

Securities Accounts and Legal Regulation ----CSDC's experience and practice

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Yogyakarta, Indonesia

www.chinaclear.cn





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About Securities Accounts

--- Concept, Forms, Function



Legal Implication of Securities Accounts



Self-discipline Management

The Evolution of Account Forms

China Securities Depository
and Clearing Corporation Limited

- A securities account is the carrier that records the holding and changes of an investor's securities.
- A Securities account is defined as means to record the balance of securities held by the investor as well as the historic data of securities.
- From “One securities issuance, One certificate” to “One investor account, One certificate”
- From opening accounts in stock exchanges to account-opening agencies
- From physical account certificate to electronic certificate

The Evolution of Account Forms

China Securities Depository
and Clearing Corporation Limited

■ The first generation account card in Shanghai Market

- “One securities issuance, one certificate”
- Without anti-fake label
- Issued directly by Shanghai Stock Exchange

上海證券交易所

股票帳戶

總號: 0265407

股東編號: _____

戶名: 885401 _____ 電話: _____

住址: 浦東 _____ 機械廠

代理人: 浦東大道2900號 _____ 電話: _____

住址: _____

開戶地點: _____

開戶日期: (180) 申銀(威海)一威海路681號
1992. 7. 22

注意事項

1. 遺失、轉讓、註銷。
2. 滿期後可繼續使用。
3. 如有疑義，可予查詢。
4. 遺失，被冒領即掛失。
5. 凡開此帳戶辦理委託，定期及取息。

日期	名稱	摘要	增減	持有	存入	經辦
1						
2						
3	07/23/92	*****	結轉 *****	*****	全額存入	証交所
4						
5						
6						
7						
8						
9						

The Evolution of Account Forms

China Securities Depository
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■ The second generation account card in Shanghai Market

股本编号: A376929801

姓名: [redacted] 电话: [redacted]

住址: 陕西省宝鸡市秦川机床厂

机构代码: JS933 开户日期: 2000.8.29

身份证号: 610302440308531

上海证券交易所
股票帐户
总号 20232092

- “One investor, one securities account”
- With anti-fake label on borders
- It can be issued by account-opening agencies

The Evolution of Account Forms

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■ Account card connecting to bank account



- “One investor, one securities account”
- Connected to ICBC’s bank account
- Only in Shanghai market

The Evolution of Account Forms

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■ Account card issued by CSDC (Shanghai)



证券账户号:
Securities A/c No.: A488163276

持有人名称:
Holder's Name: 田梓YING

开户日期:
Date of Issue: 2007年02月27日

开户机构:
Issued by: JS990 中国建银投资客户

中国建银投资有限责任公司
上海东方路证券营业部
上海证券账户开户专用章

使用须知
NOTICE

- 1、账户卡私自涂改与转让无效。
The Card is invalid when altered and transferred without permission.
- 2、使用时须出示持有人身份证件。
The Card must be used together with Holder's Identification Document.
机构账户卡使用时还须出示经办人身份证件等。
The Institution's Card must be used together with the Identification Document of the authorized person.
- 3、账户卡如遗失或被窃应及时办理挂失手续。
Any lost or stolen card must be reported in a timely manner.

中国证券登记结算有限责任公司上海分公司
China Securities Depository and Clearing Corporation Limited Shanghai Branch

- “One Securities Issuance, one account”
- Without anti-fake label
- It can be issued by account-opening agencies

