

**PAPER 8**

**SECURITIES**

of

The Licensing Examination

for Securities and Futures Intermediaries

Sample Practice Test

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<1>

Which of the following items are the risk factors faced by investors trading in derivative warrants on the Stock Exchange of Hong Kong Limited?

- I Leverage risk.
  - II Limited life risk.
  - III Corporate decisions risk.
  - IV Counterparty risk.
- 
- A I and IV only
  - B II and III only
  - C I, II and III only
  - D I, III and IV only

<2>

Which of the following statements regarding the value of options on an asset are **CORRECT** in general?

- I The value of a call option increases when the interest rate increases.
  - II The value of a put option decreases when the interest rate decreases.
  - III The value of a call option increases when the volatility of the underlying asset increases.
  - IV The value of a put option decreases when the volatility of the underlying asset increases.
- 
- A I and III only
  - B I and IV only
  - C II and III only
  - D II and IV only

<3>

The writer of a European put option on a stock is **BETTER OFF** in which **ONE** of the following situations in general?

- A Interest rates increase.
- B Price volatility of the underlying stock rises.
- C Price of the underlying stock decreases.
- D A special dividend is announced and distributed before the option's expiry date.

<4>

Company M's shares are currently trading at \$12 per share. The company makes a 2-for-5 rights issue at a subscription price of \$10 per share, if all the rights are fully subscribed, what is the theoretical value of the shares immediately following the issue?

- A \$11.00
- B \$11.21
- C \$11.43
- D \$11.65

<5>

Which **ONE** of the following items is **UNLIKELY** an immediate consequence for a company making a 1-for-8 bonus issue to its existing shareholders?

- A The share price will decrease.
- B The outstanding shares on issue will increase.
- C The market capitalisation will remain unchanged.
- D The company's working capital will increase.

<6>

If long-term interest rates are lower than short-term interest rates, it indicates that:

- A investors are bullish about the stock market.
- B investors expect inflation to increase over the long term
- C investors expect interest rates to fall in the future.
- D investors expect a lower return for holding debt securities for a longer period of time.

<7>

When a fund manager decides to switch from holding his long-term bonds to holding money market instruments, what would **LIKELY** be his expectation on interest rates in the near future?

- A Increase
- B Decrease
- C Keep stable
- D Turn choppy

<8>

Which **ONE** of the following statements regarding brokers in Hong Kong is **INCORRECT**?

- A Their income is basically derived from commission.
- B They must be licensed by the Securities and Futures Commission.
- C They must be Exchange Participants in order to trade securities via the trading system of The Stock Exchange of Hong Kong Limited.
- D They can only act under specific instruction from the client.

<9>

The yield of a commercial paper with a face value of \$100,000 is 2.5%. What is the fair price if it will mature in 73 days?

- A \$98,123.60
- B \$99,502.49
- C \$99,782.45
- D \$100,000.00

<10>

Wide-scale layoffs indicate that an economy is at which **ONE** of the following stages of a business cycle?

- A Peak to contraction
- B Contraction to trough
- C Trough to expansion
- D Expansion to peak

<11>

Which of the following information should a broker provide to his client for securities transaction?

- I Information of counterparty
  - II Daily statement
  - III Monthly statement
  - IV Contract note
- 
- A I and II only
  - B I, III and IV only
  - C II, III and IV only
  - D I, II, III and IV

<12>

What is the **MOST ACCURATE** real interest rate if the annual inflation rate is 2% and the nominal interest rate is 7%?

- A -4.67%
- B 4.90%
- C 5.00%
- D 9.14%

<13>

Corporate bonds with fixed coupon issued by a listed blue chip company are particularly **ATTRACTIVE** to which **ONE** of the following investors?

- A A high net worth individual who is in his early 40s.
- B A medical doctor who is in his mid 30s.
- C A fresh graduate who just joined the civil services.
- D A middle-income retiree who is in his 60s.

<14>

Peter instructs his broker to buy 5,000 shares of Stock A for \$60 each in the closing auction session on The Stock Exchange of Hong Kong Limited. What type of order is this?

- A At-auction order
- B Market order
- C Limit order
- D At-auction limit order

<15>

Mr Chan purchased 10,000 shares of Company A at \$10 per share with a margin financing facility provided by his broker that margin ratio is 60%. What is the return on investment if he sells the shares at \$12 per share later (ignore interest and transaction costs)?

- A 16.67%
- B 20.00%
- C 33.33%
- D 50.00%

<16>

Which **ONE** of the following statements regarding order handling procedures under the requirements of the Securities and Futures Commission's ("SFC") requirements is **CORRECT**?

