Hong Kong Securities and Investment Institute
香港證券及投資學會

PAPER 7

FINANCIAL MARKETS

of

The Licensing Examination

for Securities and Futures Intermediaries

Sample Practice Test

Published by:

Hong Kong Securities and Investment Institute

© Hong Kong Securities and Investment Institute 2026

17/F, Cambridge House, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong

Website: www.hksi.org

Hotline: (852) 3120-6100

Email: info@hksi.org

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording or otherwise without the prior permission of the copyright owner.

Disclaimer

The Sample Practice Test (the "Test") is intended to assist candidates of the Licensing Examination for Securities and Futures Intermediaries (the "Examination") in preparing themselves for the Examination. The questions of the Test are NOT actual questions from the Examination. Since the relevant laws, regulations, practices and requirements may be revised, amended or updated from time to time, no express or implied warranty is given by the Hong Kong Securities and Investment Institute ("HKSI Institute") that the questions are up-to-date.

The HKSI Institute does not warrant that any person who correctly answers the questions in this Test will pass the Examination. Under no circumstances shall the HKSI Institute be liable for any direct or indirect loss or damages caused or alleged to be caused by your use of or reliance on any materials in and/or content of these sample questions.

<1>
Which **ONE** of the following is a **VALID** undertaking action for the Hong Kong Monetary Authority to maintain Hong Kong's linked exchange rate system?

A Buy USD at USD/HKD7.80
B Buy USD at USD/HKD7.85
C Sell USD at USD/HKD7.80
D Sell USD at USD/HKD7.85

<2>
Which of the following are **POSSIBLE** reasons that attract independent fund managers to set up their businesses in Hong Kong?

I Hong Kong is an important window to Chinese Mainland.
II There is a world-class communications system and telecommunication network.
III The liquidity in the local stock market is high.
IV The tax regime is simple.

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

<3>
The most recently issued 10-year Treasury bond is trading at a yield of 1.25% while the bond issued by Company A with time to maturity of 10 years is trading at a yield of 3.84%. What is the risk premium of Company A's issue?

A 1.25%
B 2.59%
C 3.84%
D 5.09%

<4>
Mrs Chan bought a house for $8 million 10 years ago with a residential mortgage loan of $5.6 million from a bank. Today, the value of her house is $10 million and the outstanding mortgage loan is $3.5 million. Calculate the amount Mrs Chan will receive if she sells her property now (ignore all transaction cost).

A $2.0 million
B $3.5 million
C $5.6 million
D $6.5 million

 © Hong Kong Securities and Investment Institute

<5>
The following factors affect the **EFFECTIVE** interest cost of the issuer of a particular bond, **EXCEPT**:

A price volatility of relevant bond options.
B market interest rate.
C time to maturity of the bond.
D the issuer's credit rating.

<6>
The following borrowing rates are available to Company A and Company B in the fixed-rate and floating-rate debt markets.

	10-Year Fixed-Rate Note	10-Year Floating-Rate Note
Company A	4%	3-month HIBOR + 1%
Company B	7.5%	3-month HIBOR + 2.5%

Company A wants to borrow HKD200 million for 10 years at a floating rate tied to the 3-month Hong Kong Interbank Offered Rate ("HIBOR"), while Company B also wants to borrow HKD200 million for 10 years but at a fixed interest rate to avoid interest rate risk.

Which of the following transactions should the two companies conduct so that they can enter into a mutually beneficial interest-rate swap agreement?

I Company A borrows HKD200 million for 10 years at a fixed interest rate of 4%
II Company A borrows HKD200 million for 10 years at 3-month HIBOR + 1%
III Company B borrows HKD200 million for 10 years at a fixed interest rate of 7.5%
IV Company B borrows HKD200 million for 10 years at 3-month HIBOR + 2.5%

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

<7>
The following borrowing rates are available to Company A and Company B in the fixed-rate and floating-rate debt markets.

