigma)^{-1} \Sigma S_1 + S_2^T R_{22}^{-1} S_2 \right] \varphi + S_1^T \mathcal{R}(\Sigma)^{-1} \beta \\
- S_1^T \mathcal{R}(\Sigma)^{-1} \Sigma \rho_1 - S_2^T R_{22}^{-1} \rho_2 + q.
\]
Similarly, using (3.10) and (3.11) we obtain
\[-C^\top X + S_1 Y + R_{11} Z + \rho_1 = - (C^\top + S_1 \Sigma) X + S_1 \varphi + R_{11} Z + \rho_1 = \left[ R_{11} \mathcal{R}(\Sigma)^{-1} \Sigma - I \right] \mathcal{C}(\Sigma)^\top X + \left[ I - R_{11} \mathcal{R}(\Sigma)^{-1} \Sigma \right] S_1 \varphi + R_{11} \mathcal{R}(\Sigma)^{-1} \beta + (I - R_{11} \mathcal{R}(\Sigma)^{-1} \Sigma) \rho_1.\]

Note that
\[R_{11} \mathcal{R}(\Sigma)^{-1} = R_{11} (I + \Sigma R_{11})^{-1} = (I + R_{11} \Sigma)^{-1} R_{11},\]
\[I - R_{11} \mathcal{R}(\Sigma)^{-1} \Sigma = (I + R_{11} \Sigma)^{-1} = \left[ \mathcal{R}(\Sigma)^{-1} \right]^\top,\]
we further obtain that
\[-C^\top X + S_1 Y + R_{11} Z + \rho_1 = - \left[ \mathcal{R}(\Sigma)^{-1} \right]^\top \left[ \mathcal{C}(\Sigma)^\top X - S_1 \varphi - R_{11} \beta - \rho_1 \right]. \tag{3.14}\]

This implies that the solution of (3.8) satisfies the following equation
\[
\begin{align*}
\begin{cases}
\d X(t) = \left( - A^\top X + S_1^\top Z + S_2^\top u + q \right) dt + \left( - C^\top X + S_1 Y + R_{11} Z + \rho_1 \right) dW, \\
X(0) = g.
\end{cases}
\end{align*} \tag{3.15}
\]

Applying Itô’s formula to (3.10), we have
\[dY = - \dot{\Sigma} X dt - \Sigma dX + d\varphi = \left[ \alpha(\Sigma) - \dot{\Sigma} X - \Sigma \left( - A^\top X + S_1^\top Z + S_2^\top u + q \right) \right] dt + \left[ \beta - \Sigma \left( - C^\top X + S_1 Y + R_{11} Z + \rho_1 \right) \right] dW.\]

