SI Standards & Insights

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Interview with Craig Lindsay, HKSI Chairman

"Fostering Innovation and Sharpening our Competitive Edge" is the theme of this issue. We are pleased to bring you an interview with Mr. Craig Lindsay, Chairman of the HKSI Institute, sharing his vision on how HKSI Institute will support the Hong Kong financial markets in fostering innovation and sharpening its competitive edge in the years to come.

Mr. Craig Lindsay (front row, second from right)

Craig has been a Board or Committee member of the HKSI Institute since 1998. Prior to his election as Chairman in December 2012, Craig made tremendous contributions to the HKSI Institute's development as a board member from December 2005 to December 2010, and from December 2011 to now. With over 34 years of experience in the financial services and fund management industry in major global financial markets, Craig believes that "Innovation, Professional Standards and Business Ethics are the three pillars to strengthen the sustainable competitiveness of our industry."

Craig agrees that continuous innovation is critical for strengthening competitiveness under the current complex and volatile business environment in our industry. "The Shanghai-Hong Kong Stock Connect ("SH-HK Connect"), a cross-border trading mechanism which marked a significant milestone for both stock markets, is a good example of innovation," says Craig. "In the past year, we saw exciting developments and challenges in the market and the innovation story will go on," says Craig while he points out the possible launch of Shenzhen-Hong Kong Stock Connect, mutual recognition of funds, volatility control mechanism and other initiatives in the foreseeable future. "HKSI Institute is very keen to roll-out programmes to help our members and practitioners understand the regulatory, technical and operational details of these schemes when they are announced," adds Craig. In fact, the HKSI Institute held a series of 3 seminars on SH-HK Connect with The Hon Ronald Arculli and senior HKEx officers giving us a comprehensive overview and related technical details prior to its launch.

"Raising the professional standard of our practitioners is also fundamental to sharpen our competitive edge," says Craig. The Hon John Tsang, Financial Secretary, announced in his 8th Budget Speech that the Government will launch a three-year pilot scheme to enhance practitioners' competence and nurture talent for insurance and asset and wealth management services through collaborating with the industry to organise activities and provide internship opportunities. "The HKSI Institute welcomes this initiative and believes that we are well equipped to support the pilot scheme," Craig says.

"In fact, we have been actively engaging the industry and its practitioners in the past years in developing talent and enhancing the professional competence," Craig elaborates. "We offer scholarship and mentoring programmes to students and young members which aim at grooming future leaders for the financial services industry." Craig further adds that the HKSI Institute serves the industry's continuous professional development needs through a variety of education programmes. "Our programmes can better equip market practitioners to deal with changes and challenges that they are facing and bring fresh perspectives on market and regulatory development," explains Craig and quotes a recently launched private wealth management qualification as an example. "In January 2015, we rolled out the Certified Private Wealth Professional Module 1 Paper 1 Examination which is an integral part of the Enhanced Competency Framework developed to set and raise the standard of private wealth management practitioners with customer-facing roles."

Last but not least, Craig shares with us his view about why business ethics is essential to the sustainability and competitiveness of an organisation. "With proper levels of compliance, ethics and best practices, the company is actually able to do more business and that clients will remain with the company for longer periods despite market fluctuations," says Craig who quickly notes that when a company loses the goodwill or trust from the clients, it is very hard to get them back.

To champion integrity and best practices, the HKSI Institute hosted its signature event – Business Ethics Forum 2015 – in January 2015. In addition, in March 2015, the HKSI Institute invited Mr James Shipton, Executive Director, Intermediaries Division of the Securities and Futures Commission ("SFC") to speak in our event about "Challenges in Upholding the Integrity of Markets". "We thank Mr. Shipton who gave a fantastic talk and reiterated the importance of ethical behaviour and integrity in the markets. We are grateful to our many senior business, regulatory and community leaders as well as practitioners for their support and commitment to good ethical practices – the Hong Kong financial industry is well-positioned to maintain and thrive on its competitive edge," Craig concludes.

Mr. Louis Mak (front row, middle)

Interview with Louis Mak, HKSI Board Director

Online discount broker is now a very popular business. But back in a decade ago, it was simply new to Hong Kong and it took courage for people to establish one.

Mr Louis Mak, Board Director of the HKSI Institute, believes in the potential of the Internet and its ability to serve numerous clients without any physical constraints. He founded I-Access, a renowned online discount brokerage firm that introduced the $5 per order deal to the market that now serves around 40,000 clients.

Mr Louis Mak majored in management at the University of Cambridge before he worked in the Stock Exchange. Later he acquired his law degrees, founded I-Access, and started a new page in his career. Before that, he designed and built brokerage computer systems for a group of small-to-medium-sized brokers. After closely examining the brokerage business, he realised that there was a very low level of technology applied in this lucrative sector. He envisioned a future of disintermediation to let clients input orders directly to the Exchange. "One of the initiatives to set up I-Access as an online broker was to apply the latest communication technology, the Internet, to its fullest extent to serve our clients without any boundary." The maturer and faster Internet would make the above possible; the straight through online trading system was ideal to be the platform I-Access offered to its clients.

"One of the initiatives to set up I-Access as an online broker was to apply the latest communication technology, the Internet, to its fullest extent to serve our clients without any boundary."

A good idea needs smart execution to deliver. However, it is never easy to run an online broker. Investment to mitigate risk, low loyalty of clients, and increasing competition are challenges faced by online brokers. Nevertheless, with minimal cost of expansion on online business and the high adoptability to handle innovative investment services by electronic means, online brokers like I-Access have an edge to success.