	10-Year Fixed-Rate Note	10-Year Floating-Rate Note
Company A	4%	3-month HIBOR + 1%
Company B	7.5%	3-month HIBOR + 2.5%

Company A wants to borrow HKD200 million for 10 years at a floating rate tied to the 3-month Hong Kong Interbank Offered Rate ("HIBOR"), while Company B also wants to borrow HKD200 million for 10 years but at a fixed interest rate to avoid interest rate risk.

Which **ONE** of the following terms of an interest-rate swap agreement will allow the two companies to enjoy **EQUAL** interest saving in a mutually beneficial arrangement?

A Company A pays 3-month HIBOR + 1.5% (floating) to Company B and Company B pays 4% (fixed) to Company A.
B Company A pays 3-month HIBOR + 2.5% (floating) to Company B and Company B pays 4.5% (fixed) to Company A.
C Company A pays 3-month HIBOR + 2% (floating) to Company B and Company B pays 6% (fixed) to Company A.
D Company A pays 3-month HIBOR + 1.5% (floating) to Company B and Company B pays 7% (fixed) to Company A.

<8>
An interest rate cut reasonably affects the securities market in which of the following ways?

I Lower the cost of securities margin financing and hence increase the liquidity and turnover of the stock market.
II Lower interest expense for business investment and hence enhance the growth of companies.
III All else being equal, lower interest returns from bank deposits make securities investments relatively more attractive.
IV Lower interest rates reduce the risk of inflation and hence stifle investments in the securities market.

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

<9>
Which of the following functions can be supported by the Faster Payment System operated by the Hong Kong Monetary Authority?

I It operates on a 24×7 basis.
II All non-bank financial institutions can participate.
III It supports payment in Renminbi.
IV It enables immediate cross-bank payment.

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

<10>
Which **ONE** of the following items measures the sensitivity of debt securities to changes in interest rate?

A Duration
B Option delta
C Value at Risk
D Standard deviation

<11>
All else equal, the price of which of the following instruments is the **LEAST** sensitive to a change in the share price of the issuer? (Assume that the shares of the issuer are listed on an exchange.)

A Fixed-rate notes
B Equity warrants
C Company stock options
D Convertible notes

<12>
Which **ONE** of the following statements regarding Value at Risk ("VaR") is **INCORRECT**?

A VaR does not depend on assumptions about the probability distribution.
B VaR measures market average return at a certain risk level.
C VaR indicates the maximum loss at a certain confidence level over a specific timeframe.
D VaR measures market risk.

<13>
Which of the following knowledge and skills are required of asset management professionals?

I Knowledge of economic analysis
II Knowledge of asset valuation
III Financial statement analysis skills
IV Knowledge and skills in accounting

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

<14>
Which **ONE** of the following events **BEST** indicates that inflation is caused by the excess demand for goods and services?

A Increase in employment rate with production at full capacity.
B Increase in interest rates.
C Increase in producer price index.
D Increase in business profits.

<15>
Which **ONE** of the following statements **CORRECTLY** describes participating preference shares?

A If the issuing company does not distribute dividends in one year, dividends will be accumulated and paid to shareholders in the next profitable years.
B Shareholders may receive additional dividends (above a fixed dividend) at the discretion of the company.
C Shareholders have the right to convert their preference shares into ordinary shares on a basis determined at the time of issuance.
D Shareholders will receive dividends after full payments have been made to ordinary shareholders.

<16>
Which **ONE** of the following expectations over the longer term will an inverse yield curve illustrate?

A Greater uncertainty
B Rising inflation rate
C Falling interest rates
D Stable interest rates

 © Hong Kong Securities and Investment Institute

<17>
Which of the following instruments are typical examples of exchange-traded derivatives?

I Currency swaps
II Treasury bond futures
III Forward rate agreements
IV Equity-index options

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

<18>
Which of the following items belong to fundamental risk management techniques?

I Risk retention
II Risk aversion
III Risk avoidance
IV Risk reduction

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

<19>
Which **ONE** of the following techniques is **BEST** used to measure liquidity risk of a company?

A Gap analysis
B Option sensitivity measures
C Stress testing
D Loss-given-default

<20>
The ratio of the amount of a bank's capital to its risk-weighted credit exposure is known as:

A capital adequacy ratio.
B leverage ratio.
C liquidity coverage ratio.
D credit exposures ratio.

