

Syllabus, Suggested Study Hours and Reference Readings

The Securities and Futures Ordinance (SFO), operative on 1st April 2003, covers ten regulated activities including leveraged foreign exchange trading. For examination purpose, only the sections in the SFO and subsidiary legislation relevant and related to Type 3 regulated activity, namely, leveraged foreign exchange trading will be tested.

Candidates are expected to have a general knowledge of the ordinance, subsidiary legislation, regulations and requirements in carrying out the duties of a representative for a leveraged foreign exchange trader.

I. Paper 1 - Syllabus and Suggested Study Hours

Topics	Suggested Study Hours
1. Regulatory Framework	
A. <u>Regulators</u>	2
- Securities and Futures Commission (SFC) <ul style="list-style-type: none"> ▪ Regulatory Objectives of the SFC ▪ Organization and Functions of the SFC ▪ Powers and Corporate Governance of SFC ▪ Scope of Regulation ▪ The Securities and Futures Appeals Tribunal ▪ Leveraged Foreign Exchange Trading Arbitration Panel ▪ Market Misconduct Tribunal 	
- Hong Kong Monetary Authority (HKMA) <ul style="list-style-type: none"> ▪ Functions and Objectives of the HKMA ▪ Role of HKMA in the Regulation of Leveraged Foreign Exchange Trading ▪ Registered Institutions 	0.5
B. <u>Relevant Ordinance and Subsidiary Legislation</u>	
- The Securities and Futures Ordinance (SFO) (Cap 571) <ul style="list-style-type: none"> ▪ Background and Scope of SFO ▪ Activities Regulated under SFO ▪ Meaning of Leveraged Foreign Exchange Trading 	2
- Subsidiary Legislation <ul style="list-style-type: none"> ▪ Cap 571A Securities and Futures (Unsolicited Calls – Exclusion) Rules ▪ Cap 571F Securities and Futures (Leveraged Foreign Exchange Trading) (Arbitration) Rules ▪ Cap 571I Securities and Futures (Client Money) Rules ▪ Cap 571N Securities and Futures (Financial Resources) Rules 	4

Topics	Suggested Study Hours
<ul style="list-style-type: none"> ▪ Cap 571O Securities and Futures (Keeping of Records) Rules ▪ Cap 571Q Securities and Futures (Contract Notes, Statements of Account and Receipts) Rules ▪ Cap 571S Securities and Futures (Licensing and Registration) (Information) Rules ▪ Cap 571U Securities and Futures (Miscellaneous) Rules ▪ Cap 571AF Securities and Futures (Fees) Rules 	
2. Regulation on Business Activities and Standards	
A. <u>Licensing of Intermediaries</u>	
<ul style="list-style-type: none"> - Fitness and Properness <ul style="list-style-type: none"> ▪ Who Needs to be Comply with the “Fit and Proper” Guidelines ▪ Determination of “Fit and Proper” for an Individual ▪ Continuing Requirement 	1
<ul style="list-style-type: none"> - Competence Requirement <ul style="list-style-type: none"> ▪ Application and Interpretation ▪ Fitness and Properness ▪ Assessment of Competence for Individual Representative ▪ Test of Competence for Representative 	2
B. <u>Continuing Obligations of Licensed Persons</u>	
<ul style="list-style-type: none"> - Code of Conduct <ul style="list-style-type: none"> ▪ General Principles ▪ Risk Disclosure Statement ▪ Additional Requirements for Licensed Persons Engaging in Leveraged Foreign Exchange Trading <ul style="list-style-type: none"> ○ General Conduct of Business Requirements ○ Specific Guidelines 	4
<ul style="list-style-type: none"> - Continuous Professional Training (CPT) <ul style="list-style-type: none"> ▪ Objectives of CPT ▪ CPT Requirements – Obligations of Individuals ▪ Consequences of Non-Compliance 	0.5
<ul style="list-style-type: none"> - Prevention of Money Laundering and Terrorist Financing <ul style="list-style-type: none"> ▪ Nature and Stages of Money Laundering ▪ Terrorist Financing ▪ Relevant and Related Legislation 	1.5
<ul style="list-style-type: none"> - Disciplinary Fining Guidelines <ul style="list-style-type: none"> ▪ General Considerations of Seriousness of Conduct ▪ Specific Considerations 	0.5

II. Paper 1 - Reference Readings

1. Suggested Reading:

Leveraged Foreign Exchange Trading Examination Study Manual, Institute of Professional Education And Knowledge of Vocational Training Council, May 2018. (HK\$250 per copy)