The Evolution of Account Forms

China Securities Depository
and Clearing Corporation Limited

■ Account Opening Confirmation on the Unified Account Platform

 **CSDC**
中国结算

证券账户开户办理确认单

流水号: 201609210000000028
一码通证券账户号码: 180091768834
子账户类别: 沪市A股账户
子账户号码: A636281039

客户名称: 胡L
客户类型: 个人客户
国籍或地区: 中国
主要身份证明文件类型: 居民身份证
主要身份证明文件号码: 320L

联系人姓名:
移动电话: 1360
固定电话或备用联系电话: 0512-62
联系人邮箱:
清算编号: JSA87

是否开通网络服务: 否
定向资产管理标识: 是

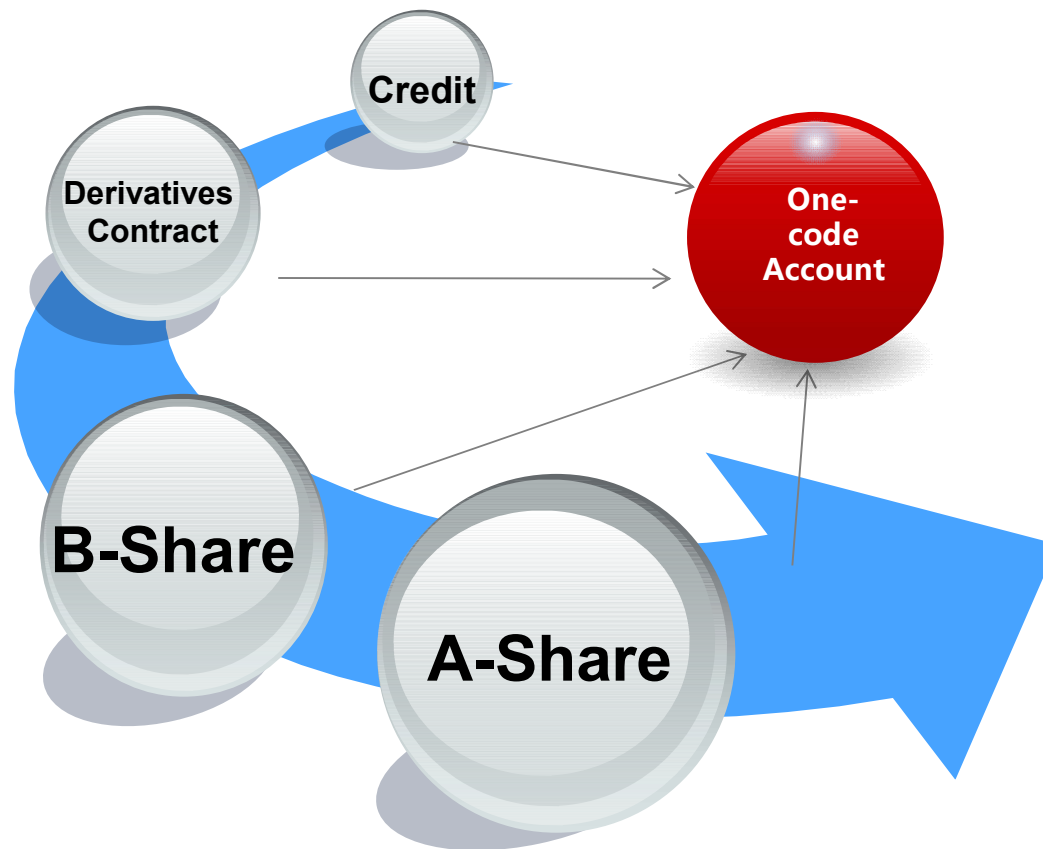
经办柜员号: 144
经办人签章:
客户签字:
申请日期: 2016 年 09 月 21 日

第一联 中国结算留存

- “One investor, multiple securities accounts”
- Cancellation of account physical certificate
- It can be issued by account-opening agencies

The Securities Account of CSDC: One-code Account System

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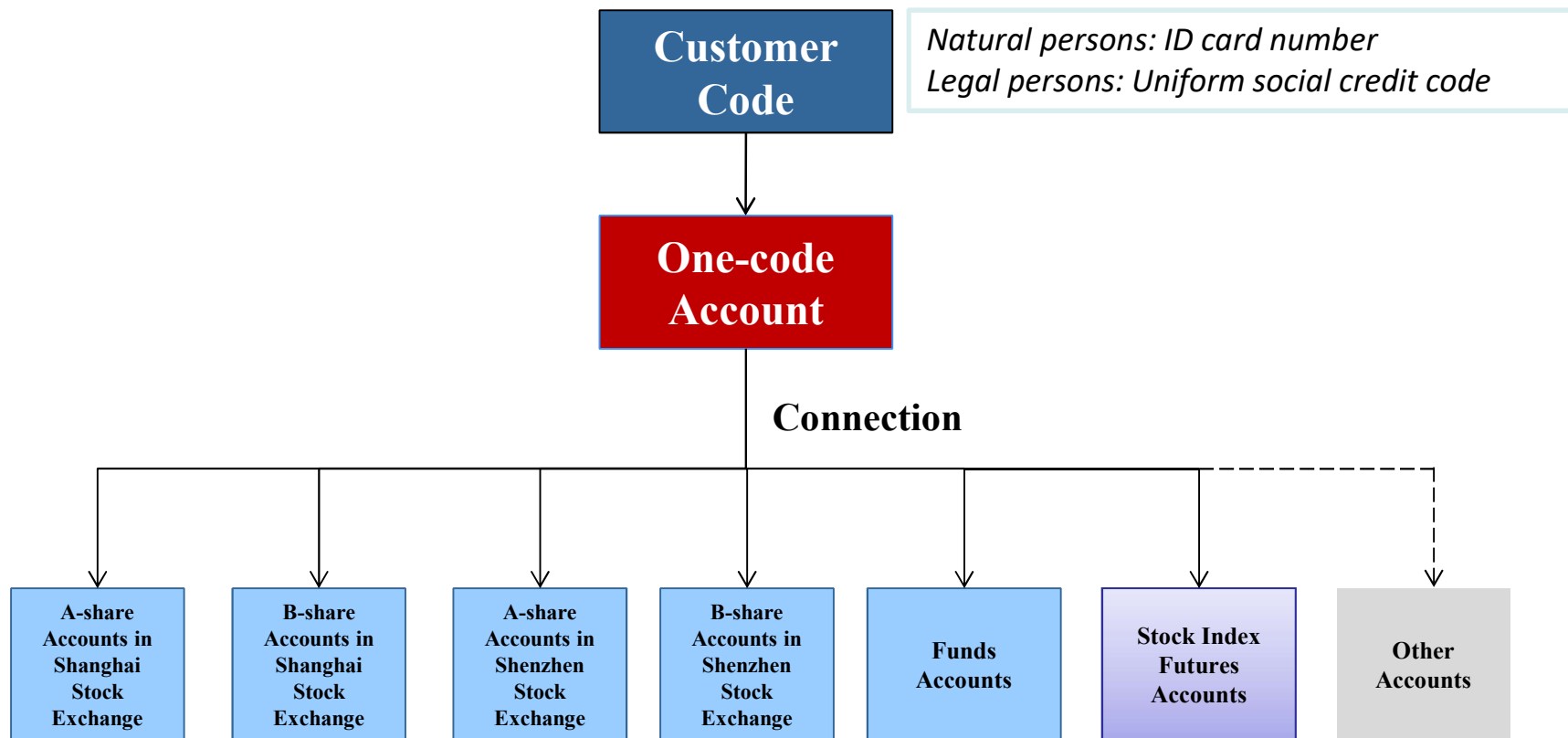
◆ In Oct. 2014, Unified Account Platform came into operation, and the unified (one-code) account system was established.