Mr Mak was one of the first-cohort of professionals who obtained the Certified International Investment Analyst ("CIIA") qualification from the HKSI Institute. Launched in Hong Kong for over 10 years, CIIA is an investment qualification highly recognised in the Mainland and Europe, a complement to other American-based qualifications. "Having the CIIA qualification is similar to obtaining a work permit of the PRC investment market. In particular, in light of the recent cooperative moves of the Mainland exchanges and HKEx, equipped with CIIA is definitely an advantage over others without," said Mr Mak.

Mr Mak has become a member of the HKSI Institute since 2002 and was elected to the Board in 2014. He sees the importance of positioning HKSI Institute as the primary training organisation for market practitioners and potential entrants to set, raise, and promote standards. He is committed to work closely with the Board Directors and the Secretariat to enhance the service offerings to include training programmes to students and practitioners as well as online training-on-demand to cater for the larger group of audiences.

Having served on a variety of Committees since 2011 and being the Chairman of the Outreach Committee this year, Mr Mak commends the professional events organised in the past year, such as Chief Officer Series, Roundtable Luncheons, Market Updates, etc. For the upcoming months, he will focus on initiatives and programmes related to the Mainland market.

Mr Mak sees much potential in the younger generation and is committed to groom talents. He has always been a great supporter for HKSI Institute's various talent grooming initiatives and has sponsored promising HKSI Institute scholars and mentees to join study mission to Jakarta, Shanghai and this year to Tokyo. The HKSI Institute is deeply indebted to his contribution.

Volatility Control Mechanism

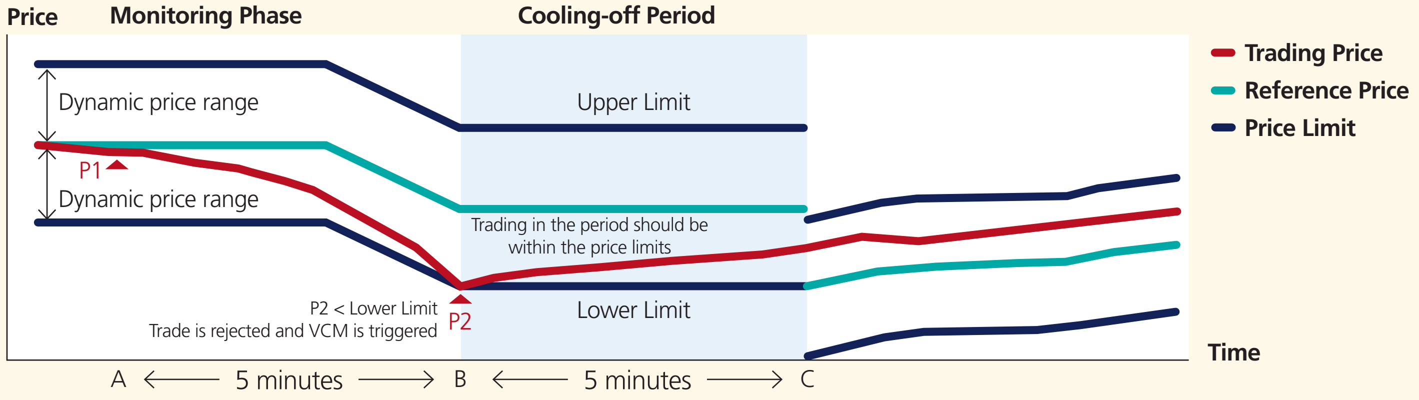
On 16 January 2015, a consultation paper was published by Hong Kong Exchanges and Clearing Limited ("HKEx") on the introduction of a Volatility Control Mechanism ("VCM") in the securities and derivatives markets. The introduction of VCM embraces HKEx's strategy on improving the global competitiveness of Hong Kong's financial market through enhancing market microstructure. The consultation period ended on 10 April 2015.

Proposed VCM Mechanism

The aim for the implementation of the VCM is to contain systemic risk resulting from extreme price volatility in both securities and derivatives markets, so as to keep us in line with international regulatory guidance and market practices. The proposed VCM covers 81 constituent stocks of the Hang Seng Index ("HSI") and the Hang Seng China Enterprises Index ("HSCEI"); and eight index futures contracts with HSI and HSCEI as their underlying index. Linked instruments including derivative warrants are not affected in the proposal.

