



**PAST QUESTIONS AND ANSWERS (December 2006)**

**PAPER 1**

**FUNDAMENTALS OF SECURITIES AND  
FUTURES REGULATION**

of

The Licensing Examination  
for Securities and Futures Intermediaries

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## Methodology of Developing Questions

*Our Institute is committed to providing questions of the highest quality.*

*Our current examination structure has been benchmarked against those in both developed and emerging markets such as UK, US, Australia, Singapore, Malaysia and China. The syllabuses, study materials, training guides and questions were designed by international consultants specializing in financial education.*

*The Licensing Examination has been approved by the Academic and Accreditation Advisory Committee of the Securities and Futures Commission (SFC) as recognized industry qualification and local regulatory framework paper for meeting the competence requirements of the SFC.*

*External consultants are appointed to develop new questions according to specified criteria approved by our Examinations Committee. The aim of these criteria is to ensure that the candidates have thorough understanding of the manuals by testing them at different cognitive levels such as recall, comprehension, application, analysis and evaluation on predetermined weightings of each topic. The new questions are reviewed by reviewers who are market practitioners, legal and compliance professionals, and academics to ensure that the knowledge tested is covered in the study manuals, and that the standard of the questions is appropriate and consistent throughout.*

*To maintain their quality, the questions undergo frequent reviews and revisions internally which take into account, among others, the average correctness of the questions (i.e., the percentage of candidates in the examination who correctly answer the questions) and candidates' comments, if any, following each examination. In addition to the quality assurance being imposed on the questions, external assessors who are market practitioners, legal and compliance professionals, and academics, are engaged to conduct regular reviews. There are also periodic comprehensive reviews by external consultants on the manuals and questions.*

*The study manuals and their subsequent updates are the only source of materials for the setting of the questions, so that candidates need to study only those manuals and updates to prepare for the examinations.*

*It is estimated that the study manuals will require 6 to 11 hours of study time per topic, depending on which paper it is. Candidates may need to spend more or less time, depending on their work experience and background. They are advised to use the Learning Outcomes for each topic as a key to the way they study the materials in each topic, and unless explicitly stated, they could be tested on any aspect of the syllabus.*

**Please attempt ALL 60 questions in this question book.  
All questions carry EQUAL MARKS.**

<1>.

The Securities and Futures Commission (SFC) may disclose confidential information it possesses:

- I where it is in the public interest to do so.
  - II to a connected person of the person to whom the information relates where the SFC considers that it would be in the interests of the latter.
  - III where it will help another financial regulator to perform his functions.
  - IV to a debt collection agency who provides evidence of the debt.
- 
- A I and III only
  - B I, II and IV only
  - C I, III and IV only
  - D II, III and IV only

<2>.

Governments in developed financial centres try to prevent which of the following activities?

- I The financing of terrorist activities.
  - II The flows of funds in and out of the financial centre by fund managers.
  - III Switching of investments between different areas such as property and foreign exchange.
  - IV Attacks on the local currency by international operators.
- 
- A I and II only
  - B I and IV only
  - C I, II and IV only
  - D II, III and IV only

<3>.

Which **ONE** of the following activities is a financial service that requires to be supervised by a financial services regulator?

- A Holding money earned by a friend from operating a microchip business for safe custody for no payment.
- B Renting out a factory to a microchip manufacturer.
- C A business of providing a loan at interest to help set up a microchip factory.
- D Investing money in setting up and operating a microchip business.

<4>.

The Licensing Department of the Securities and Futures Commission (SFC) carries out which **TWO** of the following activities?

- I Carries out regular on-site visits to intermediaries.
  - II Monitors the continuous professional training of licensed individuals and responsible officers.
  - III Licenses collective investment schemes.
  - IV Reviews annual returns submitted by licensed persons.
- 
- A I and II only
  - B I and III only
  - C II and IV only
  - D III and IV only

<5>.

Which of the following are actions that the Securities and Futures Commission (SFC) may take under its powers?

- I The SFC may refer cases to the Commercial Crimes Bureau (CCB) or the Independent Commission Against Corruption (ICAC) for action.
  - II The SFC may seize and dispose of an intermediary's property to prevent creditors and clients from suffering losses.
  - III The SFC may penalise licensed persons for breaching codes and guidelines by suspending their licences.
  - IV The SFC may prohibit the persons it penalises from appealing against its decisions.
- 
- A I and III only
  - B II and IV only
  - C I, III and IV only
  - D I, II, III and IV

<6>.