◆ CSDC builds up a multilevel securities accounts system that centers on investors.

◆ The connection of accounts in different markets improves transparency and information value of CSDC.

The Securities Account of CSDC: One-code Account System

China Securities Depository and Clearing Corporation Limited



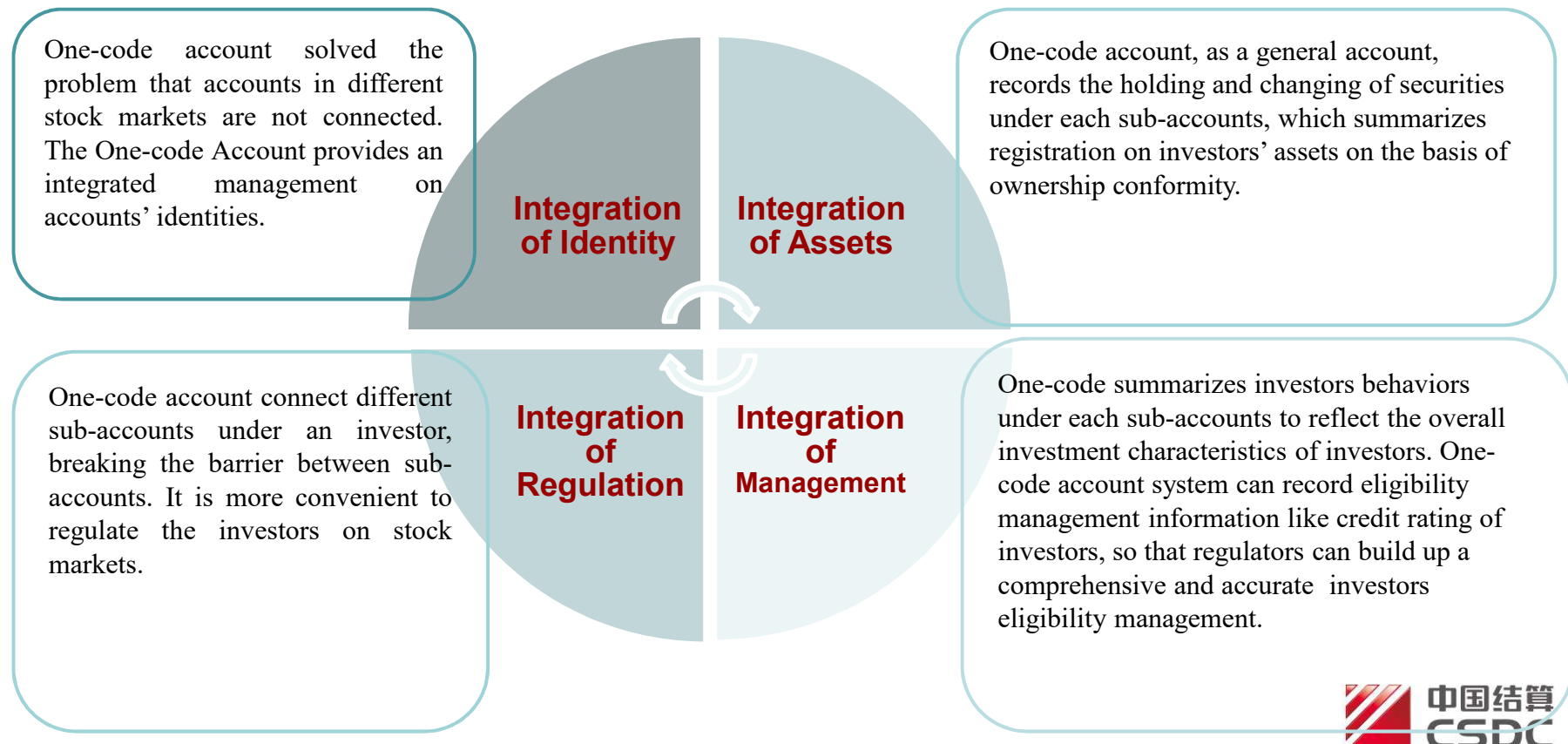
Multilevel Securities Accounts Framework