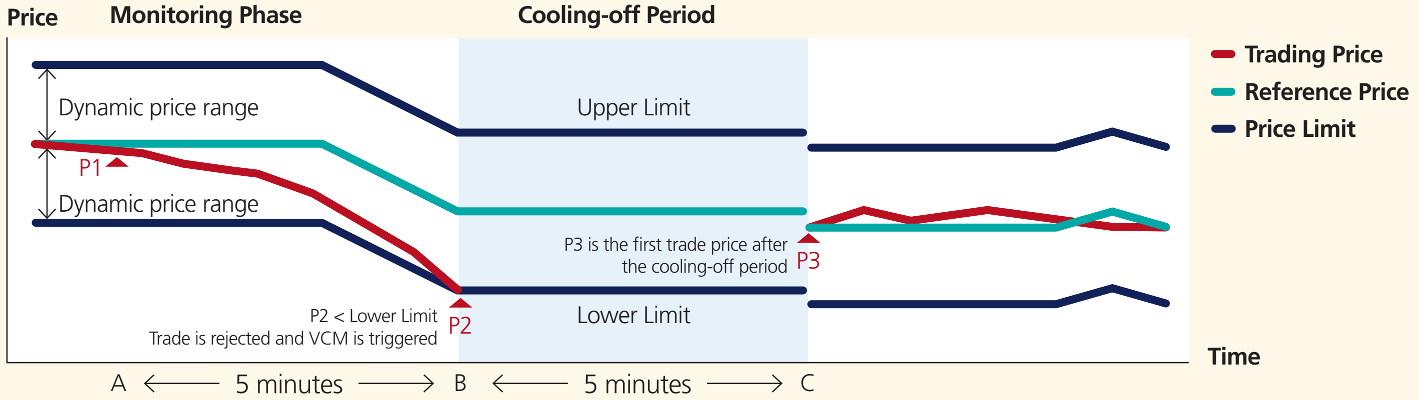
The below diagrams illustrate the operation of the proposed VCM. During the Continuous Trading Session ("CTS"), the trading of the instruments covered is monitored against a dynamic price range decided by the reference price from the last trade 5-minutes ago (P1) (i.e. ±10% / ±5% from the reference price for securities / derivatives market) during the morning and afternoon CTSs. Monitoring stops in the last 20 minutes of the afternoon session to avoid causing overnight risk. If price of an instrument exceeds the price range, the trade will be rejected and a 5-minute cooling-off period of trading within a fixed price range is triggered (P2). During the cooling-off period, the instrument can only be traded within the price limit set before the cooling-off period. The same dynamic price limit monitoring mechanism (i.e. ±10% / ±5% from the last trading price 5 minutes ago) will resume after the cooling-off period.

Diagram 1: Operation of VCM during the CTS



If there is no trading during the cooling-off period, the first trade (P3) can be executed without any price limit applied.

Diagram 2: No trading during the cooling-off period



There will only be a maximum of two cooling-off triggers in each trading session for each instrument (i.e. 2 in the morning session and 2 in the afternoon session) to minimise market interruption. There will be no cooling-off period in the last 15 minutes in the afternoon session.

VCM in overseas markets

Different VCM models have been established in many other exchanges, including Australia, Shanghai, Shenzhen, Singapore, Japan, the US and the UK on both the securities and the derivatives markets. There are two major types of VCM model: instrument-level and market-level. The former means that trading of an instrument would be suspended, interrupted or limited if its price moves beyond a certain range, and the latter means the trading of the whole market would be suspended or limited if a major market index falls below a certain level. Instrument-level is widely-used type of VCM in major exchanges. The key major features of those VCM models in leading stock markets and the consideration for the Hong Kong market are summarised in the table below.

Key features of VCMs (instrument level) in selected overseas securities markets

Market	 China	 USA	 UK	 Singapore
Trigger Point	10% from previous close	• ETF and Index constituents: 5% • Others: 10% • Stock price ≤ US$3: 20+% Note: Rules vary for opening and close	• 2 reference prices (last auction price and last trade) • 10 different triggering levels for different securities	10% from last trade 5 minutes ago for stocks > $0.5
Cooling-off Period Duration	Not applicable	5 mins	5 mins	5 mins
Process and Resumption	• A stock cannot move beyond ±10% in a day	Multiple changes in trading method: 1. Trading within a price limit 2. Trading suspension 3. Auction 4. Back to continuous trading	Switching from CTS to auction with random end and extensions	• Allow continuous trading as long as it is within the price limit • Multiple triggers allowed
Consideration of the HK Market	✕ Not conducive to price discovery ✕ Difficult to manage overnight risk	✕ Model is too complex ✕ Require significant system changes	✕ Complex model with many trading suspensions (>100 triggers per day)	√ Relative simple model √ Recently introduced (in 2014) and well received by the market

Source: HKEx

According to HKEx, when designing the proposed VCM for Hong Kong, references have been made to the above models, international regulatory guidance, market structure and local trading practice. To avoid excessive intervention to the market and allow normal trading and risk management, the proposed VCM is a simple and light-touch model – it only applies to instruments posing systemic risks and there is no suspension but only a temporary cooling-off period.

Market comments for the introduction of VCM

The following are some of the comments from the markets in favour of or against the introduction of VCM:

In favour of VCM	Against VCM
VCM could enable the margin cut activities to be conducted in a more systematic order	The setting of price limits under the VCM could have adverse impact on Hong Kong's renowned image of being a free market economy
The "5-minute cooling-off period" of VCM could protect small investors	Direct suspension of trading would be more effective than the "5-minute cooling-off period" in allowing the market to cool down
There is a need for the introduction of VCM due to the increasing number of derivatives products in Hong Kong	The stock prices in Hong Kong have never been subject to the control from the regulatory authorities, such as the case in A-share market
There have already been similar mechanisms in overseas markets. Keeping in line with the mechanisms in major financial markets around the world could help maintain the proper market operations and promote market development	Extreme price volatility in securities and derivatives markets might not happen frequently
VCM could reduce the adverse impact of error trades resulting from high frequency trading	There may be unresolved technical issues on the implementation of VCM, e.g. significant system changes as well as development and testing efforts may be required

On 3 March 2015, the HKSI Institute organised a lunch seminar on the HKEx's proposal on VCM. During the seminar, Ms. Sally Kwok, Senior Vice President, Cash Trading of Global Markets of HKEx mentioned that the consultation conclusion is expected to be published in mid-2015. If the proposal is welcomed by the market participants, the VCM together with the other 2 initiatives (namely the Closing Auction Session ("CAS") (Note 1) and Trading Halt (Note 2)) are expected to be implemented on a step-by-step basis in the second and third quarters of 2016. Please refer to the following link: http://www.hksi.org//hksi/userupload/landing-page---if-you-missed-hkex_vcm-at-the-hksi-institute---final.pdf of the HKSI Institute for more details about the seminar.