Which of the following **CORRECTLY** explain the legal position regarding companies?

- I A company can commit crimes and torts.
  - II A company is a legal entity distinct from its members.
  - III A company is liable for the acts of its directors during the course of their duties.
  - IV A company can take legal action in its own name.
- 
- A II and IV only
  - B I, II and III only
  - C I, III and IV only
  - D I, II, III and IV

<7>.

Which **ONE** of the following statements concerning the criminal legal system in Hong Kong is **INCORRECT**?

- A A defendant in a criminal case is presumed to be innocent until he is proven to be guilty in a court of law.
- B The prosecution bears the burden of proof to prove the defendant to be guilty of the charge(s).
- C The standard by which the prosecution has to prove the defendant to be guilty is on the balance of probabilities.
- D A defendant in a criminal case has a right to be represented by his legal representatives.

<8>.

Under the Companies Ordinance, the first Annual General Meeting of a company must be held within which **ONE** of the following monthly periods after incorporation?

- A 6
- B 12
- C 18
- D 24

<9>.

Which **ONE** of the following statements is **INCORRECT**?

- A Rectification is an equitable remedy.
- B Hong Kong customary law is derived from the traditions and practices of the inhabitants of Hong Kong.
- C All case law is derived from the applications of principles of equity.
- D The primary legislation passed by the HKSAR Legislative Council are called ordinances.

<10>.

Which of the following statements are **CORRECT** in Hong Kong?

- I The judiciary is independent of the other parts of Government.
  - II Judges are politically appointed.
  - III Judges use decisions made in earlier cases to help them make a judgment in a later case.
  - IV The Chief Executive HKSAR may override the decision of the court in a case involving political matters.
- 
- A I and II only
  - B I and III only
  - C III and IV only
  - D I, III and IV only

<11>.

Bernard receives a call from his broker who tells him about a special opportunity being offered to a select group of people for a short time only. He is told that if he makes a small down payment today, he can get a very high return on a special investment structure. The broker tells him that tomorrow may be too late. Bernard feels that he is being pressured by the broker and that something seems not right as he has not spoken to the broker for some months. Has the broker done anything wrong?

- A As Bernard is an existing client of the broker, this is not a cold call and therefore the broker is not doing anything wrong.
- B As Bernard has not spoken to the broker for some months, this is a cold call and therefore illegal.
- C The broker may be engaging in an improper trading practice known as boiler room activities.
- D The broker is probably involved in a money laundering scam.

<12>.

Intermediaries licensed or registered under the Securities and Futures Ordinance (SFO) do **NOT NECESSARILY** include which **ONE** of the following groups?

- A Providers of automated trading services.
- B Corporate finance advisers.
- C Trust companies.
- D Registered institutions.

<13>.

The Financial Secretary may require an investigation of a listed company to be conducted if:

- I he thinks it necessary to determine the true owners of the company.
- II another listed company alleges that the company is offering goods and services at an unfairly cheap price to drive out competitors.
- III the company is making consistent profits in a falling market.
- IV a specified minimum number of members make an application for an investigation and the Financial Secretary is satisfied that there are reasonable grounds for investigation.

- A I and II only
- B I and IV only
- C II and III only
- D III and IV only

<14>.

During an audit of a licensed corporation under the Securities and Futures Ordinance (SFO), an auditor makes the following findings. In respect of which **ONE** of these is he required to make a special written report to the Securities and Futures Commission (SFC) under the SFO?

- A Certain material liabilities have been concealed and not shown in the accounts.
- B A member of staff has stolen petty cash.
- C The liquid capital is only about HKD100 higher than the minimum liquid capital.
- D Client statements have been kept in a drawer and not issued to the clients.

<15>.

Under the Securities and Futures Ordinance (SFO), to which of the following persons could an account executive working at a brokerage firm make an unsolicited call offering the service of the brokerage?

- I The chief securities dealer (a licensed representative) of another brokerage.
- II A professional investor.
- III A private individual whose name and contact are obtained by the account executive from the telephone directory.
- IV A licensed investment adviser.

- A II only
- B I and III only
- C I, II and IV only
- D I, II, III and IV



<16>.

