



INVESTOR
EDUCATION
CENTRE
投資者教育中心

Financial Products in Stock Market

11 March 2014

Part 1

Bonds and Stocks in Hong Kong



Stock



The above information is for discussion and reference only and should not be treated as investment advice

What is “Stock”?

- Stock represents ownership of a company.
- A company’s stock is divided into a definite number of shares.
- Shareholders’ percentage of ownership equals percentage of shares owned.
- Classes of shares:
 - Ordinary shares
 - Voting rights on important matters (electing board of directors, proposals for fundamental changes, e.g. mergers or liquidation).
 - Right to dividend payments.
 - Preference shares
 - Usually no voting rights.
 - Priority over ordinary shares in dividend payment and liquidation.
 - Dividend can be accumulative.



ABC of Stock

- **“Blue” Chips** : normally defined as constituents of the Hang Seng Index, most sizable companies, largest market capitalizations, leaders in respective industries.
- **“Red” Chips** : companies incorporated outside the PRC and controlled by Mainland entities, operations and assets primarily in the PRC.
- **A shares** : Domestic shares of PRC companies, denominated and traded in RMB and exclusively by PRC residents only.
- **B shares** : Domestic shares of PRC companies denominated in RMB, traded in foreign currency by foreign persons and PRC residents holding legal foreign currency deposits.



ABC of Stock

- ***H shares*** : Shares of PRC-incorporated enterprises listed in Hong Kong and denominated in HKD.
- ***Second/third liner stocks*** : Stocks of relatively smaller listed companies, generally of lower market capitalization.
- ***International Issuers*** : Overseas companies doing primary or secondary (dual) listings in Hong Kong.



Stock Market Structure



Stock Exchange of
Hong Kong



Listed Companies



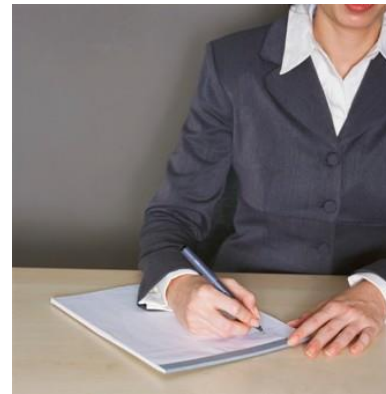
Share Registrars



Stock Brokers



HK Securities
Clearing Company



Regulators



Investors

The Stock Exchange of Hong Kong Ltd (SEHK)

- Wholly owned subsidiary of Hong Kong Exchanges and Clearing Limited (HKEx).
- Operates securities products trading market.
- Regulates issuers and administers listing rules.



SEHK



Listed Co



Investors

Primary Market

- Initial Public Offerings (IPOs)
- Seasoned Offerings

Secondary Market

- Open market of securities trading

Main Board vs Growth Enterprise Market Board

Two stock markets/boards in Hong Kong

Main Board

- Longer operating history and management.
- More stringent listing requirements; have to meet one of Profit Test, Market Cap/Revenue Test, or Market Cap/Revenue/ Cashflow Test.

GEM Board

- Shorter operating history and management.
- Less stringent listing requirement; have to meet Cashflow Test & Market Cap Test.



Why Invest in Stock?

Return components

- Income : Dividend Income
 - Dividend Stock
 - Cash Dividend vs Scrip Dividend (以股代息)
- Capital Appreciation : Share Price Growth
 - Growth Stock



Cash Dividend vs Scrip Dividend/Bonus Shares

Cash Dividend

- Cash outflow from company
- Less cash for business development

Scrip Dividend / Bonus Shares

- Issues more shares as dividend or as bonus shares
- No cash outflow
- Dilutive
 - Lower EPS: same net profit, more shares outstanding



Stock Classifications

- Dividend Stocks (高息股) vs Growth Stocks (增長股)
- Value Stocks (價值股) vs Growth Stocks (增長股)
- Large Cap (大市值/大型股) vs Mid Cap (中市值/中型股) vs Small Cap (細市值/細型股)
- Cyclical Stocks (周期性股) vs Defensive/Stable Stocks (防守性股)



