

**PAPER 8**  
**SECURITIES**

of

The Licensing Examination  
for Securities and Futures Intermediaries

Sample Practice Test

## Published by:

Hong Kong Securities and Investment Institute

© Hong Kong Securities and Investment Institute 2022

17/F, Cambridge House, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong

Website: [www.hksi.org](http://www.hksi.org)

Hotline: (852) 3120-6100

Email: [info@hksi.org](mailto:info@hksi.org)

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording or otherwise without the prior permission of the copyright owner.

## Disclaimer

The Sample Practice Test (the “Test”) is intended to assist candidates of the Licensing Examination for Securities and Futures Intermediaries (the “Examination”) in preparing themselves for the Examination. The questions of the Test are NOT actual questions from the Examination. Since the relevant laws, regulations, practices and requirements may be revised, amended or updated from time to time, no express or implied warranty is given by the Hong Kong Securities and Investment Institute (“HKSI Institute”) that the questions are up-to-date.

The HKSI Institute does not warrant that any person who correctly answers the questions in this Test will pass the Examination. Under no circumstances shall the HKSI Institute be liable for any direct or indirect loss or damages caused or alleged to be caused by your use of or reliance on any materials in and/or content of these sample questions.

<1>

Which of the following items are the risk factors faced by investors trading in derivative warrants on the Stock Exchange of Hong Kong Limited?

- I Leverage risk.
  - II Limited life risk.
  - III Corporate decisions risk.
  - IV Counterparty risk.
- 
- A I and IV only
  - B II and III only
  - C I, II and III only
  - D I, III and IV only

<2>

Which of the following statements regarding the value of options on an asset are **CORRECT** in general?

- I The value of a call option increases when the interest rate increases.
  - II The value of a put option decreases when the interest rate decreases.
  - III The value of a call option increases when the volatility of the underlying asset increases.
  - IV The value of a put option decreases when the volatility of the underlying asset increases.
- 
- A I and III only
  - B I and IV only
  - C II and III only
  - D II and IV only

<3>

The writer of a European put option on a stock is **BETTER OFF** in which **ONE** of the following situations in general?

- A Interest rates increase.
- B Price volatility of the underlying stock rises.
- C Price of the underlying stock decreases.
- D A special dividend is announced and distributed before the option's expiry date.

<4>

Company M's shares are currently trading at \$12 per share. The company makes a 2-for-5 rights issue at a subscription price of \$10 per share. If all the rights are fully subscribed, what is the theoretical value of the shares immediately following the issue?

- A \$11.00
- B \$11.21
- C \$11.43
- D \$11.65

<5>

Which **ONE** of the following items is **UNLIKELY** an immediate consequence for a company making a 1-for-8 bonus issue to its existing shareholders?

- A The share price will decrease.
- B The outstanding shares on issue will increase.
- C The market capitalisation will remain unchanged.
- D The company's working capital will increase.

<6>

If long-term interest rates are lower than short-term interest rates, it indicates that:

- A investors are bullish about the stock market.
- B investors expect inflation to increase over the long term
- C investors expect interest rates to fall in the future.
- D investors expect a lower return for holding debt securities for a longer period of time.

<7>

When a fund manager decides to switch from holding his long-term bonds to holding money market instruments, what would **LIKELY** be his expectation on interest rates in the near future?

- A Increase
- B Decrease
- C Keep stable
- D Turn choppy

<8>

Which **ONE** of the following statements regarding brokers in Hong Kong is **INCORRECT**?

- A Their income is basically derived from commission.
- B They must be licensed by the Securities and Futures Commission.
- C They must be Exchange Participants in order to trade securities via the trading system of The Stock Exchange of Hong Kong Limited.
- D They can only act under specific instruction from the client.

<9>

The yield of a commercial paper with a face value of \$100,000 is 2.5%. What is the fair price if it will mature in 73 days?

- A \$98,123.60
- B \$99,502.49
- C \$99,782.45
- D \$100,000.00

<10>

Wide-scale layoffs indicate that an economy is at which **ONE** of the following stages of a business cycle?

- A Peak to contraction
- B Contraction to trough
- C Trough to expansion
- D Expansion to peak

<11>

Which of the following information should a broker provide to his client for securities transaction?

- I Information of counterparty
  - II Daily statement
  - III Monthly statement
  - IV Contract note
- 
- A I and II only
  - B I, III and IV only
  - C II, III and IV only
  - D I, II, III and IV

<12>

What is the **MOST ACCURATE** real interest rate if the annual inflation rate is 2% and the nominal interest rate is 7%?