Note 1: CAS facilitates market needs of execution at closing price.

Note 2: Trading Halt allows publication of inside information announcements during trading hours subject to a short halt in trading of the issuer's shares.

Stock Connect

The long-waited Shanghai-Hong Kong Stock Connect ("Stock Connect") finally started its operations in November 2014 and has been a hot topic in the market since then. Recently, there is a number of developments about the Stock Connect. Northbound trading has become more flexible since investors have been given the green light to short-sell certain Shanghai-listed A shares through the Stock Connect with effect from 2 March 2015. Southbound trading has also become more prosperous. At the end of March 2015, China Securities Regulatory Commission ("CSRC") announced that China mutual funds are allowed to buy Hong Kong stocks through the Stock Connect without the need to be qualified as Qualified Domestic Institutional Investors. After the Easter holiday, a huge flow of capital from Mainland investors into Hong Kong stock market has, for the first time, used up the entire RMB 10.5 billion Stock Connect daily quota for southbound trading. It was reported that this was one of the reasons which made the Hong Kong market trading volumes and the Hang Seng Index surge to historical highs.

What is coming will be a similar programme connecting Shenzhen and Hong Kong stock markets. "A stock connect between Shenzhen and Hong Kong should be the next," China's Prime Minister Li Keqiang said on his visit to Shenzhen in early January 2015. In an early March press release, the Chairman of CSRC indicated that the approval process for the programme is in good order and expected it to be completed by the end of first half of the year.

With the market expectation that the Shenzhen-Hong Kong Stock Connect will be launched in Q3 of the year, we highlight some key differences between the Shenzhen and Shanghai stock markets in this issue for your reference:

Shenzhen	Shanghai
Lists dynamic and young companies, such as manufacturing, IT and software companies	Dominated by bulky state-owned enterprises, such as the big banks and energy companies
The number of listings on Shenzhen Stock Exchange ("SZSE") is 60% more than that on Shanghai Stock Exchange ("SSE")	Capitalisation of the average Shanghai company is triples of that of the average Shenzhen company
SZSE's stocks have risen more than 5 times since 2006 as compared with SSE's which merely have doubled over that period	Average price/earnings ratio ("P/E ratio") for SSE's stock is half of SZSE's

We will introduce "Shenzhen-Hong Kong Stock Connect" Programmes in due course. Watch out HKSI Institute's forthcoming event calendar.

Business Ethics Forum 2015
– Ethics and Leadership

The HKSI Institute's signature event – Business Ethics Forum ("BEF") 2015 – was successfully held on 22 January 2015 at the Hong Kong Convention & Exhibition Centre. Advocating this year's theme of "Ethics and Leadership", the Forum delved into the impact of leadership on cultivating ethical behaviour in organisations, how ethics management can safeguard and build business reputation and brand, while attracting the best talent and business partners. The one-day forum featured 20 Speakers and panellists, and attracted over 150 delegates from the industry of which mostly were senior level and C-suite executives.

The Hon John Tsang

The Forum started with the opening remarks by The Hon John Tsang, Financial Secretary of the Government of the Hong Kong Special Administrative Region. "Today's Business Ethics Forum, an integral part of International Financial Week in Hong Kong, delivers another message – ethics is a critical factor in business success," said Mr Tsang. After the opening remarks, Dr Edgar Cheng, Founding Chairman of the HKSI Institute, shared with the audience his witness to the struggles of Hong Kong financial industry in today's business environment in his keynote speech.

Dr Edgar Cheng

There were four discussion panels at the day-long BEF 2015, comprised of an eminent group of regulators, business leaders and experts, covered diverse topics that include:

- key regulatory and enforcement work against unethical behaviour;
- sharing regional perspectives on developing ethical culture in financial services business;
- how building an ethical culture can be a win-win to business, customers and regulators, and the key success factors for building such culture; and
- demographic trends, talent gaps, hiring practices and remuneration packages to promote ethical culture.

Moreover, The Hon Bernard Chan, President of Asia Financial Holdings Ltd and Member of the Government's Executive Council, shared his personal experience on setting the tone at the top in a family-owned company at the exclusive luncheon for special guests and HKSI Institute Members.

The Hon Bernard Chan, with Ms Angela Mackay, Managing Director of Financial Times

In rounding off the rewarding day of sharing by leaders in the industry, Mr Anthony Neoh, Honorary Fellow of the HKSI Institute and former Chairman of the SFC gave an inspirational closing remark. He reminded financial practitioners to deliver their works with the best of ethical conduct by citing a Confucius quote "the Superior Man directs his attention to what is fundamental. That being established, all ethics will follow".

Mr Anthony Neoh

The HKSI Institute is grateful to have the passionate support of the stellar speakers and panellists in sharing their personal insights and experiences in this subject, and is also thankful to the Speakers, Panellists, Sponsors, Advertisers, Lead Supporting Organisations and Supporting Organisations in making this Forum a success. For the full programme, speakers' profile and partners involved in the BEF 2015, please visit http://www.hksi.org/bef2015.

