

LE Paper 1 (Fundamentals of Securities and Futures Regulation)

Syllabus

Topic 1: Regulatory overview of the Hong Kong financial industry

- 1 Financial products and services, and their regulation
- 2 Regulatory authorities
- 3 Securities and Futures Commission (“SFC”)
- 4 Hong Kong Exchanges and Clearing Limited (“HKEX”)
- 5 Participants and intermediaries in the Hong Kong financial market

Topic 2: Principles of relevant Hong Kong law and the Companies Ordinance (“CO”)

- 1 Outline of Hong Kong’s legal system
- 2 CO and related matters

Topic 3: Securities and Futures Ordinance (“SFO”)

- 1 Background
- 2 Part I – Preliminary
- 3 Part II – The SFC – its constitution, objectives, functions, powers and duties
- 4 Part III – Exchange companies, clearing houses, exchange controllers, investor compensation companies and automated trading services
Part IIIA – Over-the-counter (“OTC”) derivative transactions
- 5 Part IV – Offers of investments
- 6 Part IVA – Open-ended fund companies (“OFCs”)
- 7 Part V – Licensing and registration
- 8 Part VI – Capital requirements, client assets, records and audit relating to intermediaries
- 9 Part VII – Business conduct of intermediaries
- 10 Part VIII – Supervision and investigations
- 11 Part IX – Discipline
- 12 Part X – Powers of intervention and proceedings
- 13 Part XI – Securities and Futures Appeals Tribunal
- 14 Part XII – Investor compensation

- 15 Part XIII – Market Misconduct Tribunal
- Part XIV – Offences relating to dealings in securities and futures contracts
- 16 Part XIVA – Disclosure of inside information
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- 17 Part XVI – Miscellaneous
- 18 Part XVII – Repeals and related provisions

Topic 4: Licensing and registration, and subsidiary legislation

- 1 Licensing and registration requirements under the SFO
- 2 Capital requirements
- 3 Client securities
- 4 Client money
- 5 Keeping of records
- 6 Provision of contract notes, statements of account and receipts to clients
- 7 Audit
- 8 Regulated activities under the SFO
- 9 Reporting and record keeping obligations for OTC derivative transactions
- 10 Clearing OTC derivative transactions
- 11 OFCs

Topic 5: Business conduct and client relations

- 1 Introduction
- 2 Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission
- 3 Fund Manager Code of Conduct
- 4 Corporate Finance Adviser Code of Conduct
- 5 Code of Conduct for Persons Providing Credit Rating Services
- 6 Code on Open-Ended Fund Companies
- 7 The Code of Conduct for Share Registrars

Topic 6: Business operations and practices

- 1 Introduction
- 2 Management, Supervision and Internal Control Guidelines for Persons Licensed by or Registered with the Securities and Futures Commission
- 3 Anti-money laundering and counter-terrorist financing

- 4 Electronic trading and alternative liquidity pools
- 5 Personal Data (Privacy) Ordinance
- 6 Compliance and governance
- 7 Other matters concerning business operations and practices

Topic 7: Participating in the Hong Kong exchanges

- 1 Introduction
- 2 HKEX
- 3 Dealing in securities listed on The Stock Exchange of Hong Kong Limited (“SEHK”)
- 4 Traded options on the SEHK
- 5 Dealing in futures contracts
- 6 Trading and marketing

Topic 8: Accessing public capital

- 1 Rules governing listing
- 2 Other types of listed securities
- 3 Takeovers and mergers and share buy-backs
- 4 SFC authorised products
- 5 Alternative methods of accessing public capital

Topic 9: Market misconduct and improper trading practices

- 1 Market misconduct under the SFO
- 2 Consequences of market misconduct
- 3 Unsolicited calls
- 4 Improper trading practices
- 5 Enforcement actions

Expected Learning Outcomes

Topic 1: Regulatory overview of the Hong Kong financial industry

At the end of this Topic, candidates should be able to:

