Completion Instructions

Return of Securities Related Activities (Form MA(BS)14)

Introduction

1. This return collects information on regulated activities conducted by authorized institutions in Hong Kong in the capacity as registered institutions under the Securities and Futures Ordinance (SFO).

2. These completion instructions are divided into 3 sections. Section A gives instructions on the general reporting requirements. Section B provides definitions and clarifications of certain items and terms. Section C explains the specific reporting requirements for individual items in this return.

Section A: General Instructions

3. This return is to be submitted by all authorized institutions (AIs) that are registered institutions, including those institutions that are deemed to be registered with the Securities and Futures Commission (SFC) under transitional arrangements.

4. Unless otherwise specified by the Monetary Authority, institutions should submit this return every 6 months not later than 21 days after the end of June and December each year. If the submission deadline falls on a public holiday, it will be deferred to the next working day.

5. Amounts should be shown to the nearest thousands in HK$, or HK$ equivalent in the case of foreign currency items. The closing middle market T/T rates prevailing at the reporting date should be used for conversion purpose.

Section B: Definitions and Clarifications

6. Advising on corporate finance, advising on futures contracts, advising on securities, asset management, dealing in futures contracts, dealing in securities and providing automated trading services are regulated activities and have the same meanings assigned to them respectively under Schedule 5 to the SFO.

7. Cash clients refer to those clients who are not margin clients.

8. Client, collective investment scheme, futures contract and securities have the same meanings assigned to them respectively under Part 1 of Schedule 1 to the SFO.

9. For the purpose of this return, dealing in securities includes securities transactions that are structured on a “back-to-back principal-to-principal”

basis[1], but excludes any proprietary or house trading of the reporting institution. The activities of underwriting and placement of securities conducted by the reporting institution should be reported in Part II Item 3. Dealing in futures contracts also excludes any proprietary or house trading of the reporting institution.

10. Discretionary accounts refer to those accounts where portfolios of securities, futures contracts and / or other financial assets are being managed by the reporting institution on a discretionary basis pursuant to contracts or arrangements with clients. In the course of managing the assets in the discretionary accounts, the reporting institution makes investment decision on clients' behalf and deals in securities and / or futures contracts in accordance with such decisions.

11. Equity futures generally refer to a contract or an option on a contract made under the rules or conventions of a futures market and its value depends on the change in the price of an equity.

12. Equity index futures generally refer to a contract or an option on a contract made under the rules or conventions of a futures market and its value depends on the change in the level of an equity index.

13. Equity-linked instruments are instruments with embedded "short" positions in options which allow the clients to take a bull, bear or range view on the underlying asset. The return on the equity-linked instrument is usually determined by the performance of the underlying asset, which may be a single stock, a basket of stocks or an equities index. Depending on the structure, equity-linked instruments may be in the form of notes, deposits, contracts and other arrangements.

14. Hedge funds are a type of collective investment schemes. There is no universal definition of "hedge funds". Generally speaking, a hedge fund is very flexible in its investment style. It may take both long and short positions, use leverage, invest in derivatives and employ active trading techniques. Fund-of-hedge-funds is a fund that exclusively invests in other hedge funds, i.e. a basket of hedge funds.

15. Interest rate futures generally refer to a contract or an option on a contract made under the rules or conventions of a futures market and its value depends on the change in the level of an interest rate or the price of a fixed income instrument.

---

[1] This means, for example, an institution buys (or sells) securities on-market on the back of a buy (or sell) order from a client for the same securities. Such "back-to-back principal-to-principal" transactions should be reported in this return as a single transaction to buy (or sell) securities on behalf of the client.

16. Margin clients refer to those clients who are provided with financial accommodation (as defined in Part 1 of Schedule 1 to the SFO) by the reporting institution in order to facilitate the acquisition of securities listed on any stock market and the continued holding of such securities, where the securities are pledged as collateral for the accommodation.

17. Non-discretionary accounts refer to those accounts in relation to which clients' specific instructions are required before the reporting institution can trade for the clients in securities and / or futures contracts under such accounts.