- A -4.67%
- B 4.90%
- C 5.00%
- D 9.14%

<13>

Corporate bonds with fixed coupon issued by a listed blue chip company are particularly **ATTRACTIVE** to which **ONE** of the following investors?

- A A high net worth individual who is in his early 40s.
- B A medical doctor who is in his mid 30s.
- C A fresh graduate who just joined the civil services.
- D A middle-income retiree who is in his 60s.

<14>

Peter instructs his broker to buy 5,000 shares of Stock A for \$60 each in the closing auction session on The Stock Exchange of Hong Kong Limited. What type of order is this?

- A At-auction order
- B Market order
- C Limit order
- D At-auction limit order

<15>

Mr Chan purchased 10,000 shares of Company A at \$10 per share with a margin financing facility provided by his broker that margin ratio is 60%. What is the return on investment if he sells the shares at \$12 per share later (ignore interest and transaction costs)?

- A 16.67%
- B 20.00%
- C 33.33%
- D 50.00%

<16>

Which **ONE** of the following statements regarding order handling procedures under the requirements of the Securities and Futures Commission's ("SFC") requirements is **CORRECT**?

- A Orders must be recorded physically.
- B The recording of telephone orders must be kept for at least 7 years.
- C Orders must be checked before being executed.
- D Orders must be transmitted to SFC for record.

<17>

Which **ONE** of the following risks is **MOST LIKELY** arising from a company's inability properly segregate incompatible duties?

- A Legal risk
- B Operational risk
- C Market risk
- D Liquidity risk

<18>

Peter purchases shares in Company P, a listed company on The Stock Exchange of Hong Kong Limited, through a broker on Thursday, 1 March 20X1. Which **ONE** of the following is the **CORRECT** settlement date for his transaction if 5 March 20X1 is the only public holiday in March 20X1?

- A 1 March 20X1
- B 2 March 20X1
- C 6 March 20X1
- D 7 March 20X1

<19>

Which **ONE** of the following statements regarding the price of equity call warrants is **INCORRECT**?

- A The more volatile of the underlyings, the higher the warrants price.
- B The higher the interest rates, the lower the warrants price.
- C The longer of the time to expiry, the higher the warrants price.
- D The higher the exercise price, the lower the warrants price.

<20>

If a company's debt ratio has decreased from 53% to 46%, which **ONE** of the following interpretations of this change is **INVALID**?

- A The company's current liabilities have decreased.
- B The company's non-current liabilities have decreased.
- C The company's total assets have increased.
- D The company's solvency has deteriorated.

<21>

Under which of the following circumstances will The Stock Exchange of Hong Kong Limited exercise its power to suspend or delist a company?

- I There are insufficient securities in the hands of the public.
  - II The issuer does not have a sufficient level of operations or assets to warrant the continued listing of its securities.
  - III The issuer or its business is no longer suitable for listing.
  - IV The issuer has suffered losses for three consecutive years.
- A I and IV only
  - B I, II and III only
  - C II, III and IV only
  - D I, II, III and IV

<22>

When an airline company purchases the crude oil options, it is **MOST** likely engaging in which **ONE** of the following activities?

- A Arbitrage
- B Stop-loss
- C Hedging
- D Speculation

<23>

Which of the following tools are used by technical analysts to evaluate securities?

- I Support and resistance
  - II Price-earnings ratio
  - III SWOT analysis
  - IV Relative strength indicator
- A I and IV only
  - B II and III only
  - C I, III and IV only
  - D I, II, III and IV

<24>

Which **ONE** of the following statements regarding Exchange Participants (“EPs”) of The Stock Exchange of Hong Kong Limited (“SEHK”) is **CORRECT**?

- A They can be either individual or corporation.
- B They may not have the Stock Exchange Trading Right.
- C They are required to be the Securities Market Maker.
- D The trading system of SEHK is only accessible to EPs.

<25>

Which **ONE** of the following services is **NOT** provided by share registrars?

- A Distribution of bonus shares
- B Transfer of shares
- C Distribution of investor communications
- D Hold and safeguard the assets of financial institution

<26>

Which **ONE** of the following is **NOT** a necessary information given by investors to their brokers for execution of **MARKET ORDERS**?

- A Stock code and/or name
- B Price
- C Quantity
- D Buy or sell

<27>

Which of the following statements regarding capital asset pricing model are **CORRECT**?

- I It assumes that the market is efficient.
  - II The required rate of return on equity securities is exponentially related to its risk.
  - III A stock having a beta of 1 has the same expected return as the whole market.
  - IV It requires a reference risk-free rate.
- 
- A I and II only
  - B III and IV only
  - C I, III and IV only
  - D I, II, III and IV



<28>

Which types of the following institutions in Mainland China might be eligible to become Qualified Domestic Institutional Investors (“QDII”)?