Inspirational Quotes in the BEF 2015:

"I believe we should guard against a "could we" culture, which set the bare minimum as our ethical standard. What we need is a "should we" culture, with people and organisations complying with the spirit of the law, rather than the letter of the law."
– The Hon John Tsang

"At the end of the day, ethical practice is based on human feeling and empathy with others — do not do to other people what you would not like done to you. Ethical behaviour then comes naturally if not without effort and sometimes pain."
– Dr. Edgar Cheng

"Striking the balance between a long-term value of building ethical culture and short-term profit is the challenge for every CEO. It is the CEO's job to do the right thing and for the Chairman to communicate the company's values and strategy to senior management and shareholders."
– The Hon Bernard Chan

"Many companies tend to look upon maintenance of ethical standards as a part of reputational risk management. But I would argue that as it should an integral part of all business decisions and something which should exist as part of the DNA of all organisations, public or private, corporations should make explicit and clear governance and management arrangements for inculcation of an ethical culture in the business."
– Mr. Anthony Neoh

Snapshot from BEF2015

Regulatory Insight Series – Market Misconduct

The SFC has been taking a strong determination in combating market misconduct. In this issue, we would like to share some thoughts on market misconduct, what and how market practitioners should do to prevent it.

What is market misconduct?

Market misconduct as defined in section 245 of the Securities and Futures Ordinance (Cap. 571) comprises insider dealing, false trading, price rigging, stock market manipulation, disclosure of information about prohibited transactions and disclosure of false or misleading information inducing transactions in securities and futures contracts.

Real-life examples of market misconduct

Types of misconduct	Examples
Disclosure of false or mis-leading information inducing transaction	Misstating the company's financial statements.
	Publishing false research report.
	False and misleading information in the IPO prospectus.
Insider dealing	Making profit or avoiding loss by trading securities before inside information announcement.
False trading	Manipulating the price of derivative warrants or callable bull/bear contracts during the pre-opening sessions.
Price rigging	Operating different accounts for buying and selling listed shares in transactions involving no change in beneficial ownership, in order to increase the price of the shares for share placement.
Stock market manipulation	Placing orders to buy small quantities of shares at prices higher than the prevailing market prices shortly before market closing in several trading days, so as to create a false impression of the market for the shares and effectively deceiving the investing public by the higher reported closing price.

What are the consequences of market misconduct?

Market misconduct may result in the following:

- proceedings before the Market Misconduct Tribunal ("MMT");
- a criminal action before the courts; and/or
- a civil action for compensation undertaken by a person who has suffered pecuniary loss as a result of the market misconduct.

The MMT may order a person identified to as having engaged in market misconduct pay to the Hong Kong Government an amount not exceeding any profit gained or loss avoided by the person as a result of the market misconduct. The MMT may also make an order that the person shall not, without leave of the Court of First Instance, be a director, liquidator, or receiver or manager of a corporation or acquire, dispose of or deal in any securities, etc..

The punishment on market misconduct can be very serious. In a recent enforcement action, an individual convicted of price rigging was sentenced to 6 months of imprisonment and disqualified from being a director of a listed company for a year. As a result, the person have to relinquish his positions as the chairman and a director of a listed company. In another case, a CEO of a listed company was ordered to disgorge $281,346 equivalent to the benefit she received in avoiding a loss through insider dealing. She was disqualified from being a director or being involved in the management of any listed corporation for a period of two years.

For the transactions in relation to market misconduct, the SFC may also apply to the court for an order to restore the parties to their original positions before the transaction was entered into. In 2012, it was the first time that the SFC made use of its power under section 213 of the Securities and Futures Ordinance to seek the court order to force a newly listed issuer to "return money" to investors, who subscribed for the shares in an IPO or purchased them in the secondary market. In the case, the listed issuer was found reckless in allowing materially false and misleading information, in relation to its turnover, profit before tax, value of cash and cash equivalents, to be included in its prospectus. The listed issuer was ordered to make a total of $1.03 billion buy-back offer to approximately 7,700 public shareholders.

Lessons to learn

The following measures are some of the recommendations that help prevent market misconduct from happening:

From a company's perspective:

- If a listed company is involved in material corporate actions, it may request a suspension of trading on the Stock Exchange to avoid opportunities of insider dealing;
- A listed company should ensure that good corporate governance practices and procedures are established;
- On-going dialogue with shareholders should be maintained. For example, the board of a listed company could make use of annual general meetings or other general meetings to communicate with the shareholders and encourage their participation;
- A shareholders' communication policy should be established and under review regularly to ensure effective communication with shareholders and enable their views to be communicated to the board as a whole; and
- All directors should attend relevant training on a continuous basis to develop and refresh their knowledge and skills.

From an investor's perspective:

- Investors should keep informed about the latest position of a listed company by keeping abreast of its official announcements;
- Before investing in a stock, investors should "do their homework", e.g. study the price history, the liquidity and the fundamentals of the stock;
- In face of any suspicious investment offers, an investor may check if the investment company is on the "Alert List" of the SFC website or verify the legitimacy of the person or the company with the SFC's public register of licensed persons and registered institutions or regulators in the jurisdiction where they claim to operate;
- "Do not follow the herd" and rely on speculation with unverified news or market information;
- Be vigilant to invest in stock when the price of it rises in a short period of time without any substantial good news announced formally on the Stock Exchange;
- When you can get access or be provided with information about a listed stock, you must be vigilant to notice that whether this information is an inside information or not. If the information has not been announced publicly, do not trade on the stock until such information is publicly announced.