Valuation Metrics/Indicators

- Market Capitalization
 - Total value of the issued shares of a company
 - Share price \times # of issued shares
- Earnings Per Share (EPS)
 - Total earnings / # of issued shares
- Price to Earnings (P/E) Ratio
 - Share price / EPS
 - Historical P/E vs Expected P/E
- Dividend Yield
 - Dividend Per Share / Share Price



Valuation Example

- Market Capitalization
 - $\$10 \times 50m = \$500m$
- Earnings Per Share (EPS)
 - 2013: $\$35m / 50m = \0.7
 - 2014: $\$50m / 50m = \1.0
- Price to Earnings (P/E) Ratio
 - *Historical P/E:* $\$10 / \$0.7 = 14.3x$
 - *Expected P/E:* $\$10 / \$1.0 = 10.0x$
- Dividend Yield
 - $\$0.7 / \$10 = 7\%$

- Share price = \$10
- Number of shares = 50m
- 2013 earnings = \$35m
- 2014 exp earnings = \$50m
- Dividend per share = \$0.7



Bond



What is “Bond”?

- A debt instrument usually issued by companies or government.
- Issued for a predetermined period of time (normally more than one year).
- Intended to raise capital by borrowing.
- Generally involves a promise to repay the principal and interest on specified dates.



ABC of Bond

- **Issuer** : The party that issues the bond, i.e. the borrowing party.
- **Face value/par value/redemption value/principal** : The amount repaid to the bondholder when the bond matures.
- **Coupon rate** : The rate at which the issuer pays interest on the principal to the bondholder each year.
- **Term** : The life of the bond, i.e. the period (usually a number of years) over which the issuer has promised to meet its obligations under the bond. Some bonds can be “perpetual”, i.e. they do not have a fixed maturity date.
- **Guarantor** : Some bonds are guaranteed by a third party called a guarantor. If the issuer defaults, the guarantor agrees to repay the principal and/or interest to the bondholder.



ABC of Bond

- **Maturity** : the date on which the investor's principal will be repaid.
- **Covenants** : restrictive agreement for protecting the interests of the lenders.
- **Yield to Maturity (YTM)** : the discount rate that makes the PV of the bond cash flows (coupons + principal) equal the bond price. This is the return an investor gets if he/she buys at the prevailing bond price and holds until maturity.
- **Basis Point (bp)** : 1 basis point = 0.01%; 100 basis points = 1%



Types of Bonds

- Government Bond vs Corporate Bond
- Convertible (可換股債券) vs Unconvertible Bond
- Redeemable/Callable (可回購債券) vs Irredeemable Bond
- Fixed vs Floating Rate Bond (e.g. Inflation Adjusted, iBond)
- Investment-grade Bond vs Non-investment-grade Bond / Speculative-grade Bond / Junk Bond
- Vanilla vs Zero Coupon Bond
- Senior vs Subordinated Bond



Types of Bonds

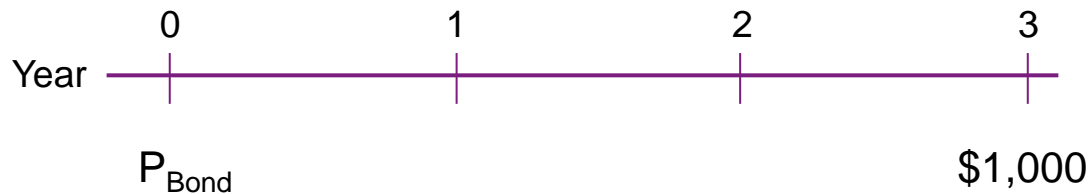
Example: Vanilla Bond

A three-year corporate bond with \$1,000 face value and an 8% coupon rate.



Example: Zero Coupon Bond

A three-year government bond with \$1,000 face value.



Valuation of Bonds

Coupon Rate vs Discount Rate

- The coupon rate IS NOT the return rate.
- The coupon rate determines the expected future cash flows.
- The Yield-to-Maturity/Discount Rate is the required rate of return demanded by the investors or the market.
- Yield-to-Maturity/Discount Rate is determined from the market prices of bonds with similar features (term to maturity, bond rating, etc). It depends on the riskiness of future cash flows.