The primary purpose of the codes of conduct issued by the Securities and Futures Commission (SFC) are in general to provide to regulated intermediaries:

- A rules explaining how intermediaries are to act toward the SFC in particular as to any enquiries which the SFC may make.
- B rules designed to ensure that all intermediaries act the same way in the marketplace so as to contribute to a level playing field.
- C guidance on the practices and standards expected of intermediaries in their regulated business practices.
- D guidance on how to avoid doing anything wrong under applicable laws and regulations.

<17>.

A person commits an offence under the Securities and Futures Ordinance (SFO) if he attempts to interfere with an audit under the SFO by doing which of the following things?

- I He advises the auditor to resign as he thinks the auditor may not get paid.
  - II He helps another person to conceal records and documents relating to the audit.
  - III He leaves, or attempts to leave Hong Kong with intent to delay or obstruct the audit.
  - IV He arranges to dispose of property related to the audit.
- 
- A I and III only
  - B II and IV only
  - C I, II and III only
  - D II, III and IV only

<18>.

Part III of the Securities and Futures Ordinance (SFO) provides for the recognition of which of the following by the Securities and Futures Commission (SFC) for the purpose of the SFO?

- I The Official Receiver.
  - II Exchange Companies.
  - III Clearing houses.
  - IV Listed companies.
- 
- A I and II only
  - B I and III only
  - C II and III only
  - D II, III and IV only

<19>.

An executive officer is defined in the Securities and Futures Ordinance (SFO) as:

- I a responsible officer who is engaged in supervising the activities of a licensed corporation.
  - II the designated compliance officer of a licensed corporation.
  - III a senior manager who supervises the marketing executives of a licensed corporation.
  - IV a director of an associated entity, who is directly responsible for supervising the receiving or holding by the associated entity of clients assets of the intermediary.
- 
- A I and IV only
  - B II and III only
  - C I, II and IV only
  - D I, III and IV only

<20>.

The client securities to which the Securities and Futures (Client Securities) Rules apply are limited to which of the following?

- I Securities that are listed or traded on a recognised stock market.
  - II Securities held in Hong Kong by an intermediary in the course of conducting a regulated activity.
  - III Securities which are held by a client in his name and deposited with persons other than the intermediary or its associated entity.
  - IV Securities held by an intermediary and deposited with an overseas office of a Hong Kong licensed bank.
- 
- A I and II only
  - B I and IV only
  - C I, II and III only
  - D II, III and IV only

<21>.

Which **ONE** of the following is a requirement for the keeping of records by an intermediary?

- A The general rule is that records should be retained for at least 10 years.
- B Records documenting orders and instructions received should be retained for at least 2 years.
- C Contract notes should be retained for at least 2 months.
- D Telephone recording of order instructions should be retained for at least 2 years.

<22>.

Regarding the financial status of an intermediary, which of the following are **CORRECT**?

- I It must satisfy the Securities and Futures (Financial Resources) Rules if it is a licensed corporation.
  - II It must not have compliance staff who previously worked for an insolvent corporation.
  - III It should not have been a substantial shareholder of an insolvent corporation.
  - IV The directors should have the specified wealth qualifications.
- A I and III only
  - B II and IV only
  - C I, II and III only
  - D I, II, III and IV

<23>.

Which of the following apply to a standing authority given by a non-professional investor client to an intermediary under the Securities and Futures (Client Securities) Rules?

- I It may be renewed on expiry or earlier for a period not exceeding 12 months with the written consent of the client.
  - II It may be renewed by the intermediary by giving 10 days' written notice to the client prior to the expiry date, stating that it will be renewed for a further period not exceeding 12 months if the client does not object.
  - III It will specify the way in which it may be revoked by the client.
  - IV It may be renewed for a perpetual period if the client so wishes.
- A I and III only
  - B II and IV only
  - C I, II and III only
  - D I, III and IV only

<24>.

The Securities and Futures (Keeping of Records) Rules and other record-keeping requirements of the Securities and Futures Commission (SFC) include which of the following provisions?

- I The records should be kept for a minimum of 6 years.
  - II The records should be kept in such a manner as to demonstrate compliance with the Securities and Futures (Financial Resources) Rules.
  - III The records should be easily accessible and convertible into writing.
  - IV Telephone records should be kept for at least 1 year.
- 
- A I and II only
  - B I and III only
  - C II and III only
  - D I, II, III and IV

<25>.

Which of the following may affect the judgement of character and integrity of a person applying for a license with the Securities and Futures Commission (SFC)?

