



PAST QUESTIONS AND ANSWERS (December 2006)

PAPER 8

SECURITIES

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 40 questions in this question book.
All questions carry EQUAL MARKS.**

<1>.

In 2001, Company XYZ's quick ratio was 1.5 times, but has fallen to 1.25 times in 2002. As a financial analyst, what is your interpretation of this change?

- A The Company's ability to repay current liabilities has improved.
- B The Company's current liabilities have decreased.
- C The Company's current assets have increased.
- D The Company's financial position has deteriorated.

<2>.

Which of the following is/are **NOT COMMONLY** used model(s) in pricing an option?

- I The capital asset pricing model.
- II The binominal pricing model.
- III The Black-Scholes pricing model.
- IV The dividend discount model.

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

<3>.

An investor has purchased HKD200,000 worth of shares by paying HKD50,000 and borrowing HKD150,000 with the shares as collateral. If the shares decrease in value by 10% over the next year, what will be the investor's return on investment (ignoring interest and costs)?

- A -40%.
- B -10%.
- C 10%.
- D 40%.

<4>.

Which of the following is/are feature(s) to **BOTH** the Hong Kong Monetary Authority (HKMA) and the Securities and Futures Commission (SFC) of Hong Kong?

- I Supervises the activities of specific sector of the financial market.
 - II Sets standards and guidelines to the finance industry of Hong Kong.
 - III Manages the foreign reserve for the Hong Kong government.
 - IV Oversees the conduct of individual licensees licensed by it.
-
- A I only
 - B III only
 - C I and II only
 - D I, II and IV only

<5>.

A perpetual bond is a bond which has an indefinitely long maturity, i.e. it will never mature.

Forever Company issues a perpetual bond with face value of \$1,000 and coupon rate of 6% p.a., payable annually. If the price of the bond is set at \$750, what is the yield of this bond?

- A 4.5% p.a.
- B 6.0% p.a.
- C 8.0% p.a.
- D 12.5% p.a.

<6>.

Which of the following is **NOT** a service **NORMALLY** provided by a share registrar?

- A Maintain a list of appointed custodians on behalf of the Securities and Futures Commission (SFC).
- B Distribution of bonus shares.
- C Issuance of share certificates.
- D Mailing of financial reports to shareholders.

<7>.

Jimmy is a proprietary trader for an Exchange Participant of the Stock Exchange of Hong Kong (SEHK) and trades through the Stock Exchange Trading Right of that Exchange Participant. When Jimmy sells some shares of the Tracker Fund, which of the following fees is **UNLIKELY** be charged on his transaction?

- A The transaction levy.
- B The broker's commission.
- C The trading fee.
- D The trading tariff.

<8>.

Which of the following statements is/are **INCORRECT**?

- I Fundamental analysis considers those factors such as macroeconomic elements and financial information that affect the value of a company.
 - II Technical analysis is a more powerful method to select the right stocks.
 - III Fundamental analysis considers the history of stock price in predicting future price movements.
 - IV Technical analysis has two basic approaches, top-down and bottom-up.
- A I only
 - B I and II only
 - C II and III only
 - D II, III and IV only

<9>.

What is the price of a banker's acceptance that has a face value of HKD1 million, 60 days to maturity and an interest rate of 4.00% p.a.?

- A HKD961,538
- B HKD993,468
- C HKD1,006,575
- D HKD1,040,000

<10>.

Which of the following is defined as "the highest price at which any buyer is willing to pay to buy a share"?

- A The bid price.
- B The offer price.
- C The traded price.
- D The limit price.

<11>.

Lenny manages a portfolio of government debts. He expects that the long-term interest rates will fall while the short-term interest rates remain unchanged. In order to capture the maximum level of profit, which of the following government securities should Lenny purchase?

- A A 90-day bill.
- B A 1-year zero-coupon bond.
- C A 5-year coupon bond.
- D A 10-year zero-coupon bond.

