



**PAST QUESTIONS AND ANSWERS (December 2006)**

**PAPER 6**

**REGULATION OF ASSET MANAGEMENT**

of

The Licensing Examination  
for Securities and Futures Intermediaries

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*Our Institute is committed to providing questions of the highest quality.*

*Our current examination structure has been benchmarked against those in both developed and emerging markets such as UK, US, Australia, Singapore, Malaysia and China. The syllabuses, study materials, training guides and questions were designed by international consultants specializing in financial education.*

*The Licensing Examination has been approved by the Academic and Accreditation Advisory Committee of the Securities and Futures Commission (SFC) as recognized industry qualification and local regulatory framework paper for meeting the competence requirements of the SFC.*

*External consultants are appointed to develop new questions according to specified criteria approved by our Examinations Committee. The aim of these criteria is to ensure that the candidates have thorough understanding of the manuals by testing them at different cognitive levels such as recall, comprehension, application, analysis and evaluation on predetermined weightings of each topic. The new questions are reviewed by reviewers who are market practitioners, legal and compliance professionals, and academics to ensure that the knowledge tested is covered in the study manuals, and that the standard of the questions is appropriate and consistent throughout.*

*To maintain their quality, the questions undergo frequent reviews and revisions internally which take into account, among others, the average correctness of the questions (i.e., the percentage of candidates in the examination who correctly answer the questions) and candidates' comments, if any, following each examination. In addition to the quality assurance being imposed on the questions, external assessors who are market practitioners, legal and compliance professionals, and academics, are engaged to conduct regular reviews. There are also periodic comprehensive reviews by external consultants on the manuals and questions.*

*The study manuals and their subsequent updates are the only source of materials for the setting of the questions, so that candidates need to study only those manuals and updates to prepare for the examinations.*

*It is estimated that the study manuals will require 6 to 11 hours of study time per topic, depending on which paper it is. Candidates may need to spend more or less time, depending on their work experience and background. They are advised to use the Learning Outcomes for each topic as a key to the way they study the materials in each topic, and unless explicitly stated, they could be tested on any aspect of the syllabus.*

**Please attempt ALL 40 questions in this question book.  
All questions carry EQUAL MARKS.**

<1>.

The Securities and Futures Commission (SFC) is responsible for which of the following matters relating to Mandatory Provident Fund (MPF) products?

- I Authorisation of the offering documents for the products.
- II Licensing of investment managers of MPF products.
- III Overall administration of MPF schemes.
- IV Registration of employer sponsored MPF schemes.

- A I and II only
- B II and III only
- C I, II and III only
- D I, III and IV only

<2>.

Which **ONE** of the following statements is **INCORRECT**?

- A The Securities and Futures Commission (SFC), the Mandatory Provident Fund Schemes Authority (MPFA) and the Insurance Authority (IA) each regulate MPF products.
- B The SFC, MPFA, IA and the Hong Kong Monetary Authority (HKMA) each regulate intermediaries engaged in asset management.
- C The HKMA is a member of the MPF Intermediaries Regulation Co-ordinating Committee.
- D The SFC authorises MPF products which are collective investment schemes.

<3>.

Advertisements to be issued by which **ONE** of the following persons require prior authorisation from the Securities and Futures Commission (SFC)?

- A An intermediary issuing advertisements for securities which are to be disposed of only to professional investors.
- B A publisher carrying notifications relating to securities in its newspapers in the ordinary course of its business.
- C A live broadcaster referring to securities in the ordinary course of its business.
- D An intermediary issuing an invitation to the public to acquire or dispose of securities.

<4>.

The Insurance Authority (IA) **DIRECTLY** regulates:

- I insurers (insurance companies).
  - II auditors and actuaries of insurers.
  - III insurance agents.
  - IV insurance related investment products.
- A I only
  - B I and IV only
  - C II and III only
  - D I, II, III and IV

<5>.

The Securities and Futures Commission (SFC) uses which of the following general principles in regulating asset management?