- I Previous breaches of the SFC's codes.
  - II Previous breaches of the SFC's guidelines.
  - III Disqualification by the court from acting as a director.
  - IV Previous disciplinary action by a professional association of accountants.
- 
- A I and III only
  - B II and IV only
  - C I, II and III only
  - D I, II, III and IV

<26>.

Under the Securities and Futures Ordinance (SFO), which of the following statements are **CORRECT** in respect of a substantial shareholder of a licensed corporation?

- I A substantial shareholder is a person who alone or with his associates has an interest in shares comprising more than 10% of the nominal value of the issued share capital of the corporation.
  - II A substantial shareholder is a person who alone or with his associates directly or indirectly controls more than 10% of the voting power at a general meeting of the corporation.
  - III A substantial shareholder is a person who alone or with his associates directly or indirectly controls more than 25% of the voting power of another corporation which in turn controls more than 10% of the voting power at a general meeting of the corporation.
  - IV Prior approval of the Securities and Futures Commission (SFC) is needed for a person to become a substantial shareholder of a licensed corporation.
- A I and III only
  - B I and IV only
  - C I, II and IV only
  - D II, III and IV only

<27>.

The agreement into which an intermediary should enter with a client should provide for which of the following matters?

- I Undertakings by each party to notify the other of material changes of information.
  - II Appropriate risk disclosure statements.
  - III Any exclusions of legal rights of the client should be clearly spelt out.
  - IV A description of the intermediary's services to be provided and charges to be made.
- A II and IV only
  - B III and IV only
  - C I, II and III only
  - D I, II and IV only

<28>.

Which of the following statements concerning the Fund Manager Code of Conduct (FMCC) are **CORRECT**?

- I The FMCC is a comprehensive code and a fund manager subject to it is no longer subject to other codes or guidelines issued by the Securities and Futures Commission (SFC).
  - II Failure to comply with the FMCC may lead to disciplinary action by the SFC.
  - III The FMCC requires that the marketing materials used by a fund manager must not exaggerate the performance records of the fund.
  - IV A breach of the provisions in the FMCC is not equivalent to a criminal offence.
- 
- A I and III only
  - B II and IV only
  - C I, II and IV only
  - D II, III and IV only

<29>.

Which **TWO** of the following may be described as requirements that reflect the thinking behind the general principle, “Responsibilities of Senior Management (SM)”, as described in the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission?

- I SM must have a sound understanding of the intermediary’s internal control procedures and systems.
  - II SM should arrange for clients to send confirmations of their statements direct to SM on a regular basis.
  - III SM should arrange for account executives to be rotated on a regular basis so that clients deal with different account executives all the time.
  - IV SM should have a good awareness of the objectives of the intermediary’s risk management system.
- 
- A I and II only
  - B I and IV only
  - C II and III only
  - D III and IV only

<30>.

The General Principles specifically stated in the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (SFC) include which **TWO** of the following?

- I Staff dealings.
  - II Rebates and soft commissions.
  - III Diligence.
  - IV Conflicts of interest.
- 
- A I and II only
  - B II and III only
  - C II and IV only
  - D III and IV only

<31>.

The risk disclosure statements that should, in appropriate cases, be included in client agreements by intermediaries refer to which of the following matters?

- I The risk of trading in Growth Enterprise Market (GEM) securities is related to their high volatility, short track records and insufficient public information.
  - II The risk of holding assets outside Hong Kong is related to the superiority of Hong Kong's legal system over those of other countries.
  - III The risk of hold mail arrangements refers to the need for clients to collect and check contract notes and statements of account to detect errors and differences.
  - IV The risk of margin trading specifically refers to the risk that intermediaries might be put in liquidation.
- 
- A I and III only
  - B II and IV only
  - C I, III and IV only
  - D I, II, III and IV

<32>.

Which of the following **CORRECTLY** state how an intermediary should deal with its clients as indicated in the codes and guidelines issued by the Securities and Futures Commission (SFC)?

- I An intermediary need not know the ultimate beneficiary of a managed portfolio unless the latter is giving the dealing instructions.
  - II An intermediary should refuse to act for a client who always settles in cash and wants settlement in cash.
  - III An intermediary should understand a client's risk profile and investment objectives.
  - IV An intermediary should obtain copies of the client's latest tax return to satisfy itself as to his financial position.
- 
- A I and II only
  - B I and III only
  - C I and IV only
  - D II, III and IV only

<33>.

Which of the following are provisions of the Fund Manager Code of Conduct issued by the Securities and Futures Commission (SFC)?