Selling before Maturity

- Bond price fluctuates during the Term.
- Selling the bond before Maturity will subject the investor to price risk.

Holding until Maturity

- Receives the principal and the coupon payments (unless the issuer defaults).
- Return will be the expected Yield-to-Maturity.



Valuation of Bonds

Example of Coupon Rate vs Discount Rate

- A three-year corporate bond with \$1,000 face value and an 8% coupon rate.
- Given the credit rating of the issuer and the interest rate environment, investors require 8% return from holding the bond at the time of issuance. The bond is worth \$1,000.
- One month after issuance, expected inflation rises sharply and credit rating of issuer drops. Investors require 10% return from holding the bond.
- Discount rate becomes 10%, coupon rate remains at 8%, bond price drops below \$1,000.



Major Risks

- **Default / Credit risk** : The issuer may fail to pay you the interest or principal as scheduled.
- **Interest rate risk** : When the interest rate rises, the price of a fixed rate bond will normally drop, and vice versa. If you want to sell your bond before it matures, you may get less than your purchase price.
- **Exchange rate risk** : If your bond is denominated in a foreign currency, you face an exchange rate risk.
- **Liquidity risk** : You may not be able to sell your bond if the liquidity of the secondary bond market is low.
- **Inflation risk** : The return on bond investments will lose purchasing power under high inflation - a serious concern for those who need to rely on the regular income from bonds.
- **Event risk** : A corporate event such as a merger or takeover may lower the credit rating of the bond issuer.



Credit Ratings

Explanation	Moody's	Standard & Poor's	Default Risk	Regulatory Designation
Best quality, smallest degree of risk	Aaa	AAA	Lowest	Investment Grade
High quality, slightly more long-term risk than top rating	Aa	AA		
Upper-medium grade, possible impairment in the future	A	A		
Medium grade, lacks outstanding investment characteristics	Baa	BBB		
<hr style="border-top: 1px dashed blue;"/>				
Speculative, protection may be very moderate	Ba	BB		Non-investment Grade
Very speculative, may have small assurance of interest and principal	B	B		
Issues in poor standing, may be in default	Caa	CCC		
Speculative to a high degree, with marked shortcomings	Ca	CC		
Lowest quality, poor prospects of attaining real investment standing	C	C	Highest	



Stock vs Bond

	Stock	Bond
Relationship with Issuer	Shareholders (Owners)	Creditors / Lenders
Voting Rights	Yes (usually only for ordinary shares)	No
Income for Investment	Ordinary Shareholders: Dividend, variable and not guaranteed Preference Shareholders: Dividend, fixed and guaranteed, can be accumulative	Interest, fixed and guaranteed
Priority of claim in case of liquidity	Ordinary Shareholders: Third Preference Shareholders: Second	First



Part 2

Other Common Financial Products in Hong Kong: Structured Products



Structured Products

- **A structured product is an instrument embedded with derivative, under which the return, the amount due and/or the method of settlement is determined by reference to:**
 - changes in price, value and/or level of one or more reference underlying (e.g. securities, commodity, index); and/or
 - The occurrence or non-occurrence of an event
- **Two main categories :**
 - Listed structured products, e.g. derivative warrants, CBBCs
 - Unlisted structured products, e.g. equity-linked structured notes or currency-linked investment deposit



Warrants and CBBC – True or False?

銀碼細，回報高!
以小博大!

電視電台成日介紹，
好多人都買左，
應該安全架?!

