

Updating Your Study Manual

Instructions for Inserting Version 1.6

The followings serve as the instructions for updating **Topic 7: Securities, Options and Futures** 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 7-11 to 7-12 and **Insert** new pages 7-11 to 7-12.
 3. **Remove** pages 7-25 to 7-26 and **Insert** new pages 7-25 to 7-26.
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Closing price calculation

- 2.32 To avoid a situation in which the closing price is controlled by the price of the last transaction, AMS/3 takes the median figure of the five nominal prices recorded in the last minute of a trading day as the closing price of a security. From 3.59 p.m. onwards, the system records the nominal price of a security every 15 seconds. Five nominal prices will be collected for each security. The nominal price is calculated on the basis of the bid price, the ask price and the last trading price. This procedure minimises the chance of any manipulation of the closing price.

Direct business

- 2.33 Direct business means business transacted by an exchange participant (or dealing partnership), which acts for both the buyer and the seller, whether as principal or agent. Direct business must be conducted under several rules including the inputting of details of such transactions within 15 minutes of concluding the transaction.

Transaction Costs

- 2.34 The following are costs to an investor of buying and selling securities on SEHK. The SEHK as well as the SFC will monitor the correctness of the charges.

Brokerage (Commission)

- 2.35 HKEx has abolished minimum commissions chargeable on transactions on the SEHK with effect from 1 April, 2003. [The brokerage of IPO transactions is currently set at 1% of the subscription.](#)

Transaction Levy and Investor Compensation Levy

- 2.36 The SEHK charges two levies on the value of each purchase or sale of securities as follows (both the buyer and seller shall pay each of the two levies):
- A Transaction Levy of 0.005% which is passed on to the SFC for use in funding its operations; and
 - An Investor Compensation Levy of 0.002% which is used to fund the Investor Compensation Fund established by the SFC.

There is no Transaction Levy nor Investor Compensation Levy on SEHK traded options, pilot program and market making trades in designated Exchange Traded Funds.

Trading fee

- 2.37 A trading fee of 0.005% per side of the consideration of a transaction is payable to the SEHK. There is no trading fee on SEHK traded options,

pilot program and market making trades in designated Exchange Traded Funds.

Trading tariff

- 2.38 A trading tariff of HK\$0.50 is payable to the SEHK on each and every purchase or sale transaction.

Ad valorem stamp duty

- 2.39 An ad valorem stamp duty is levied on each transaction at the rate of HK\$1 for every HK\$1,000 or part thereof of the value of the transaction, payable by each of the buyer and the seller.

Transfer deed stamp duty

- 2.40 Independent of the quantity of shares traded, the Government levies a transfer deed stamp duty of HK\$5, payable by the registered holder of the share certificate(s), i.e. the seller, on each new transfer deed.

Transfer fee

- 2.41 Independent of the quantity of shares traded, the registrar of each listed company levies a transfer fee of HK\$2.5 per share certificate from the registered holder, i.e. the buyer, for each new certificate issued.
- 2.42 No charges are levied by the HKSCC on investors if they settle with brokers or custodians outside the CCASS. However, brokers or custodians have to pay fees for use of the clearing, settlement, custody and nominee services offered by HKSCC. The decision on whether to pass these fees on to investors will be totally at the discretion of the brokers or custodians.

Regulated Short Selling on the SEHK

- 2.43 Regulated short selling is defined in Schedule 1, SFO and in the Eleventh Schedule of the SEHK Rules to mean the sale of a security in respect of which the seller or a person, for whose benefit or on whose behalf the sale is made, has a presently exercisable and unconditional right to vest the security in the purchaser by virtue of having:
- under a securities borrowing and lending agreement (see paragraphs 2.46 to 2.51 below):
 - borrowed the securities; or
 - obtained a confirmation from the counterparty to the agreement that the counterparty has the security available to lend to him;
 - a title to another security which is convertible into or exchangeable for the security to which the sale relates;
 - an option to acquire the security to which the sale relates;

- makes an offer for a futures dealer to a third person to acquire or dispose of futures contracts;
- accepts for a futures dealer an offer by a third person to acquire or dispose of futures contracts; or
- make introductions between a futures dealer or his representative and a third person so that the third person may engage in futures contracts dealing.

Hong Kong Futures Exchange ('HKFE')

Rules relating to the HKFE group

4.5 In addition to the application of relevant requirements of the SFO and its supplementary legislation, codes and guidelines, the rules applicable to the HKFE group of HKEx and clearing houses are the:

- Rules of HKFE; and
- Rules and Procedures of HKCC.

It will not be necessary for students to have a detailed knowledge of these rules.

Trading

4.6 Only SFC licensed firms and individuals may have access to the trading systems and facilities of the HKFE, whether directly or indirectly, in order to carry out the Type 2 regulated activity of dealing in futures contracts.

4.7 There are a number of categories of exchange participation for which the HKEx will grant authorisation. These categories are set out in [HKFE Rule 312](#) as follows:

- an (HKFE) Exchange Participant ('EP') may be a Trader, a Broker, a Futures Commission Merchant or a Merchant Trader, each such category having the rights and obligations set out in the Rules;
- all categories of EP, subject to any requirements and/or conditions that the HKEx board may impose from time to time, are entitled to trade in any markets operated by the HKFE;
- a Trader, is entitled to trade in futures contracts and/or options contracts on his own account only;

- a Broker is entitled to trade in futures contracts and/or options contracts on his own account only. A broker may also act as the agent of an (HKFE) Exchange Participant for the sole purpose of concluding trades on any markets operated by HKFE;
- a Futures Commission Merchant is entitled to trade in futures contracts and/or options contracts on its own account, for the account of other (HKFE) EPs and for the account of any other persons; and
- a Merchant Trader is entitled to trade in futures contracts and/or options contracts only on its own account and only ancillary to its principal business or that of its holding company.

Clearing Participants

- 4.8 Only HKFE exchange participants may become members of the HKFE Clearing Corporation (HKCC).
- 4.9 Only two types of participant can be registered at the HKCC, these are:
- General Clearing Participant ('GCP'); or
 - Clearing Participant ('CP').
- 4.10 Every HKCC participant is entitled in accordance with the HKCC Rules to record, register and clear contracts entered into by itself. In addition:
- a GCP is entitled to record, register and clear contracts in accordance with HKCC Rules on behalf of those non-clearing participants with which it has entered into a clearing agreement and also for CPs; and
 - at the discretion of the clearing house a CP may be entitled to record, register and clear contracts in accordance with HKCC Rules for other CPs.
- 4.11 A Non-Clearing Participant ('NCP') is not entitled to record, register and clear contracts in accordance with HKCC Rules but must arrange that all contracts entered into by it are recorded, registered and cleared on its behalf in accordance with the HKCC Rules by a GCP.

Participant Requirements

Trading rights

- 4.12 Each (HKFE) Exchange Participant must be approved by and registered with HKEx to trade through HKATS (Hong Kong Futures Automated Trading