

Updating Your Study Manual

Instructions for Inserting Version 1.1, 2003

The followings serve as the instructions for updating **Topic 8: Other SFC Regulated Activities** 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 8-27 to 8-28 and **Insert** new pages 8-27 to 8-28.
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trustee/custodian such that it ceases to be its wholly-owned subsidiary.

Independence of trustee/custodian and management company

- 4.38 The trustee/custodian and the management company must be independent of each other. The independence requirement is deemed to be satisfied where they are companies having the same holding company provided:
- they are both subsidiaries of a substantial financial institution;
 - neither is a subsidiary of the other;
 - they do not have a common director; and
 - both sign an undertaking to act independently.
- 4.39 The requirement is also deemed to be satisfied if the CIS is established in a jurisdiction where the trustee/custodian and the management company are required by law to act independently of one another.

SFC's requirements for Management Companies

- 4.40 The Code on Unit Trusts and Mutual Funds (‘CUTMF’) specify requirements for management companies of authorized collective investment schemes (see Chapter 5 of the Code). This has been done on the basis that the SFC has to ensure that all management companies (as with trustees/custodians) are of an acceptable standing whether or not their activities require them to be licensed by the SFC.
- 4.41 If a management company or an investment adviser which is its delegate is located overseas the SFC would expect the overseas jurisdiction to have an inspection regime acceptable to the SFC (a list of such jurisdictions is given in Appendix A2 to the CUTMF: they currently include [Australia](#), France, [Germany](#), Ireland, Luxembourg, UK and the USA). The SFC will consider other jurisdictions on an ad-hoc basis and may require an undertaking that the books and records of the management company are made available for inspection by the SFC on request.

The management company

- 4.42 Every authorized CIS is required to appoint a management company acceptable to the SFC (except for self-managed schemes which may be managed by the board of the CIS itself).
- 4.43 A management company must:

- be engaged principally in fund management;
- have adequate financial resources, in particular it must have minimum issued and paid-up capital and capital reserves of HK\$1m or its foreign currency equivalent;
- ensure that, for any indebtedness to a holding company to be acceptable as part of such capital:
 - it will not be settled without the SFC's prior consent; and
 - it is subordinated to all other liabilities of the management company, as regards entitlement to income and to rights in liquidation;
- have no material lending;
- have positive net assets at all times; and
- satisfy the SFC if so required regarding the qualifications and experience of its employees and any appointed investment adviser.

Directors of management company

4.44 The directors of the management company must

- be of good repute; and
- satisfy the SFC that they possess the necessary experience.

Further acceptability criteria for management company

4.45 The management company will be expected to:

- have key personnel with at least 5 years experience managing reputable unit trusts or other public funds with the same type of investments as proposed to be managed;
- have full-time key personnel with track records in the management of unit trusts or mutual funds;
- have sufficient human and technical resources and should not rely on a single individual;
- satisfy the SFC that it has adequate internal controls, written procedures, regulatory supervision by senior management, proper protection of investors and addressing of conflicts of interest; and