Using (3.13) and (3.7), and note that \( \Sigma \) satisfies Riccati equation (3.4), we obtain
\[
\begin{align*}
\alpha(\Sigma) - \dot{\Sigma} X - \Sigma \left( - A^\top X + S_1^\top Z + S_2^\top u + q \right) &= \alpha(\Sigma) - \left[ \dot{\Sigma} - \Sigma A^\top + \Sigma S_1^\top \mathcal{R}(\Sigma)^{-1} \Sigma \mathcal{C}(\Sigma)^\top + \Sigma S_2^\top R_{22}^{-1} \mathcal{B}(\Sigma)^\top \right] X \\
&\quad + \Sigma \left[ S_1^\top \mathcal{R}(\Sigma)^{-1} \Sigma S_1 + S_2^\top R_{22}^{-1} S_2 \right] \varphi - \Sigma S_1^\top \mathcal{R}(\Sigma)^{-1} \beta \\
&\quad + \Sigma S_1^\top \mathcal{R}(\Sigma)^{-1} \Sigma \rho_1 + \Sigma S_2^\top R_{22}^{-1} \rho_2 - \Sigma q \\
&= \alpha(\Sigma) - \left[ A \Sigma - C \mathcal{R}(\Sigma)^{-1} \Sigma \mathcal{C}(\Sigma)^\top - B R_{22}^{-1} \mathcal{B}(\Sigma)^\top \right] X \\
&\quad + \Sigma \left[ S_1^\top \mathcal{R}(\Sigma)^{-1} \Sigma S_1 + S_2^\top R_{22}^{-1} S_2 \right] \varphi - \Sigma S_1^\top \mathcal{R}(\Sigma)^{-1} \beta \\
&\quad + \Sigma S_1^\top \mathcal{R}(\Sigma)^{-1} \Sigma \rho_1 + \Sigma S_2^\top R_{22}^{-1} \rho_2 - \Sigma q \\
&= \left[ \mathcal{C} \mathcal{R}(\Sigma)^{-1} \Sigma \mathcal{C}(\Sigma)^\top + B R_{22}^{-1} \mathcal{B}(\Sigma)^\top \right] \Sigma X - BR_{22}^{-1} S_2 \varphi \\
&\quad - C \mathcal{R}(\Sigma)^{-1} \Sigma S_1 \varphi - \beta - C \mathcal{R}(\Sigma)^{-1} \Sigma (t) \rho_1(t) - BR_{22}^{-1} \rho_2 + f \\
&= \left[ \mathcal{C} \mathcal{R}(\Sigma)^{-1} \Sigma \mathcal{C}(\Sigma)^\top + C \mathcal{R}(\Sigma)^{-1} \left[ \Sigma \mathcal{C}(\Sigma)^\top X - \Sigma S_1 \varphi - \Sigma (t) \rho_1(t) + \beta \right] + f \\
&= \left[ \mathcal{C} \mathcal{R}(\Sigma)^{-1} \Sigma \mathcal{C}(\Sigma)^\top + B \Sigma + CZ \right] \varphi - \rho_2 + f, \tag{3.16}
\end{align*}
\]
Similarly, using (3.14) and the following relation
\[
\Sigma \left[ \mathcal{R}(\Sigma)^{-1} \right]^\top = \Sigma \left( I + \Sigma R_{11} \right)^{-1} \Sigma = \mathcal{R}(\Sigma)^{-1} \Sigma,
\]
\[
I - \mathcal{R}(\Sigma)^{-1} \Sigma R_{11} = I - \left( I + \Sigma R_{11} \right)^{-1} \Sigma R_{11} = (I + \Sigma R_{11})^{-1} = \mathcal{R}(\Sigma)^{-1},
\]
we have that
\[
\beta - \Sigma ( - C^\top X + S_1 Y + R_{11} Z + \rho_1 )
\]
\[
= \beta + \Sigma \left[ \mathcal{R}(\Sigma)^{-1} \right]^\top \left[ \mathcal{C}(\Sigma)^\top X - S_1 \varphi - R_{11} \beta - \rho_1 \right]
\]
\[
= \mathcal{R}(\Sigma)^{-1} \left[ \Sigma \mathcal{C}(\Sigma)^\top X - \Sigma S_1 \varphi - \Sigma \rho_1 \right] + \left[ I - \mathcal{R}(\Sigma)^{-1} \Sigma R_{11} \right] \beta
\]
\[
= \mathcal{R}(\Sigma)^{-1} \left[ \Sigma \mathcal{C}(\Sigma)^\top X - \Sigma S_1 \varphi - \Sigma \rho_1 + \beta \right]
\]
\[
= Z.
\]
Therefore, the pair \((Y, Z)\) defined by (3.10) and (3.11) satisfies the following BSDE:
\[
\begin{cases}
    dY(t) = (AY + Bu + CZ + f)dt + ZdW, \\
    Y(T) = \xi.
\end{cases}
\tag{3.16}
\]
Combining (3.15) and (3.16), we see that the solution \(X\) of (3.8), the pair \((Y, Z)\) defined by (3.10) and (3.11) satisfy the following FBSDE
\[
\begin{cases}
    dX(t) = (-A^\top X + S_1^\top Z + S_2^\top u + q)dt + (-C^\top X + S_1 Y + R_{11} Z + \rho_1) dW, \\
    dY(t) = (AY + Bu + CZ + f)dt + ZdW, \\
    X(0) = g, \quad Y(T) = \xi.
\end{cases}
\tag{3.17}
\]
In addition, combining (3.12), we have that the control \(u\) defined by (3.9) satisfies the following condition
\[
S_2 Y - B^\top X + R_{22} u + \rho_2 = 0.
\tag{3.18}
\]
Therefore, from Theorem 2.1, we obtain that \(u\) is the (unique) optimal control for the terminal state \(\xi\). 

