

LE Paper 4 (Regulation of Credit Rating Services)

Syllabus

Topic 1: General regulatory framework

- 1 Background to the industry
- 2 International context of regulating credit rating agencies (“CRAs”)
- 3 Framework of laws and regulations
- 4 Regulators
- 5 Licensing and registration requirements under the Securities and Futures Ordinance (“SFO”)
- 6 Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission
- 7 Management, Supervision and Internal Control Guidelines for Persons Licensed by or Registered with the Securities and Futures Commission
- 8 Personal data
- 9 Anti-money laundering and terrorist financing
- 10 Discipline
- 11 Corporate governance and regulatory supervision

Topic 2: Operational compliance

- 1 Ongoing notification requirements
- 2 Capital requirements
- 3 Record keeping
- 4 Accounts and audit

Topic 3: Code of Conduct for Persons Providing Credit Rating Services

- 1 The CRA's own code of conduct
- 2 The rating process
- 3 Independence and conflicts of interest
- 4 Responsibilities to the investing public and rated entities

Topic 4: Misconduct

- 1 Market misconduct under the SFO
- 2 Consequences of market misconduct
- 3 Improper trading practices

Learning Outcomes

Topic 1: General regulatory framework

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

- (a) cite the general background of the credit rating industry;
- (b) describe the relationship between the CRA Code and the IOSCO Code and the relevance of international regulations to the credit rating industry in Hong Kong;
- (c) explain the general licensing and registration requirements and restrictions on conducting credit rating services under the SFO;
- (d) explain what constitutes credit rating services under the SFO and determine the services which are not covered by the SFO;
- (e) describe the various codes and guidelines which are relevant to the credit rating industry;
- (f) describe the roles and functions of the SFC and its divisions/departments;
- (g) describe how the various regulators co-operate with each other in areas where their regulatory mandates overlap;
- (h) explain the SFC's fit and proper requirements and its guidelines for intermediaries engaged in the provision of credit rating services;
- (i) explain the general principles and other requirements of the Code of Conduct to practical matters;
- (j) describe the objectives and guidelines for key areas of internal control identified under ICG;
- (k) explain how senior management of the licensed corporations should supervise their businesses under the ICG;
- (l) explain general principles guiding the handling of personal data under the PDPO;
- (m) 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");

- (n) 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;
- (o) explain 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”); and
- (p) explain how senior management should direct and supervise a business, outlining the strengths and deficiencies in corporate governance.

Topic 2: Operational compliance

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

- (a) determine what and when events need to be reported to the SFC;
- (b) explain the SFC's capital adequacy requirements for CRAs as well as the obligations under the Securities and Futures (Keeping of Records) Rules (“Keeping of Records Rules”) and Securities and Futures (Accounts and Audit) Rules (“Accounts and Audit Rules”).

Topic 3: Code of Conduct for Persons Providing Credit Rating Services

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

- (a) cite the importance of compliance with the CRA Code in the conduct of Type 10 regulated activity;
- (b) describe the purpose and coverage of a CRA's own code of conduct (“House Code”);
- (c) explain the core requirements under the CRA Code, including the need for an updated and publicly disclosed House Code, transparent rating methodologies, ongoing rating monitoring, conflict of interest management, SFC reporting obligations, and structured finance product disclosures.

Topic 4: Misconduct

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 insider dealing and its relevance to credit rating agencies (“CRAs”);
- (d) explain the various types of market misconduct and apply market misconduct cases in real-life situations;
- (e) describe the potential consequences of market misconduct under MMT proceedings and criminal prosecutions;
- (f) explain the private civil actions provided under the SFO that are available for persons affected by market misconduct;
- (g) determine various common forms of improper trading practices.