The Securities Account of CSDC: One-code Account System

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➤ What is the meaning of One-code account

It is a management on accounts setting and identification which set investors as units. One-code account integrates accounts in different stock markets so as to improve the management from accounts level to investors level.



The Function of Securities Accounts

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- To identify the investors
- to record the holding and changes of investors' securities



Locating Account Usage

- **SSE** adopts a system of “designated trading”, which means that investors should deposit their securities with designated brokers. Account usage would be reported by relevant brokers to CSDC, thus enabling CSDC to understand where the account has been used.
- Investors investing with the **SZSE** could use their account to place instructions with different brokers. Brokers would report account usage to CSDC.



Registration

- CSDC is responsible for confirming ownership of securities for each securities account, and maintaining the shareholder register.



Trading

- Brokers send investor instructions to stock exchanges, where trading instructions are matched on an account level. Investor instructions should include Securities Account No., Stock Code, trading direction, number of shares and price.



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About Securities Accounts



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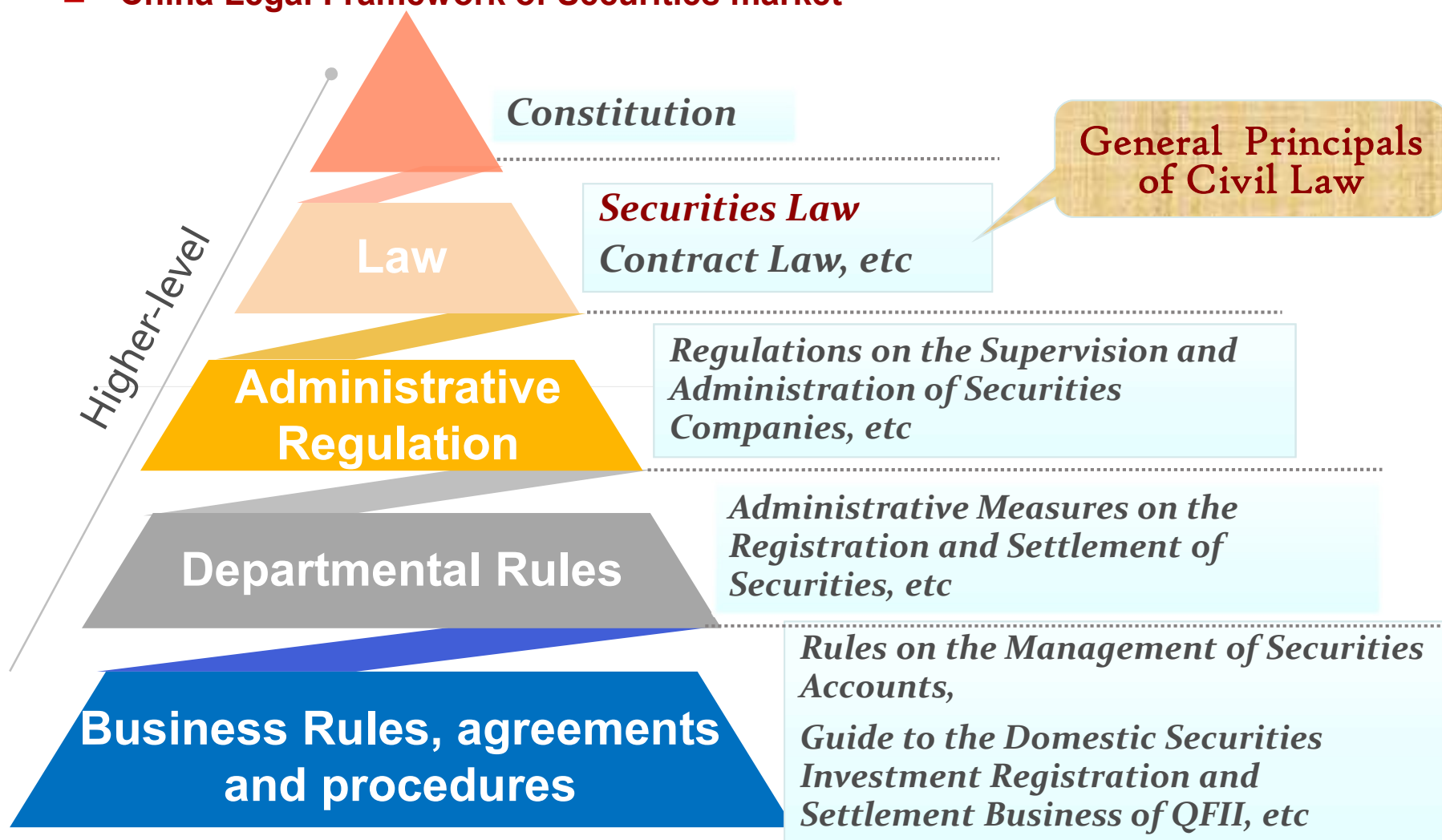


