

Updating Your Study Manual

Instructions for Inserting Version 1.9

The followings serve as the instructions for updating **Topic 7: Securities, Options and Futures** of Study Manual 1 for the Licensing Examination for Securities and Futures Intermediaries. Please be reminded that only the updated sections are provided for downloading. You may replace the relevant sections with this updated version for the study manual you possess.

Instructions:

1. Download and print out the following pages.
 2. **Remove** pages 7-13 to 7-14 and **Insert** new pages 7-13 to 7-14.
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- rights or warrants to subscribe to and to receive the security to which the sale relates; or
- entered into with another person an agreement or an agreement of a description as is prescribed by rules made under s.397' of the SFO.

2.44 General practical points relating to short selling on SEHK are:

- it may be undertaken only in securities designated by SEHK (currently they are a large number of these);
- exchange participants must indicate short sell orders when inputting the order;
- exchange participants must make stock borrowing arrangements for settlement before the short sale; and
- a short sale cannot be made below the best current ask price (the tick rule). Details of and exceptions to the short-selling rules of the SEHK will not be discussed in this Study Manual.

2.45 Regulated short selling is a feature of most advanced stock markets in the world and adds to the liquidity and trading volumes of these markets.

Securities Borrowing and Lending

2.46 Stock borrowing and lending ('SBL') refers to the activity whereby a person borrows or lends securities on terms that the borrower undertakes to return securities of the same description **on a future date**, or pay the equivalent value **as at such date** of the securities to the lender. It includes a stock borrowing as defined in the Stamp Duty Ordinance for the purposes of exempting such transactions from stamp duty. (This is based on the definition of securities borrowing and lending in Schedule 1, SFO).

2.47 As noted earlier regulated short selling is usually supported by securities borrowing and lending arrangements. This is a useful arrangement through which considerable volumes of securities held by various custodian institutions such as banks and fund custodians may be made available to assist in the flow of trading on the markets at a profit to the holders of the securities which might otherwise keep them in an immobile state.

2.48 The SEHK rules on securities borrowing and lending are contained in the Trading Rules and Sixth Schedule of the SEHK Rulebook.

2.49 Apart from the requirements for SBL discussed above, an exchange participant engaged in SBL must:

- collect collateral of at least 100% of the value of securities loaned or 105% if the borrowing is for short selling; and
 - mark to market (i.e. adjusting the value of the securities according to the latest market price) all securities borrowings at least daily against the previous day closing price.
- 2.50 The borrowing and lending of Hong Kong stocks is exempted from stamp duty, subject to certain criteria.
- 2.51 SEHK participants are required to maintain ledgers recording stock borrowing and lending transactions which should be made available to the Inland Revenue Department to enable it to satisfy itself that the requirements for exemption from stamp duty applicable to genuine SBL transactions are properly applied.

Clearing and settlement services

Hong Kong Central Clearing and Settlement System (CCASS)

- 2.52 In addition to securities clearing and settlement services, HKSCC provides depository services, common nominee services, share registration services, stock borrowing and lending services and electronic securities application and tendering services.
- 2.53 There are various categories of participants with CCASS including brokers, clearing agencies, custodians, stock lenders, stock pledgees, and investors.
- 2.54 HKSCC's Investor Account Service allows individual and corporate investors to open direct stock accounts in CCASS and become investor participants.

Clearing Services

- 2.55 CCASS clearing services determine the stock and money obligations of a broker and other participants trading on the SEHK.
- 2.56 On each trading (T) day, trade data and trade amendment data are automatically relayed from the SEHK trading system into CCASS. There is no need for broker participants to input or further confirm their trade details in CCASS. They receive Provisional Clearing Statements of their stock and money positions through their CCASS terminals shortly after 6:00pm on the trade day (T). Final Clearing Statements are available to them shortly after 2:00pm on T+1 for confirmation and reconciliation purposes.
- 2.57 The method for working out the stock and money position of a broker is called the Continuous Net Settlement ('CNS') system. This means that the stock transactions of a broker in the same security on the same day are offset against each other, resulting in a single net stock position for the day. Under this