

## **LE Paper 2 (Regulation of Securities)**

### **Syllabus**

#### ***Topic 1: Regulatory framework***

- 1 Introduction
- 2 Securities and Futures Ordinance (“SFO”) and relevant regulations
- 3 Other relevant laws
- 4 Securities and Futures Commission (“SFC”)
- 5 Other relevant regulatory authorities
- 6 Hong Kong Exchanges and Clearing Limited
- 7 Overall licensing regime under the SFO
- 8 Types of regulated activity covered in this Guide
- 9 Requirements for licensing – fitness and properness
- 10 Corporate governance and regulatory supervision
- 11 Provision of information to the SFC

#### ***Topic 2: Requirements of relevant subsidiary legislation***

- 1 Securities and Futures (Financial Resources) Rules
- 2 Securities and Futures (Client Securities) Rules
- 3 Securities and Futures (Client Money) Rules
- 4 Securities and Futures (Contract Notes, Statements of Account and Receipts) Rules
- 5 Securities and Futures (Keeping of Records) Rules
- 6 Securities and Futures (Accounts and Audit) Rules
- 7 Rules relating to compensation and insurance
- 8 Securities and Futures (Contracts Limits and Reportable Positions) Rules
- 9 Securities and Futures (OTC Derivative Transactions - Reporting and Record Keeping Obligations) Rules
- 10 Securities and Futures (OTC Derivative Transactions - Clearing and Record Keeping Obligations and Designation of Central Counterparties) Rules

#### ***Topic 3: Management and supervision of securities business***

- 1 Duties and liabilities of responsible officers and executive officers
- 2 Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (“Code of Conduct”)

- 3 Management, Supervision and Internal Control Guidelines for Persons Licensed by or Registered with the Securities and Futures Commission
- 4 Code of Conduct requirements for licensed or registered persons dealing in securities listed or traded on The Stock Exchange of Hong Kong Limited (“SEHK”)
- 5 Anti-money laundering and counter-terrorist financing

#### ***Topic 4: Dealing in securities traded on the SEHK***

- 1 Market participants in Hong Kong securities market
- 2 Participantship and trading right
- 3 Products traded on the SEHK
- 4 Trading mechanism and rules
- 5 Trading halt, suspension, cancellation and withdrawal of listing
- 6 Clearing and settlement services
- 7 The SEHK disciplinary procedures
- 8 Transaction costs

#### ***Topic 5: Other securities activities***

- 1 Approved introducing agent
- 2 Securities margin financing
- 3 Short selling
- 4 Securities borrowing and lending
- 5 Advising on securities
- 6 Online trading and advising on securities
- 7 Alternative liquidity pools
- 8 Automated trading services
- 9 Offers of securities
- 10 Cross-border trading
- 11 Virtual assets

#### ***Topic 6: Exchange traded options and over-the-counter (“OTC”) derivatives***

- A Exchange traded options
  - 1 Introduction
  - 2 Participant types and access rights

- 3 Trades monitoring, position limits and reporting requirements
- 4 Clearing and margin
- 5 Settlement
- B OTC derivatives
- 6 Licensing
- 7 Ongoing requirements

***Topic 7: Market misconduct and improper trading practices***

- 1 How market misconduct is regulated in Hong Kong
- 2 Market misconduct
- 3 Consequences of market misconduct
- 4 Unsolicited calls
- 5 Improper trading practices
- 6 SFC Disciplinary Fining Guidelines
- 7 Enforcement actions

## **Expected Learning Outcomes**

### ***Topic 1: Regulatory framework***

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

- (a) describe the variety of products and services that are offered in Hong Kong as an international financial services centre;
- (b) describe the background to securities regulation in Hong Kong and the key features of the SFO, rules, codes and guidelines which comprise the regulatory framework for the industry of dealing in securities and advising on securities;
- (c) explain relevant business laws that affect the securities industry, including company law, contract law, the law of agency, the law of tort, employment law and personal data privacy law;
- (d) cite the powers, responsibilities and structure of the SFC as well as the functions of its divisions;
- (e) describe the various financial market regulators in Hong Kong and their objectives and functions;
- (f) differentiate the roles of the SFC, exchanges and clearing houses;
- (g) explain the licensing regime established under the SFO to control and supervise licensed corporations, registered institutions and their associated entities;
- (h) explain the definition of RA1: dealing in securities;
- (i) explain the requirements of Fit and Proper Guidelines, the Guidelines on Competence and the Guidelines on Continuous Professional Training ("Guidelines on CPT");
- (j) identify the general good practice of compliance and corporate governance;
- (k) describe the reporting requirements regarding provision of information to the SFC.

