

**Guidance Note for Short Selling Reporting  
and Stock Lending Record Keeping Requirements**

**Hong Kong  
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## **1. Introduction**

- 1.1 On 7 September 1998, the Financial Secretary announced a 30-point programme to strengthen the discipline and transparency of the securities and futures markets. One of the proposed measures is to strengthen the regulation of short selling in Hong Kong to safeguard the markets from the failure of price-discovery and lack of transparency brought about by non-compliance with the disclosure rules of short selling.
- 1.2 To give effect to the proposal, the Securities (Amendment) Ordinance 2000 (“Amendment Ordinance”) was enacted on 24 May 2000 and came into operation on 3 July 2000.
- 1.3 To create a proper audit trail for short selling activities, the Commission also exercised its power under section 146(1)(oa) to make the Securities (Stock Lending) Rules 2000 (“Rules”) to require stock lenders to keep records of their lending transactions. The Rules also came into effect on 3 July 2000.
- 1.4 To help the industry establish procedures that may be needed to be put in place in practice to comply with the Amendment Ordinance and the Rules, the SFC issues this guidance note to clarify the legal requirements applicable to short sellers, brokers and stock lenders and set forth the SFC’s expectations.
- 1.5 This guidance note does not have the force of law and is intended to clarify the SFC’s views on issues raised by the industry.

## **2. Naked/uncovered short selling under section 80 of Securities Ordinance**

- 2.1 Section 80 of the Securities Ordinance (“SO”) which prohibits “naked” or “uncovered” short selling has been in operation since the 1970’s when the SO was enacted. It is a criminal offence for a person to sell securities at or through the Unified Exchange unless (in summary) at the time of the

sale, he or his client if he is an agent, has a presently exercisable and unconditional right to vest the securities in the purchaser of them, or reasonably and honestly believes that he or his client, as the case may be, has such a right. For example, it would be a criminal offence if a person deliberately sold short, and then went into the market to cover the short by buying the securities or arranging to borrow them, to settle the sale.

2.2 The Amendment Ordinance does not make any changes to the substance of section 80 except that the maximum penalties for contravention of it have been increased to a fine of HK\$100,000 and imprisonment for 2 years.

2.3 There may be circumstances where the SFC accepts that the seller has a “presently exercisable and unconditional right to vest the securities in the purchaser of them” even though the seller does not actually have the securities at the time of placing the sale order. The following are a few examples:

2.3.1 the seller bought the securities before he placed the sale order. Notwithstanding that the securities were not delivered to him before he sold them, he would be regarded as having conducted an ordinary sale (in other words, conducting day trades does not violate section 80);

2.3.2 the seller obtained a “hold notice” or a “blanket assurance” (see para. 10) from a stocklender to borrow the amount of securities being sold prior to the sale. If for any reason, the securities were eventually not made available for borrowing (for example, the lender withdrew the “hold” when the seller called to confirm the borrowing because it needed the securities for its own use), no breach of section 80 would have been committed, because at the time of the sale, the seller had an honest and reasonable belief that arrangements were in place to vest the securities in the purchaser of them;

2.3.3 the seller owns options, warrants, convertibles or similar rights to acquire the underlying securities which give him a “presently exercisable and unconditional right to vest the securities in the purchaser of them”;

2.3.4 the seller has lent out the relevant securities but has a right of recall under the relevant securities borrowing and lending agreement.

## 2.4 Technical breaches of section 80 of SO

2.4.1 While it is a broker’s duty to check if his clients have adequate securities available to sell pursuant to their sale orders, mistakes or errors do occur from time to time which result in a short position, i.e. a technical breach of section 80. It is not the SFC’s intention to penalise genuine mistakes or errors. So far as the seller or the broker, whoever made the mistakes or errors, at the time of placing the sale order had a reasonable and honest belief that he had, or his principal had the right, title or interest to or in securities he intended to sell, he would have a defence under section 80(4).

2.4.2 The SFC is empowered under section 80(4) of the SO to prescribe regulations to disapply the naked short selling provisions (section 80(1)) to certain selling transactions. Industry participants have drawn to the attention of the SFC that they are not sure in some circumstances whether they are technically in breach of section 80. To provide the industry with greater certainty, the SFC is considering exercising its power under section 80(4) to make regulations to prescribe circumstances where section 80(1) will be disappplied. The SFC will consult the industry when making such regulations.

