



Securities and Futures (Client Securities) Rules

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Questions I ask myself (if I were a securities dealer or securities margin financier)

Q1 Do I need a standing authority?

Is my existing authority valid?

What must I do before 1.4.03?

A1 You may not need one unless you want to make use of client securities/securities collateral, e.g. when you only do DVP.

Existing standing authorities can remain valid provided that they must specify how the standing authority can be revoked.

In other cases, you may want to have the new standing authority in place before 1.4.03.

Questions I ask myself (if I were a securities dealer or securities margin financier) (Cont'd)

Q2 How can I best renew my standing authority?

A2 You can continue to do what you have been doing now and get renewal in writing.

Or you can establish who are professional investors* amongst your clients and do not set a valid period (or set a period exceeding 12 months) for their standing authority

Or obtain “deemed” renewal by

- issuing a reminder 14 days before expiry
- (assuming no objection) issuing confirmation within 1 week of expiry

**there must be sufficient records to establish this*

Questions I ask myself (if I were a securities dealer or securities margin financier) (Cont'd)

Q3 How I can know if my systems are adequate for ensuring compliance with CSR?

A3 As a starter, read the “Suggested control techniques and procedures”.

Ask yourself this question: “do all my clients get to receive our contract notes and statements etc?”

Need not worry if you do not have all the suggested control techniques and procedures. They are for reference and you can always have compensating controls. Your auditors should be able to help.



Questions I ask myself (if I were a securities dealer or securities margin financier) (Cont'd)

Q4 I have a group nominee company and I only use it to register cent stocks for my clients. Will this company need to be licensed under the SFO?

A4 This will be an associated entity under the SFO and it will need to comply with the same requirements as a licensed corporation, except for the FRR.

You may want to ask your clients to withdraw these cent shares so that you do not need to worry about appointing auditors etc.

Questions I ask myself (if I were a securities dealer or securities margin financier) (Cont'd)

Q5 How about client securities received or held overseas?

A5 This remains a code requirement. There is a new Risk Disclosure Statement to add.

Q6 Can I force sell client securities or securities collateral upon client default?

A6 You can, provided that there is an agreement in writing with the client*

* *The proforma SEHK client agreement only provides you with a lien*



Questions I will ask (if I were some other type of intermediary)

Q1 Do I ever receive or hold client securities or securities collateral in Hong Kong? What if I only do this from time to time?

A1 You must watch out that “hold” includes having control, whether lawfully or unlawfully.

CSR apply whenever you hold/receive client securities/securities collateral. You ought to have a system to make sure that

- you either never receive/hold them; or
- you are at least prepared when the need arises