18. Private banking is a generic term that refers to the provision of banking or other financial services to individuals (including any corporate investment vehicles of such individuals) who are considered by the reporting institution to be of high net worth, but excluding such services provided under retail banking. Generally, such services are offered on a personalised basis with customised relationship management.

19. The number of accounts for which asset management is provided by the reporting institution not wholly incidental to the carrying on of Type 1 and / or Type 2 regulated activity and the relevant volume of securities transactions / number of futures contracts traded through such accounts should only be reported under Item 7 "Type 9: Asset Management" of Part I, but not under Item 1 "Type 1: Dealing in Securities" and / or Item 2 "Type 2: Dealing in Futures Contracts" of Part I.

    On the other hand, the number of accounts for which no asset management is provided by the reporting institution or for which asset management is provided wholly incidental to the carrying on of Type 1 and / or Type 2 regulated activity and the relevant volume of securities transactions / number of futures contracts traded through such accounts should only be reported under Item 1 "Type 1: Dealing in Securities" and / or Item 2 "Type 2: Dealing in Futures Contracts" of Part I (as the case may be), but not under Item 7 " Type 9: Asset Management".

20. All transactions in relation to securities, futures contracts, equity-linked instruments and collective investment schemes conducted or executed for clients by the Hong Kong offices of the reporting institution as a registered institution should be reported in this return regardless of the place of booking of such transactions. They should be reported on a "trade date" basis.

21. Unless otherwise specified, any reference to the reporting institution refers to the reporting institution's offices in Hong Kong.

Section C: Specific Instructions

Part I - Regulated Activities under the Securities and Futures Ordinance

22. Item 1 – Type 1: Dealing in securities "Was your institution engaged in this activity during the reporting period?"

    Institutions which perform Type 1 regulated activity solely for the purpose of the carrying on of Type 9 regulated activity should report "N" under this item.

23. Item 1(1) – Number of securities accounts for clients
    Items 2(1), 7(1)(a), 7(2)(a), 7(3)(a) and 7(4)(a) – Number of accounts

    The number of accounts reported under these items need not include those accounts through which no services that constitute the respective regulated activity are provided to the clients during the past 12 months.

    A single account for which no asset management is provided by the reporting institution, or for which asset management is provided wholly incidental to the carrying on of Type 1 and Type 2 regulated activities, and which allows a client to deal in both securities and futures contracts should be reported separately under both Items 1(1) and 2(1).

    The number of accounts for which asset management is provided by the reporting institution not wholly incidental to the carrying on of Type 1 and / or Type 2 regulated activity should only be reported under Item 7(1)(a), 7(2)(a), 7(3)(a) or 7(4)(a) (as the case may be) and such accounts should not be reported again under Item 1(1) and / or Item 2(1).

24. Item 1(2) – Number of branch-office that provides services of dealing in securities for clients

    Institutions that do not have any branch office in Hong Kong should report "0" (zero) under this item.

25. Items 1(3), 1(4) and 1(5) – Volume of transactions
    Items 7(5), 7(6) and 7(7) – Volume of securities transactions

    Report the volume of transactions during the reporting period on a "trade date" basis. This should include both sale and purchase transactions, i.e. purchase and sale of the same securities should not be netted off. Transactions structured on a "back-to-back principal-to-principal" basis should however be regarded as a single transaction.

    The volume of securities transactions traded through accounts for which asset management is provided by the reporting institution not wholly incidental to the carrying on of Type 1 regulated activity should be reported under Item 7(5), 7(6) or 7(7), but not in Item 1(3), 1(4) or 1(5).

26. Item 2 – Type 2: Dealing in futures contracts "Was your institution engaged in this activity during the reporting period?"

Institutions which perform Type 2 regulated activity solely for the purpose of the carrying on of Type 9 regulated activity should report "N" under this item.

27. Items 2(2), 2(3), 7(8) and 7(9) – Number of futures contracts traded

Report the number of futures contracts concluded during the reporting period on a "trade date" basis.

The number of futures contracts traded through accounts for which asset management is provided by the reporting institution not wholly incidental to the carrying on of Type 2 regulated activity should be reported under Item 7(8) or 7(9), but not in Item 2(2) or 2(3).

