

## Updating Your Study Manual

### Instructions for Inserting Version 1.5

---

The followings serve as the instructions for updating **Topic 1: Regulatory Framework** of Study Manual 2 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** the original front page and **Insert** the updated front page.
  3. **Remove** pages 1-29 to 1-30 and **Insert** new pages 1-29 to 1-30.
-

**[Blank Page]**

STUDY MANUAL FOR  
**PAPER 2**  
**REGULATION OF SECURITIES**

of

The Licensing Examination  
for Securities and Futures Intermediaries

First published June 2003

Current Version 1.5 (September 2005)

## **Published by:**

Hong Kong Securities Institute

© Hong Kong Securities Institute 2003, 2004

© Hong Kong Securities Institute 2005

24/F, Wing On Centre, 111 Connaught Road Central, Hong Kong

Telephone: (852) 3120-6100

Examinations Hotline: (852) 3120-6220

Membership Hotline: (852) 3120-6170

Training Hotline: (852) 3120-6200

Fax: (852) 2899-2611

Email: [info@hksi.org](mailto:info@hksi.org)

Website: [www.hksi.org](http://www.hksi.org)

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording or otherwise without the prior permission of the copyright owner.

*ISBN: 988-97139-2-6*

## **Disclaimer**

This is an educational manual only and does not provide legal advice or expert advice in whatsoever form. Every effort has been made to ensure its accuracy, however, no responsibility for loss occasioned to any person acting or refraining from action as a result of any materials in this publication will be accepted by the publisher and/or individual contributors.

- 4.14 The **Licensing Department** deals with all licensing matters relating to corporations and individuals and:
- sets fit and proper and competency tests for entry and retention of licences;
  - monitors licensees by means of annual returns;
  - sets continuous professional training standards for licensees; and
  - supports the work of the Academic and Accreditation Advisory Committee.
- 4.15 The Intermediaries Supervision Department:
- sets and enforces minimum standards of conduct, internal controls and levels of capital for intermediaries using a risk-based approach, a targeting system for focusing on licensed corporations exposed to higher risks, regular financial returns and inspection visits as monitoring tools.
- 4.16 The Investment Products Department:
- regulates the public marketing of unit trusts, mutual funds and other collective investment products by:
    - setting and enforcing standards and requirements for authorizing these products, and how they are marketed;
    - setting guidelines for trustees and custodians of authorized schemes; and
    - monitoring, reviewing and approving advertisements.
- 4.17 The Supervision of Markets Division:
- supervises the conduct, operation and internal systems of the exchanges and clearing houses;
  - strengthens the market infrastructure;
  - administers the statutory investor compensation funds; and
  - ensures generally that the markets are operated efficiently and without risk to the users of the markets and to the image of Hong Kong as a financial centre.
- 4.18 The Corporate Finance Division:
- regulates takeovers and mergers of public companies and share repurchases;
  - administers securities **and company** legislation applicable to listed **and unlisted** companies;

- supervises the listing-related activities of the SEHK;
- reviews and recommends changes to the listing rules;
- reviews prospectuses of unlisted issuers for authorisation and administers the grant of exemptions for prospectuses issued by listed and unlisted issuers; and
- administers the dual filing regime under the SFO to enhance the quality of disclosure by listed companies.

4.19 The Enforcement Division:

- monitors the markets to detect market misconduct;
- prevents and investigates market malpractice, and disciplines or prosecutes those responsible, including those that may be unlicensed;
- reports suspected insider dealing and other cases of misconduct to the Financial Secretary or the Secretary for Justice; and
- inspects the books and records of listed companies if and when directors, officers or major shareholders are suspected of impropriety.

## 5 Other Regulatory Authorities

### The Hong Kong Monetary Authority

- 5.1 The Hong Kong Monetary Authority's ('HKMA') linkages with the SFC relate to its supervision of banks. This linkage is particularly important in view of the increasing volume of securities and securities-related business conducted by banks in Hong Kong. Historically, authorized institutions, which are regulated by the HKMA, were automatically exempt from having to obtain a licence to do investment advising and could be declared exempt from licensing by the SFC if they wanted to do securities dealing.
- 5.2 Under the SFO and the Banking (Amendment) Ordinance 2002, authorised financial institutions ('AFIs'), which are regulated by the HKMA and include banks, will have to be registered with the SFC if they want to carry out an SFC-regulated activity.
- 5.3 The SFO provides for a mechanism whereby AFIs may apply to the SFC for registration as 'registered institutions' to conduct one or more of the regulated activities. The SFC will consult the HKMA before the applicant AFI is granted a certificate of registration as a 'registered institution'. Under the SFO, the HKMA conducts supervision, regulation and surveillance of these AFIs. The HKMA will apply all the SFC criteria, such as the 'fit and proper' criteria, in supervising the licensees.