Warrants



Warrant (認股證/窩輪/輪/權證)

- Warrants are an instrument which gives investors the right – but not the obligation – to buy or sell the underlying assets at a pre-set price on or before a specified date
- Underlying asset can be a single stock, a basket of stocks, an index, a currency, a commodity, a futures contract, etc.
- Warrants can be bought or sold prior to their expiry in the market provided by HKEx
- At expiry, settlement is made in cash rather than a purchase or sale of the underlying asset
- Issued by a third party, usually an investment bank, independent of the issuer of the underlying asset
- Normally have an initial life of six months to two years



Terms used in Warrants

Call Warrant (認購證)	A right to buy the underlying asset
Put Warrant (認沽證)	A right to sell the underlying asset
Strike Price / Exercise Price (行使價)	The right at which you buy or sell the underlying asset in exercising a warrant
Conversion Ratio (兌換率)	Number of units of the underlying asset exchanged when exercising a unit of warrant Conversion ratio = 1 → one warrant for one share Conversion ratio = 10 → 10 warrants for one share
Expiry Date (到期日)	The date on which a warrant will expire and become worthless if the warrant is not exercised
American Warrant (美式認股證)	Exercise to buy/sell the underlying asset on or before the expiry date
European Warrant (歐式認股證)	Exercise to buy/sell the underlying asset on the expiry date only
Premium (溢價)	Usually expressed as a percentage, indicates how much extra an investor is paying to buy the warrant instead of buying or selling the underlying asset directly



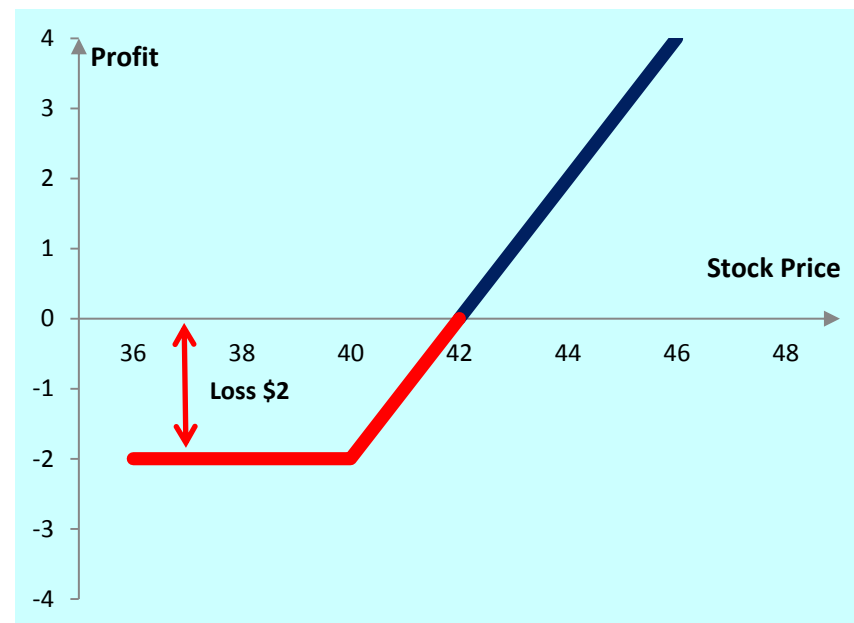
How to calculate the return of a Call Warrant?

Call Warrant of Stock A

- Warrant Price : \$2
- Strike Price : \$40
- Expiry Date: 2014-10-31

If the price of Stock A on the expiry date is:

>\$42	Take profit by exercising the right to buy
\$40 - \$42	Can exercise the right to buy. However there may be loss after deducting the cost of call warrant
<\$40	Would not exercise the right to buy and losing the cost of call warrant



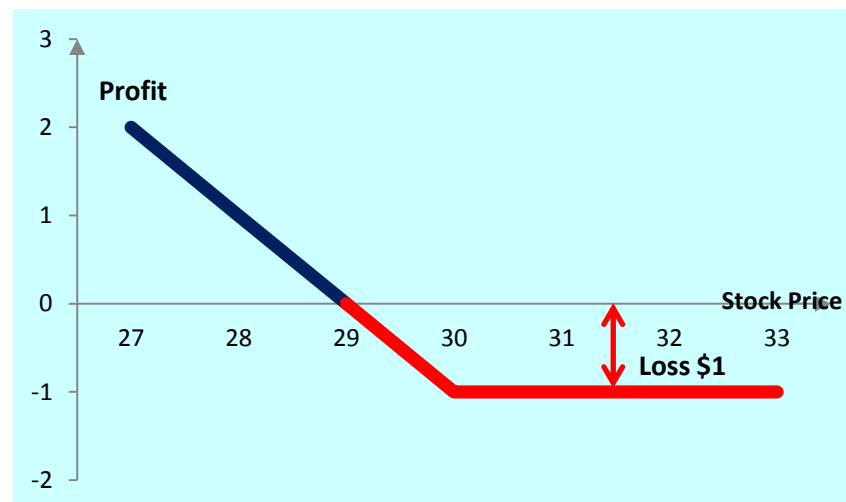
How to calculate the return of a Put Warrant?