- A Orders must be recorded physically.
- B The recording of telephone orders must be kept for at least 7 years.
- C Orders must be checked before being executed.
- D Orders must be transmitted to SFC for record.

<17>

Which **ONE** of the following risks is **MOST LIKELY** arising from a company's inability properly segregate incompatible duties?

- A Legal risk
- B Operational risk
- C Market risk
- D Liquidity risk

<18>

Peter purchases shares in Company P, a listed company on The Stock Exchange of Hong Kong Limited, through a broker on Thursday, 1 March 20X1. Which **ONE** of the following is the **CORRECT** settlement date for his transaction if 5 March 20X1 is the only public holiday in March 20X1?

- A 1 March 20X1
- B 2 March 20X1
- C 6 March 20X1
- D 7 March 20X1

<19>

Which **ONE** of the following statements regarding the price of equity call warrants is **INCORRECT**?

- A The more volatile of the underlyings, the higher the warrants price.
- B The higher the interest rates, the lower the warrants price.
- C The longer of the time to expiry, the higher the warrants price.
- D The higher the exercise price, the lower the warrants price.

<20>

If a company's debt ratio has decreased from 53% to 46%, which **ONE** of the following interpretations of this change is **INVALID**?

- A The company's current liabilities have decreased.
- B The company's non-current liabilities have decreased.
- C The company's total assets have increased.
- D The company's solvency has deteriorated.

<21>

Under which of the following circumstances will The Stock Exchange of Hong Kong Limited exercise its power to suspend or delist a company?

- I There are insufficient securities in the hands of the public.
  - II The issuer does not have a sufficient level of operations or assets to warrant the continued listing of its securities.
  - III The issuer or its business is no longer suitable for listing.
  - IV The issuer has suffered losses for three consecutive years.
- A I and IV only
  - B I, II and III only
  - C II, III and IV only
  - D I, II, III and IV

<22>

When an airline company purchases the crude oil options, it is **MOST** likely engaging in which **ONE** of the following activities?

- A Arbitrage
- B Stop-loss
- C Hedging
- D Speculation

<23>

Which of the following tools are used by technical analysts to evaluate securities?

- I Support and resistance
  - II Price-earnings ratio
  - III SWOT analysis
  - IV Relative strength indicator
- A I and IV only
  - B II and III only
  - C I, III and IV only
  - D I, II, III and IV

<24>

Which **ONE** of the following statements regarding Exchange Participants (“EPs”) of The Stock Exchange of Hong Kong Limited (“SEHK”) is **CORRECT**?

- A They can be either individual or corporation.
- B They may not have the Stock Exchange Trading Right.
- C They are required to be the Securities Market Maker.
- D The trading system of SEHK is only accessible to EPs.

<25>

Which **ONE** of the following services is **NOT** provided by securities registrars?

- A Distribution of bonus shares
- B Transfer of shares
- C Distribution of investor communications
- D Hold and safeguard the assets of financial institution

<26>

Which **ONE** of the following is **NOT** a necessary information given by investors to their brokers for execution of **MARKET ORDERS**?

- A Stock code and/or name
- B Price
- C Quantity
- D Buy or sell

<27>

Which of the following statements regarding capital asset pricing model are **CORRECT**?

- I It assumes that the market is efficient.
  - II The required rate of return on equity securities is exponentially related to its risk.
  - III A stock having a beta of 1 has the same expected return as the whole market.
  - IV It requires a reference risk-free rate.
- 
- A I and II only
  - B III and IV only
  - C I, III and IV only
  - D I, II, III and IV

<28>

Which types of the following institutions in Chinese Mainland might be eligible to become Qualified Domestic Institutional Investors (“QDII”)?

- I Fund houses
  - II Banks
  - III Insurance companies
  - IV Securities brokerages
- 
- A I and III only
  - B II and IV only
  - C I, II and IV only
  - D I, II, III and IV

<29>

Which **ONE** of the following **BEST** describes the expectation of inflation over a longer term for a normal yield curve scenario?

- A Inflation is expected to increase in the future.
- B Inflation is expected to decrease in the future.
- C Inflation is expected to remain stable in the future.
- D It has no implication on the expected inflation rate.

<30>

Which **ONE** of the following statements regarding the prospectus conventions for equity securities is **INCORRECT**?

- A It must contain sufficient information regarding industry and business overview.
- B It must be in both English and Chinese.
- C It must not contain any reference to future profits or dividend forecasts unless supported by a formal profit forecast.
- D It must not contain any disclaimer.

<31>

Which **ONE** of the following statements **CORRECTLY** describes a contingent-convertible bond?