<21>
A government bond with a face value of HKD1,000,000 has a coupon payment of HKD30,000 per annum payable semi-annually. The maturity date is 3 years from now. If the yield is 5% per annum, what is the price of the bond?

A HKD 932,577.48
B HKD 944,918.75
C HKD 1,000,000.00
D HKD 1,023,809.52

<22>
Which **ONE** of the following risks will be mitigated by the delivery-versus-payment system?

A Interest rate risk
B Settlement risk
C Market risk
D Liquidity risk

<23>
Mr Lee, aged 50, is a professional and he has a lump sum amount of money available for investment. He plans to retire 5 years later. If you are his financial adviser, which **ONE** of the following investment products do you consider the **MOST** suitable for him now basing on this information?

A AAA-rated bonds
B Small-cap stocks
C Equity warrants
D Private equities

<24>
Which of the following events will affect the level of interest rates in Hong Kong?

I A distribution of bonus shares of a listed company.
II A reduction in US interest rates.
III A highly over-subscribed initial public offering of a large state-owned enterprise in Hong Kong.
IV A sudden outflow of capital caused by foreign investors.

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

<25>
Which of the following entities is/are allowed to accept a deposit of HKD100,000 from the public?

I Deposit-taking company
II Licensed bank
III Restricted licence bank
IV Hong Kong Monetary Authority

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

<26>
In general, which **ONE** of the following statements regarding the exchange-traded fund ("ETF") is **INCORRECT**?

A ETF is traded in the same way as ordinary shares.
B ETF does not offer investors dividend payment.
C The value of ETF is derived from the value of the underlyings in the fund.
D ETF enables a spread of risk through portfolio diversification.

<27>
Which **ONE** of the following credit risk management techniques involves simultaneously holding two or more assets with different expected performance?

A Margin financing
B Credit limit setting
C Use of credit derivatives
D Exposure netting

<28>
If you are a financial adviser, which of the following instruments will you recommend to a 20-year-old retail investor who is looking for long-term capital growth?

A Derivative Warrants
B Large Cap equities index exchange-traded funds
C Inflation-indexed bonds
D Security tokens

<29>
Mr Lee, a young professional with a high steady income, prefers investments with gearing effect and a short timeframe. Which **ONE** of the following instruments will **BEST** suit his investment objectives?

A Corporate bonds
B Accumulators
C Derivative warrants
D Convertible notes

<30>
If you are the chief executive officer of a company planning to raise new capital for the coming market expansion, which of the following persons should you approach for professional advice and assistance?

A Fund managers
B Corporate finance professionals
C Securities advisers
D Financial planners

<31>
Which **ONE** of the following entities aims to support infrastructure development in the Belt and Road Initiative related countries?

A Organisation for Economic Co-operation and Development
B World Trade Organization
C Asian Infrastructure Investment Bank
D International Finance Corporation (a member of the World Bank Group)

<32>
Which of the following are derivatives?

I Silver Bonds
II Interest rate swaps
III Silver futures
IV Stock options

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

<33>
Which of the following items are lessons learnt from the 1997 Asian financial crisis?

I Credit ratings for different types of obligation should be clearly distinguished.
II A strong, well-regulated and transparent financial sector is important to a sustainable policy framework.
III It is necessary to establish an effective mechanism of economic and financial surveillance to identify potential risk.
IV Careful debt management is required to sustain both governments and corporations.

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

<34>
Which **ONE** of the following items is a **POSSIBLE** reason for some investors to invest in equity securities but not debt securities?

A Capture large potential capital gain.
B Secure the investor principal in general if held until maturity.
C The returns from equity securities have always been above the return from debt securities.
D Receive a stream of stable and predictable income.

<35>
Which of the following statements regarding repurchase agreements ("repos") are **INCORRECT**?

I One party who sells securities to another party will agree to repurchase equivalent securities at an agreed (lower) price on an agreed future date.
II Repos allow their seller to cover liquidity shortfalls.
III Repos may be seen as akin to collateralised borrowing and lending.
IV A repo seller is able to profit by the yield differential between the repo and market rates.