Self-discipline Management

Legal Implication of Securities Accounts

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■ China Legal Framework of Securities market



Legal Implication of Securities Accounts

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■ Legislative requirements about securities account

➤ The Securities Law

Article 157 *prescribes main business functions including to open securities accounts;*

Article 160 *A securities registrar and clearance institution shall furnish the issuers of securities with the register of securities holders and related materials. The securities registrar and clearance institution shall, based on its processed results of securities registration and clearance, confirm the fact that an identified securities holder does own the securities, and make available the registration materials of securities holders.*

Article 166 *To entrust a securities company with the processing of securities trading, an investor shall apply for opening a securities account. A securities registrar and clearance institution shall, in accordance with relevant regulations, open a securities account for the investor in the investor's own name.*

In applying for opening an account, the investor must present the legal documentations to establish his identity as a Chinese citizen or his qualifications as a Chinese legal person, except as may otherwise be prescribed by the State.

Article 167 *When providing settlement netting services for securities trading, a securities registrar and clearance institution shall request the participants in clearing to adhere to the principle of delivery versus payment, to deliver securities and funds in full and to pledge performance bonds.*

No one shall use the securities, funds or performance bonds for a settlement prior to completion of the settlement. Where a participant in clearing fails to discharge its settlement obligations, the securities registrar and clearance institution shall have the right to dispose of the property, mentioned in the preceding paragraph, in accordance with its business rules.

Legal Implication of Securities Accounts

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■ International rules and principles



The UNIDROIT Convention on Substantive Rules Regarding Intermediated Securities

In this Convention: “securities” means any shares, bonds or other financial instruments or financial assets (other than cash) which are capable of being credited to a securities account and of being acquired and disposed of in accordance with the provisions of this Convention; “securities account” means an account maintained by an intermediary to which securities may be credited or debited;



PFMI: Principles for financial market infrastructures

Principle 11: Central securities depositories

A CSD should have appropriate rules and procedures to help ensure the integrity of securities issues and minimise and manage the risks associated with the safekeeping and transfer of securities. A CSD should maintain securities in an immobilised or dematerialised form for their transfer by book entry.

Legal Implication of Securities Accounts

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Legal Rights

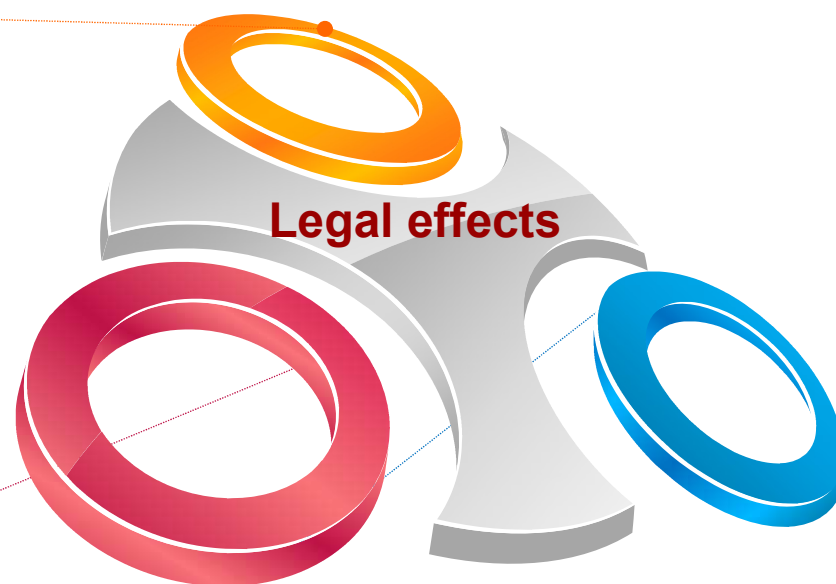
- the account holder entitled to receive and exercise any rights attached to the securities
- Acquisition and disposition by debit and of securities to securities accounts
- Any rights including dividends, other distributions and voting rights
- A security interest, or a limited interest other than a security interest
- effective against third parties
- Rights protection & remedy : appropriate measures taken to enable account holders to receive and exercise the rights