- I A fund manager (FM) should not be involved in dealings based on price sensitive information.
  - II A FM should ensure that client orders are allocated fairly in Initial Public Offering (IPO) situations.
  - III Borrowing or depositing fund money with a FM's connected person should be at standard interest rates or better from the fund's point of view.
  - IV A FM should have a designated compliance officer.
- 
- A II and IV only
  - B I, II and III only
  - C I, III and IV only
  - D I, II, III and IV



<34>.

If staff dealings are permitted by an intermediary, which **ONE** of the following is **NOT** a requirement under the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (SFC)?

- A The intermediary must have a written policy regarding such dealings.
- B The staff member should identify all his related accounts to senior management.
- C The staff members should generally deal through their principals or affiliates of their principals.
- D The intermediary should apply limits on the staff member's dealings on the basis of his remuneration level.

<35>.

The Guidance Note on Internet Regulation states that where appropriate client agreements which cover Internet usage should include which **TWO** of the following?

- I It should be stated that the Internet will be the only means of communication or at least that all communications will be confirmed via Internet.
  - II Details of authenticating technical procedures to be used should be communicated to the client.
  - III Any errors and omissions arising as a result of using the Internet will be the responsibility of the client.
  - IV Disclosure should be made that there is a risk of orders being sometimes executed at prices different from those shown on the Internet.
- 
- A I and II only
  - B I and IV only
  - C II and III only
  - D II and IV only

<36>.

The segregation of duties and functions in a licensed intermediary is primarily useful in which of the following regards?

- I To reduce the opportunities for abuse.
  - II To facilitate the detection of errors.
  - III To improve client relationships.
  - IV To keep staff from avoiding their job duties.
- 
- A I only
  - B I and II only
  - C II and III only
  - D I, III and IV only

<37>.

Which **ONE** of the following activities is **NOT** normally a back office function?

- A Recording dealing errors in a suspense account.
- B Reconciling deal tickets with external reports from executing dealers.
- C Trade confirmations with clients.
- D Receiving trade instructions from clients.

<38>.

A licensed representative of a securities dealer receives a call on her mobile phone. It is a small investor client who is in a big rush to place an order with her. Which **ONE** of the following is the most appropriate course of action for the representative to take?

- A Advise the client she is forbidden by the Securities and Futures Commission (SFC) from receiving orders by mobile phone and terminate the call promptly.
- B Advise the client she is forbidden by the SFC from receiving orders by mobile phone and accordingly the client must call back on the recorded office line to place the order.
- C There is no need to take any special action as the SFC encourages prompt and efficient communication with clients and receiving an order on the mobile phone is consistent with this objective.
- D Make a record of the order either in writing or on the office telephone recording system to create a proper record of the order.

<39>.

Which **ONE** of the following statements **CORRECTLY** reflects provisions of the Guidance Note issued by the Securities and Futures Commission (SFC) on Prevention of Money Laundering and Terrorist Financing?

- A It applies to licensed corporations and authorised financial institutions (AFIs).
- B It makes various activities offences and prescribes sanctions.
- C It requires licensed corporations to immediately stop trading for clients from countries which are noted as potential centres of terrorism financing.
- D It requires the regular review of money laundering policies and procedures by licensed corporations.

<40>.

Some examples of detailed operational controls for intermediaries suggested by the Securities and Futures Commission (SFC) include which of the following?

- I Checks with the intermediary who is the other party to a transaction, regarding the creditworthiness of the counterparty's client.
  - II Procedures for passing orders to the dealing room should provide for ensuring client priority.
  - III Dealings for clients should be preceded by checks on the availability of cash or exposure limit for buying orders and stocks for selling orders.
  - IV There should be cross-checks on any special client instructions such as operating authorities and limits on orders placed by persons authorised to give instructions.
- 
- A I and IV only
  - B II and III only
  - C I, II and III only
  - D II, III and IV only

<41>.

Under the Management, Supervision and Internal Control Guidelines (ICG) issued by the Securities and Futures Commission (SFC), adequate and efficient management and supervision will include which of the following elements?

- I Delegation of functions to line management staff so that the senior management can focus on marketing.
  - II Major focus of intermediary's line staff should be on compliance and audit.
  - III There should be clear definition of authorisation levels and related policies and procedures.
  - IV Supervisory functions should be assigned to competent, experienced and reliable staff.
- 
- A II and III only
  - B III and IV only
  - C I, II and IV only
  - D II, III and IV only

<42>.