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

<36>
Institution that conducting futures dealing in Hong Kong must be licensed by or registered with:

A the Hong Kong Monetary Authority.
B Hong Kong Exchanges and Clearing Limited.
C the Hong Kong Securities and Investment Institute.
D the Securities and Futures Commission.

<37>
Which of the following entities are **NOT** credit rating agencies for debt issues?

I S&P Global Ratings
II The Hong Kong Capital Markets Association
III The Hong Kong Society of Financial Analysts
IV Moody's Investors Service

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

<38>
Which of the following are the potential benefits of managed funds to retail investors?

I Access to professional investment management services.
II Access to greater investment opportunities.
III Minimise risk through diversification.
IV Access to advanced technology in the investment industry.

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

<39>
Which **ONE** of the following reflects the average cost of funds of banks in Hong Kong?

A Yield of US Treasury Bills
B Inflation rate
C Prime rate
D Composite interest rate

<40>
In which **ONE** of the following ways are primary and secondary markets complementary to each other in developing an effective financial market?

A The growth of the secondary market will be limited if there is no active primary market to provide liquidity to investors.
B Without a primary market, investors will have no other information to make trading decisions in the secondary market.
C The growth of the secondary market will be limited if there is an insufficient supply of securities from the primary market.
D Without a secondary market, there will be no mechanism for raising initial capitals for companies in the primary market.

<41>
A Hong Kong exporter entered into a contract with a German importer on 1 April. The German company paid the Hong Kong company EUR10 million on 1 July when the shipment arrived at Hamburg (a city in Germany). The exchange rate was at HKD10 = EUR1 on 1 April. However, EUR depreciated to HKD9 = EUR1 on 1 July.

Quantify the impact of the depreciation of EUR on the Hong Kong company if the exporter had not undertaken any hedger against the exchange rate risk.

A Foreign exchange loss of HKD10 million
B Foreign exchange gain of EUR1 million
C Foreign exchange loss of EUR1 million
D Foreign exchange gain of HKD10 million

<42>
An investor in the UK plans to purchase 50,000 shares of Company X (C-rated) which is listed on The Stock Exchange of Hong Kong Limited when her term deposit (British pound sterling) at the Bank of Scotland matures one month later. What are the major risks faced by the investor in this future transaction?

I Credit risk
II Settlement risk
III Exchange rate risk
IV Market risk

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

<43>
Transactions in Leveraged and Inverse Products are cleared and settled by:

A Hong Kong Securities Clearing Company Limited.
B HKFE Clearing Corporation Limited.
C The SEHK Options Clearing House Limited.
D Real Time Gross Settlement System.

<44>
Which of the following are key functions of the Hong Kong Monetary Authority?

I To maintain currency stability.
II To promote the efficiency, integrity and development of the financial system.
III To manage the Exchange Fund.
IV To supervise the conduct and operations of securities firms.

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

<45>
Company A plans to borrow HKD30 million after one month. The current 3-month Hong Kong Interbank Offered Rate ("HIBOR") is standing at 2% per annum. Company A wants to hedge against the future increase in interest rates by immediately entering into a forward rate agreement ("FRA") with a bank using 3-month HIBOR as the benchmark rate and against HKD30 million in nominal principal. At the end of the one-month period, the 3-month HIBOR increases to 2.2% per annum. Under the FRA, which **ONE** of the following actions will take place?

A Company A can deposit HKD30 million to the bank at an interest rate of 2.2% per annum for three months.
B The bank will pay Company A 0.2% of the nominal principal of HKD30 million regardless of the forward rate in the FRA.
C Company A will probably have to make a payment to the bank since the forward rate in the FRA is likely to be below the spot 3-month HIBOR of 2.2% per annum.
D Company A will probably receive a payment from the bank since the forward rate in the FRA is likely to be below the spot 3-month HIBOR of 2.2% per annum.

<46>
Which **ONE** of the following approaches/measures is used to quantify credit risk?