**Theorem 3.3.** Let \((A1)-(A3)\) and (3.1) hold. Then the value function of Problem (BSLQ) is given by
\[
V(\xi) = \mathbb{E} \left\{ 2\langle \varphi(0), g \rangle - \langle \Sigma(0)g, g \rangle \\
+ \int_0^T \left[ - \langle \mathcal{R}(\Sigma)^{-1} \Sigma \rho_1, \rho_1 \rangle - \langle R_{22}^{-1} \rho_2, \rho_2 \rangle + 2 \langle \mathcal{R}(\Sigma)^{-1} \beta, \rho_1 \rangle \\
+ \langle R_{11} \mathcal{R}(\Sigma)^{-1} \beta, \beta \rangle + 2 \langle S_1^\top \mathcal{R}(\Sigma)^{-1} \beta - S_1^\top \mathcal{R}(\Sigma)^{-1} \Sigma \rho_1 - S_2^\top R_{22}^{-1} \rho_2 + q, \varphi \rangle \\
- \langle [S_1^\top \mathcal{R}(\Sigma)^{-1} \Sigma S_1 + S_2^\top R_{22}^{-1} S_2][\varphi, \varphi] \rangle dt \right\},
\tag{3.19}
\]
where \((\varphi, \beta)\) is the adapted solution of BSDE (3.6).
Proof. Let $u$ be the optimal control for the terminal state $\xi$. Then, by Theorem 2.1, the adapted solution $(X, Y, Z)$ of (3.17) satisfies (3.18). By the definition, we observe that

$$V(\xi) = J(\xi; u) = E\left\{ 2\langle g, Y(0) \rangle + \int_0^T \left[ \begin{array}{ccc} 0 & S_1^T(t) & S_2^T(t) \\ S_1(t) & R_{11}(t) & 0 \\ S_2(t) & 0 & R_{22}(t) \end{array} \right] \begin{pmatrix} Y(t) \\ Z(t) \\ u(t) \end{pmatrix} \begin{pmatrix} Y(t) \\ Z(t) \\ u(t) \end{pmatrix} + 2 \begin{pmatrix} q(t) \\ \rho_1(t) \\ \rho_2(t) \end{pmatrix} \begin{pmatrix} Y(t) \\ Z(t) \\ u(t) \end{pmatrix} \right] dt \right\}$$

$$= E\left\{ 2\langle g, Y(0) \rangle + \int_0^T \left[ 2 \langle S_1 Y, Z \rangle + 2 \langle S_2 Y, u \rangle + \langle R_{11} Z, Z \rangle + \langle R_{22} u, u \rangle \\ + 2 \langle q, Y \rangle + 2 \langle \rho_1, Z \rangle + 2 \langle \rho_2, u \rangle \right] dt \right\}$$

$$= E\left\{ \int_0^T \left[ \langle S_1^T Z + S_2^T u, Y \rangle + \langle S_1 Y + R_{11} Z, Z \rangle + \langle S_2 Y + R_{22} u, u \rangle \\ + 2 \langle q, Y \rangle + 2 \langle \rho_1, Z \rangle + 2 \langle \rho_2, u \rangle \right] dt \right\}$$

$$= E\left\{ \int_0^T \left[ \langle S_1^T Z + S_2^T u + 2q, Y \rangle + \langle S_1 Y + R_{11} Z + 2\rho_1, Z \rangle + \langle B^T X + \rho_2, u \rangle \right] dt \right\}.$$ 