Regulatory and Market Updates

In our inaugural issue, we mentioned several market initiatives during the year 2014, such as the launch of the "Shanghai-Hong Kong Stock Connect", which aim at fostering the development of the securities and investment market and sharpening its competitive edge. In face of the continuous efforts of the regulators in making market development initiatives during the first quarter of 2015, we highlight some of these developments during the period as follow:

Mutual recognition scheme for funds

It has recently been reported that the regulators of Hong Kong and Mainland China have identified about 100 Hong Kong-domiciled funds and 500 Mainland-domiciled funds to be qualified for the long expected mutual recognition scheme for funds ("the scheme").

According to the article, the characteristics of the scheme are that:

(a) the qualified funds must be simple bond and securities issues and no hedge funds or derivatives funds are allowed;

(b) there would be a total quota for the whole scheme and individual quota for each fund;

(c) only existing funds with qualified track records are allowed and new funds are not to be included in the scheme; and

(d) Mainland funds must get the approval of the SFC to be sold in Hong Kong while Hong Kong funds must get the approval of the China Securities Regulatory Commission ("CSRC") to be sold in Mainland.

The scheme is a tremendous breakthrough bringing the following benefits:

- It expands the exposure of the Hong Kong funds industry to a population of 1.3 billion of Mainland.
- It allows investors outside Mainland to invest in Mainland funds.
- The diversity of Mainland qualified funds are appealing to Hong Kong and international investors and enrich the product offerings in Hong Kong.
- Hong Kong funds industry would have more sales opportunities.

After the scheme is approved by the States Council, the SFC and the CSRC will sign a memorandum of understanding for the co-regulation of the scheme.

Amendments to Code on Unit Trusts and Mutual Funds ("CUTMF")

On 30 Jan 2015, the amendments to the CUTMF regarding the publication requirements of offer and redemption prices ("Prices") or net asset values ("NAVs"), as well as notices of dealing suspension of collective investment schemes authorised by the SFC under the CUTMF ("Scheme") came into effect. Accordingly, the Prices and NAVs must be made public on every dealing day and the notice of dealing suspension must be published in an appropriate manner. These amendments could provide the Schemes with greater flexibility in determining the appropriate publication means. Management companies of the Schemes should adopt appropriate changes to their operational procedures so as to cope with such amendments.

For further guidance to the implementation of such amendments, please refer to the following links to updated frequently asked questions and circular on the SFC website respectively:
http://www.sfc.hk/web/EN/faqs/product-authorization/post-authorisation-compliance-issues-of-sfc-authorised-funds.html
http://www.sfc.hk/edistributionWeb/gateway/EN/circular/doc?refNo=15EC7

Introduction of three Futures Contracts Trading on Hong Kong Futures Exchange Limited ("HKFE")

The London Metal Exchange ("LME"), a wholly-owned subsidiary of the HKEx Group, is the world centre for industrial metals trading. LME participants can trade 11 metals and relevant index products through futures and options etc..

The rules, regulations and procedures of HKFE were recently amended to introduce the three new futures contracts (namely London Aluminium Mini Futures Contract, London Zinc Mini Futures Contract and London Copper Mini Futures Contract) traded on HKFE and a liquidity provider program for the new contracts. This amendment was aimed to introduce a promotional program to encourage LME participants or their affiliates to become participants of HKFE and participate in the trading of the new contracts. Also, the rules and procedures of HKFE Clearing Corporation Limited were amended in order to specify the settlement fees and system input cutoff times of the new contracts.

For detailed, please refer to the following links from HKEx:

http://www.hkex.com.hk/eng/rulesreg/traderules/traderuleupdate-hkfe/dervrule_ruleupdate.htm

http://www.hkex.com.hk/eng/rulesreg/clearrules/clrruleupdate_hkcc/futrule_ruleupdate.htm

Stamp Duty Waiver for all Exchange-traded Funds ("ETFs")

The Stamp Duty (Amendment) Ordinance 2015 took effect on 13 February 2015. Thereafter, stamp duty for the transfer of all ETFs listed on Hong Kong Exchanges and Clearing Limited ("HKEx") is waived. In 2010, the government extended a stamp duty remission to Hong Kong ETFs that track indices comprising of not more than 40% Hong Kong stocks. Since then, the ETF listings in Hong Kong increased from 69 in 2010 to 124 in 2014 and the ETF turnover in Hong Kong ranked 3rd and 6th in Asia and worldwide respectively in 2014. It is expected that the stamp duty waiver will help flourish the Hong Kong ETF market and fostering Hong Kong's position as an asset management centre and the development of the financial services sector as a whole.

Please see the following link of the Financial Services and the Treasury Bureau ("FSTB") for more details on the benefit of the stamp duty waiver to ETFs: http://www.fstb.gov.hk/fsb/topical/doc/etf_faq_2015_e.pdf

Proposed Implementation of the Securities and Futures (OTC Derivative Transactions – Reporting and Record Keeping Obligations) Rules ("Reporting Rules")

We mentioned in our last issue that the SFC planned to table the proposed Reporting Rules before the Legislative Council for negative vetting in the first quarter of 2015. In this issue, we would go for more details of the proposed reporting obligation.

Who to report:
Authorised institutions ("AIs"), approved money brokers and licensed corporations need to report reportable transactions that:
(i) they are a counterparty to (in case of an overseas AI, it means the transaction must be booked with its Hong Kong branch); or
(ii) they have conducted in Hong Kong on behalf of an affiliate.