Which of the following activities have been listed on the Money Laundering and Terrorist Financing Guidance Note issued by the Securities and Futures Commission (SFC) as requiring enquiry to establish whether or not they may conceal money laundering?

- I A well-known very wealthy Hong Kong businessman trades through a number of different accounts.
  - II A number of buy transactions for the same client or person which are matched by a single sale transaction to a different person.
  - III The illusion of trading is created with matching buys and sells, some of which possibly come from an overseas centre in a region noted for drug trafficking.
  - IV Large or unusual transactions in cash or cash equivalents.
- 
- A I and II only
  - B II and III only
  - C I, III and IV only
  - D II, III and IV only

<43>.

Which **TWO** of the following statements are **CORRECT**?

- I A cash market is one in which transactions are settled only for cash.
  - II Index futures and index options are traded on the Hong Kong Futures Exchange (HKFE).
  - III The Securities and Futures Commission (SFC) is empowered to extend the classes of instruments that may be described as securities.
  - IV Options on securities are defined in the Securities and Futures Ordinance (SFO) as securities.
- 
- A I and III only
  - B I and IV only
  - C II and III only
  - D II and IV only

<44>.

Which **ONE** of the following statements is **INCORRECT**?

- A A dealer on the Stock Exchange of Hong Kong (SEHK) must be registered as a SEHK clearing participant.
- B A dealer in futures contracts on the Hong Kong Futures Exchange (HKFE) must hold a Securities and Futures Commission (SFC) licence for conducting Type 2 (dealing in futures contracts) regulated activity.
- C A SEHK Options Clearing House (SEOCH) participant must hold a SEHK trading right.
- D A non-clearing participant of the HKFE must clear futures contract trades through a General Clearing Participant.

<45>.

Which of the following persons must be licensed for Type 1 (dealing in securities) regulated activity under the Securities and Futures Ordinance (SFO)?

- I Participants of the Stock Exchange of Hong Kong (SEHK) dealing on the SEHK for their clients.
  - II Persons speculating in securities for the purpose of making profits.
  - III Participants of SEHK dealing on overseas stock exchanges for their clients.
  - IV Approved securities introducing agents.
- 
- A I and II only
  - B III and IV only
  - C I, II and IV only
  - D I, III and IV only

<46>.

Stock borrowing and lending is said to assist the operation of the markets by:

- A keeping the price of securities up.
- B keeping the price of securities down so investors can afford to participate in the market.
- C making handsome profits for people with lots of stock on their books, such as custodians, which would otherwise be in an immobile state.
- D making stock which would otherwise be in an immobile state, such as that held by custodians, available to assist in the flow of trading on markets.

<47>.

The requirements for licensed corporations engaged in securities margin financing (Securities Margin Financier) include which of the following?

- I The Securities Margin Financier should restrict the level of lending to clients who provide collateral limited to only a few securities.
  - II A Securities Margin Financier may start dealing with a client subject to completing a written agreement at a later date.
  - III Accounts with margin clients and cash clients should be segregated.
  - IV A Securities Margin Financier must obtain clients' written authorisations before it can pledge clients' securities.
- 
- A II and IV only
  - B I, II and III only
  - C I, III and IV only
  - D II, III and IV only

<48>.

Under the rules of the Stock Exchange of Hong Kong (SEHK) concerning branch offices of an Exchange Participant, which **ONE** of the following statements is **CORRECT**?

- A An Exchange Participant may establish not more than three branch offices.
- B An Exchange Participant must appoint an individual to be in charge of each branch office.
- C Branch managers appointed by the Exchange Participants must be registered with the SEHK as Authorised Clerks.
- D Branch managers appointed by the Exchange Participants must have at least 5 years' experience in securities dealing.

<49>.

The primary function of a Market Maker within the Hong Kong Futures Automated Trading System (HKATS) is:

- A to act as part of the central clearing function.
- B to reduce the risk of a default on executed trades.
- C to promote liquidity.
- D to facilitate trade settlement.

<50>.

The Hong Kong Securities Clearing Corporation Limited (HKSCC) provides which of the following services to participants and investors?

- I Depository services for stock deposits.
  - II Share registration services.
  - III Direct stock accounts for investors.
  - IV Clearing and settlement services for securities traded on the Stock Exchange of Hong Kong (SEHK).
- 
- A II and IV only
  - B III and IV only
  - C I, II and III only
  - D I, II, III and IV

<51>.