<12>.

There are a number of transaction costs that may be associated with stock trading on the Stock Exchange of Hong Kong (SEHK). Which of the following transaction fee(s) may be charged by SEHK on behalf of the Securities and Futures Commission (SFC)?

- I The transaction levy.
 - II The investor compensation levy.
 - III The trading tariff.
 - IV The transaction stamp duty.
-
- A III only
 - B I and II only
 - C I and IV only
 - D II and III only

<13>.

Star Airline paid a dividend of \$3.5 per share last year. The dividend growth rate of the company is 10% per year and the required rate of return on the stock is 15% p.a. What is the current share price of Star Airline?

- A \$23.3
- B \$70.0
- C \$77.0
- D \$84.7

<14>.

Which of the following factors does **NOT** directly influence the level of interest rates in Hong Kong?

- A Over heated market economy.
- B Consumer Price Index.
- C Fiscal policy.
- D Monetary policy.

<15>.

Which of the following participants is **UNLIKELY** to use the services of a custodian?

- A Investment bank.
- B High net worth investor.
- C Fund manager.
- D Credit rating agency.

<16>.

Which of the following market participants have direct access to the Stock Exchange of Hong Kong's (SEHK) AMS/3?

- A Exchange Participants.
- B Exchange Participants' clients.
- C Investors executing orders via the Internet.
- D Clearing Participants.

<17>.

For securities listed on the Stock Exchange of Hong Kong (SEHK), which of the following features apply/applies **ONLY** to equity securities but **NOT** to debt securities?

- I Only Exchange Participants are allowed to trade directly.
 - II The values of the securities are affected by changes in interest rates.
 - III The holder of the securities may receive regular dividends.
 - IV The holder of the securities is at risk of losing as market conditions change.
- A I only
 - B III only
 - C I and III only
 - D II and IV only

<18>.

Under normal circumstances, which of the following is **NOT** regarded as a political event that may affect an economy and its securities markets?

- A A newly-elected government implements a fixed exchange regime.
- B The abolishment of the restriction on foreign ownership in strategic industries.
- C A severe earthquake that devastated a country's financial system.
- D The signing of free trade agreements with neighbourhood countries.

<19>.

In Hong Kong, “Deriving at least 50% of sales revenue from Mainland China” and “at least 30% of issued shares are held by mainland entities” represent the 2 criteria of the constituent stocks for which of the following indices?

- A The Hang Seng China Enterprise Index.
- B The MSCI China Free Index.
- C The FTSE Xinhua Index.
- D The Hang Seng China Affiliated Corporations Index.

<20>.

A trader has just bought 50 November HSI futures contracts at 14,550. To prevent excess loss when the market moves in the opposite direction, the trader instructs his broker to sell those futures contracts at market price in the event that the HSI futures trade at or below 14,500. This order of selling the futures contracts is **MOST LIKELY** a/an:

- A at-auction limit order.
- B stop-loss order.
- C enhanced limit order.
- D limit order.

<21>.

Country A and Country B are major trading partners of each other. Which of the following are the **LIKELY DIRECT** effects from a depreciation in the value of Country B’s currency against Country A’s currency?

- I It will be relatively less expensive for Country B to import goods from Country A.
 - II There will be an increase in Country A’s purchasing power for goods imported from Country B.
 - III There will be a change in Country A’s trade deficit against Country B.
 - IV Country A will cut its social welfare more than Country B.
- A I and IV only
 - B II and III only
 - C I, II and III only
 - D I, III and IV only

<22>.

Which of the following market participants is **MOST LIKELY** to attend the roadshow of a soon-to-be-listed company?

- A The Stock Exchange of Hong Kong (SEHK).
- B The institutional investors.
- C The custodians.
- D The credit rating agencies.

<23>.

Frances phones her broker and places an order to buy 1,000,000 shares of Flagship Inc. at \$0.55 on the Stock Exchange of Hong Kong (SEHK). The table below shows the current market information of Flagship Inc.