Take the integration by parts formula to $\langle X, Y \rangle$ implies that

$$E\langle X(T), Y(T) \rangle$$

$$= E\langle g, Y(0) \rangle + E \int_0^T \left[ \langle X, AY + Bu + CZ + f \rangle + \langle -A^T X + S_1^T Z + S_2^T u + q, Y \rangle \\ + \langle -C^T X + S_1 Y + R_{11} Z + \rho_1, Z \rangle \right] dt$$

$$= E\langle g, Y(0) \rangle + E \int_0^T \left[ \langle X, Bu + f \rangle + \langle S_1^T Z + S_2^T u + q, Y \rangle + \langle S_1 Y + R_{11} Z + \rho_1, Z \rangle \right] dt$$

$$= V(\xi) - E\langle g, Y(0) \rangle - E \int_0^T \left[ - \langle X, f \rangle + \langle q, Y \rangle + \langle \rho_1, Z \rangle + \langle \rho_2, u \rangle \right] dt.$$

In other words, we have

$$V(\xi) = E\langle X(T), Y(T) \rangle + E\langle g, Y(0) \rangle + E \int_0^T \left[ - \langle X, f \rangle + \langle q, Y \rangle + \langle \rho_1, Z \rangle + \langle \rho_2, u \rangle \right] dt.$$

From Theorem 3.2, we see that $X$ also satisfies the equation (3.8) and $\varphi$ satisfies the equation (3.6). Applying the integration by parts formula to $\langle X, \varphi \rangle$, we obtain that
\[
\mathbb{E}(X(T), \varphi(T)) - \mathbb{E}(g, \varphi(0)) \\
= \mathbb{E} \int_0^T \left\{ \langle [S_1^\top \mathcal{R}(\Sigma)^{-1} \Sigma C(\Sigma)^\top + S_2^\top R_{22}^{-1} \mathcal{B}(\Sigma)^\top - A^\top] X, \varphi \rangle \right. \\
- \langle [S_1^\top \mathcal{R}(\Sigma)^{-1} \Sigma S_1 + S_2^\top R_{22}^{-1} S_2] \varphi, \varphi \rangle + \langle S_1^\top \mathcal{R}(\Sigma)^{-1} \beta - S_1^\top \mathcal{R}(\Sigma)^{-1} \Sigma \rho_1 - S_2^\top R_{22}^{-1} \rho_2 + q, \varphi \rangle \\
+ \langle X, [A - \mathcal{B}(\Sigma) R_{22}^{-1} S_2 - \mathcal{C}(\Sigma) \mathcal{R}(\Sigma)^{-1} \Sigma S_1] \varphi \rangle \\
+ \langle X, \mathcal{C}(\Sigma) \mathcal{R}(\Sigma)^{-1} \beta - \mathcal{C}(\Sigma) \mathcal{R}(\Sigma)^{-1} \Sigma \rho_1 - \mathcal{B}(\Sigma) R_{22}^{-1} \rho_2 + \Sigma q + f \rangle \\
- \langle [\mathcal{R}(\Sigma)^{-1}]^\top \left[ \mathcal{C}(\Sigma)^\top X - S_1 \varphi - R_{11} \beta - \rho_1 \right], \beta \rangle \right\} \, dt \\
= \mathbb{E} \int_0^T \left\{ \langle R_{11} \mathcal{R}(\Sigma)^{-1} \beta + \mathcal{R}(\Sigma)^{-1} \rho_1, \beta \rangle + \langle 2 S_1^\top \mathcal{R}(\Sigma)^{-1} \beta - S_1^\top \mathcal{R}(\Sigma)^{-1} \Sigma \rho_1 - S_2^\top R_{22}^{-1} \rho_2 + q, \varphi \rangle \\
+ \langle X, -\mathcal{C}(\Sigma) \mathcal{R}(\Sigma)^{-1} \Sigma \rho_1 - \mathcal{B}(\Sigma) R_{22}^{-1} \rho_2 + \Sigma q + f \rangle - \langle [S_1^\top \mathcal{R}(\Sigma)^{-1} \Sigma S_1 + S_2^\top R_{22}^{-1} S_2] \varphi, \varphi \rangle \right\} \, dt.
\]