- I Fund houses
  - II Banks
  - III Insurance companies
  - IV Securities brokerages
- 
- A I and III only
  - B II and IV only
  - C I, II and IV only
  - D I, II, III and IV

<29>

Which **ONE** of the following **BEST** describes the expectation of inflation over a longer term for a normal yield curve scenario?

- A Inflation is expected to increase in the future.
- B Inflation is expected to decrease in the future.
- C Inflation is expected to remain stable in the future.
- D It has no implication on the expected inflation rate.

<30>

Which **ONE** of the following statements regarding the prospectus conventions for equity securities is **INCORRECT**?

- A It must contain sufficient information regarding industry and business overview.
- B It must be in both English and Chinese.
- C It must not contain any reference to future profits or dividend forecasts unless supported by a formal profit forecast.
- D It must not contain any disclaimer.

<31>

Which **ONE** of the following statements **CORRECTLY** describes a contingent-convertible bond?

- A It is a fixed-income bond issued by the Hong Kong Monetary Authority.
- B It is structured to comply with the principles of Islamic law.
- C It is a loss-absorbing bond issued by a bank that can be written down on the occurrence of a trigger event.
- D The proceeds raised would be used for financing public work projects with environmental benefits.

<32>

Which of the following descriptions match with the general principles of conduct for financial practitioners recognised by the International Organization of Securities Commissions and the Securities and Futures Commission?

- I Seek information from clients about their financial situation relevant to the services to be provided.
  - II Make adequate disclosure of relevant material information in their dealings with clients.
  - III Possess and employ effectively the resources and procedures needed for the proper performance of their businesses.
  - IV Avoid conflicts of interest and, when such conflicts cannot be avoided, they should ensure their clients are fairly treated.
- 
- A I and IV only
  - B II and III only
  - C I, III and IV only
  - D I, II, III and IV

<33>

What is the option writer's **MAXIMUM** profit per share if he sells a put option on a stock at \$8, with a strike price of \$10? (ignore interest and transaction costs)

- A \$2
- B \$8
- C \$10
- D Unlimited

<34>

Which **ONE** of the following statements regarding the stock markets in Mainland China is **INCORRECT**?

- A Only foreign investors are allowed to own Shanghai B shares.
- B Foreign investors can own Shanghai A shares via Shanghai-London Stock Connect.
- C Chinese local investors can own Shenzhen B shares.
- D Shenzhen B shares are traded and settled in Hong Kong dollars.

<35>

After a client's buy order on a stock call warrant is confirmed by his broker, an Exchange Participant of The Stock Exchange of Hong Kong Limited, it will be entered into which **ONE** of the following systems/platforms?

- A Central Clearing and Settlement System
- B Orion Trading Platform – Securities Market
- C Hong Kong Futures Automated Trading System
- D HKEX Orion Market Data Platform – Securities Market

<36>

Which **ONE** of the following products can be issued by Company X, a listed property developer?

- A Callable Bull Contract of Company X
- B Equity warrant of Company X
- C Derivative put warrant of Company X
- D Depositary receipt of Company X

<37>

Which **ONE** of the following statements regarding the key factors affecting the securities market in Hong Kong is **MOST LIKELY CORRECT**?

- A An unanticipated increase in US interest rates is likely to result in a rise in stock prices.
- B A decrease in interest rates is likely to result in a decrease in the prices of debt securities.
- C An expectation of rise in inflation will put a downward pressure on stock prices.
- D An expectation of change in inflation will not affect the prices of debt securities.

<38>

Company B has just paid out a cash dividend of HKD2.50, which is expected to grow at a constant rate of 4% each year. Assume the dividend is paid only once a year and the required return on the shares is 8% per annum. Calculate the value of the share based on the dividend growth model. (Note: the stock has gone ex-dividend and the dividend of \$2.50 will not be received by the current buyers of the stock.)

- A \$31.25
- B \$32.50
- C \$62.50
- D \$65.00

<39>

Which of the following transactions may result in margin calls to a investor if market conditions change afterward?

- I Sold a put option.
  - II Bought a two-time Leverage Product.
  - III Bought shares of real estate investment trust on margin.
  - IV Bought a derivative warrant.
- 
- A I and III only
  - B I and IV only
  - C II, III and IV only
  - D I, II, III and IV

<40>

Which **ONE** of the following is **NOT** a common feature between corporate bonds and shares in Hong Kong?

- A Issued by corporations.
- B The holder is at risk of loss as company conditions change.
- C The value will remain unchanged as interest rates change.
- D Both can be listed on The Stock Exchange of Hong Kong Limited

## Answers

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