

## Updating Your Study Manual

### Instructions for Inserting Version 1.6

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The followings serve as the instructions for updating **Topic 6: Business Operations and Practices** 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 6-23 to 6-24      and      **Insert** new pages 6-23 to 6-24.
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business address in Hong Kong to ensure the SFC can contact the intermediary if necessary.

### ***Conduct and operational requirements***

4.8 The general principles of business conduct studied in topic 5 will apply. In addition the use of the Internet is recognized by:

- allowing for electronic verification of client identities;
- accepting the use of the Internet to transmit and receive client orders;
- flexibility to use other means of communication as agreed with the client; and
- requiring the safeguarding of confidential information over the Internet by using encryption technology or other means.

4.9 Special requirements include ensuring that security, reliability, capability and contingency are built into the computer systems and that there is a comprehensive periodic review plan to check the security, reliability and capacity of the system.

4.10 The use of competent staff, written procedures and compliance with the record keeping and reporting requirements, such as the location of premises at which records are kept, as established for all regulated businesses will apply to Internet trading as well.

4.11 All the requirements for client agreements apply with additional provisions to cover the special features of using the Internet. For example:

- There should be disclosures stressing the risks of internet trading such as the possibility of time lags in data transmission and the possibility that orders may be executed at prices different from those shown on the Internet.
- Client consent should be obtained for using the Internet.
- Details of authenticating technical processes to be used should be communicated to the client.

### **Advertisements on the Internet**

4.12 Advertisements on the Internet are within the control of s.103, SFO, which requires them to be approved by the SFC, unless they fall within

the specified exemptions. Advertisements not targeted at Hong Kong residents need not be submitted for the SFC's approval. Advertisements offering advisory services or the management of client portfolios if targeted at Hong Kong residents **will not be allowed in return for remuneration unless such advertisement is the subject of exemption under the relevant ordinance. Where such an advertisement is dispatched over the internet, it may trigger registration requirements.**

4.13 The SFC has set some criteria for determining whether advertisements are targeted at Hong Kong residents and therefore requiring its approval:

- whether the material is targeted using 'push' technology (the technology spams, broadcasts or directs information) at Hong Kong residents; and
- whether it is presented in a way that indicates that the advertisement is so aimed.

4.14 Advertisements will not be considered to be targeted at Hong Kong residents provided:

- the broadcast includes a prominent disclaimer that the products or services are not available to HK residents, or lists the countries where they are available (which should exclude Hong Kong); and
- reasonable steps are taken to ensure that the goods or services are not provided to HK residents, such as by checks on telephone numbers, addresses or the use of blockage devices.

### **Circular on provision of financial information on the Internet – licensing requirements (issued by the SFC in May 2001)**

4.15 The GNIR is supplemented by the circular which defines the circumstances when the provision of financial information on the Internet may be considered to fall within the definitions of Type 4 (advising on securities), Type 5 (advising on futures contracts) and possibly Type 6 regulated activity (advising on corporate finance).

4.16 In deciding this issue the definitions of the regulated activities and the exemptions and exclusions will apply as for the normal conducting of these activities.