- I It recognises overseas jurisdictions with acceptable regimes as domiciles for authorised collective investment schemes (CIS).
  - II It recognises supervision by specified inspection regimes overseas of management companies located in the respective jurisdictions as acceptable for its purposes.
  - III It employs a consultative process involving the industry before making significant regulatory changes.
  - IV It seeks to protect the interests of all investors in authorised CIS in Hong Kong and overseas.
- A I and II only
  - B I, II and III only
  - C I, III and IV only
  - D II, III and IV only

<6>.

The Mandatory Provident Fund Schemes Authority (MPFA) does **NOT** have which **ONE** of the following objectives?

- A To ensure that MPF schemes collect and hold scheme assets in a prudent manner.
- B To provide MPF schemes with a well controlled environment for their operations.
- C To ensure that MPF schemes are operated so as to achieve their investment objectives and maximise their investment returns.
- D To regulate MPF intermediaries including trustees and custodians.

<7>.

The treatment of statistics and performance data in advertisements of authorised collective investment schemes (CIS) is governed by which **ONE** of the following provisions of the Code on Unit Trusts and Mutual Funds (CUTMF)?

- A Any forecasts made should be independently verified.
- B Simulations may be used if they are fairly based.
- C Past records relating to unauthorised CIS may be used without restrictions.
- D Comparisons should be fair, accurate and relevant.

<8>.

Which of the following are requirements in the Code of Conduct for Mandatory Provident Fund (MPF) Intermediaries regarding the manner in which an MPF intermediary should deal with clients?

- I It should discuss the calibre of investment managers using all available information such as the past performance records of SFC collective investment schemes (CIS) and MPF schemes they have managed, as successful past records would assist in predicting their future performance.
  - II An MPF individual intermediary acting for more than one corporation should disclose for which corporation he is acting when dealing with a client.
  - III When advising a client on the selection of constituent funds, it should consider, where practicable, the client's interests, financial situation, risk preference, investment knowledge, experience and objectives.
  - IV The intermediary should not receive any cash payments for or on behalf of clients and should ensure that all client payments are made payable to the management company of the scheme.
- A I and II only
  - B II and III only
  - C I, III and IV only
  - D II, III and IV only

<9>.

A constituent fund of a Mandatory Provident Fund (MPF) scheme may invest in which of the following?

- I Approved Pooled Investment Funds.
  - II Leveraged foreign exchange funds.
  - III Real Estate Investment Trusts.
  - IV Money market funds.
- A I and II only
  - B I and IV only
  - C II and III only
  - D II, III and IV only

<10>.

Advertising of an authorised collective investment scheme (CIS) on radio and television is subject to which of the following requirements under the Code on Unit Trusts and Mutual Funds (CUTMF)?

- I A printed warning message should be flashed on at the beginning of the broadcast giving the specified warnings.
  - II Only equity funds, money market funds and unit portfolio managed funds may be advertised on these media.
  - III The advertisement should specify that it contains expert advice from independent experienced professionals and can be relied upon.
  - IV The draft script and the final tape should be approved by the SFC before the broadcast.
- A II and III only
  - B II and IV only
  - C I, III and IV only
  - D II, III and IV only

<11>.

In addition to the normal requirements for an authorised collective investment scheme (CIS), which of the following extra requirements has the Securities and Futures Commission (SFC) imposed on an authorised hedge fund?

- I The management company should have successfully managed at least two other hedge funds with assets of at least USD1 billion.
  - II The liability of a single holder should be limited to 1.5 times his investment in the fund at any time.
  - III The minimum amount of assets under management that follow hedge fund strategies should be USD100 million.
  - IV There must normally be a minimum initial subscription requirement for a single hedge fund of USD50,000 per each investor.
- A I and II only
  - B I and III only
  - C II and IV only
  - D III and IV only

<12>.

Which **ONE** of the following specialised funds is **NOT** described in the Code on Investment Linked Assurance Schemes?

- A Guaranteed funds.
- B Broker managed funds.
- C Investment linked savings plans.
- D Insurance linked hedge funds.

<13>.

Under the Code on Unit Trusts and Mutual Funds (CUTMF), which of the following restrictions apply to advertisements?

