

Updating Your Study Manual

Instructions for Inserting Version 1.8

The followings serve as the instructions for updating **Topic 4: Licensing and Subsidiary Legislation** 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 4-5 to 4-6 and **Insert** new pages 4-5 to 4-6.
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- every executive director (see Note 2 below) of a licensed corporation is required to obtain the approval of the SFC as a responsible officer; and
- every licensed corporation must have, for each regulated activity for which it is licensed, at least two responsible officers approved by the SFC as such.

Note 1: Schedule 1, SFO merely states that a responsible officer is an individual who is approved under s.126(1) as a responsible officer of a licensed corporation.

Note 2: **An executive director** is defined in the SFO, in relation to a licensed corporation, as a director who actively participates in, or is responsible for directly supervising, the business of a regulated activity for which the corporation is licensed. (s.113, SFO)

Executive officer

- 1.4 An executive officer is defined in Schedule 1, SFO, in relation to the respective entities named as being:
- a responsible officer of a licensed corporation,
 - an executive officer of a registered institution, or
 - a director of an associated entity, who in the last case, is directly responsible for supervising the receiving or holding by the associated entity of client assets of the intermediary.

Substantial shareholder

- 1.5 The status of substantial shareholder has special relevance to the application of the licensing regime. A person may not become or continue to be a substantial shareholder of a licensed corporation without first being approved by the SFC as such.
- 1.6 A substantial shareholder is formally defined in section 6, Schedule 1. In simple terms for the purposes of this manual it may be taken to refer to a person who alone or together with his associates:
- has an interest in more than 10% of the nominal value of the issued share capital; or

- directly or indirectly has more than 10% of the voting power at a general meeting; or
- is able to exercise 35% or more of the voting power of another corporation which in turn has more than 10% of the voting power of the licensed corporation.

Note:

It should be noted that the above definitions in the SFO, of responsible officers, executive directors, executive officers and substantial shareholders are given specific and limited meanings applicable to intermediaries and their associated entities. The respective terms may have other meanings in other situations.

Permissions and restrictions on licences

Type of activity covered by licence	Any other activity automatically covered
1	4, 6 or 9 (if incidental to 1) May provide financial accommodation (Type 8) to facilitate acquisitions or holdings of securities by the licensed person for his client
2	5 or 9 (if incidental to 2)
Others	None, but may apply to be licensed or registered for additional regulated activities

Registered institution ('RI')(s.119, SFO)

- 1.7 Authorized Financial Institutions (including banks) that are regulated by the HKMA and conduct SFC regulated activities **have to register with the SFC**, the status of registered institution ('RI') having been set up as a special category because of the special features of AFIs. **They are jointly regulated** by the HKMA and the SFC with the HKMA being the front-line regulator that will apply all the SFC regulatory criteria including fitness and properness and business conduct, other than capital adequacy, the handling client money and the audit requirements in supervising them. All references to registration will generally apply to this category as the term 'licensing' will be used for all businesses and persons directly supervised by the SFC.