

## Updating Your Study Manual

### Instructions for Inserting Version 1.9

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The followings serve as the instructions for updating **Topic 5: Business Conduct and Client Relations** 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.

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#### **Instructions:**

1. Download and print out the following pages.
  2. **Remove** pages 5-19 to 5-20 and **Insert** new pages 5-19 to 5-20.
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References in this section to sections and paragraphs are to those in the FMCC unless otherwise specified.

### **Applications and effects**

3.3 As with other codes the FMCC states that any breach of its provisions may reflect adversely on the fitness and properness of a fund manager. The FMCC qualifies this by saying that:

- this adverse impact may be ignored by the SFC if there are circumstances that may adequately excuse the breach; or
- the SFC will take a practical approach to the breach by taking into account all relevant circumstances including:
  - the size of the firm; and
  - compensatory actions taken by senior management to deal with the effects of the breach.

### **Fund Management and Dealing with Clients – Client relations**

3.4 Client relations, which took up a major part of the Code of Conduct under most of the nine general principles are treated in the FMCC under the sections on ‘Fund Management’ (section 3) and ‘Dealing with clients’ (section 6). As we are comparing the various codes we shall check the FMCC against the nine principles. Those sections dealing with internal operations will be covered in topic 8 under business operations. Provisions that are special to the FMCC are given in italics.

### **Honesty and fairness**

- 3.5 Representations made by the fund manager (‘FM’) or its employees to clients should be accurate and not misleading. *Marketing material should be authorized where required by the SFC and should be accurate and not misleading and any performance claims verified (paragraphs 7.1 and 7.2).*
- 3.6 Charges, fees and *mark-ups* should be fair and reasonable and disclosed to the client. *If the FM is acting as an agent, mark-ups are forbidden; if acting as principal, they should be disclosed (paragraph 8.2).*

### ***Gifts and benefits (paragraph 2.2)***

- 3.7 An FM should:
- not offer or accept inducements which are likely to conflict with its duties to clients;

- have written policy guidelines, including monetary limits, about the acceptance by employees of gifts, rebates or other benefits from clients or business contacts; and
- maintain records of any material benefits received.

## **Diligence**

- 3.8 A fund manager should execute client orders on the best available terms (*best execution*) (paragraph 3.2).

## **Information about clients**

### *Client identity*

- 3.9 An FM should take all reasonable steps to identify the client as in the Code of Conduct (paragraph 6.3).

## **Information for clients**

### *Client mandate/agreement*

- 3.10 *In the case of a portfolio managed by an FM, there should be a client mandate which states the portfolio's objectives, investment restrictions and guidelines (such as asset classes, risk profile and nature of the spread of investments) (paragraph 3.1).*

- 3.11 Information about the fund manager should be provided as in the Code of Conduct.

### *Discretionary services (paragraph 6.4)*

- 3.12 The FM managing a discretionary portfolio should have a written client agreement as in the Code of Conduct. Suggested contents are given in an Appendix to the FMCC.

- 3.13 *In the case of an FM providing services to a CIS, a written management agreement drafted under the CIS rules is the acceptable equivalent of a client agreement. If an FM is acting as a distributor of a CIS on a non-discretionary basis, an authorised offering document and an application form in accordance with the Code on Unit Trusts and Mutual Funds are together the equivalent of a client agreement.*

### *Reports and reviews*

- 3.14 An FM is required to [adhere to all relevant legal and regulatory requirements in respect of reporting, including the Securities and Futures \(Contract Note, Statements of Account and Receipts\) Rules](#) (paragraph 6.5).