- I References must not be made only to returns without a reference to risks being also made.
  - II Statements may be made that the returns from the collective investment scheme are superior to those of another named scheme only if they can be supported by clearly expressed opinions.
  - III Any figures quoted must be accompanied by supporting evidence such as the sources and dates of the data.
  - IV Specific returns may be guaranteed only if they are supported by deposits of the guaranteed returns with a registered institution.
- 
- A I and II only
  - B I and III only
  - C I, II and III only
  - D II, III and IV only

<14>.

Which of the following requirements apply to money market funds under the Code on Unit Trusts and Mutual Funds (CUTMF)?

- I The offering documents must specify that the fund is not supervised by the Hong Kong Monetary Authority (HKMA).
  - II The average portfolio maturity should not exceed 120 days.
  - III The offering documents must specify that the fund has no obligation to redeem shares at the offer value.
  - IV It may hold only up to 50% value in Government securities.
- 
- A I and III only
  - B II and IV only
  - C I, II and III only
  - D II, III and IV only



<15>.

Under the Securities and Futures Ordinance (SFO), which of the following conditions apply to responsible officers of a licensed corporation?

- I Every responsible officer other than a designated compliance officer must be an executive director.
  - II There must be at least two responsible officers for every regulated activity engaged in by a licensed corporation.
  - III There must be at least one responsible officer present at all times to supervise the regulated activity of a licensed corporation.
  - IV The designated compliance officer must be a responsible officer.
- 
- A I and II only
  - B I and IV only
  - C II and III only
  - D III and IV only

<16>.

Which of the following are requirements regarding the accounts and audit of a licensed corporation or an authorised collective investment scheme (CIS) in Hong Kong?

- I A licensed corporation must appoint an auditor within one month after it receives its licence.
  - II A licensed corporation must notify the Securities and Futures Commission (SFC) within one business day of giving notice of a resolution to remove its auditor.
  - III Auditors of a mutual fund corporation should be independent of the management company and its directors.
  - IV The financial statements and auditor's reports of a licensed corporation must be filed with the SFC within three months of the year end.
- 
- A II and III only
  - B II and IV only
  - C I, II and III only
  - D I, III and IV only

<17>.

Under the Securities and Futures (Accounts and Audit) Rules, which of the following should be reported to the Securities and Futures Commission(SFC) by an auditor if he comes across them during the course of his audit work?

- I A breach of the Financial Resources Rules.
  - II A doubt regarding the recoverability of a substantial asset that will materially affect the net assets.
  - III A failure by the Chief Executive Officer to declare certain substantial benefits he has received from the intermediary in his tax return.
  - IV Certain contracts have not been formally approved by the Board.
- 
- A I and II only
  - B III and IV only
  - C I, II and III only
  - D I, II, III and IV

<18>.

Under the Securities and Futures Ordinance (SFO), which of the following persons will **NOT** be deemed to be engaged in the regulated activity of asset management if they provide asset management services wholly incidental to the specified activities?

- I A licensed corporation engaged in securities margin financing.
  - II An authorised financial institution registered to deal in futures contracts.
  - III A person licensed to deal in securities.
  - IV An individual entered on the Hong Kong Monetary Authority (HKMA)'s register of persons as engaged in dealing in securities.
- 
- A I and III only
  - B I and IV only
  - C I, III and IV only
  - D II, III and IV only

<19>.

Which of the following activities relating to the marketing of Mandatory Provident Fund (MPF) schemes would trigger the licensing requirement for Type 4 regulated activity (advising on securities)?

- I Comparing advantages and disadvantage of investing in different underlying products and investments.
  - II Commenting on the performance, merits and demerits of specific securities relating to MPF products.
  - III Advising on the structure of an MPF scheme in relation to the long term objectives of a potential participant.
  - IV Giving generic advice on a constituent fund of an MPF scheme that does not include detailed advice on underlying investments.
- A I and II only
  - B III and IV only
  - C I, II and III only
  - D I, II and IV only

<20>.

Which of the following are some requirements imposed on a corporate trustee by the Mandatory Provident Fund Schemes Authority (MPFA)?

