



Securities and Futures (Client Securities) Rules



Scope of Application

Client securities and securities collateral that are

- a) listed or traded on the SEHK; or
- b) interests in authorised collective investment schemes



Scope of Application

Securities and securities collateral that are held or received in Hong Kong by

- a) the intermediary, in the course of the conduct of any regulated activity for which the intermediary is licensed or registered; or
- b) an associated entity of the intermediary, in relation to such conduct of the regulated activity.



Exclusion

client securities in an account established and maintained by a client, in that client's name and with a person other than the intermediary or associated entity



Deposit of Client Securities by Intermediary

As soon as reasonably practicable, deposit in Hong Kong into

- a) a segregated account, designated as a trust account or client account, established and maintained for the purpose of holding client securities
- b) with
 - an AFI
 - an approved custodian
 - another intermediary licensed for dealing in securities



Registration of Client Securities

Register in the name of

- a) the relevant client
- b) the associated entity

Deposit of Securities Collateral

As soon as reasonably practicable, deposit in Hong Kong into

- a) a segregated account, designated as trust or client account, established and maintained for the purpose of holding securities collateral; or
- b) an account established in the name of the intermediary or associated entity
- c) with
 - an AFI
 - an approved custodian
 - another intermediary licensed for dealing in securities



Registration of Securities Collateral

Register in the name of

- a) the relevant client
- b) the intermediary
- c) the associated entity

Rights of disposal

- a) Agreement in writing
- b) To dispose of any client securities or securities collateral
- c) In settlement of any liability owed by or on behalf of the client

Client's “one-off” direction

- a) Written or oral direction to sell client securities or securities collateral or to settle such a sale order;

[with agreement in writing, an asset manager may withdraw client securities to sell them or to settle a sale order on behalf of the client]

- b) Written direction to withdraw client securities or securities collateral

Client's standing authority

- a) Subject to Particular Rules, cannot result in a transfer of client securities or securities collateral, or pass the benefit or use to
- the intermediary;
 - the associated entity; or
 - a “related” company



Client's standing authority (cont'd)

- b) cannot result in a transfer of client securities or securities collateral to officer/employee of
 - the intermediary;
 - the associated entity; or
 - a “related” company
- c) cannot be unconscionable

Particular Rules

- a) Intermediary licensed or registered for dealing in securities & its associated entity
- May apply client securities or securities collateral to a securities borrowing or lending agreement
 - May repledge securities collateral with AFI for financial accommodation provided to the intermediary
 - May deposit as collateral with recognized clearing house or another intermediary licensed or registered for dealing in securities for discharge and satisfaction of settlement obligations

Treatment also permitted for securities collateral received for financial accommodation provided in other regulated activities.

Particular Rules (cont'd)

- b) Intermediary licensed for securities margin financing & its associated entity
 - May repledge securities collateral with AFI or an intermediary licensed for dealing in securities for financial accommodation provided to the intermediary

Particular Rules (cont'd)

- c) Intermediary licensed or registered for dealing in futures contracts & its associated entity
 - May deposit as collateral with recognized clearing house/another intermediary licensed or registered for dealing in futures contracts for discharge and satisfaction of settlement obligations

Requirements on standing authority

- a) Must specify a validity period (not exceeding 12 months except for professional investors) + the manner of revocation
- b) May be renewed with the written consent of the client for one or more further periods, each not exceeding 12 months or of any duration, in case of professional investors

Deemed renewal of standing authority

- a) Give at least 14 days written notice prior to expiry, reminding the client of impending expiry, and informing the client that unless the client objects, it will be renewed upon expiry upon the same terms and conditions as the original standing authority and for –
 - period as specified in the original standing authority
 - any period not exceeding 12 months (or of any duration, in case of professional investors) specified by the intermediary or associated entity



Limitations on treatment of client securities and securities collateral

- a) Intermediary/associated entity must ensure that client securities and securities collateral are only dealt with in accordance with the Rules.
- b) Intermediary/associated entity not required to ensure compliance by 3rd person.

Provisions with penalty

- Section 4(4) – Written confirmation for deemed renewal of standing authority
- Section 5 – Deposit/registration requirement
- Section 10(1) – Ensuring compliance with Rules
- Section 12 – Self-reporting of non-compliance within 1 business day