

LE Paper 3 (Regulation of Derivatives)

Syllabus

Topic 1: Regulatory framework

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- 3 Securities and Futures Commission
- 4 Hong Kong Exchanges and Clearing Limited
- 5 Other regulators
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- 7 Products
- 8 International futures clearing houses
- 9 Principal differences in regulatory systems
- 10 Dealing in international futures markets

Topic 2: Licensing and registration

- 1 Licensing and registration requirements under the Securities and Futures Ordinance (“SFO”)
- 2 Regulated activities under the SFO
- 3 Licensing of corporations
- 4 Licensing of representatives
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Topic 3: Client securities and money

- 1 General requirements
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- 1 Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission
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- 5 Risk management
- 6 Management, Supervision and Internal Control Guidelines for Persons Licensed by or Registered with the Securities and Futures Commission
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Topic 5: Record keeping and contracts limits and reporting

- 1 Records to be kept by intermediaries
- 2 Contract notes, statements and receipts
- 3 Contracts limits and reporting Enforcement actions

Topic 6: Futures trading and settlement

- 1 Participantship
- 2 Continuing obligations
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- 4 Settlement

Topic 7: Over-the-counter (“OTC”) derivatives trading, reporting and clearing

- 1 Reporting and record keeping obligations for OTC derivative transactions
- 2 Clearing and record keeping obligations for OTC derivative transactions
- 3 Conduct requirements in relation to OTC derivative transactions
- 4 Margin requirements for non-centrally cleared OTC derivative transactions

Expected Learning Outcomes

Topic 1: Regulatory framework

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

- (a) determine what are regarded as “derivatives” internationally and cite the definition of futures contract under the SFO;
- (b) explain the range of derivative products effectively covered by the laws applicable in Hong Kong;
- (c) describe the regulatory framework for the Hong Kong financial services industry where derivatives are concerned;
- (d) explain the relevant parts of the law and regulations governing the derivatives markets in Hong Kong and determine the importance of these law and regulations;
- (e) describe the roles the SFC plays in regulating the industry;
- (f) explain the structure, roles and responsibilities of HKEX;
- (g) cite other regulators that regulate or have influence on Hong Kong derivatives market;
- (h) cite the main international futures exchanges and the key products traded on them;
- (i) cite the main international futures clearing houses and the difference in regulatory approaches related to dealing in international futures markets.

Topic 2: Licensing and registration

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

- (a) explain the licensing and registration requirements under the SFO for corporations and individuals and assess their importance in maintaining compliance and market integrity;
- (b) explain the criteria used to determine whether a corporation or an individual is competent to carry on regulated activities;

- (c) identify the circumstances in which a report must be made on activities being carried on by licensed persons or registered institutions;
- (d) determine and apply the penalties for carrying on a regulated activity without being appropriately licensed or registered.

Topic 3: Client securities and money

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

- (a) explain the requirements under Client Securities Rules and Client Money Rules and the implications of non-compliance with these rules.

Topic 4: Conduct of business

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

- (a) explain the general principles and other requirements of the Code of Conduct to practical matters;
- (b) explain the additional conduct requirements for licensed or registered persons who are participants of Hong Kong Futures Exchange Limited ("HKFE");
- (c) determine the risk management policies that are required in relation to dealing futures contracts;
- (d) describe the objectives and guidelines for key areas of internal control identified under ICG;
- (e) explain how senior management of the licensed corporations should supervise their businesses under the ICG, including the application of procedures relating to operational controls and risk management;
- (f) determine how the Hong Kong regulatory regime applies to activities of virtual assets, including the SFC's regulatory approach;
- (g) explain the key AML/CFT related legislations in Hong Kong and the steps applicable to the identification and reporting of money laundering and terrorist financing ("ML/TF");

- (h) 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;
- (i) describe the principles applied by the SFC in exercising its fining powers under the SFO and the AMLO;
- (j) explain "market misconduct" and its due consequences;
- (k) identify the prohibition against certain acts during or as a consequence of an unsolicited call;
- (l) identify the reasons behind enforcement actions taken by the SFC.

Topic 5: Record keeping and contracts limits and reporting

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

- (a) explain the record keeping rules and requirements for futures contracts, including the Keeping of Records Rules, Contract Notes Rules, and provisions related to reportable positions and prescribed limits.

Topic 6: Futures trading and settlement

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

- (a) explain the conditions and ongoing obligations for becoming and acting as an HKFE Participant for trading futures contracts and as a clearing participant of HKCC for clearing and settling futures contracts;
- (b) explain the Rules, Regulations and Procedures of the Futures Exchange ("HKFE Rules") relating to trading, know your client and margin requirements;
- (c) identify the requirements for position monitoring;
- (d) explain the Rules and Procedures of HKCC ("HKCC Rules") relating to margin requirements, clearing procedures and systems settlement and delivery requirements.

Topic 7: Over-the-counter derivatives trading, reporting and clearing

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

- (a) define the applicability of the OTCD Reporting Rules and OTCD Clearing Rules;
- (b) explain the features of the reporting and record keeping obligations of licensed corporations under the OTCD Reporting Rules;
- (c) explain the features of the clearing and record keeping obligations of licensed corporations under the OTCD Clearing Rules;
- (d) explain the conduct requirements in relation to dealing with over-the-counter derivative (“OTCD”) transactions and determine the importance of these requirements;
- (e) explain the margin requirements in relation to non-centrally cleared OTCD transactions.