Note that
\[
\mathbb{E}(X(T), Y(T)) = \mathbb{E}(X(T), \xi) = \mathbb{E}(X(T), \varphi(T)),
\]
then we have
\[
V(\xi) = \mathbb{E}(X(T), \varphi(T)) + \mathbb{E}(g, Y(0)) + \mathbb{E} \int_0^T \left[ - \langle X, f \rangle + \langle q, Y \rangle + \langle \rho_1, Z \rangle + \langle \rho_2, u \rangle \right] \, dt \\
= \mathbb{E}(g, \varphi(0)) + \mathbb{E}(g, Y(0)) + \mathbb{E} \int_0^T \left[ - \langle X, f \rangle + \langle q, Y \rangle + \langle \rho_1, Z \rangle + \langle \rho_2, u \rangle \right] \, dt \\
+ \mathbb{E} \int_0^T \left\{ \langle R_{11} \mathcal{R}(\Sigma)^{-1} \beta + \mathcal{R}(\Sigma)^{-1} \rho_1, \beta \rangle \\
+ \langle 2 S_1^\top \mathcal{R}(\Sigma)^{-1} \beta - S_1^\top \mathcal{R}(\Sigma)^{-1} \Sigma \rho_1 - S_2^\top R_{22}^{-1} \rho_2 + q, \varphi \rangle \\
+ \langle X, -\mathcal{C}(\Sigma) \mathcal{R}(\Sigma)^{-1} \Sigma \rho_1 - \mathcal{B}(\Sigma) R_{22}^{-1} \rho_2 + \Sigma q + f \rangle \\
- \langle [S_1^\top \mathcal{R}(\Sigma)^{-1} \Sigma S_1 + S_2^\top R_{22}^{-1} S_2] \varphi, \varphi \rangle \right\} \, dt.
\]

From Theorem 3.2, we see that \( Y, Z \) and \( u \) have the following representation
\[
Y(t) = -\Sigma X + \varphi, \\
Z(t) = \mathcal{R}(\Sigma)^{-1} \left[ \Sigma C(\Sigma)^\top X - \Sigma S_1 \varphi - \Sigma \rho_1 + \beta \right], \\
u(t) = R_{22}^{-1} \left[ \mathcal{B}(\Sigma)^\top X - S_2 \varphi - \rho_2 \right].
\]

Moreover, note that
\[
\langle X, \Sigma q \rangle = \langle \Sigma X - \varphi, q \rangle + \langle \varphi, q \rangle = -\langle Y, q \rangle + \langle \varphi, q \rangle, \\
\langle X, \mathcal{B}(\Sigma) R_{22}^{-1} \rho_2 \rangle = \langle R_{22}^{-1} \left[ \mathcal{B}(\Sigma)^\top X - S_2 \varphi - \rho_2 \right], \rho_2 \rangle + \langle R_{22}^{-1} (S_2 \varphi + \rho_2), \rho_2 \rangle \\
= \langle u, \rho_2 \rangle + \langle R_{22}^{-1} [S_2 \varphi + \rho_2], \rho_2 \rangle.
\]
\[ \langle X, C(\Sigma)R(\Sigma)^{-1}\Sigma \rho_1 \rangle = \langle R(\Sigma)^{-1} \left[ \Sigma C(\Sigma)^T X - \Sigma S_1 \varphi - \Sigma \rho_1 + \beta \right], \rho_1 \rangle \\
+ \langle R(\Sigma)^{-1} [\Sigma S_1 \varphi + \Sigma \rho_1 - \beta], \rho_1 \rangle \\
= \langle Z, \rho_1 \rangle + \langle R(\Sigma)^{-1} [\Sigma S_1 \varphi + \Sigma \rho_1 - \beta], \rho_1 \rangle. \]