- (a) describe the variety of the products and services that are offered in Hong Kong as an international financial services centre;
- (b) describe the objectives and functions of Hong Kong's financial regulators and the background to securities regulation in Hong Kong;
- (c) describe the interlinking of the relevant functions, responsibilities and powers of the arms of Government with the SFC;
- (d) describe the roles of the semi-governmental, statutory and non-statutory bodies concerned with financial regulation and their links with the SFC;
- (e) describe the objectives, functions, powers, responsibilities and structure of the SFC;
- (f) identify the functions of SFC's operating divisions and the roles of the SFC's committees, tribunals and panels;
- (g) differentiate the roles of the SFC, exchanges and clearing houses;
- (h) determine the roles of investors, intermediaries, principals and providers of support services in the financial markets.

Topic 2: Principles of relevant Hong Kong law and the Companies Ordinance ("CO")

At the end of this Topic, candidates should be able to:

- (a) explain the fundamental concepts of the major laws relevant to securities and futures business in Hong Kong;
- (b) identify the difference between the structures and work of the courts, tribunals and arbitration;
- (c) explain the types of companies in Hong Kong, their constitution and internal operations;
- (d) explain the different forms of share capital and debentures;

- (e) describe the procedures governing company meetings and the passing of resolutions;
- (f) evaluate the powers, duties and liabilities of directors and the circumstances under which these apply;
- (g) evaluate the rights and powers of shareholders, the need to protect minority shareholders and the provisions made for this purpose;
- (h) determine the circumstances in which the Financial Secretary may appoint inspectors to look into the affairs of companies;
- (i) determine the difference between the various ways in which companies may be wound up.

Topic 3: Securities and Futures Ordinance (“SFO”)

At the end of this Topic, candidates should be able to:

- (a) describe the reasons for the establishment of the SFO and its objectives;
- (b) describe the important definitions used in the SFO (which are principally in Schedule 1 but are also scattered throughout the SFO);
- (c) explain the key requirements under main operative parts of the SFO.

Topic 4: Licensing and registration, and subsidiary legislation

At the end of this Topic, candidates should be able to:

- (a) explain the licensing regime established under the SFO to control and supervise licensed corporations, registered institutions and their associated entities;
- (b) determine the responsibilities of the board and the definitions of responsible officers, executive officers, substantial shareholders, licensed representatives and relevant individuals;
- (c) explain the requirements of Fit and Proper Guidelines, the Guidelines on Competence and the Guidelines on CPT;

- (d) explain the requirements of SFO subsidiary legislations on capital requirements, client securities, client money, record keeping, contract note and accounts and audit;
- (e) explain the specific requirements of all regulated activities under the SFO licensing regime;
- (f) explain the requirements under other SFO subsidiary legislations related to OTC derivative transactions and OFCs.

Topic 5: Business conduct and client relations

At the end of this Topic, candidates should be able to:

- (a) explain the general principles and key requirements of the Code of Conduct and apply them to practical matters;
- (b) explain the scope and special provisions of FMCC, CFA Code, CRA Code, OFC Code and the Code of Conduct for Share Registrars and the persons to whom they apply.

Topic 6: Business operations and practices

At the end of the Topic, candidates should be able to:

- (a) describe the objectives and guidelines for key areas of internal control identified under ICG;
- (b) describe how senior management of the licensed corporations should supervise their businesses under the ICG;
- (c) explain the key anti-money laundering and counter-terrorist financing (“AML/CFT”) related legislations in Hong Kong and the steps applicable to the identification and reporting of ML/TF;
- (d) determine how to effectively adopt risk-based approach (“RBA”) to identify suspicious circumstances and ML/TF risks that arise in relation to third parties and implement necessary AML/CFT policies and procedures to manage and/or report the ML/TF risks;
- (e) explain the special features of electronic trading and ALPs from a regulatory point of view;

- (f) explain general principles guiding the handling of personal data under the Personal Data (Privacy) Ordinance (“PDPO”);
- (g) explain the broad concerns of, and the mechanisms to address, corporate governance;
- (h) describe the basic insurance requirements for licensed corporations;
- (i) cite the background of the CRS.