A Duration
B Likelihood of default
C Dollar value per basis point
D Gap analysis

<47>
The shares of a company are currently trading at $20 per share. If the company makes a 1-for-5 rights issue with a subscription price of $17 per share, what is the theoretical ex-rights price of the company's shares?

A $17
B $18.5
C $19.5
D $20

<48>
The loss due to a bank's inability to make transaction because of the failure of the interbank payment system is a result of:

A reputational risk.
B legal risk.
C strategic risk.
D systemic risk.

<49>
Which of the following are the ethical requirements for financial advisers?

I Preserve client confidentiality at all times.
II Always to be true to their word.
III Protect the integrity of the market.
IV Never recommend the client to invest in high-risk assets.

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

<50>
Assume that HKD100 is deposited in a bank for 3 years at an interest rate of 4% per annum compounded semi-annually. Calculate the total amount received at maturity.

A HKD106.12
B HKD112.49
C HKD112.62
D HKD112.85

<51>
The asset allocation structure of Mr Lam's investment portfolio is as follows: 60% in equities, 20% in bonds, and 20% in cash. Which course of action should he take if he expects interest rates to decrease in the future?

A Increase the portfolio weighting in equities.
B Increase the portfolio weighting in bonds.
C Increase the portfolio weighting in cash.
D Allocate funds to invest in money market instruments.

<52>
The 3-month EUR/GBP forward rate is at EUR1 = GBP0.8580 and the spot rate is at EUR1 = GBP0.8605. Ignore the trading cost, what is the **MOST FEASIBLE** reason for the observed forward discount in EUR?

A GBP is expected to depreciate against EUR.
B 3-month interest rates for EUR are lower than those of GBP.
C 3-month interest rates for EUR are higher than those of GBP.
D 3-month interest rates for EUR and GBP are the same.

<53>
A Hong Kong investor is holding a portfolio of Japanese Government bonds. All else being equal, which **ONE** of the following situations will have a **DIRECT POSITIVE** impact on the return (in HK dollar) of the investor's portfolio?

A HK dollar depreciates against US dollar.
B HK dollar depreciates against Japanese yen.
C Interest rates in Japan rise
D Interest rates in Hong Kong drop

<54>
Which **ONE** of the following statements regarding the Currency Board system is **CORRECT**?

A Note-issuing banks must deposit with the Exchange Fund an amount of US dollars equivalent to the amount of Hong Kong dollars printed.
B When the demand for Hong Kong dollars increases, the Hong Kong Monetary Authority ("HKMA") will sell US dollars to the market.
C Under the Currency Board system, HKMA has full flexibility to implement the government's monetary policy.
D Interest rate will remain constant under Currency Board system.

<55>
The securities developed by pooling student loans are called:

A asset-backed securities.
B mortgage-backed securities.
C advances-backed securities.
D liability-backed securities.

<56>
A transaction of the ordinary shares of a company registered in Chinese Mainland took place on Friday, 15 September 20X8, on The Stock Exchange of Hong Kong Limited. When was the settlement date? (Note: There were no public holidays in the following week other than Sunday.)

A 17 September 20X8
B 18 September 20X8
C 19 September 20X8
D 20 September 20X8

<57>
Ms Chan is looking for the funds to open 10 more branches for her retail business. This source of capital should be classified as a/an:

A venture capital.
B start-up capital.
C expansion capital.
D recapitalisation.

<58>
Which of the following financial instruments are hybrid securities?

I Ordinary shares
II Preference shares
III Convertible bonds
IV Equity-linked instruments

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

<59>
A stock has the following return distribution:

Probability	Return (%)
0.3	-15
0.4	8
0.3	20

Based on the above information, calculate the expected return of the stock.

A 4.7%
B 8%
C 13%
D 13.7%

<60>
Which **ONE** of the following entities in Hong Kong oversees the conduct and practices of Authorized Institution?

A Insurance Authority
B The Stock Exchange of Hong Kong Limited
C Hong Kong Monetary Authority
D Securities and Futures Commission

 © Hong Kong Securities and Investment Institute

Answers

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

 © Hong Kong Securities and Investment Institute