Then we obtain that

\[ V(\xi) = 2 \mathbb{E} \langle g, \varphi(0) \rangle - \mathbb{E} \langle \Sigma(0)g, g \rangle \\
+ \mathbb{E} \int_0^T \left\{ \langle \varphi, q \rangle - \langle R_{22}^{-1} [S_2 \varphi + \rho_2], \rho_2 \rangle - \langle R(\Sigma)^{-1} [\Sigma S_1 \varphi + \Sigma \rho_1 - \beta], \rho_1 \rangle \right\} dt \\
+ \mathbb{E} \int_0^T \left\{ \langle R_{11} R(\Sigma)^{-1} \beta + R(\Sigma)^{-1} \rho_1, \beta \rangle \\
+ \langle 2S_1^T R(\Sigma)^{-1} \beta - S_1^T R(\Sigma)^{-1} \Sigma \rho_1 - S_2^T R_{22}^{-1} \rho_2 + q, \varphi \rangle \\
- \langle [S_1^T R(\Sigma)^{-1} \Sigma S_1 + S_2^T R_{22}^{-1} S_2] \varphi, \varphi \rangle \right\} dt \\
= \mathbb{E} \left\{ 2 \langle \varphi(0), g \rangle - \langle \Sigma(0)g, g \rangle + \int_0^T \left\{ - \langle R(\Sigma)^{-1} \Sigma \rho_1, \rho_1 \rangle - \langle R_{22}^{-1} \rho_2, \rho_2 \rangle + 2 \langle R(\Sigma)^{-1} \beta, \rho_1 \rangle \\
+ \langle R_{11} R(\Sigma)^{-1} \beta, \beta \rangle + 2 \langle S_1^T R(\Sigma)^{-1} \beta - S_1^T R(\Sigma)^{-1} \Sigma \rho_1 - S_2^T R_{22}^{-1} \rho_2 + q, \varphi \rangle \\
- \langle [S_1^T R(\Sigma)^{-1} \Sigma S_1 + S_2^T R_{22}^{-1} S_2] \varphi, \varphi \rangle \right\} dt \right\}. \]

This completes the proof. \( \square \)

### 4. Construction of optimal control: general situation

In this section, we construct the optimal control of general Problem (BSLQ) in the situation that without the condition (3.1). For simplicity presentation, we denote

\[ \mathcal{J}_1 = S_1 - R_{12} R_{22}^{-1} S_2, \quad \mathcal{D}_{11} = R_{11} - R_{12} R_{22}^{-1} R_{21}, \]

\[ \mathcal{C} = C - B R_{22}^{-1} R_{21}, \quad v = u + R_{22}^{-1} R_{21} Z, \]

\[ \tilde{\rho}_1 = \rho_1 - \rho_2 R_{22}^{-1} R_{21}. \]

Using the notations (4.1) and noting that \( R_{22} \gg 0 \), it is easy to check that the original Problem (BSLQ) is equivalent to the following backward stochastic LQ problem with the state equation

\[ \begin{aligned}
\left\{ \begin{array}{l}
\mathrm{d}Y(t) = [A(t)Y(t) + B(t)v(t) + \mathcal{C}(t)Z(t) + f(t)] \mathrm{d}t + Z(t) \mathrm{d}W(t), \quad t \in [0, T], \\
Y(T) = \xi,
\end{array} \right.
\end{aligned} \]
and the cost functional

\[ J(\xi; u) = \mathbb{E}\left\{ \langle GY(0), Y(0) \rangle + 2\langle g, Y(0) \rangle \right\} \]

\[
+ \int_0^T \left[ \left\langle \begin{pmatrix} Q(t) & \mathcal{J}_1^\top(t) & S_2^\top(t) \\ \mathcal{J}_1(t) & \mathcal{R}_{11}(t) & 0 \\ S_2(t) & 0 & R_{22}(t) \end{pmatrix} \begin{pmatrix} Y(t) \\ Z(t) \\ v(t) \end{pmatrix} , \begin{pmatrix} Y(t) \\ Z(t) \\ v(t) \end{pmatrix} \right\rangle \right. \\
+ 2 \left\langle \begin{pmatrix} g(t) \\ \tilde{\rho}_1(t) \\ \tilde{\rho}_2(t) \end{pmatrix} , \begin{pmatrix} Y(t) \\ Z(t) \\ v(t) \end{pmatrix} \right\rangle \right] \, dt. \tag{4.3} 
\]

Moreover, we let \( H \in C([0, T]; \mathbb{R}^n) \) be the unique solution of the following linear ordinary differential equation

\[
\begin{aligned}
\dot{H}(t) + H(t) A(t) + A(t)^\top H(t) + Q(t) = 0, & \quad t \in [0, T], \\
H(0) = -G.
\end{aligned}
\]