Put Warrant of Stock B

- Warrant Price : \$1
- Strike Price : \$30
- Expiry Date: 2014-09-30

If the price of Stock B on the expiry date is:

<\$29	Take profit by exercising the right to sell
\$29-\$30	Can exercise the right to sell. However there may be loss after deducting the cost of put warrant
>\$30	Would not exercise the right to sell and losing the cost of put warrant



Example 1: Holding a warrant until expiry

Investing \$5,000 in a Call Warrant with Stock A as underlying asset	
Market price of Stock A:	\$100
Market price of the warrant:	\$0.5
No. of warrants purchased:	$\$5,000 / \0.5 = 10,000 warrants
Exercise price:	\$100
Conversion ratio:	10 warrants for 1 share

Investing \$5,000 in Stock A	
Market price of Stock A:	\$100
No. of shares purchased:	$\$5,000 / \100 = 50 shares

Settlement price of Stock A at expiry:	\$110
Cash settlement amount at expiry:	10,000 warrants x $[(\$110 - \$100) / 10]$ = \$10,000
Return [^] :	\$5,000
Rate of return [^] :	100%

Settlement price of Stock A at expiry:	\$110
Cash settlement amount at expiry:	50 shares x $(\$110 - \$100)$ = \$5,500
Return [^] :	\$500
Rate of return [^] :	10%

[^]All transaction related fees and charges are not included



Example 2: Holding a warrant until expiry

Investing \$5,000 in a Call Warrant with Stock A as underlying asset		Investing \$5,000 in Stock A	
Market price of Stock A:	\$100	Market price of Stock A:	\$100
Market price of warrant:	\$0.5	No. of shares purchased:	$\$5,000 / \$100 = 50 \text{ shares}$
No. of warrants purchased	$\$5,000 / \$0.5 = 10,000 \text{ warrants}$		
Exercise price:	\$100		
Conversion ratio:	10 warrants for 1 share		
Settlement price of Stock A at expiry:	\$101	Settlement price of Stock A at expiry:	\$101
Cash settlement amount at expiry:	$10,000 \text{ warrants} \times [(\$101 - \$100) / 10] = \$1,000$	Cash settlement amount at expiry:	$50 \text{ shares} \times (\$101 - \$100) = \$5,050$
Return [^] :	-\$4,000	Return [^] :	\$50
Rate of return [^] :	-80%	Rate of return [^] :	1%

[^]All transaction-related fees and charges are not included



Example 3: Trading a warrant before expiry

Investing \$5,000 in a Call Warrant with Stock A as underlying asset

Market price of Stock A	\$100
Market price of the warrant:	\$0.5
No. of shares purchased	$\$5,000 / \0.5 = 10,000 warrants
Exercise price:	\$100
Conversion ratio:	10 warrants for 1 share

A week later	
Market price of Stock A:	\$105
Market price of the warrant:	\$0.7

Value of the holding (Call Warrant):	10,000 warrants x \$0.7 = \$7,000
Return [^] :	\$2,000
Rate of return [^] :	40%

Investing \$5,000 in Stock A

Market price of Stock A:	\$100
No. of shares purchased:	$\$5,000 / \100 = 50 shares

A week later	
Market price of Stock A:	\$105
Market price of the warrant:	\$0.7

Value of the holding (Stock A):	50 shares x (\$105-\$100) = \$5,250
Return [^] :	\$250
Rate of return [^] :	5%