2. Further Readings:

- (1) ***Licensing Handbook***, Securities and Futures Commission, Hong Kong (April 2017).
- (2) ***Securities and Futures Ordinance and Subsidiary Legislation***, Laws of Hong Kong.
- (3) ***Fit and Proper Guidelines***, Securities and Futures Commission, Hong Kong (October 2013).
- (4) ***Guidelines on Competence and Appendix C***, Securities and Futures Commission, Hong Kong (March 2003, June 2011).
- (5) ***Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission***, Securities and Futures Commission, Hong Kong (Aug 2018).
- (6) ***Guidelines on Continuous Professional Training***, Securities and Futures Commission, Hong Kong (March 2003).
- (7) ***Guideline on Anti-Money Laundering and Counter-Terrorist Financing***, Securities and Futures Commission, Hong Kong (March 2018).
- (8) ***Prevention of Money Laundering and Terrorist Financing Guideline issued by the Securities and Futures Commission for Associated Entities***, Securities and Futures Commission, Hong Kong (August 2018).
- (9) ***SFC Disciplinary Fining Guidelines***, Securities and Futures Commission, Hong Kong (August 2018).
- (10) ***Securities and Futures Commission, Hong Kong***, Available at: <http://www.sfc.hk/>.
- (11) ***The Hong Kong Monetary Authority***, Available at: <http://www.hkma.gov.hk/>.

Note: All the above Code and Guidelines may be downloaded from the Website of the Securities and Futures Commission at <http://www.sfc.hk/web/EN/rules-and-standards/codes-and-guidelines/>.

III. Paper 1 - Sample Examination Questions

1. What is the minimum initial and maintenance margin levels for leveraged foreign exchange trading as required by the Securities and Futures Commission?

	Initial	Maintenance
A.	10%	5%
B.	5%	3%
C.	10%	2%
D.	3%	2%

2. Which of the following are **IMPROPER** dealing practices?

- I. Quoting both the bid and offer price at the request of a client.
 - II. Inform the client that the price given is available only for a limited period of time.
 - III. Neither disclose nor display the trading hours.
 - IV. When being told by a customer to close a long position, quote a bid price much lower than the current market price.
- A. I & II only
 - B. II & III only
 - C. III & IV only
 - D. I & IV only

3. Which of the following statement is **FALSE**?

- A. The Securities and Futures Commission may refuse to grant to the applicant a license to carry on Type 3 regulated activity, i.e. leveraged foreign exchange trading unless the applicant has not been licensed for another type of regulated activity.
- B. The Securities and Futures Commission may refuse to grant to the applicant a license to carry on Type 3 regulated activity, i.e. leveraged foreign exchange trading unless the applicant satisfies the Commission that he is a fit and proper person to be so licensed for the regulated activity.
- C. The Securities and Futures Commission may refuse to grant to the applicant a license to carry on Type 3 regulated activity, i.e. leveraged foreign exchange trading unless the applicant satisfies the Commission that the grant of the license will not prejudice the interest of the investing public.
- D. The licensed representative shall at all times keep the Securities and Futures Commission informed of particulars of his contact details including, in so far as applicable, his residential address, telephone and facsimile numbers and electronic mail address

4. Which of the following is/are **PROPER** practice(s) for handling discretionary account?
- I. Different sets of client agreement are used for discretionary and non-discretionary accounts.
 - II. Representative handling discretionary accounts informs the clients when losing more than 30% of the account equity from initial equity in a calendar month.
 - III. A discretionary account does not hold equal long and short position without the consent of the clients.
- A. I only.
 - B. I & II only
 - C. II & III only
 - D. All of the above
5. Although the Securities and Futures Ordinance prohibits representatives of leveraged foreign exchange traders from making unsolicited calls for leveraged foreign exchange trading business, it does not violate the Ordinance if the calls are on:
- I. existing clients
 - II. solicitors
 - III. professional accountants
- A. I & II only
 - B. II & III only
 - C. I & III only
 - D. All of the above

Suggested Answers:

1. B 2. C 3. A 4. D 5. D

IV. Paper 2 - Syllabus and Suggested Study Hours

Topics	Suggested Study Hours
1. Market Knowledge	
A. <u>History and Development of FX Market</u> <ul style="list-style-type: none"> - The Gold Standard - The Bretton Woods System - The European Monetary System and the Euro - Floating and Linked Exchange Rate Systems - Hong Kong Exchange Rate System 	4
B. <u>How the Foreign Exchange Market Operates</u> <ul style="list-style-type: none"> - The Global Foreign Exchange Market <ul style="list-style-type: none"> ▪ Overview of the Market ▪ Other Characteristics of Global Foreign Exchange Market ▪ Role of Hong Kong in the Global Foreign Exchange Market - The Spot FX Market <ul style="list-style-type: none"> ▪ Spot Foreign Exchange Deal ▪ Quotation ▪ Trading Mechanism ▪ Market Jargons ▪ Cross Rate Calculation ▪ Cross Arbitrage and Trading - The Forward FX Market <ul style="list-style-type: none"> ▪ Forward Rate Quotation ▪ FX Swap - Local Foreign Exchange Products <ul style="list-style-type: none"> ▪ Foreign Currency Deposits ▪ Leveraged Foreign Exchange Investment ▪ Premium Deposit ▪ FX Margin Trading 	10
C. <u>FX Margin Trading</u> <ul style="list-style-type: none"> - Margin Requirements - Type of Orders and Trade Execution - Discretionary versus Non-discretionary Trading - Profit and Loss Calculation 	4
D. <u>The Currency Futures and Options Markets</u> <ul style="list-style-type: none"> - Currency Futures - Currency Options 	4
E. <u>Money Markets</u> <ul style="list-style-type: none"> - Basic Money Market Calculation - Interest Rates and Yield Curve - The Hong Kong Interbank Money Market and HIBOR 	4