Applying the integration by parts formula to \( \langle HY, Y \rangle \) on \([0, T]\), where \( Y \) is the state process determined by (4.2), we have that

\[
\mathbb{E}\langle H(T)\xi, \xi \rangle + \mathbb{E}\langle GY(0), Y(0) \rangle = \mathbb{E}\int_0^T \left[ \langle (\dot{H} + HA + A^\top H)Y, Y \rangle + 2\langle B^\top HY, v \rangle + 2\langle \mathcal{G}^\top HY, Z \rangle + 2\langle HY, f \rangle + \langle HZ, Z \rangle \right] \, dt \\
= \mathbb{E}\int_0^T \left[ -\langle QY, Y \rangle + 2\langle B^\top HY, v \rangle + 2\langle \mathcal{G}^\top HY, Z \rangle + 2\langle HY, f \rangle + \langle HZ, Z \rangle \right] \, dt \\
= \mathbb{E}\int_0^T \left\langle \begin{pmatrix} -Q & H\mathcal{G} & HB \\ \mathcal{G}^\top H & H & 0 \\ B^\top H & 0 & 0 \end{pmatrix} \begin{pmatrix} Y \\ Z \\ v \end{pmatrix} , \begin{pmatrix} Y \\ Z \\ v \end{pmatrix} \right\rangle + 2\langle HY, f \rangle \right\rangle \, dt.
\]

Substituting for the term \( \mathbb{E}\langle GY(0), Y(0) \rangle \) in the cost functional (4.3) yields that

\[
J(\xi; u) = \mathbb{E}\left\{ -\langle H(T)\xi, \xi \rangle + 2\langle g, Y(0) \rangle \right\} \\
+ \int_0^T \left\langle \begin{pmatrix} 0 & (S_1^H)^\top & (S_2^H)^\top \\ \mathcal{S}_1^H & \mathcal{R}_{11}^H & 0 \\ \mathcal{S}_2^H & 0 & R_{22}^H \end{pmatrix} \begin{pmatrix} Y \\ Z \\ v \end{pmatrix} , \begin{pmatrix} Y \\ Z \\ v \end{pmatrix} \right\rangle + 2\left\langle \begin{pmatrix} q^H \\ \tilde{\rho}_1 \end{pmatrix} , \begin{pmatrix} Y \\ Z \\ v \end{pmatrix} \right\rangle \, ds\right\} \
\]

where

\[
\mathcal{S}_1^H = \mathcal{J}_1 + \mathcal{G}^\top H, \quad \mathcal{S}_2^H = S_2 + B^\top H, \quad \mathcal{R}_{11}^H = \mathcal{R}_{11} + H, \quad q^H = q + Hf.
\]

So, for a given terminal state \( \xi \), minimizing \( J(\xi; u) \) subject to (1.1) is equivalent to minimizing the following cost functional

\[
J(\xi; u) = \mathbb{E}\left\{ 2\langle g, Y(0) \rangle \right\}
\]
subject to the state equation (4.2), which in fact essentially degenerated to the simplified Problem (BSLQ) with the condition (3.1). Therefore, we shall only present the general result, as the proof can be easily given using the same argument in Section 3.

**Theorem 4.1.** Under the conditions (A1)–(A3), the following results hold.

(i) Let \((\varphi, \beta)\) be the adapted solution to the following BSDE

\[
\begin{align*}
d\varphi(t) &= \left\{ \begin{array}{l} [A - B H(\Sigma) R_{22}^{-1} S_2^H - C H(\Sigma) [R H(\Sigma)]^{-1} \Sigma S_1^H] \varphi + C H(\Sigma) [R H(\Sigma)]^{-1} \beta \\
- C H(\Sigma) [R H(\Sigma)]^{-1} \Sigma \tilde{\rho}_1 - B H(\Sigma) R_{22}^{-1} \rho_2 + \Sigma q^H + f \end{array} \right\} dt + \beta(t) dW(t), \quad t \in [0, T], \\
\varphi(T) &= \xi,
\end{align*}
\]