Depository& holding system

- Fully paperless
- Centralized registration and depository
- Real-name registration system
- Nominee accounts
- Direct-holding (mainly), indirect-holding (complementary)

Continuous Management

- Real Name: Including both account opening and utilization process
- To improve management measures, continuously supervise their implementation, make data analysis and monitoring, punish violations
- To facilitate see-through surveillance



Legal Implication of Securities Accounts

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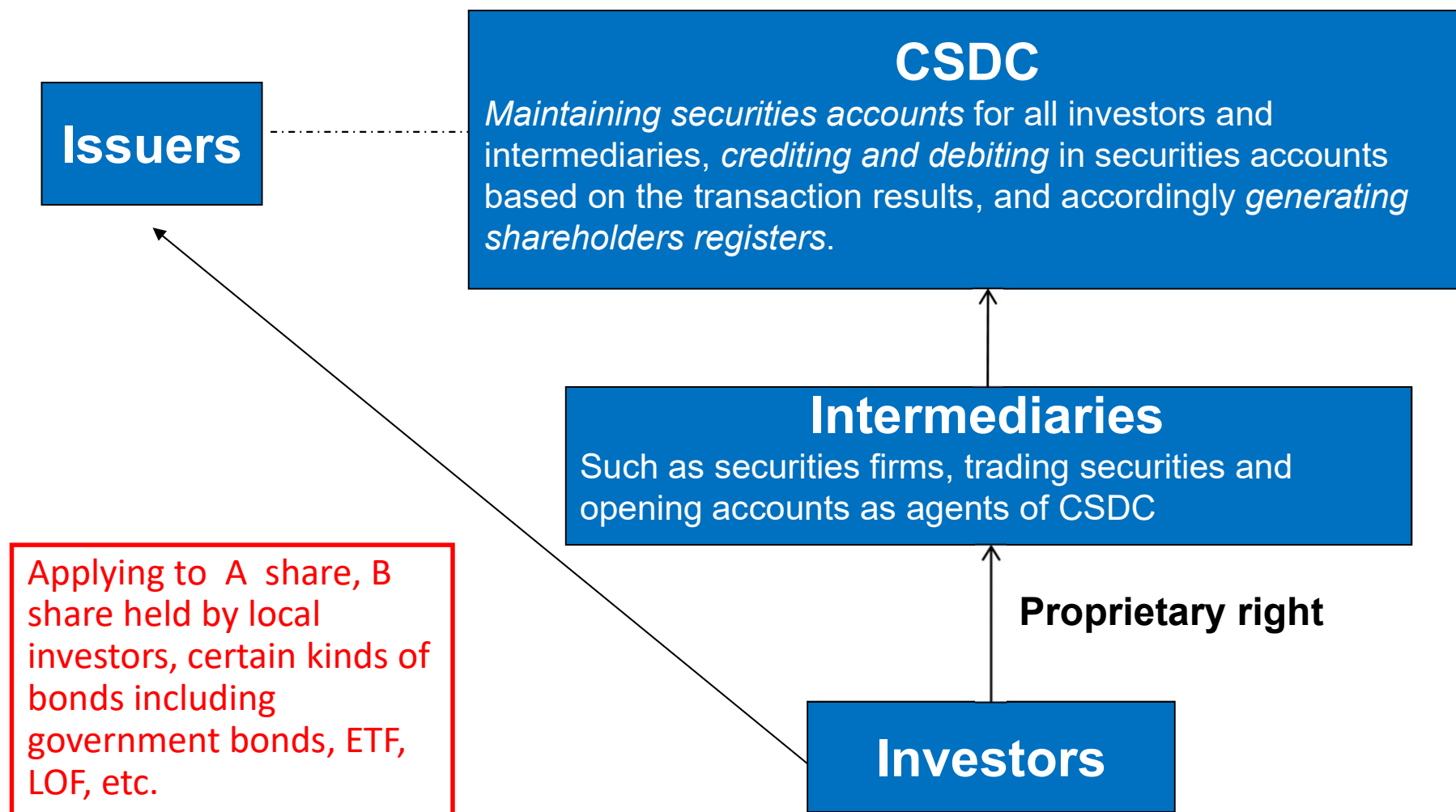
■ The Chinese market adopts a direct holding system, with certain nominee holding exceptions including:

