

Updating Your Study Manual

Instructions for Inserting Version 1.3

The followings serve as the instructions for updating the **Summary Syllabus** and **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.
Summary Syllabus:
 3. **Remove** pages vii to viii and **Insert** new pages vii to viii.
Topic 4:
 4. **Remove** pages 4-35 to 4-36 and **Insert** new pages 4-35 to 4-36.
-

[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 1.3 (April 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

Website: 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.

Summary Syllabus

Topic 1: Regulatory Framework

- 1 Securities and Futures Ordinance and relevant regulations
- 2 Other Laws
- 3 The Securities and Futures Commission (SFC)
- 4 Other Regulatory Authorities
- 5 Overall licensing regime
- 6 Types of regulated activities
- 7 Requirements for Licensing - Fitness and Propriety
- 8 Provision of Information to the SFC

Topic 2: Relevant Statutory and Related Requirements

- 1 Financial Resources
- 2 Client Securities
- 3 Client Money
- 4 Contract Notes, Statements of Account and Receipts
- 5 Keeping of Records
- 6 Accounts and Audit
- 7 Compensation and Insurance Issues

Topic 3: Management and Supervision of Securities Businesses

- 1 [Duties and liabilities of responsible officers and executive officers](#)
- 2 Review of the Code of Conduct for Persons Licensed by or Registered with the SFC
- 3 Management, Supervision and Internal Control Guidelines
- 4 Code requirements for licensed or registered persons dealing in securities listed or traded on the Stock Exchange of Hong Kong Limited
- 5 Money Laundering and Terrorist Financing

Topic 4: Dealing in Securities Traded on the Stock Exchange of Hong Kong (SEHK)

- 1 Intermediaries trading in Hong Kong securities market
- 2 SEHK Participants and trading rights
- 3 Products on the SEHK
- 4 Trading mechanism and rules
- 5 Suspension of trading
- 6 Clearing and settlement services
- 7 SEHK disciplinary procedures
- 8 Transaction costs

Topic 5: Other Securities Activities

- 1 Approved Introducing Agent
- 2 Securities margin financing (Type 8 activity)
- 3 Short selling
- 4 Securities borrowing and lending
- 5 Securities advising
- 6 Securities on-line trading and advising
- 7 Automated trading services (ATS)
- 8 Offers of securities

Topic 6: Options and OTC Derivatives

- 1 Options
 - Options on the SEHK
 - Participant types and access rights
 - Monitoring, capital and reporting
 - Clearing and margin
 - Settlement
- 2 OTC derivatives
 - Licensing
 - Ongoing requirements

Topic summary

In this topic we provided the reader with information on the rules governing the cash market trading on the SEHK and the HKSCC.

We provided an overview of the exchange participant and trading right concept, so that the reader understands the new exchange structure, which separates ownership from trading.

We gave a general description of the products traded on the SEHK and the GEM.

The trading mechanism, including the trading rules of the SEHK and AMS/3, was then discussed. Other trading issues, such as direct trading and trading suspension, were also studied.

We also studied the process of clearing and settlement, to complete the reader's understanding of the trading cycle.

We gave an overview of the SEHK's disciplinary procedures.

Finally, the cost of trading for an investor was also reviewed, so that intermediaries can appropriately advise their clients.

Checklist

Below is a checklist of the main points covered by this topic. Use this checklist to test your learning.

- Intermediaries dealing in securities which are SEHK products include: (1) stock exchange participants which are subject to the licensing requirements of the SFC; (2) intermediaries that are subsidiaries of (or controlled by) foreign firms having a business presence in Hong Kong, who may or may not be SEHK participants but are subject to the licensing requirements of the SFC; and (3) overseas intermediaries that do not have a physical presence in Hong Kong and are not subject to the licensing requirements of the SFC.
- The SEHK provides for trading in securities on two Boards, the Main Board and GEM, and in options on underlying securities. The HKFE provides for trading in futures contracts, principally financial futures.
- HKEx is listed on the SEHK and is an exchange controller as defined in the SFO.
- HKEx regulates listed companies, trading on the exchanges, and the related clearing and settlement functions. The regulation of intermediaries engaged in trading on the exchanges, and of their relationships with each other and their clients, is principally directly regulated by the SFC.

- Although the operating and other rules are extensive, *the regulatory aspects of the operations of the HKEx group are limited in their scope.*
- Exchange participants are required to hold trading rights and to register with the SEHK as (SEHK) exchange participants.
- An SEHK participant must be a corporation (exemptions apply for dealing partnerships until 1 April 2005 and they must restructure as companies by 1 April 2005) and must comply with capital and liquid capital requirements and other fit and proper requirements.
- Dealers' representatives (representatives licensed for Type 1 regulated activity by the SFC) who meet the SEHK's requirements may be registered with the SEHK as Authorised Clerks. An SEHK participant is responsible for the acts of its representatives who act on its behalf in its business of dealing in securities.
- Exchange participants are issued participantship certificates, which must be displayed at the business address registered with the SEHK. A certified copy of the participant certificate shall be displayed at each of its branches. An SEHK participant should also appoint a licensed representative to be in charge of each branch office. It shall notify the SEHK of the name of such persons and any change of such person.
- Each trading right (by virtue of the exchange participantship) is entitled to one on-floor trading terminal in the trading hall and one off-floor terminal normally located in the offices of the SEHK participant.
- [The products listed on the exchange are subject to careful regulation, both on an initial and ongoing basis, under the Listing Rules or GEM Rules.](#)
- AMS/3 is the trading system currently used by the SEHK.
- Auto matching is the core trading method in AMS/3, which is an order-driven system.
- Participants can choose their approach to trading:
 - With trading terminals, participants use the traditional data entry and screen-based enquiry to get access to the market.
 - Within the open gateway, participants may select from two separate systems that will act as its intermediary trading system: the multi-workstation system or the broker-supplied system.