## 3. Covered short selling – Reporting requirements under sections 80A-C of Securities (Amendment) Ordinance 2000

3.1 The Amendment Ordinance introduced new sections 80A-C into the SO. These new sections operate to ensure that all short selling activities

executed at or through the Stock Exchange of Hong Kong Limited (“SEHK”) are properly reported and supported by an adequate amount of securities at the time of the sale. Therefore, these new sections apply to short sales which are “covered”.

- 3.2 Under SEHK Rules (Eleventh Schedule), “covered” short sales can only be effected in certain Designated Securities. Currently there are over 200 such securities (including the 7 NASDAQ securities traded on SEHK under the Pilot Program). Short sales can only be effected through SEHK’s Automatic Order Matching and Execution System. Under the existing SEHK Rules, save in respect of market makers in the NASDAQ stocks and the stock options market<sup>1</sup>, the “tick” rule applies, i.e. a short sale cannot be effected below the best current ask price.
- 3.3 Sections 80A-C put the duty to report short selling transactions on both the seller (whether a client or a broker, as a principal) and the broker (as an agent). In summary, the new sections require the seller, at the time of placing the order, to identify it as a “short selling order” and to provide confirmation that the sale is “covered”. A broker who receives a sale order, knowing it to be a short selling order, must ensure that he obtains the confirmation from the seller prior to transmitting the order to SEHK for execution and must retain the confirmation for at least 12 months from the date of the transaction.
- 3.4 When the order is input into SEHK’s system, the relevant exchange participant that inputs the order must, if he knows that the order is a short selling order, mark it as “short” in such form as SEHK may prescribe from time to time.

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<sup>1</sup> An amount up to \$30 millions of the stock options market makers’ hedging transactions are exempted from the application of the tick rule (transactions above that amount would require justifications).

#### **4. Definition of “short selling order” under section 80A**

4.1 As defined in section 80A, “short selling order” means an order to sell securities in respect of which the seller has a “presently exercisable and unconditional right to vest the securities in the purchaser of them”. The right of the seller may arise in one of the following ways:

4.1.1 The seller is party to a securities borrowing and lending agreement under which he has borrowed the securities or obtained a confirmation from the lender that he has the securities available to lend to him;

4.1.2 The seller holds an option, a subscription right or warrant or convertible or exchangeable security which, in any such case, confers the right to acquire the securities to which the sale order relates.

4.2 The definition also includes a provision that SFC can make rules under section 146 of SO to provide for additional circumstances in which a sale order would be treated as “short selling order”. The purpose of this provision is to give the SFC the flexibility to include new arrangements that can provide a “cover” for short selling transactions. The SFC does not contemplate making such rules at this stage. If such rules are to be made in the future, the industry will be consulted.

4.3 In the case of 4.1.2 above, a sale order will not be treated as a short selling order where the seller has, at the time of placing the order, issued unconditional instructions to obtain the underlying securities to which the sale order relates. For example, in the following circumstances, the sale order would not be a “short selling order” for the purposes of sections 80A-C:

4.3.1 The seller holds a physically-settled call option or listed warrant in respect of the securities, and has exercised the option or listed warrant;

- 4.3.2 The seller holds depository receipts, and has given instructions to obtain the securities underlying the depository receipts;
- 4.3.3 The seller holds TraHK units, and has given instructions for the redemption of those units.
- 4.4 In these circumstances, no reporting is required. The subsequent borrowing of securities to meet the settlement obligations of the sale transactions will not be regarded by the SFC as falling within sections 80B-C.
- 4.5 An organisation that operates different trading units within the same legal entity may monitor and conduct its trading activities on a “trading book” basis. For example, it is possible that trader A is running a book that is “long” of a particular security of a particular amount while trader B is running another book that is “short” (and has already been so reported) of the same security of similar amount (i.e. the legal entity’s overall position of that security may be square). In determining whether a sale order is a “short selling order”, the SFC is prepared to accept that where separate trading books are operated with effective Chinese Wall arrangements in place, trader A should be able to sell that security through the SEHK without treating it as a “short selling order”, even though, overall, the legal entity will be “short” of the security.
- 4.6 On the other hand, if a trader is running a book that does not have a “long” position in the security, and arranges to borrow the security and sell “short”, this should be reported as a “short selling order” even though, overall, the legal entity has a “long” position. This is so regardless of where the security is obtained from (for example, if the trader does not himself arrange the borrowing, but this is done through the stocklending/borrowing unit within the organisation, it is possible that the stocks will be sourced from within the organisation rather than borrowed from a third party lender).
- 4.7 A sale of securities, where the securities are out on loan at the time of placing the order, will not be required to be reported as a “short selling

order” provided that it is clear in the lending agreement that the seller has the right to recall at any time the securities to which the order relates.