Central counterparties ("CCPs"):
(i) CCPs that operate as an recognised clearing house need to report reportable transactions that have been entered into by them as part of the clearing process and that they are thus a counterparty to;
(ii) CCPs that operate as CCPs that are authorised under the Securities and Futures Ordinance to provide automated trading services ("ATS-CCP") need to report reportable transactions that have been entered into by them as part of the clearing process and only where the other counterparty is a Hong Kong incorporated company.

Mandatory reporting for fund managers and "Hong Kong persons" as proposed in the initial consultation has been delayed. Market participants in the fund industry reflected various difficulties in fulfilling the reporting obligation given certain practices in the fund industry. For example, most funds and fund managers rely on their dealers to report derivative transactions to trade repositories. However, many of the dealers will not set up the infrastructure to report to the Hong Kong Monetary Authority trade repository as they are overseas entities. There were also suggestions that Hong Kong persons who are not active players in over-the-counter derivatives market should be permitted more time for the new regime.

Reporting to include:
(i) new transactions (i.e. reportable transactions entered into after the Reporting Rules come into effect);
(ii) historical transactions (i.e. reportable transactions entered into before the Reporting Rules come into effect but which are still outstanding at that time).

Concession period and grace period:
(i) Concession period of 6 months for setting up system to report;
(ii) Another 3 months thereafter for backloading (total grace period of 9 months).

Use of data collected by Hong Kong Trade Repository:
(i) facilitating regulators to conduct market surveillance and supervision;
(ii) sharing with overseas regulators and trade repositories where appropriate;
(iii) disclosure to the public in summary form.

Consultation on Principles of Responsible Ownership

On 2 March 2015, a consultation was launched by the SFC on the proposed Principles of Responsible Ownership. The objective of such consultation is to provide guidance on how investors should fulfil their ownership responsibilities regarding their investment in a listed company. The seven proposed principles of responsible ownership call on investors to:

- establish and report to their stakeholders their policies for discharging their ownership responsibilities;
- monitor and engage with their investee companies;
- establish clear policies on when to escalate their engagement activities;
- have clear policies on voting;
- be willing to act collectively with other investors when appropriate;
- report to their stakeholders on how they have discharged their ownership responsibilities; and
- have policies on managing conflicts of interests when investing on behalf of clients.

These principles are non-binding and voluntary and are relevant to individual and retail investors. The consultation will end on 2 June 2015.

For details of the consultation on the Principles of Responsible Ownership, please click:
http://www.sfc.hk/edistributionWeb/gateway/EN/consultation/doc?refNo=15CP2

Manpower Training Initiative for the Financial Services Industry announced by the Financial Secretary

On 25 February 2015, the Financial Secretary, John Tsang announced in the 2015-16 budget speech that the Government will allocate HK$100 million to launch a three-year pilot scheme for insurance and asset and wealth management services (the "Pilot Scheme"). Under the Pilot Scheme, Government will collaborate with the industry to organise activities and provide internship opportunities to allow the community, in particular students, to have a better understanding of the nature and career prospects of different jobs in the two sectors. Government and industry will also enhance the contents of continuing professional development programmes, and provide financial support to encourage practitioners to enrol in these programmes.

The HKSI Institute welcomes and supports this initiative. While the FSTB is drawing up details of the Pilot Scheme, HKSI Institute is well prepared to collaborate with the Government and the industry in designing new educational programmes and activities and enhancing our current offerings in order to support the Pilot Scheme.

For details of the 2015/16 Budget Speech, please click: http://www.budget.gov.hk/2015/eng/budget29.html

MPFA's Consultation Conclusion on "Core Fund" published

On 12 March 2015, the Mandatory Provident Fund Schemes Authority ("MPFA") published the consultation conclusion on the proposal to introduce a "core fund" as the standardised low fee default fund of all Mandatory Provident Fund ("MPF") schemes to enhance the regulation of default arrangements in the MPF schemes. The term "core fund" will be replaced by "default investment strategy", as the new default investment strategy would not be a single fund.

This initiative aims to address two major concerns of MPF scheme members: difficulty in making choice of fund and high fees. The default investment strategy will be designed to automatically reduce investment risks as MPF scheme members approach retirement age. Also, its fee will be capped at 0.75% of fund assets. It is expected that the initiative will be introduced in the Legislative Council before the end of 2015 and implemented by the end of 2016. Please refer to the conclusion paper for details: http://www.mpfa.org.hk/eng/information_centre/Consultations_and_Conclusions/file/Consultation_Conclusions_Providing_Better_Investment_Solutions_for_MPF_Members_Eng.pdf

CFTC announced to permit HK brokers to deal directly with US customers

On 19 March 2015, the US Commodity Futures Trading Commission ("CFTC") announced that it will permit SFC-licensed corporations to deal directly with US customers in relation to trading of futures or options products on exchanges under the SFC's oversight, including HKFE and non-US exchanges authorized by the SFC, without having to register as futures brokers in the US. Interested SFC-licensed corporations are required to submit applications with the US National Futures Association via the SFC. Please refer to the CFTC website for details: www.cftc.gov/PressRoom/PressReleases/pr7138-15

CPWP: To Champion Professional Standards of the Private Wealth Management Industry