- QFII (Qualified Foreign Institutional Investor)
- RQFII (RMB Qualified Foreign Institutional Investor)
- Collateral Account for clients involved in margin trading
(see-through two-layered account system)
- Nominee accounts held in the name of HKSCC for SH/SZ-HK Connect programme

CSDC's Model-- Securities Holding Model 1

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■ Transparent and direct securities holding system (mainly)



CSDC's Model-- Securities Holding Model 1

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Features

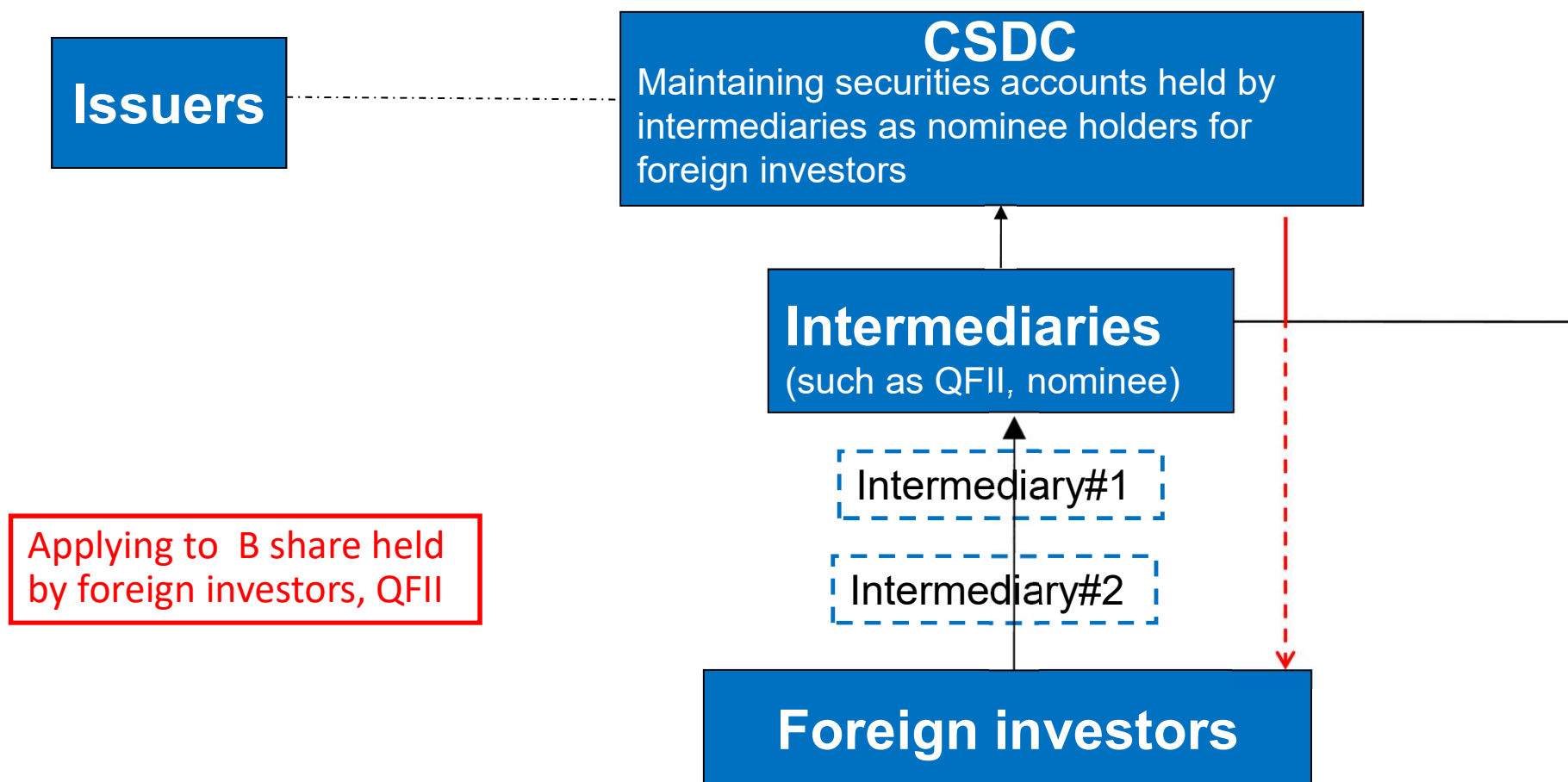
Transparent
and direct
securities
holding
system

- **Records of Account is a proof of ownership at certain time.**
- **An investor holds his securities directly except a part of accounts for B-shares and a small part of government bonds (undue part).**
- **CSDC maintains securities accounts for investors, and only CSDC can make credit/debit/designating entry to accounts.**
- **CSDC maintains securities accounts in the name of the ultimate account holder. In this case, the “entity in the middle” operates the accounts and is responsible for clearing and settlement with their clients, i.e. it is not merely a technical interface.**