Which of the following is **NOT** recognized by the Stock Exchange of Hong Kong (SEHK) as a method of listing?

- A Offer for subscription.
- B Introduction.
- C Offer for sale of listed securities.
- D Open offer.

<52>.

Which **ONE** of the following is **CORRECT**?

- A The meetings of the Takeovers and Mergers Panel are formal and public.
- B The Takeovers Appeals Committee may set aside the entire proceedings of the Takeovers and Mergers Panel in any particular case and carry out its own fresh review and make a decision.
- C The Takeovers and Mergers Panel is a committee of the Securities and Futures Commission (SFC).
- D The Takeovers Appeals Committee is wholly independent of the SFC.

<53>.

The Code on Real Estate Investment Trusts is different from the Code on Unit Trusts and Mutual Funds because:

- A only the former has the force of law.
- B only the latter impacts on a person's fitness and properness in the case of non-compliance.
- C the former applies to a specific form of collective investment scheme, the Real Estate Investment Trust (REIT).
- D the former has been promulgated by the Hong Kong Mortgage Corporation Limited (HKMC).

<54>.

The regulations and codes of the Securities and Futures Commission (SFC) relating to asset management are **UNLIKELY** to apply to which **ONE** of the following?

- A Securities margin financing.
- B Mutual funds.
- C Collective investment schemes.
- D Discretionary portfolios.



<55>.

Dealing with which **ONE** of the following results in exemptions from the Securities and Futures Ordinance (SFO) relating to leveraged foreign exchange trading?

- A Mandatory Provident Fund (MPF) Trustees.
- B Recognised counterparties.
- C Arbitrators.
- D Securities margin financiers.

<56>.

The Personal Data (Privacy) Ordinance applies to which of the following persons?

- I A person who collects personal data.
  - II A person who holds personal data but does not collect it.
  - III A person who merely processes personal data but does not hold it.
  - IV A person who uses personal data but does not collect, hold or process it.
- 
- A I and II only
  - B I and III only
  - C II, III and IV only
  - D I, II, III and IV

<57>.

Which **TWO** of the following are potential acts of market misconduct specified in Part XIII of the Securities and Futures Ordinance (SFO)?

- I False trading.
  - II Covered short selling.
  - III Disclosure of information about prohibited transactions.
  - IV Corporate misgovernance.
- 
- A I and II only
  - B I and III only
  - C I and IV only
  - D III and IV only

<58>.

Which of the following are offences under the Securities and Futures Ordinance (SFO)?

- I Rat trading.
  - II Churning.
  - III Stock market manipulation.
  - IV Disclosure of information about prohibited transactions.
- 
- A I and III only
  - B II and IV only
  - C III and IV only
  - D I, III and IV only

<59>.

Which of the following are specifically defined in the Securities and Futures Ordinance (SFO) as offences of market misconduct?

- I The use of fraudulent or deceptive devices in transactions in securities, futures contracts or leveraged foreign exchange trading.
  - II Price rigging.
  - III Price stabilisation under the Securities and Futures (Price Stabilizing) Rules.
  - IV Unauthorised trading.
- 
- A I and II only
  - B III and IV only
  - C I, II and III only
  - D I, II, III and IV

<60>.

Good internal control procedures and practices are illustrated by which of the following?

- I Comprehensive manuals and procedures covering all key operations, functions and controls.
  - II Proper authorisation and review procedures.
  - III Adequate training and educational programmes for staff.
  - IV Sufficient control and supervision of staff dealings.
- 
- A II and III only
  - B I, II and IV only
  - C I, III and IV only
  - D I, II, III and IV

*~End of the Examination Paper~*

**Answers**

Question No.	Answer	Question No.	Answer	Question No.	Answer
1	A	21	B	41	B
2	B	22	A	42	D
3	C	23	A	43	D
4	C	24	C	44	A
5	A	25	D	45	D
6	D	26	C	46	D
7	C	27	D	47	C
8	C	28	D	48	B
9	C	29	B	49	C
10	B	30	D	50	D
11	C	31	A	51	C
12	C	32	B	52	C
13	B	33	D	53	C
14	A	34	D	54	A
15	C	35	D	55	B
16	C	36	B	56	D
17	D	37	D	57	B
18	C	38	D	58	C
19	A	39	D	59	A
20	A	40	D	60	D