- A It is a fixed-income bond issued by the Hong Kong Monetary Authority.
- B It is structured to comply with the principles of Islamic law.
- C It is a loss-absorbing bond issued by a bank that can be written down on the occurrence of a trigger event.
- D The proceeds raised would be used for financing public work projects with environmental benefits.

<32>

Which of the following descriptions match with the general principles of conduct for financial practitioners recognised by the International Organization of Securities Commissions and the Securities and Futures Commission?

- I Seek information from clients about their financial situation relevant to the services to be provided.
  - II Make adequate disclosure of relevant material information in their dealings with clients.
  - III Possess and employ effectively the resources and procedures needed for the proper performance of their businesses.
  - IV Avoid conflicts of interest and, when such conflicts cannot be avoided, they should ensure their clients are fairly treated.
- A I and IV only
  - B II and III only
  - C I, III and IV only
  - D I, II, III and IV

<33>

What is the option writer's **MAXIMUM** profit per share if he sells a put option on a stock at \$8, with a strike price of \$10? (ignore interest and transaction costs)

- A \$2
- B \$8
- C \$10
- D Unlimited

<34>

Which **ONE** of the following statements regarding the stock markets in Chinese Mainland is **INCORRECT**?

- A Only foreign investors are allowed to own Shanghai B shares.
- B Foreign investors can own Shanghai A shares via Shanghai-London Stock Connect.
- C Chinese local investors can own Shenzhen B shares.
- D Shenzhen B shares are traded and settled in Hong Kong dollars.

<35>

After a client's buy order on a stock call warrant is confirmed by his broker, an Exchange Participant of The Stock Exchange of Hong Kong Limited, it will be entered into which **ONE** of the following systems/platforms?

- A Central Clearing and Settlement System
- B Orion Trading Platform – Securities Market
- C Hong Kong Futures Automated Trading System
- D HKEX Orion Market Data Platform – Securities Market

<36>

Which **ONE** of the following products can be issued by Company X, a listed property developer?

- A Callable Bull Contract of Company X
- B Equity warrant of Company X
- C Derivative put warrant of Company X
- D Depository receipt of Company X

<37>

Which **ONE** of the following statements regarding the key factors affecting the securities market in Hong Kong is **MOST LIKELY CORRECT**?

- A An unanticipated increase in US interest rates is likely to result in a rise in stock prices.
- B A decrease in interest rates is likely to result in a decrease in the prices of debt securities.
- C An expectation of rise in inflation will put a downward pressure on stock prices.
- D An expectation of change in inflation will not affect the prices of debt securities.

<38>

Company B has just paid out a cash dividend of HKD2.50, which is expected to grow at a constant rate of 4% each year. Assume the dividend is paid only once a year and the required return on the shares is 8% per annum. Calculate the value of the share based on the dividend growth model. (Note: the stock has gone ex-dividend and the dividend of \$2.50 will not be received by the current buyers of the stock.)

- A \$31.25
- B \$32.50
- C \$62.50
- D \$65.00

<39>

Which of the following transactions may result in margin calls to an investor if market conditions change afterward?

- I Sold a put option.
  - II Bought a two-time Leverage Product.
  - III Bought shares of real estate investment trust on margin.
  - IV Bought a derivative warrant.
- 
- A I and III only
  - B I and IV only
  - C II, III and IV only
  - D I, II, III and IV

<40>

Which **ONE** of the following is **NOT** a common feature between corporate bonds and shares in Hong Kong?

- A Issued by corporations.
- B The holder is at risk of loss as company conditions change.
- C The value will remain unchanged as interest rates change.
- D Both can be listed on The Stock Exchange of Hong Kong Limited

## Answers

| Question No. | Answers | Question No. | Answers |
|--------------|---------|--------------|---------|
| 1            | C       | 21           | B       |
| 2            | A       | 22           | C       |
| 3            | A       | 23           | A       |
| 4            | C       | 24           | D       |
| 5            | D       | 25           | D       |
| 6            | C       | 26           | B       |
| 7            | A       | 27           | C       |
| 8            | D       | 28           | D       |
| 9            | B       | 29           | A       |
| 10           | B       | 30           | D       |
| 11           | C       | 31           | C       |
| 12           | B       | 32           | D       |
| 13           | D       | 33           | B       |
| 14           | D       | 34           | A       |
| 15           | D       | 35           | B       |
| 16           | C       | 36           | B       |
| 17           | B       | 37           | C       |
| 18           | C       | 38           | D       |
| 19           | B       | 39           | A       |
| 20           | D       | 40           | C       |