## **5. Definition of “securities borrowing and lending agreement” under section 80A**

- 5.1 A securities borrowing and lending agreement is defined in section 80A as an agreement whereby a person borrows or lends securities pursuant to an arrangement where the borrower undertakes to return securities of the same description to the lender or pay the equivalent value of the securities. The definition is expressed to include a stock borrowing within the meaning of section 19(16) of the Stamp Duty Ordinance of Hong Kong<sup>2</sup>.
- 5.2 For the purposes of sections 80A-C, a seller will clearly be treated as a “borrower” if he has entered into an industry-standard securities lending agreement, under which he has borrowed the securities or obtained a “hold notice” or “blanket assurance” in respect of the securities being sold.
- 5.3 However, questions may arise when a person has acquired securities pursuant to a repurchase agreement, which involves an outright transfer of securities. Pursuant to section 19 of the Stamp Duty Ordinance, relief from Hong Kong stamp duty is available where Hong Kong stock is borrowed pursuant to a stock borrowing and lending agreement. For stamp duty relief purposes, the Hong Kong Stamp Office has been willing to register equity repurchase agreements as “stock borrowing and lending agreements”. As the definition of “securities borrowing and lending agreement” in section 80A of the SO specially includes a stock borrowing within the meaning of the Stamp Duty Ordinance, an order to sell stock which has been acquired pursuant to an agreement which has been

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<sup>2</sup> The definition of “stock borrowing” under that Ordinance is as follows:

“....the obtaining by a borrower from a lender, under a stock borrowing and lending agreement, of Hong Kong stock the sale and purchase of which in Hong Kong are subject to the rules and practices of the Exchange, whether the Hong Kong stock is so obtained directly from the lender or indirectly under or through a recognised clearing house and in accordance with the rules of that recognised clearing house which constitute the stock borrowing and lending agreement.”

registered as a “stock borrowing and lending agreement” for the purposes of the Stamp Duty Ordinance should be treated as a “short selling order”.

- 5.4 Despite the fact that an equity repurchase agreement is so registered for the purposes of the Stamp Duty Ordinance, if securities acquired thereunder are simply held as collateral, the SFC will not regard a subsequent sale of the securities as a result of counterparty default as a short sale and therefore the short selling reporting requirements will not be triggered. Once the counterparty has defaulted, the person who originally received the collateral will have an absolute right to the securities and therefore selling the securities is considered to be an ordinary sale. A “short selling order” occurs when the seller’s right to the securities arises by virtue of having “borrowed” the securities.

## **6. Obligations to report short sales under section 80B**

Section 80B imposes various obligations on short sellers, agents who receive short selling orders for execution (or for passing on to another broker, including an exchange participant, for execution) and exchange participants who sell as principal or as agent.

### **6.1 Selling as principal**

Section 80B(1) applies where a person (other than an exchange participant) is short selling as a principal. For this purpose, an investment manager or other person acting on behalf of clients or beneficiaries is to be regarded as selling as a principal if he has full discretion to sell the securities, and the sale is not being effected in accordance with instructions received from the clients or beneficiaries (section 80B(7)). Examples may include fund managers trading for a fund, traders managing omnibus accounts and traders managing discretionary accounts. However, it will not include a trader with a short-term discretion from a client to manage a sale order (e.g. a client leaving an order to sell short a security above a price good-till-cancelled, will not be regarded as having full discretion).

### 6.1.1 Documentary assurance

When passing the short selling order to an agent for execution, the short seller must, at the same time, provide the agent with a “documentary assurance” that (in summary):

6.1.1.1 he has a presently exercisable and unconditional right to vest the securities to which the order relates in the purchaser of them; and

6.1.1.2 where the securities are being borrowed to cover the sale, that the lender has the securities available to lend to the seller.

The documentary assurance must be provided at the time the short selling order is placed with the agent. The assurance should be in the form of a document<sup>3</sup>, which may include any written confirmation, tape recording, electronic documents etc. Accordingly, an assurance given over the phone would be sufficient if the phone line is being taped by the person receiving the call. The assurance could also be given by e-mail or other electronic communication (e.g. if orders are received through an electronic media such as the Internet or other information services, using checkboxes or pop-up messages to obtain the required confirmations is considered suffice provided that these information can be properly recorded and retained). To comply with section 80B, short sellers must ensure that they have proper arrangements with their agents so that the documentary assurance can be received and retained.