### ***Topic 2: Requirements of relevant subsidiary legislation***

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

- (a) explain the features and practical application of the FRR, the Client Securities Rules, Client Money Rules, Contract Notes Rules, the Keeping of Records Rules and Accounts and Audit Rules;
- (b) explain the general operation of Investor Compensation Fund and requirements for licensed corporations to arrange insurance covers;
- (c) explain the features of the reportable positions and prescribed limits provisions of the CLRP Rules;
- (d) explain the features of the reporting and record keeping obligations of licensed corporations under the Securities and Futures (OTC Derivative Transactions – Reporting and Record Keeping Obligations) Rules;
- (e) describe the features of the clearing and record keeping obligations in relation to dealer-to-dealer OTC derivative transactions under the Securities and Futures (OTC Derivative Transactions – Clearing and Record Keeping Obligations and Designation of Central Counterparties) Rules.

### ***Topic 3: Management and supervision of securities business***

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

- (a) explain the duties, responsibilities and liabilities of responsible officers and executive officers in a business and determine the importance of their roles;
- (b) explain the general principles and other requirements of the Code of Conduct to practical matters;
- (c) describe the objectives and guidelines for key areas of internal control identified under ICG;
- (d) explain how senior management of the licensed corporations should supervise their businesses under the ICG;
- (e) explain the additional conduct requirements for dealing in securities listed or traded in the SEHK, as set out in a schedule to the Code of Conduct;

- (f) 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 money laundering and terrorist financing (“ML/TF”);
- (g) 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;
- (h) describe the particular requirements of the Guideline on Anti-Money Laundering and Counter-Financing of Terrorism (For Licensed Corporations and SFC-licensed Virtual Asset Service Providers) (“GAML”) in relation to virtual assets and licensed VAS providers.

#### ***Topic 4: Dealing in securities traded on the SEHK***

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

- (a) explain what the market participants in Hong Kong securities market are and what the HKEX, the relevant exchanges, clearing houses and their systems are;
- (b) explain the requirements governing SEHK participation and trading rights;
- (c) explain what the products traded on the SEHK are;
- (d) explain the characteristics of Hong Kong listed companies and apply the basic listing criteria in the Main Board and GEM;
- (e) describe the order execution system, order types and certain trading rules relating to dealing on the SEHK;
- (f) explain the events leading to possible trading halt, suspension and cancellation or withdrawal of listing, and rules relating to dealing in suspended securities;
- (g) describe the functions of HKSCC, the clearing house for securities transactions, and the criteria for becoming a clearing participant in CCASS;
- (h) explain how the clearing and settlement system works;

- (i) cite the disciplinary procedures of the SEHK;
- (j) describe the categories and rates of transaction costs for an investor.

### ***Topic 5: Other securities activities***

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

- (a) describe the function of an approved introducing agent and the regulatory requirements applicable to it;
- (b) explain and apply the specific regulatory and conduct requirements for carrying on the activities of SMF, short selling, stock borrowing and lending, securities advising and online securities trading and advising, operating ALPs as well as automated trading services;
- (c) explain and apply the CWUMPO provisions concerning offer of listed securities, SFO provisions concerning offers of investments, including authorisation of CISs and structured products and advertisements for them;
- (d) explain the arrangement and the characteristics of cross-border trading between the Chinese Mainland and Hong Kong and apply that knowledge;
- (e) determine how the Hong Kong regulatory regime applies to activities of virtual assets, including the SFC's regulatory approach.

### ***Topic 6: Exchange traded options and over-the-counter ("OTC") derivatives***

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

#### **Part A: Exchange traded options**

- (a) explain the regulatory requirements related to the trading and settlement of options on stock traded on the SEHK;

#### **Part B: OTC derivatives**

- (b) explain the licensing, supervisory and ongoing conduct requirements for over-the-counter derivatives ("OTCD") transactions.

### *Topic 7: Market misconduct and improper trading practices*

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

- (a) explain 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) explain 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) explain 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) describe the principles applied by the SFC in exercising its fining powers under the SFO and the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (“AMLO”);
- (i) determine the reasons behind enforcement actions taken by the SFC.