

Updating Your Study Manual

Instructions for Inserting Version 1.7

The followings serve as the instructions for updating **Topic 4: Dealing in Securities Traded on the Stock Exchange of Hong Kong** 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 4-15 to 4-16 and **Insert** new pages 4-15 to 4-16.
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STUDY MANUAL FOR

PAPER 2

REGULATION OF SECURITIES

of

The Licensing Examination
for Securities and Futures Intermediaries

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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

Website: www.hksi.org

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- With trading terminals, participants use the traditional data entry and screen-based enquiry to get access to the market.
- Participants may opt for the open gateway approach, which is a network communications device installed at the participant's office to provide an electronic linkage between the trading system and the intermediary's trading system.
- Within the open gateway, participants may select from two separate systems that will act as its intermediary trading system: the multi-workstations system or the BSS.

Trading parameters

4.7 The trading parameters for AMS/3 are:

- for a limit order, the bid (ask) price is within the range of the best ask (bid) and not lower (higher) than 24 spreads of the best bid (ask) price;
- for an enhanced limit order, the ask price is 4 spreads lower than the current bid or the bid price 4 spreads higher than the current ask; and
- for a special limit order, there is no restriction on the limit price with respect to the best price on the other side of the market.

In addition:

- the maximum order size is 600 board lots per order;
- the maximum number of outstanding orders per participant is 4,000; and
- the maximum number of orders per price queue is [4,000 for continuous trading session or 10,000 for pre-opening session](#).

Order types

4.8 There are a number of types of buy and sell orders which participants are called upon to execute for clients. These include:

- at-the-market orders;
- stop-loss orders;
- limit orders;
- enhanced limit orders;
- special limit orders;
- at-auction orders; and
- at-auction limit orders.

At-the-market order

- 4.9 An at-the-market order is an order to buy or sell shares at the best available price.

Stop-loss order

- 4.10 The primary function of a stop-loss order is to restrict the loss of investors. When the value of a security drops to a level pre-set by the investor, the investor may sell the security to limit his loss. However, the ability of an intermediary to execute the order for clients depends on factors such as the demand for the security in the market, the trading price at the time and the trading conditions.

Limit order

- 4.11 A limit order is an order in which the client sets a specific price at which the transaction may be executed; or at a better price if the participant is able to obtain it. The order limits the highest or lowest price of a transaction.

Enhanced limit order

- 4.12 An enhanced limit order is similar to a limit order except that it will allow matching of up to 5 price queues at the same time. The input order price of an enhanced limit order can be matched up to 4 spreads better than the best price on the other side of the market. Any unfilled quantity of such an order after matching will be converted into a limit order at the input order price.

Special limit order

- 4.13 A special limit matches up to 5 price queues (i.e. the best price queue and the next 4 queues each at one-spread away) as long as the traded price is not worse than the input limit price. Any unfilled quantity of a special limit order after matching will be cancelled by AMS/3.

At-auction orders

- 4.14 During the order-input period of a pre-opening session, participants are allowed to input at-auction orders and at-auction limit orders.
- 4.15 An *at-auction order* is a market order without a specified price. It enjoys a higher auction-matching priority than an at-auction limit order. It will be cancelled automatically after order matching.
- 4.16 An *at-auction limit order* is a limit order with a specified price. After order matching in the pre-opening session, unfilled at-auction limit orders with the input price not deviating nine times or more from the prevailing