From the agents’ perspective, the SFC accepts that, as long as the communication from the short seller does confirm that the sale is a

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<sup>3</sup> “document” as defined in SO includes any register, books, record, tape recording, any form of computer input or output, and any other document or similar material (whether produced mechanically, electrically, or manually, or by any other means whatsoever).

short sale and, where the securities are obtained by way of a borrowing, that the seller has obtained confirmation from the lender that the securities are available for borrowing to settle the transaction, it is not necessary for the seller to disclose the identity of the lender, or to give further details of the borrowing.

## 6.2 Exchange participant selling as principal

### 6.2.1 Documentary assurance

If an exchange participant short sells securities as principal, where the “cover” for the sale is a borrowing arrangement, the exchange participant must have obtained a “documentary assurance” from the lender that the lender has the securities available to lend to him (section 80B(3)). The exchange participant will be a “principal” for this purpose if he is selling for his own account, or if exercising discretion on behalf of a client. The documentary assurance could take the form of a “hold notice” or “blanket assurance” given over the phone if the exchange participant tapes the call, but the tape would need to be retained for at least a year.

The responsibilities under section 80B(3) are solely those of the exchange participant, and the lender currently has no obligation under the SO to provide the “documentary assurance” when lending to an exchange participant. An exchange participant who fails to obtain the assurance commits a criminal offence under section 80B(10), unless he can provide a defence under section 80B(11) (see 8.2).

## 6.3 Agents with full discretionary power to trade

An investment manager or other person who is acting on behalf of clients or beneficiaries, but is effecting the short sale at full discretion, and not pursuant to instructions from the clients or beneficiaries, is not an “agent” but “principal” for this purpose (Section 80B(7)). Therefore, he must

comply with the requirements imposed on persons selling as principal, as outlined in 6.1.

#### 6.4 Selling as an agent

Where an agent receives a short selling order from a seller, section 80B(5) requires the agent to obtain the necessary documentary assurance as mentioned in 6.1.1, from his principal or other person for whose benefit or on whose behalf the order is made.

This obligation can apply to an intermediary broker who takes an order from his client and passes it on (directly or indirectly) to an exchange participant for execution on SEHK. The exchange participant, being an agent of this intermediary broker, is required to obtain the necessary documentary assurance from him. In practice, this obligation could be complied with by the intermediary supplying to the exchange participant a copy of such documentary assurance as the intermediary obtained from the principal.

##### 6.4.1 Documentary assurance

An agent who receives a sale order from a client should enquire if the order is a short selling order. Knowing it to be a short selling order, the agent must ensure that he obtains the necessary documentary assurance from the client at the time the order is placed.

An agent who fails to obtain the documentary assurance from the short seller will commit a criminal offence (under section 80B(10)) unless he can establish that, at the time he accepted the order, he did not know that the order was a short selling order, or had reasonable grounds to believe, and did believe, that the order was not a short selling order (section 80B(11)). For example, if the seller had told the broker that the sale was not “short”, the broker would not commit a criminal offence in failing to treat it as a short sale.

## 6.5 Other information

Section 80B(2) provides that the SFC can make rules under section 146 of the SO to require the principal to give further documentary information to the agent about the short sale, within such time as is specified in the rules.

Section 80B(4) also provides that the SFC can make rules under section 146 of the SO to require an exchange participant, selling as a principal, to collect further documentary information from the counterparty from whom he obtained the securities, within such time as is specified in the rules.

If the SFC exercises its rule-making powers so as to require short sellers to provide additional information to the agent with whom they place a short selling order, the rules may also impose an obligation on the agent to collect that information (Section 80B(6)).

Notwithstanding that the SFC is empowered to make the above rules, it does not contemplate doing so at this stage. The SFC will decide on whether it is necessary to obtain additional information to facilitate its monitoring of short selling activities in the light of experience of the operation of sections 80A-C. If such rules are to be made in the future, the industry will be consulted.

## 7. **Obligations to input short selling orders into the Exchange trading system under section 80C**

7.1 Under section 80C, an exchange participant (or its representative) who knows or is informed that it is a “short selling order” must

7.1.1 if passing on the order to another person for execution, inform that person that it is a short selling order; or

- 7.1.2 if inputting the order into the SEHK trading system, mark it as a short sale in accordance with the SEHK rules. (The rules only permit short sales in respect of Designated Securities, the short sales must be effected through the trading system of SEHK (i.e. no prior crossings can be done) and the tick rule applies.).
- 7.2 The purpose of section 80C is to ensure that short selling orders will be so reported to SEHK without any loss of information due to communication break-downs at the firm of an exchange participant. The importance of this section lies in the fact that the application of tick rule will not be triggered if a short selling order is not properly identified during the input process. Therefore, if an exchange participant's sales representative receives a short selling order from a client, he must make sure that he informs his trader (or any person who is responsible for inputting the order into the SEHK trading system) that the order is a short selling order so that it can be so inputted.