and let \(X\) the solution to the following SDE

\[
\begin{align*}
dX(t) &= \left\{ \begin{array}{l} \left[ (S_1^H)^T [R H(\Sigma)]^{-1} \Sigma [C H(\Sigma)]^T + (S_2^H)^T R_{22}^{-1} [B H(\Sigma)]^T - A^T \right] X \\
- \left[ (S_1^H)^T [R H(\Sigma)]^{-1} \Sigma S_1^H + (S_2^H)^T R_{22}^{-1} S_2^H \right] \varphi + (S_1^H)^T [R H(\Sigma)]^{-1} \beta \\
- (S_1^H)^T [R H(\Sigma)]^{-1} \Sigma \tilde{\rho}_1 - (S_2^H)^T R_{22}^{-1} \rho_2 + q^H \right\} dt \\
- [R H(\Sigma)]^{-1} \left[ (C H(\Sigma))^T X - S_1^H \varphi - R_{11} \beta - \tilde{\rho}_1 \right] dW(t), \quad t \in [0, T], \\
X(0) &= g.
\end{align*}
\]

Then the optimal control of Problem (BSLQ) for the terminal state \(\xi\) is given by

\[
u = R_{22}^{-1} \left\{ \left[ [B H(\Sigma)]^T - R_{21} [R H(\Sigma)]^{-1} \Sigma [C H(\Sigma)]^T \right] X \\
+ [R_{21} [R H(\Sigma)]^{-1} \Sigma S_1^H - S_2^H] \varphi + R_{21} [R H(\Sigma)]^{-1} \Sigma \tilde{\rho}_1 - R_{21} [R H(\Sigma)]^{-1} \beta - \rho_2 \right\},
\]

where \(\Sigma\) is the unique positive semidefinite solution of the following Riccati equation,

\[
\begin{align*}
\Sigma - A \Sigma - \Sigma A^T + B H(\Sigma) R_{22}^{-1} [B H(\Sigma)]^T + C H(\Sigma) [R H(\Sigma)]^{-1} \Sigma [C H(\Sigma)]^T &= 0, \\
\Sigma(T) &= 0.
\end{align*}
\]
(ii) The value function of Problem (BSLQ) is given by

\[ V(\xi) = \mathbb{E}\left\{-\langle H(T)\xi, \xi \rangle + 2\langle \varphi(0), g \rangle - \langle \Sigma(0)g, g \rangle + \int_0^T \left\{-\langle [R^H(\Sigma)]^{-1}\Sigma\tilde{\rho}_1, \tilde{\rho}_1 \rangle - \langle R_{22}^{-1}\rho_2, \rho_2 \rangle \\
+ 2\langle R(\Sigma)^{-1}\beta, \tilde{\rho}_1 \rangle + \langle R_{11}[R^H(\Sigma)]^{-1}\beta, \beta \rangle \\
+ 2\langle (S^H_1)^\top[R^H(\Sigma)]^{-1}\beta - (S^H_2)^\top[R^H(\Sigma)]^{-1}\Sigma\tilde{\rho}_1 - (S^H_2)^\top R_{22}^{-1}\rho_2 + q^H, \varphi \rangle \\
- \langle [(S^H_1)^\top[R^H(\Sigma)]^{-1}\Sigma S^H_1 + (S^H_2)^\top R_{22}^{-1}S^H_2]\varphi, \varphi \rangle \right\} \right\}, \]

where \((\varphi, \beta)\) is the adapted solution of BSDE (4.4).

5. Conclusion

In this paper, we have investigated an indefinite backward stochastic linear-quadratic optimal control problem with deterministic nonhomogeneous coefficients and have developed a general procedure for constructing optimal controls. The necessary and sufficient conditions of Problem (BSLQ) are derived for the solvability of the problem, and a characterization of the optimal control in terms of forward-backward stochastic differential equations has been presented. The optimal control and the value function of Problem (BLSQ) are given out clearly. The results obtained in this paper provide insight into some related topics, especially into the study of zero-sum backward stochastic differential games. In our future publication, we hope to report some relevant results along this line.

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