Topics	Suggested Study Hours
2. Market Analysis	
<u>A. Fundamental Analysis</u> <ul style="list-style-type: none"> - Exchange Rate Theory <ul style="list-style-type: none"> ▪ Purchasing Power Parity ▪ International Fisher Effect ▪ Monetary Model ▪ Forward Rate as Unbiased Predictor of Future Spot Rate - Factors Affecting Foreign Exchange Rates <ul style="list-style-type: none"> ▪ Government Fiscal, Monetary and FX Policies ▪ Economic Performance ▪ International Trade and Capital Flow ▪ Economic Indicators of Major Countries 	8
<u>B. Technical Analysis</u> <ul style="list-style-type: none"> - Basic Charting - Support, Resistance and Trend Lines - Pattern Analysis - Moving Averages - Relative Strength Index - Wave Theory 	6
3. Risks in Foreign Exchange Trading	
<u>A. Definition and Types of Risk</u> <ul style="list-style-type: none"> - Market Risk - Credit and Counterparty Risk - Liquidity Risk - Operational Risk - Other Risks 	4
<u>B. Risk Management</u> <ul style="list-style-type: none"> - Market Risk <ul style="list-style-type: none"> ▪ Risk in House Position ▪ Ways to Reduce Risk on FX Trading ▪ Risk Diversification and Hedging FX Exposure - Credit and Counterparty Risk <ul style="list-style-type: none"> ▪ Margining, Intra-day and Overnight Margin ▪ Margin Calculation ▪ Mark to Market ▪ Margin Call ▪ Liquidation of Position 	4

V. **Paper 2 - Reference Readings**

1. Suggested Reading

Leveraged Foreign Exchange Trading Examination Study Manual, Institute of Professional Education And Knowledge of Vocational Training Council, May 2018.
(HK\$250 per copy)

2. Further Readings:

- (1) DeRosa, David F., *Foreign exchange operations: master trading agreements, settlement, and collateral*, Wiley finance series.
- (2) *An Introduction to Foreign Exchange and Money Markets*, The Reuters Financial Training Series, John Wiley & Sons (Asia) Pte Ltd.
- (3) Walmsley, Julian, *The Foreign Exchange and Money Markets Guide*, John Wiley & Sons, Inc.
- (4) Roth, Paul, *Mastering Foreign Exchange and Money Market: A Step-by-Step Guide to the Products, Applications and Risks*, Financial Times Pitman Publishing.
- (5) Murphy, John, *Technical Analysis of the Financial Markets: A Comprehensive Guide to Trading Methods and Applications*, New York Institute of Finance.
- (6) Smithson, Charles W., *Managing Financial Risk: A Guide to Derivative Products, Financial Engineering and Value Maximization*, 3rd Edition, Irwin Library of Investment and Finance, McGraw Hill.
- (7) *An Introduction to Bond Markets*, The Reuters Financial Training Series, John Wiley & Sons (Asia) Pte. Ltd.
- (8) *An Introduction to Derivatives*, The Reuters Financial Training Series, John Wiley & Sons (Asia) Pte. Ltd.

VI. Paper 2 - Sample Examination Questions

1. In technical analysis, a resistance level refers to
 - A. a level below the current market price at which strong buying interests are expected.
 - B. a level above the current market price at which strong selling interests expected.
 - C. the offer side of the current market price.
 - D. the level where central banks are expected to sell.
2. Four counterparties in the foreign exchange market quoting you the following spot USD/JPY prices, which is the best quote for you as a buyer of USD?
 - A. 124.30 – 33
 - B. 124.32 – 35
 - C. 124.31 – 34
 - D. 124.29 – 36
3. GBP/AUD is quoting at 1.6270-75 and AUD/NZD at 1.1500-05 in the market, what is the rate that you may sell GBP/NZD to the market?
 - A. 1.8724
 - B. 0.5199
 - C. 1.8711
 - D. 1.4148
4. A counterparty quotes spot rate for USD/HKD at 7.7995/05 and 6-month swap points – 20/+30, at what rate this counterparty is willing to sell USD/HKD for delivery in 6 months' time?
 - A. 7.7975
 - B. 7.7925
 - C. 7.7935
 - D. 7.8035
5. A customer has put up a margin deposit of USD100,000 with a leveraged foreign exchange trader which requires an initial margin of 5% and maintenance margin of 3% for leveraged foreign exchange trading for its clients. The customer has sold EUR1,000,000 against USD at 1.2000, ignoring the carrying cost of the position, what EUR/USD exchange rate level will trigger a margin call to the customer?
 - A. 1.1340
 - B. 1.1640
 - C. 1.2240
 - D. 1.2621

Suggested Answers:

1. B 2. A 3. C 4. D 5. D