Bid price:	\$0.55
Offer price:	\$0.60
Number of orders in the queue of bid:	1,000
Number of orders in the queue of offer:	2,000
Number of shares in one board lot:	1,000

Frances' broker cannot execute her order in one attempt. Which of the following is/are valid reason(s) of the broker for not executing her order in one attempt?

- I The instruction is unclear.
 - II The order size exceeds the maximum allowable board lot size.
 - III The price of the order exceeds the range of 24 spreads.
 - IV The maximum number of orders in the price queue has reached the limit.
- A II only
 - B I and III only
 - C II and IV only
 - D II, III and IV only

<24>.

Which of the following is **NOT** a Hong Kong self-regulatory organisation?

- A Stock Exchange of Hong Kong Limited (SEHK).
- B Hong Kong Securities Clearing Company Limited (HKSCC).
- C Hong Kong Futures Exchange Limited (HKFE).
- D Securities and Futures Commission (SFC).

<25>.

In Hong Kong, when a listed company is found having insufficient level of assets to maintain its financial viability or solvency, which of the following actions is **LEAST LIKELY** to be taken by the Stock Exchange of Hong Kong (SEHK)?

- A To require the company to issue a public statement on this matter.
- B To suspend the company's shares from trading.
- C To delist the company.
- D To initiate the liquidation process in order to protect the minority shareholders.

<26>.

Which of the following statements regarding securities brokers in Hong Kong are **INCORRECT**?

- I A stockbroker acts as an intermediary between a buyer and a seller of securities listed on the Stock Exchange of Hong Kong (SEHK).
 - II Every stockbroker in Hong Kong must be licensed by the Hong Kong Monetary Authority (HKMA).
 - III Brokers are prohibited from providing investment advice to their clients. Such advice can only be provided by financial advisors who are licensed by the Securities and Futures Commission (SFC).
 - IV Brokers who are merely individual Exchange Participants are forbidden from accessing the SEHK's trading system to execute trades. Only corporate Exchange Participants have such privilege.
- A I and II only
 - B II and IV only
 - C III and IV only
 - D II, III and IV only

<27>.

Fiona is the newly employed Head of Compliance of EC Brokerage. She is reviewing the following internal control procedures.

- All trade errors must be reported.
- All telephone order records must be maintained for 6 months.
- All brokers must be licensed by the Securities and Futures Commission (SFC).
- All order forms must be carefully written and signed by the corresponding brokers on both the physical and electronic order forms before execution.

Based on the above information, Fiona considers streamlining these procedures. Which of the following proposals are **INAPPROPRIATE** streamlining actions?

- I Only trade errors that exceed a certain dollar amount are required to be reported.
 - II Maintenance of telephone orders can be reduced to 3 months.
 - III Only brokers without relevant degrees and experience are required to obtain the licenses.
 - IV The physical order forms can be replaced by electronic forms.
- A I and III only
 - B II and IV only
 - C I, II and III only
 - D II, III and IV only

<28>.

Which of the following market participants do/does **NOT** have direct access to the Automatic Order Matching and Execution System of the Stock Exchange of Hong Kong (SEHK)?

- I Regulators.
 - II Exchange participants.
 - III Share registrars.
 - IV Custodians.
- A II only
 - B I and II only
 - C III and IV only
 - D I, III and IV only

<29>.

Annie owns 100,000 shares of Miles Company. Miles Company decides to give 1 warrant as a special dividend to shareholders who hold 10 shares. If each warrant consists of a conversion ratio of 5-to-1, what is the total number of shares of Miles Company that Annie will possess after she decides to exercise all warrants she receives?

- A 150,000 shares
- B 120,000 shares
- C 110,000 shares
- D 102,000 shares

<30>.

Which of the following are **NOT** assumptions of the Capital Asset Pricing Model?

