

## Updating Your Study Manual

### Instructions for Inserting Version 1.6

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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 5-21 to 5-22 and **Insert** new pages 5-21 to 5-22.
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- 3.15 *In addition except for CIS or as agreed otherwise with the client, an FM should review with each client, in writing or at a meeting, the performance of his account at least twice a year, and provide a written portfolio valuation as often as required by the Client Agreement (paragraph 6.6).*

## **Conflicts of interest**

### ***Client priority***

- 3.16 An FM should not be involved in dealings based on knowledge of price-sensitive information (insider dealing) (paragraph 3.3).
- 3.17 An FM should ensure that client orders are allocated fairly, the allocation intentions are recorded before entering into the orders and adhered to except that any revised allocation should not disadvantage a client (fair allocation of orders) (paragraph 3.4).
- 3.18 *The requirement to make fair allocations is extended specifically to participation by the fund manager in Initial Public Offerings ('IPOs'), preferential allocations are prohibited and allocations of IPOs should be documented (paragraph 3.7).*

### ***Rebates, soft dollars and connected transactions***

- 3.19 *The requirements for rebates and soft commission for authorized CIS are set out in the Code on Unit Trusts and Mutual Funds (see topic 8) and for other clients are set out in the Code of Conduct as detailed in paragraphs 2.22 to 2.27 of this topic.*
- 3.20 An FM should not carry out client transactions with a connected person unless it is carried out at arms length, with standard commission rates and on best execution terms. *For authorized CIS, total transactions with connected persons should not exceed 50% of the total transactions in any one year. Borrowing or depositing money with a connected person should be at standard interest terms or better from the funds' point of view (paragraphs 3.8 and 3.9).*

### ***Other potential conflicts of interest to be avoided***

- 3.21 Trades between client accounts (cross-trades) should be fairly conducted so that no client is disadvantaged and the client should be informed; cross trades between the house account and client accounts should only be done with the prior approval of the client (paragraph 3.10), and client orders should be given priority over house account dealings. **Cross trades between staff personal accounts and client accounts should be prohibited.**

## Compliance

- 3.22 The FMCC requires a FM to have an effective compliance function and a designated compliance officer.

### *Employee dealings and employee supervision (the section is titled ‘Staff Ethics’ in section 2)*

- 3.23 These provisions are designed to ensure that employees of an FM do not behave in any manner that is prejudicial to the interests of the FM’s clients or the FM. They apply to employees or directors of an FM (these are called ‘relevant persons’ for the purposes of this section). Relevant persons are those:

- *who in the course of their regular functions or duties make or participate in investment decisions, or obtain information prior to buying or selling investments for clients; or*
- *whose functions include making recommendations to clients on such buying or selling transactions; and*

*any persons they control or influence.*

*As a minimum, the provisions cover trading in shares and derivatives, but may extend to other investments depending on the business of the FM.*

- 3.24 The provisions for personal account dealings by relevant persons closely reflect those specified in the Code of Conduct (see paragraph 2.29 of this topic) which should be included in internal rules and should further include the following:

- The relevant persons must:
  - *get prior written permission for personal dealings which may be valid for no more than 5 trading days from the Designated Compliance Officer or other designated person; the permission is restricted;*
  - *hold personal investments for at least 30 days unless prior written approval is obtained; and*
- *there are other restrictions (refer to section 2 of the FMCC).*

### *Treatment of complaints*

- 3.25 An FM should as under the Code of Conduct have complaints procedures and a complaints register (paragraph 6.7).