CSDC's Model-- Securities Holding Model 2

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■ Non-transparent and indirect securities holding system (complementary)



Applying to B share held
by foreign investors, QFII

CSDC's Model-- Securities Holding Model 1

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Features

**Non-
transparent
and indirect
securities
holding
system**

- CSDC maintains securities accounts for those intermediaries which maintain securities accounts for their customers.
- Indirect holding pattern is minority.
- CSDC acts as a CCP while QFII carry out securities clearing and settlement through custodian bank for the ultimate securities account holders. All foreign investors enjoy the ownership of securities in the securities account held by QFII in proportion.
- It is worth being mentioned that we also have a transparent indirect pattern for Margin Transaction Service and Employee Stock Option Plan, which supplements and enriches our direct holding model.



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Self-discipline Management

China Securities Depository
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■ Legislative requirements about securities account

➤ The Securities Law

Article 166 An investor who entrusts a securities company to undertake any securities trading shall apply for opening a securities account. A securities registration and clearing institution shall, according to the relevant provisions, open a securities account for the investor in his own name.

➤ The Measures for the Administration of Securities Registration and Settlement

Article 17 An investor shall hold securities through its securities accounts, and the securities accounts shall be used for recording the balance of securities held by the investor as well as the information on the movement of securities.

Article 18 The securities shall be recorded in the securities accounts of the securities holders themselves. Provided that, if, under any provisions of laws, administrative regulations or the CSRC, securities are recorded in the securities accounts of a nominee, such provisions shall prevail. In order to perform its functions in accordance with law, a securities registration and settlement institution may require a nominee to provide the relevant information about the beneficiary owners under its name.

Article 22 Investors may not provide their securities accounts to any other person for use.

Article 25 If an investor commits any illegal act in the opening or use of a securities account, the securities registration and settlement institution shall, in accordance with law, take such measures as restricting the use of or canceling the illegal securities account.

Self-discipline Management

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■ The core of securities accounts management: **Real Name System**

01

Account Opening by Natural Persons

- Verify validity of natural person ID through connection with Ministry of Public Safety database;
- Verify that the ID documents provided belong to the applicant

02

Account Opening by Institutions

- Verify validity of application documents, e.g. business license;
- Verify validity of letter of attorney;
- Double-check with Institution Information Verification System

03

Account Opening in the Name of Products

- Review product contract and confirm whether it has been filed with competent regulating authorities
- Review qualification of product manager and custodian



Self-discipline Management

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- CSDC builds a unified Natural Person ID Verification System connected with Ministry of Public Safety database, as well as an Institution Information Verification System.
- CSDC works to improve account usage monitoring mechanisms and regularly coordinates brokers to investigate leads of account usage irregularities.
- CSDC works to facilitate see-through surveillance in cross-market, cross-border transactions.

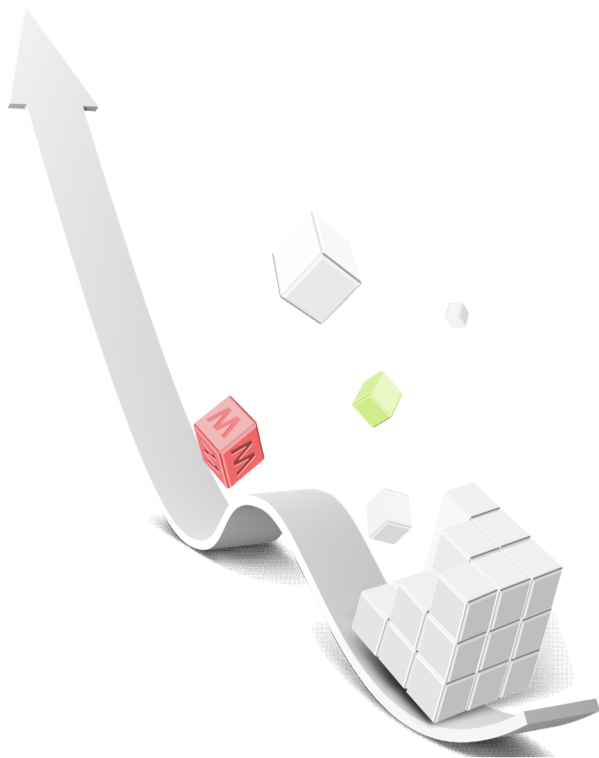


Self-discipline Management

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- CSDC establishes an account usage monitoring mechanisms based on big data analysis, and conducts site inspection of securities account business of account-opening agencies.

- Steps would be taken to crack down on violations of real-name requirements for securities accounts; measures such as stock buying restriction and mandatory account cancellation would be taken in accordance with *Rules for Securities Account Administration*.



Thank you!

China Securities Depository and Clearing Corporation Limited

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