- I It must have paid-up share capital of at least HKD100 million.
  - II It must hold net assets of at least HKD150 million.
  - III Its directors and Chief Executive must have at least 3 years relevant experience, and the Chief Executive must ordinarily reside in Hong Kong.
  - IV Its day-to-day business must be conducted in Hong Kong and its records kept in Hong Kong.
- A I and III only
  - B II and IV only
  - C I, III and IV only
  - D II, III and IV only

<21>.

The Securities and Futures Commission (SFC)'s requirements for management companies of authorised collective investment schemes (CIS) include which of the following?

- I They must have positive net assets at all times.
  - II They must have no material lending to third parties.
  - III They must have a holding company with paid-up capital and reserves at least of HKD10 million.
  - IV If located overseas, the country of location should have an inspection regime acceptable to the SFC.
- 
- A I and II only
  - B III and IV only
  - C I, II and III only
  - D I, II and IV only

<22>.

The Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission suggests that the identity of which of the following persons should be checked?

- I Persons ultimately responsible for originating transactions.
  - II Persons who are the ultimate beneficiaries of the transactions.
  - III The identity of the fund manager alone in the case of an investment fund unless an ultimate beneficiary gives the instructions.
  - IV The identity of the individuals in the group in the case of an individual investor known to be operating an account for a group of persons.
- 
- A I and II only
  - B I and III only
  - C II and III only
  - D I, II, III and IV

<23>.

Under the provisions of the Securities and Futures Ordinance (SFO), which of the following statements relating to rules and codes of conduct are **CORRECT**?

- I Failure by a licensed person to comply with a material provision of a code of conduct will of itself make the person liable to judicial proceedings.
  - II A code of conduct shall be admissible as evidence in court proceedings.
  - III The Securities and Futures Commission (SFC) is empowered under the SFO to make rules or codes of conduct.
  - IV A breach of a provision in a code of conduct by a licensed person may cast doubts on his fitness and properness to hold the licence.
- 
- A I and II only
  - B III and IV only
  - C I, III and IV only
  - D II, III and IV only

<24>.

The principle of honesty and fairness in the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission is expressed in which of the following statements?

- I Representations should be accurate and not misleading.
  - II Confirmation of transactions may be provided if clients ask for it.
  - III Intermediaries and their staff should not receive advantages if they feel these would interfere with their proper conduct to their clients.
  - IV Transactions may be carried out for discretionary clients without prior reference to clients.
- 
- A I and II only
  - B I and III only
  - C II and III only
  - D III and IV only

<25>.

Which of the following are provisions of the Fund Manager Code of Conduct (FMCC) relating to client agreements?

- I A fund manager can dispense with entering into an agreement with a discretionary client if he fully explains the terms of the arrangement and the client does not want an agreement.
  - II A fund manager need not enter into a written agreement with an investor if the client agrees.
  - III An authorised offering document and application form can be used in place of a client agreement where a fund manager is distributing an authorised collective investment scheme (CIS) on a non-discretionary basis.
  - IV A written management agreement in accordance with an authorised CIS is sufficient where a fund manager is providing services to the CIS.
- A I and II only
  - B II and III only
  - C III and IV only
  - D II, III and IV only

<26>.

Which of the following requirements must be complied with by a fund manager under the Fund Manager Code of Conduct?

- I Intended allocations must be recorded prior to transactions.
  - II Executed transactions must be allocated promptly in accordance with the prior intentions.
  - III All records of intended and executed allocations must be kept permanently.
  - IV All client orders must be executed on the best available terms.
- A I and III only
  - B II and IV only
  - C I, II and III only
  - D I, II and IV only

<27>.

Which of the following practices relating to house trades and staff dealings are stated in the Fund Manager Code of Conduct (FMCC)?

- I Staff of a fund manager may deal for his personal account within one trading day before a forthcoming recommendation if he advises clients that he has done so.
  - II A fund manager should not deal ahead of clients for house account without the prior consent of the designated compliance officer.
  - III Staff of the fund manager should not short sell securities that are recommended by the fund manager as good buys.
  - IV Staff of a fund manager should obtain prior permission before dealing directly through outside brokers.
- A III and IV only
  - B I, II and III only
  - C I, II and IV only
  - D II, III and IV only

<28>.