- I The stock market is efficient.
 - II The returns on stock investments are positively correlated to the level of risk.
 - III The level of risk is measured by standard deviation of the returns of the stock.
 - IV The price sensitivity of the stock is measured by duration.
-
- A I and II only
 - B I and III only
 - C II and III only
 - D III and IV only

<31>.

Which of the following is a feature of equity warrants but **NOT** a feature of derivative warrants?

- A Issued by the underlying company.
- B Has limited life.
- C Offers the benefit of leverage on initial investment.
- D The strike price must be paid when the warrant is exercised.

<32>.

In Hong Kong, which of the following securities is/are **NOT** cleared and settled via the Central Clearing and Settlement System?

- I Stock options.
- II Stock Futures.
- III Equity warrants.
- IV Hang Seng Index Futures.

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

<33>.

A research analyst for a leading Hong Kong broking firm is conducting an industry analysis of the finance sector. In addressing the issue of **INNOVATION**, which of the following pieces of information would be of **LEAST** relevance?

- A Amount being spent on research and development.
- B Average amount per firm spent on information technology.
- C The amount spent on capital compared to other industries.
- D The industry is considered to be in the “rapid expansion” phase of the growth cycle.

<34>.

What type of company can issue H-bonds in Hong Kong?

- A New growth companies based in Hong Kong.
- B Established Hong Kong-based companies with proven track record.
- C International companies wishing to raise HK Dollars.
- D Borrowers from mainland China wishing to raise HK Dollars.

<35>.

An investor buys 20,000 shares of MaxMin Company at HKD55 on the Stock Exchange of Hong Kong (SEHK) and sells those shares at HKD59 on the same trading day. What is the total stock transaction stamp duty payable to the Hong Kong government for these 2 transactions?

- A HKD1,100
- B HKD1,180
- C HKD2,280
- D Positions unwound on the same day are not required to pay stock transaction stamp duty.

<36>.

In Hong Kong, which of the following is a privilege only available to an Exchange Participant?

- A Issuing derivative warrants on the Stock Exchange of Hong Kong (SEHK).
- B Providing advice to investors who want to trade securities listed on the SEHK.
- C Connecting directly to the SEHK's Automatic Order Matching and Execution System.
- D Appointing the Chief Executive of the Hong Kong Exchanges and Clearing Limited (HKEx).

<37>.

Sandos Company has the following financial information (\$ '000):

Cash	260
Accounts receivable	1,050
Inventory	1,825
Accounts payable	1,520
Other short-term liabilities	320

Based on the above information, what is Sandos' current ratio?

- A 0.71
- B 0.86
- C 1.56
- D 1.70

<38>.

Which of the following are tools or signals used in technical analysis?

- I Relative Strength Index.
 - II Elliot Wave.
 - III Moving Average Convergence-Divergence.
 - IV Economic Value Added.
-
- A I and IV only
 - B I, II and III only
 - C II, III and IV only
 - D I, II, III and IV

<39>.

Bella Enterprise pays a fixed dividend every year. If the current stock price of Bella Enterprise is \$51 per share and the annual required rate of return on the Bella's stock is 8.33%, how much dividend is paid every year?

- A \$3.48 per share
- B \$4.25 per share
- C \$5.10 per share
- D \$5.85 per share

<40>.

Which of the following information is **NOT** available on a candlestick chart?

- A The opening price.
- B The closing price.
- C Whether the price closes above or below the opening price.
- D Whether the price closes above or below the average price.

~End of the Examination Paper~

Answers

Question No.	Answer	Question No.	Answer
1	D	21	B
2	C	22	B
3	A	23	A
4	C	24	D
5	C	25	D
6	A	26	D
7	B	27	A
8	D	28	D
9	B	29	D
10	A	30	D
11	D	31	A
12	B	32	D
13	C	33	C
14	C	34	D
15	D	35	C
16	A	36	C
17	B	37	D
18	C	38	B
19	D	39	B
20	B	40	D