Topic 7: Participating in the Hong Kong exchanges

At the end of this Topic, candidates should be able to:

- (a) explain the difference between the Hong Kong exchanges, clearing houses, trading, clearing and settlement systems, and explain their roles and functions as well as the arrangement and the characteristics of cross-border trading between Mainland China and Hong Kong;
- (b) explain the board operational rules relating to securities dealing on the SEHK and the HKFE respectively, and determine who the participants are and their roles;
- (c) explain the nature of options traded on the SEHK, and the basic operational rules covering their trading on the SEHK;
- (d) apply the rules covering trading position limits and reporting requirements;
- (e) describe the basic requirements relating to the marketing of listed structured products, such as warrants.

Topic 8: Accessing public capital

At the end of this Topic, candidates should be able to:

- (a) cite the purposes of the Listing Rules;
- (b) explain the regulatory requirements for the various persons involved in the listing process, including directors, controlling shareholders, authorised representatives, sponsors, overall coordinators and other capital market intermediaries (“CMIs”), compliance advisers, and independent financial advisers (“IFAs”);

- (c) explain the basic listing requirements for equity securities, share schemes and price stabilization;
- (d) explain, with regard to the Listing Rules, the nature of notifiable transactions, the purposes of the connected transactions rules, and the events leading to trading halt, suspension, cancellation, withdrawal of listings and discipline and their respective procedures and determine the circumstances where these rules may apply;
- (e) describe the listing requirements for depositary receipts, warrants, options and similar rights, derivative warrants, debt securities as well as investment products and other securities;
- (f) explain the purposes of the Takeovers Code and the Share Buy-backs Code, their status, applications and general principles and determine the circumstances where these codes apply;
- (g) determine when mandatory, voluntary and comparable offers are made, and explain the disciplinary aspects of takeovers, mergers and share buy-backs;
- (h) define CISs and structure products under Securities and Futures Ordinance (“SFO”), and explain their respective authorisation provisions and the requirements for advertisements and determine the circumstances where these provisions and requirements apply;
- (i) describe the key requirements under the SFC Handbook for Unit Trusts and Mutual Funds, Investment-Linked Assurance Schemes and Unlisted Structured Investment Products (“Handbook”), the UT Code, the OFC Code, the SIP Code, the Code on Real Estate Investment Trusts (“Code on REITs”) and the FMCC;
- (j) describe the role and responsibilities of Mandatory Provident Funds Scheme Authority (“MPFA”) and the areas covered by the principal codes issued by the SFC concerning authorised products;
- (k) explain the SFC’s special requirements for parties involved in authorised CISs and structured investment products (“SIPs”);
- (l) determine the new methods of accessing public capital that may fall within the regulatory oversight of the SFC;
- (m) describe how the Hong Kong regulatory regime applies to activities of virtual assets, including the SFC’s regulatory approach.

Topic 9: Market misconduct and improper trading practices

At the end of this Topic, candidates should be able to:

- (a) describe the differences between MMT proceedings and criminal prosecutions under the market misconduct provisions in the SFO and how they are adopted by the SFC in its investigations and enforcement activities;
- (b) describe the role of the MMT and the procedures adopted by the MMT in handling misconduct cases;
- (c) explain the various types of market misconduct and apply market misconduct cases in real-life situations;
- (d) explain the potential consequences of market misconduct under the MMT proceedings and criminal prosecutions;
- (e) describe the private civil actions provided under the SFO that are available for persons affected by market misconduct;
- (f) explain the prohibition against unsolicited calls and determine the circumstances where the prohibition applies;
- (g) determine various common forms of improper trading practices;
- (h) determine the reasons behind enforcement actions taken by the SFC.