## **8. Criminal offences**

The Amendment Ordinance increases the maximum penalties for contravening section 80 to a fine of \$100,000 and an imprisonment term of 2 years. It also introduces two new offences under section 80B (80B(10) and 80B(12)) and a new offence under section 80C (80C(3)). The maximum penalties for contravening sections 80B(10), 80B(12) or 80C(3) are a fine of \$50,000 and imprisonment for a term of 12 months.

### **8.1 Violation of reporting and confirmation requirements (section 80B(10))**

Section 80B(10) creates an offence for contravening the reporting and confirmation requirements (i.e. the provision and collection of documentary assurance) imposed under sections 80B(1), (3) and (5). The contravention of section 80B(10) has a defence under section 80B(11).

A person who placed a short selling order as principal without, at the same time, giving the documentary assurance referred to in para. 6 above,

commits a criminal offence (section 80B(10)) unless he can prove that, at the time of the sale, he did not know that the order was a short selling order, or had reasonable grounds to believe and did believe that it was not a short selling order (section 80B(11)).

## 8.2 Defence under section 80B(11) for contravention of section 80B(10)

In the case of a person selling as principal, the defence under section 80B(11) is unlikely to be relevant. On the other hand, if the person reasonably and honestly believed that at the time of placing the order, he had the securities to sell and in fact he did not (due to a mistake), he would not have committed an offence under sections 80A-C as his order to sell did not constitute a “short selling order” as defined in section 80A. However, this transaction is a naked short sale, which would potentially be in breach of section 80.

The defence will not be available for the seller who knew that the sale was short but failed to provide the necessary assurance to the agent, or the seller who knew the relevant facts but failed to realise that there was a legal obligation to provide the assurance.

Although the defence may not be available for a seller who sought to comply with section 80B but failed to provide the assurance through an inadvertent error (for example, sending a fax or e-mail assurance to the wrong person by mistake), it is not the SFC’s policy intent to prosecute genuine mistakes or errors.

The defence could, however, apply if the seller held options, depository receipts or TraHK units and thought that the right to obtain the underlying securities had been exercised at the time of placing the sale order when in fact it had not. If the right had not been exercised, the sale order would be a “short selling order”, although the seller would not have treated it as such. However, as long as the seller could show that his mistake was reasonable (so that he had reasonable grounds for believing that the order was not a short selling order), he could have a defence under section 80B(11).

If the seller obtained a “hold notice” or a “blanket assurance” from a stocklender to borrow the amount of securities being sold, or indeed borrowed the relevant securities prior to the sale and provided the necessary assurance, but for any reason, the securities were eventually not made available for borrowing (for example, the lender withdrew the “hold” when the seller called to confirm the borrowing because it needed the securities for its own use), no breach of section 80 or 80B would have been committed, because at the time of placing the sale order, the seller had an honest and reasonable belief that arrangements were in place to vest the securities in the purchaser of them.

### 8.3 Provision, collection and retention of information under section 80B(12)

Section 80B(12) creates an offence for contravening the information provision, collection and retention requirements under sections 80B(2), (4), (6) and (8). Until the SFC decides to exercise its power to make rules under section 80B(2), (4) or (6) requiring additional documentary information, section 80B(12) will only apply to a contravention of section 80B(8).

Section 80B(8) requires an agent or an exchange participant who receives or collects the documentary assurance or other information required under section 80B to retain such assurance or information for not less than one year and during this one year period, provide it to the SFC upon its request.

### 8.4 Disclosure of short sales by an exchange participant under section 80C

Section 80C(3) creates an offence for an exchange participant failing to indicate a short selling order to SEHK in such form as required under the SEHK rules.

A person who, without lawful excuse, fails to comply with these requirements, commits a criminal offence. “Lawful excuse” is expressed

to include inadvertence, carelessness or negligence. Therefore, a genuine oversight or inputting error will not result in criminal liability.

