

Updating Your Study Manual

Instructions for Inserting Version 1.5

The followings serve as the instructions for updating **Topic 3: The Equity Market** of Study Manual 7 for the Licensing Examination for Securities and Futures Intermediaries. Please be reminded that only the updated sessions are provided for downloading. You may replace the relevant sessions 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 3-13 to 3-14 and **Insert** new pages 3-13 to 3-14.
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STUDY MANUAL FOR

PAPER 7

FINANCIAL MARKETS

of

The Licensing Examination
for Securities and Futures Intermediaries

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Disclaimer

This is an educational manual only and does not provide advice in relation to trading of or investments 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.

- debt securities (issued by the HKSAR Government and the Hong Kong Mortgage Corporation)
- derivatives (including stock options and derivative warrants)
- trusts and funds (e.g. unit trusts).

The stock exchange is no longer restricted to issuing only equity securities. As financial markets and products become more “exotic”, features of securities are increasingly “hybrid” in nature, meaning that they have features of both equity and debt.

Pilot Programme

In May 2000, the HKEx entered into a Pilot Programme whereby a number of securities listed on the National Association of Securities Dealers and Automatic Quotations (NASDAQ) and the American Stock Exchange (AMEX) were also listed on the SEHK. These securities do not constitute public offerings in Hong Kong. They are listed on the SEHK for trading purposes only and are regulated by the SEHK listing rules and Hong Kong law. Securities included in the Pilot Programme are exchange-traded funds (mutual funds) as well as shares.

Examples of shares in the Pilot Programme are:

- AMGEN
- Applied Materials
- Cisco Systems
- Dell
- Intel
- Microsoft
- Starbucks.

Examples of exchange-traded funds in the Pilot Programme are:

- iShares MSCI South Korea Index Fund
- iShares MSCI Taiwan Index Fund³.

³ www.hkex.com.hk

Regulated short selling

Short selling of securities refers to the practice of selling securities prior to actually owning them. It is an illegal practice in some stock markets. Investors, expecting stock prices to fall, often short sell. Short selling adds to the liquidity of the securities market. The SFC has designated certain securities that may be short sold. These securities are mainly stocks that meet certain minimum market capitalisation requirements, approved Exchange-traded funds, the Tracker Fund of Hong Kong⁴ and all securities traded in the Pilot Programme. Please note that only financial institutions are allowed to short sell securities on the SEHK.

Stock market indices

The Hang Seng Index (HSI)⁵ is the benchmark indicator for the Hong Kong stock market. As Hong Kong has a strategic position as a leading global financial centre, it is also an important indicator for other countries. The HSI represents the average price movement of 34 constituent stocks. These 34 constituent stocks are grouped into the following sub-indices:

- commerce and industry
- finance
- properties
- utilities.

These sub-indices illustrate the performance of the major sectors in the Hong Kong economy. The 34 constituent stocks account for approximately 70 per cent of the total market capitalisation of the SEHK.

- The Morgan Stanley Composite China Free Index is the benchmark indicator for all Chinese stocks available to foreign investors. It is therefore a useful guide to the movement of Chinese stocks for global fund managers with Asian investment portfolios. It contains 30 stocks with a total market capitalisation of USD75 billion.⁶ It includes stocks listed in Hong Kong, shares listed in Shanghai and Shenzhen (B-shares) and shares listed on the New York Stock Exchange (N-shares).

⁴ www.trahk.com.hk/eng/index2.html

⁵ www.hsi.com.hk/main.menu.html

⁶ www.hkex.com.hk/