Which of the following statements referring to the supervision of trustees/custodians by the Securities and Futures Commission (SFC) through reviews of their internal controls are **CORRECT**?

- I An independent internal control review is not required if the trustee/custodian is subject to regulatory supervision on an ongoing basis.
  - II Any necessary internal control review must be carried out by independent accountants or qualified members of the Association of Investment Management and Research.
  - III The terms of reference will be determined by the trustee/custodian and the independent reviewer to suit the business requirements and will be incorporated in the audit report.
  - IV The internal control review must cover a period of 1 year to coincide with the financial year of the trustee/custodian unless the SFC agrees otherwise.
- A I and II only
  - B I and III only
  - C I and IV only
  - D II and IV only

<29>.

The Mandatory Provident Fund Schemes Authority (MPFA) requires trustees of Mandatory Provident Fund (MPF) schemes to ensure that they perform which of the following duties?

- I Supervise and exercise proper control over all service providers appointed to the scheme.
  - II Ensure that MPF scheme assets are kept separate from other assets including those of the trustee.
  - III Indemnify the MPF scheme against loss by taking appropriate guarantee cover with an authorised financial institution as specified.
  - IV Apply all relevant knowledge and skills that the trustee may reasonably be expected to have given its business or occupation to its duties as trustee.
- 
- A I, II and III only
  - B I, II and IV only
  - C I, III and IV only
  - D II, III and IV only

<30>.

Under the Money Laundering and Terrorist Financing Guidelines issued by the Securities and Futures Commission (SFC), which of the following are classified as suspicious transactions?

- I Substantial amounts of money are noted to be passing in both directions through an account in respect of property deals in Australia, Canada and the United Kingdom.
  - II The matching of buys and sells in particular instruments giving the illusion of trading.
  - III The holding of substantial funds in an account with a licensed corporation which are not being used for trading.
  - IV A client wishes to deal only in cash or cash equivalents rather than through banking channels.
- 
- A I and II only
  - B III and IV only
  - C I, III and IV only
  - D II, III and IV only



<31>.

Which of the following are indicated as features of good management in the Management, Supervision and Internal Control Guidelines (ICG) issued by the Securities and Futures Commission (SFC)?

- I The developing of a sound and effective internal control system for efficiently operating the business.
  - II The encouragement of good senior management by a system of rewards including incentivisation through executive share option schemes, etc.
  - III Setting of detailed written definitions of authorities for key positions as well as clear line, functional and reporting responsibilities for managerial positions.
  - IV Establishing a system of committees for different areas of operations which will meet at least weekly and be directly supervised by board members including non-executive directors.
- A I and III only
  - B II and IV only
  - C I, II and III only
  - D I, II, III and IV

<32>.

Which of the following are functions and structures of the Mandatory Provident Fund Schemes Authority (MPFA)?

- I It has a chairman.
  - II It has a majority of non-executive directors.
  - III It approves trustees of MPF schemes and regulates them.
  - IV It grants MPF exemptions to Occupational Retirement Schemes (ORSO schemes).
- A I and II only
  - B II and III only
  - C I, III and IV only
  - D I, II, III and IV

<33>.

The Money Laundering and Terrorist Financing Guidance Note (MLGN) issued by the Securities and Futures Commission (SFC) requires the installation of which of the following procedures and policies by licensed corporations to counteract possible money laundering?

- I The issuing of statements of policies and procedures that reflect the MLGN to all its staff.
  - II The identification of client in non face-to-face situations by using reputable references sources and ensuring all original documents are checked by reliable overseas agents.
  - III Reporting of all transactions in overseas accounts or by overseas client for over HKD100,000 to the Joint Financial Intelligence Unit.
  - IV The retention of all relevant transactions which might be required by investigators for at least 7 years.
- 
- A III and IV only
  - B I, II and III only
  - C I, II and IV only
  - D I, II, III and IV

<34>.