**9. Purchases to cover a “short” - section 146(1)(o)**

The SFC has the power to make rules under section 146(1)(o) of SO requiring a person who buys securities at or through the SEHK to close out his short position (for example by buying securities in order to redeliver borrowed securities to the lender), to notify the exchange participant who effects the purchase of this fact. The purpose is to collect information about short covering transactions so as to enhance the transparency of short selling activities. If such rules are to be made in the future, the industry will be consulted.

**10. Obligations of stock lenders to keep records – Securities (Stock Lending) Rules 2000 made under section 146(1)(oa)**

- 10.1 The obligations under sections 80A-C of the Amendment Ordinance to keep records (and the criminal penalties for failing to comply) fall upon brokers and other agents involved in short selling, not upon lenders.
- 10.2 However, the SFC has exercised its power under section 146(1)(oa) to make the Rules which require stock lenders to maintain certain records and to keep the records for one year from the date the relevant record was made. The purpose of these Rules is to retain information which will provide a proper audit trail for short selling transactions.
- 10.3 There is currently no specific penalty imposed for non-compliance. The power of making regulations to impose such penalty lies with the Chief Executive in Council. However, if the stock lender is regulated in Hong Kong, non-compliance could be relevant to its continued “fitness and properness” as a registered person with the SFC. If it is regulated outside Hong Kong, the SFC might take up the matter with the regulators in its home country, pursuant to the Memoranda of Understanding or

other cooperative arrangements that the SFC has in place with many securities regulators world-wide.

10.4 The Government and SFC understand the concerns of the lending industry about any proposed criminal offence for violation of the Rules and will consider whether criminal penalties are necessary in the light of the experience in compliance with the legislation.

10.5 A lender is defined in the Rules as a lender of Hong Kong listed securities under a “securities borrowing and lending agreement” (defined in section 80A of the Amendment Ordinance). The meaning of this is discussed in para. 5 above. If the lender is lending as agent for its clients, it is made clear under the Rules that only the agent, and not also the underlying clients, is required to comply with the Rules.

10.6 The Rules apply when the lender:

10.6.1 lends or agrees to lend securities to the borrower (a “borrow”);

10.6.2 gives a “blanket assurance” to a borrower that the lender has a sufficient overall supply of a defined group of securities such that for a specific period of time as agreed on by the parties the securities concerned are available to lend to the borrower;

10.6.3 gives a “hold notice” to the borrower, i.e. a confirmation that for a specific period of time as agreed on by the parties specific securities in a specific quantity are available to lend to the borrower.

10.7 The Rules require that at the time of giving the “hold notice” or “blanket assurance”, or entering into a “borrow”, the lender must make a documentary record of this, identifying

10.7.1 name of borrower;

- 10.7.2 type and quantity of securities borrowed or available for borrowing; and
- 10.7.3 whether a “hold notice” or “blanket assurance” or “borrow” was given or entered into, and the time it was given or entered into.
- 10.8 If the transaction is arranged by telephone, and the lender’s line is recorded, the tape of the call will be a “documentary record” (although the tape would need to be retained for a year). Otherwise, the lender needs to make an electronic or manual record of the transaction, and the record needs to be sufficient to identify the time of the “hold notice” or “blanket assurance” given or the actual “borrow”. For example, a form which is filled out manually and time-stamped would meet this requirement.
- 10.9 The lender must keep the records for one year and provide such records to the SFC on request.
- 10.10 Although it is not currently in the Rules, the SFC expects lenders to provide their potential borrowers or borrowers at the end of the transaction day and no later than 10:00 a.m. the following day (prior to the stock market opening) a summary of the lending activities which contains the information in relation to the “hold notices”, “blanket assurances” and “borrows” conducted during the transaction day.

## **11. Transitional arrangements**

- 11.1 The SFC appreciates that the industry is working towards putting in place internal procedures and systems to comply with the new requirements under the Amendment Ordinance and the Rules, and understands that the full implementation of such procedures and systems may take some time, notwithstanding that proper manual procedures are acceptable for record-keeping purposes.

11.2 With the support of the Government, the SFC will provide the industry a grace period until 3 October 2000 to allow participants to have adequate time to establish proper procedures and build in systems before requirements under sections 80A-C of the Amendment Ordinance and the Rules will be fully enforced. During this transitional period, the SFC will take action, in the case of failure to comply with the requirements, by way of issuing a warning letter. It should be noted that the grace period applies to sections 80A-C of the Amendment Ordinance and the Rules only and section 80 of SO will be strictly enforced. Members of the industry are urged to put in place measures to ensure compliance of the requirements by the end of the grace period.