

Updating Your Study Manual

Instructions for Inserting Version 1.1, 2003

The followings serve as the instructions for updating **Topic 3: The Securities and Futures Ordinance ('SFO')** 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 3-5 to 3-6 and **Insert** new pages 3-5 to 3-6.
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- 4.1 Part III provides for the recognition by the SFC of exchange companies (after consulting the public and the FS), exchange controllers (with the consent of the FS) and clearing houses and investment compensation companies (after consulting the FS), and the authorisation by the SFC of the providers of automated trading services.
- 4.2 Part III also states the duties, powers and the immunity from civil liability of the market operators listed in paragraph 4.1 above, and provides for the transfers of certain functions by the SFC to them.
- 4.3 For the purposes of this study manual a recognised exchange controller may be taken to be a company which controls an exchange or clearing house and has been recognised as such by the SFC. At the time of writing, HKEx is the only recognised exchange controller in Hong Kong and the 2 exchanges and 3 clearing houses it controls are the only recognised exchanges and clearing houses respectively.

Powers of the SFC in relation to market operators

- 4.4 As the regulator of the securities and futures market, the SFC supervises all these operators in the market to ensure that they perform their functions and operations properly.

5 Part IV – Offers of Investments

- 5.1 Part IV deals with the regulation of investment products. It defines the products whose marketing is to be controlled by using the terms *regulated investment agreements* and *collective investment schemes* in s.103. The objective of establishing a properly regulated environment for the products available to investors is to encourage the development of reputable and well-structured products in the Hong Kong market and to eliminate dubious products and schemes. For a further analysis of Part IV please refer to section 4 of topic 8.

6 Part V – Licensing and Registration

- 6.1 Parts V to VII deal with the regulation of intermediaries. Part V covers the first stage, the licensing of intermediaries. The intermediaries are:
- licensed persons who conduct activities regulated by the SFC other than registered institutions;

- registered institutions (i.e. those businesses supervised by the Hong Kong Monetary Authority, who undertake activities regulated by the SFC); and
- representatives and executive officers (see topic 4 for definition).

Single licence

- 6.2 The regime installed under the SFO provides for a single licence that is given only to companies, bodies corporate and individuals accredited to them. They are referred to as licensed persons. Sole proprietors and partnerships will no longer be recognized. The existing ones will be phased out over a period of 2 years from the implementation of the SFO, during which time they will have to structure themselves as companies if they wish to continue trading. Transitional arrangements are made in Schedule 10, SFO.

Regulated activities

- 6.3 The activities regulated by the SFC are grouped in Schedule 5, SFO into 9 categories:
- Type 1: Dealing in securities;
 - Type 2: Dealing in futures contracts;
 - Type 3: Leveraged foreign exchange trading;
 - Type 4: Advising on securities;
 - Type 5: Advising on futures contracts;
 - Type 6: Advising on corporate finance;
 - Type 7: Providing automated trading services;
 - Type 8: Securities margin financing; and
 - Type 9: Asset management.

The Financial Secretary can amend this list by gazette notification. The regulated activities are defined in Schedule 5, SFO and [students should be aware of the definitions](#). It is an offence to engage in a regulated activity without either being licensed or registered to do so.