Corporate governance includes which of the following features?

- I The recruitment of experienced executive directors who are realistically rewarded to ensure that the business is run efficiently.
  - II The installation of a well regulated structure incorporating close and detailed top managerial supervision of day-to-day operations of the business.
  - III The recruitment of experienced non-executive directors with the objective of ensuring a good balance between executive and non-executive directors.
  - IV Installation of audit and remuneration committees who will ensure independent audits and fair performance geared reward structures.
- 
- A I and II only
  - B I and IV only
  - C II and III only
  - D III and IV only

<35>.

The Government and the Securities and Futures Commission (SFC) have publicly stated that they are pursuing which of the following initiatives?

- I The promotion of Real Estate Investment Trusts as a form of authorized collective investment scheme.
  - II The migration of funds and fund managers to Hong Kong.
  - III A passport system for Hong Kong authorized funds to be distributed in the region.
  - IV A review of taxation issues relevant to the fund management industry.
- 
- A II and IV only
  - B I, II and III only
  - C I, III and IV only
  - D I, II, III and IV

<36>.

According to the Disciplinary Fining Guidelines, which **ONE** of the following matters has the Securities and Futures Commission (SFC) indicated as being more serious than the others in determining the scale of the fines that it imposes?

- A The conduct has resulted in a technical breach.
- B The conduct is negligent.
- C The conduct causes loss or imposes costs on other persons.
- D The fine would have the likely effect of jeopardising the continuation of the business.

<37>.

Market Misconduct is defined in the Securities and Futures Ordinance (SFO) to include which of the following?

- I Money laundering.
  - II Unsolicited calls.
  - III Disclosure of information about prohibited transactions.
  - IV False trading.
- 
- A I and II only
  - B I and III only
  - C II and III only
  - D III and IV only

<38>.

Some of the essential features of good regulatory practices in the asset management industry include which of the following?

- I A strong culture of providing good disclosure of information to clients and staff.
  - II Promotion of a high level of self-monitoring and ethical practices.
  - III Identification of objectives for clients which will enhance their returns and those of the business in the short term.
  - IV Promotion of close cooperation and exchanges of information and consultation with the regulators with the objective of enhancing the effectiveness of regulation and the efficiency of the business operations.
- 
- A I, II and III only
  - B I, II and IV only
  - C I, III and IV only
  - D II, III and IV only

<39>.

Which of the following may give rise to criminal proceedings under the provisions of Part XIV of the Securities and Futures Ordinance (SFO)? (The application of other Ordinances is not presumed).

- I The intentional or reckless disclosure of false information likely to induce transactions in securities.
  - II Control of the activities of a listed corporation through the holding of shares in dummy names.
  - III Intentionally or recklessly creating a misleading appearance of active trading in listed securities.
  - IV Acting with connected shareholders in a company to sell valuable assets of a company to his own controlled company.
- 
- A I and II only
  - B I and III only
  - C II and III only
  - D III and IV only

<40>.

Insider dealing is defined in the Securities and Futures Ordinance (SFO) to include the possession of relevant insider information and its use by a connected person to deal in securities of a corporation. In this regard, a connected person includes which of the following?

- I Directors of the corporation or its related corporation.
  - II Employees of the corporation or its related corporation.
  - III Persons having access to the information through a business or professional relationship with a related corporation.
  - IV Members of the corporation or its related corporation who hold at least 5% of the shares.
- 
- A I and II only
  - B I and IV only
  - C II and IV only
  - D I, II, III and IV

*~End of the Examination Paper~*

**Answers**

<b>Question No.</b>	<b>Answer</b>	<b>Question No.</b>	<b>Answer</b>
1	A	21	D
2	A	22	D
3	D	23	D
4	A	24	B
5	B	25	C
6	C	26	D
7	D	27	D
8	B	28	C
9	B	29	B
10	B	30	D
11	D	31	A
12	D	32	D
13	B	33	C
14	A	34	D
15	C	35	C
16	C	36	C
17	A	37	D
18	D	38	B
19	A	39	B
20	B	40	D