28. Items 3(1) and 3(2) – Type 4: Advising on securities

Institutions which perform the specified activities wholly incidental to the carrying on of Type 1 regulated activity should report "N" under these items.

29. Items 4(1) and 4(2) – Type 5: Advising on futures contracts

Institutions which perform the specified activities wholly incidental to the carrying on of Type 2 regulated activity should report "N" under these items.

30. Items 5(1), 5(2) and 5(3) – Type 6: Advising on corporate finance

Institutions which perform the specified activities wholly incidental to the carrying on of Type 1 regulated activity should report "N" under these items.

31. Items 7(1), 7(2), 7(3) and 7(4) – Type 9: Asset management

Institutions which perform the specified activities wholly incidental to the carrying on of Type 1 and / or Type 2 regulated activity should report "N" under these items.

32. Items 7(1)(b), 7(2)(b), 7(3)(b) and 7(4)(b) – Size of portfolios

Report the size of the portfolios by using the market value of the assets managed by the reporting institution (including securities and other financial assets but excluding derivatives contracts) as at the end of the reporting period, including those assets that are pledged for the provision of financial accommodation by the reporting institution.

33. Item 9 – The reporting institution's income arising from regulated activities

Report the institution's net income for the reporting period arising from each regulated activity. For the purpose of this return, net income in broad terms means total income received or receivable (including but not limited to charges, fees, interests and commissions) deducted by total identifiable direct costs incurred or payable in relation to the respective regulated activity (such as fees paid or payable to brokers, custodians etc).

A "best estimate" basis should be adopted where the net income of more than one type of regulated activity is not separable from one another by the reporting institution. There is also no need to split the income artificially among various regulated activities if the reporting institution charges a gross fee under one type of regulated activity with the intention that it covers the provision of services under other type(s) of regulated activity as well. See separate instruction below in relation to Type 7 regulated activity.

To avoid double counting, any income arising from the provision of services in relation to Type(s) 4, 5, 6 and / or 9 regulated activities which are wholly incidental to the carrying on of Type(s) 1 and / or 2 regulated activities (as the case may be) should be reported only under Item(s) 9(1) and / or 9(2) where appropriate. Likewise, income arising from the provision of services in relation to Type(s) 1 and / or 2 regulated activities which are performed solely for the purpose of the carrying on of Type 9 regulated activity should be reported only under Item 9(7).

In respect of accounts maintained outside the reporting institution, any funds received / receivable by the reporting institution in the form of reimbursement of staff expenses or management fees etc should be reported as income under the respective regulated activity.

34. Item 9(6) – Income arising from Type 7 (providing automated trading services) regulated activity

Income arising from the provision of automated trading services for conducting transactions in securities / futures contracts should be reported under this item. However, if such income is not separately identifiable, i.e. cannot be split from that generated in relation to Type(s) 1 and / or 2 regulated activities, report the income only under Item(s) 9(1) and / or 9(2) as appropriate.

Part II - Additional information on transactions relating to Equity-linked Instruments, Collective Investment Schemes, as well as Underwriting and Placement of Securities

35. Items 1(1) and 1(2) – Equity-linked instruments

Where the reporting institution issues and deals in the same equity-linked instrument in a particular transaction, report the transaction under both Items 1(1) and 1(2) separately.

36. Items 1(1)(a), (b) and (c) – Minimum size of deposit / investment

Report the minimum entry requirement for clients to invest in the respective type of equity-linked instruments.

37. Item 3 – Underwriting and / or placement of securities

This item captures those activities where the reporting institution is engaged in the underwriting and / or placement of securities. Report under item 3(1)(a) the aggregate number and value of all transactions in which the reporting institution has underwritten securities during the reporting period. The portion of underwritten securities that has been covered by any sub-underwriting arrangements with other entity(ies) should be reported under item 3(1)(b).

38. Items 3(1) and 3(2) – Number of transactions concluded

Report the number of transactions (each mandate is regarded as one transaction) that were concluded during the reporting period.

An underwriting arrangement is considered concluded when the underwriting syndicate has executed the relevant underwriting agreement. A placement of securities is considered concluded when all purchasers have entered into an agreement to purchase such securities.