For the coming CPWP Module 1 Examination Schedule for 2015		
Paper	Examination Date	Enrolment Period
Paper 1	30 April	16 February - 9 April
Paper 2	19 June	10 April - 29 May
Paper 1	14 August	2 June - 24 July
Paper 2	4 September	2 July - 14 August
Paper 1	20 November	7 September - 30 October
Paper 2	4 December	2 October - 13 November

The Certified Private Wealth Professional ("CPWP") Module 1 Examination developed and operated by the HKSI Institute is one of the accredited examinations under the Enhanced Competency Framework ("ECF") for private wealth management ("PWM") practitioners developed by a Task Force chaired by the Hong Kong Monetary Authority ("HKMA"), and comprised representatives from the Private Wealth Management Association ("PWMA"), The Hong Kong Institute of Bankers ("HKIB"), the HKSI Institute, and Treasury Markets Association. The examination offered by HKSI Institute, which consists of two papers (Paper 1: Financial Instruments and Paper 2: Wealth Management), aims to demonstrate (1) an adequate understanding of the Asia-Pacific PWM industry and wealth management products and (2) adequate knowledge and practical application of customer relationship management skills, wealth planning, portfolio management and risk management.

Relevant Practitioners* who passed both the CPWP Module 1 Examination from the HKSI Institute and CPWP Module 2 Examination from the HKIB, and have the prerequisite work experience will be certified by the PWMA as CPWP. Candidates who passed the CPWP Module 1 Examination – Papers 1 and 2 will also be awarded HKSI Institute Certificate by the HKSI Institute. The coming examinations for Paper 1 and Paper 2 will be held on 30 April 2015 and 19 June 2015 respectively.

The HKSI Institute has published study manuals and offers refresher programme to assist candidates in preparing for the CPWP Module 1 Examination. Study manuals for the CPWP Module 1 Examination are available for sale at HKSI Institute counter. The CPWP Module 1 Refresher Programme helps candidates build a strong knowledge base and practical skills on the topics to be examined by learning or refreshing the content covered in the study manuals. Details of the refresher programme can be found in the HKSI Institute website: http://www.hksi.org/cpwp-refresher-course

Though the ECF is a voluntary scheme, it is part of the HKMA's initiative to work with the industry for to help strengthen Hong Kong's position as a premier international financial centre. PWM practitioners who undertake the customer-facing roles are encouraged to enhance their level of core competence and on-going professional development by achieving the industry-recognised CPWP designation. For more details of the CPWP Module 1 Examination, please refer to the HKSI Institute website: http://www.hksi.org/cpwp

* *Relevant Practitioners refer to new entrants and existing PWM industry practitioners engaged by PWM institutions who are in customer-facing roles making personalised or customised solicitations or recommendations to customers in provision of securities dealing and advisory service and/or portfolio management service.*

Upcoming Events

5 May

Title: **Chief Officer Series**
The Winning Story of Giordano - Making Choices

Speaker: **Dr Peter Lau**
Chairman and Chief Executive
Giordano International Limited

Date: **Tuesday, 5 May 2015**

Time: **12:00pm - 12:20pm (Registration)**
12:20pm - 1:20pm (Seminar)

Venue: **The HKSI Institute Training Centre**

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14 May

Title: **Mis-selling of Investment Products**

Speaker: **Mr Bryan Ng**
Special Counsel
Baker & McKenzie

Date: **Thursday, 14 May 2015**

Time: **12:00pm - 12:20pm (Registration)**
12:20pm - 1:20pm (Seminar)

Venue: **The HKSI Institute Training Centre**

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28 May

Title: **Joint Seminar with The Asia-Pacific Structured Finance Association (APSA)**
PRC Securitisation – Recent Legal Developments

Speaker: **Mr Kingsley Ong**
Partner
Eversheds

Mr Aaron Liu
Registered Foreign Lawyer
Eversheds

Date: **Thursday, 28 May 2015**

Time: **12:00pm - 12:20pm (Registration)**
12:20pm - 1:20pm (Seminar)

Venue: **The HKSI Institute Training Centre**

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2 June

Title: **Cyber Security**

Guest Speaker: **Mr Mark Johnson**
Partner
Debevoise & Plimpton

Date: **Tuesday, 2 June 2015**

Time: **12:00pm - 12:20pm (Registration)**
12:20pm - 1:20pm (Seminar)

Venue: **The HKSI Institute Training Centre**

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11 June

Title: **CRS for AEoI – Towards A New Global Standard**

Guest Speaker: **Mr Gary Ng**
Partner, Risk Assurance
PricewaterhouseCoopers

Ms Suzanne Wat
Partner
PricewaterhouseCoopers

Ms Jenny Yip
Senior Manager
PricewaterhouseCoopers

Date: **Thursday, 11 June 2015**

Time: **12:00pm - 12:20pm (Registration)**
12:20pm - 1:20pm (Seminar)

Venue: **The HKSI Institute Training Centre**

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18 June

Title: **HKSI Institute Roundtable Luncheon Series**

Guest Speaker: **Mr Charles Li**
Chief Executive
Hong Kong Exchanges and Clearing Limited

Date: **Thursday, 18 June 2015**

Time: **12:00pm - 12:30pm (Registration)**
12:30pm - 1:10pm (Roundtable Luncheon)
1:10pm - 2:10pm (Seminar / Q&A)

Venue: **Dragon Room,**
The Hong Kong Bankers Club
43rd Floor, Gloucester Tower,
11 Pedder Street,
The Landmark, Central, Hong Kong

Hong Kong Securities and Investment Institute

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