[^]All transaction-related fees and charges are not included



Risks of warrants

- **Issuer risk**
 - Warrant holders are unsecured creditors of the issuer
- **Gearing risk**
 - Value of warrant may change in value rapidly than the underlying asset
- **Limited life**
 - Unlike stocks, warrants have any expiry date
- **Time decay**
 - When other factors are equal, the value of warrants will decrease over time
- **Volatility**
 - Volatility of the underlying asset increase: higher warrant price
 - Volatility of the underlying asset decrease: lower warrant price
- **Market forces**
 - Demand and supply of the warrants, e.g. sold out of a warrant issue, issuers make further issues of an existing warrant



Callable Bull / Bear Contracts (CBBC)



Callable Bull / Bear Contracts(牛熊證)

- A type of structured products that tracks the performance of an underlying asset without requiring investors to pay the full price required to own the actual asset.
- The underlying assets include stocks, stock indices, currencies and commodities
- **Bull contracts** – take bullish positions on the underlying asset
Bear contracts – take bearish positions on the underlying asset
- Issued by a third party, usually an investment bank



Callable Bull / Bear Contracts(牛熊證)

- Issued with the condition that during their lifespan they will be called by the issuers when the price of the underlying asset reaches a level (known as the “Call Price”) specified in the listing document
- If the Call Price is reached before expiry, the CBBC will expire early and trading will be terminated immediately
- Traded on the HKEx
- Settled in cash only
- Issued usually with a lifespan of three months to five years



Features of CBBC

- Price movement tends to track the price of underlying asset closely
- Have a Call Price and a Mandatory Call Feature
- Two categories of CBBC :
 - **Category N**: Call Price = Strike Price
 - **Category R**: Call Price “>” or “<” Strike Price; may receive a small amount of cash payment called “residual value”
- Issue price of a CBBC includes funding cost:
 - the issuer's financing/stock borrowing costs after adjustment for expected ordinary dividends of the shares (if the underlying assets are dividend-paying shares) ; and
 - the issuer's profit margin



Valuation of CBBCs - at expiry

Type of CBBC	Category	Settlement price > Strike price	Settlement price = / < Strike price
Bull	N R	Positive settlement amount	0

Type of CBBC	Category	Settlement price = / > Strike price	Settlement price < Strike price
Bear	N R	0	Positive settlement amount

Settlement Price

- Closing price of the underlying stock on the last trading day; or
- The index level for settling the expiring index future contract



Valuation of CBBCs - at Mandatory Call Event (MCE)

When the spot price hits the call price:

Type of CBBC	Category	Call Price \geq Settlement price $>$ Strike price	Settlement price = / $<$ Strike price
Bull	N	0	0
	R	Positive residual value	0

Type of CBBC	Category	Settlement price = / $>$ Strike price	Call Price $<$ / = Settlement price $<$ Strike price
Bear	N	0	0
	R	0	Positive residual value

Settlement Price

- As determined according to the terms in the listing document
- Bull CBBCs – must not be lower than the lowest traded price after MCE and up to and including the next trading session
- Bear CBBCs – must not be higher than the highest traded price after MCE and up to and including the next trading session



Example of Cat. R Bull Contract – At issuance

Underlying asset	Stock Y
Spot price	\$110
Call price (fixed at issue)	\$95
Strike price (fixed at issue)	\$90
Funding cost	\$4.5
Contract entitlement	1:1
Expiry	12 months
Theoretical price at issue: [(spot price - strike price + funding costs) / entitlement]	\$24.5
Value of one board lot (100 shares)	\$2,450



Example of Cat. R Bull Contract – At expiry

Underlying asset	Stock Y
Price of Stock Y	\$130
Settlement amount of a Bull contract = (settlement price - strike price) / entitlement = (\$130 - \$90) / 1	\$40
Value of one board lot (100 shares)	\$4,000
Net profit [^] of one board lot = (value of the Bull contract CBBC at expiry - original investment) = \$4,000 - \$2,450	\$1,550
Rate of return [^]	63%

[^]All transaction-related fees and charges are not included



Example of Cat. R Bull Contract – At MCE

Category R Bull Contract - If spot price falls to the Call Price

Underlying asset	Stock Y
Price of Stock Y	\$95
Residual value of the Bull contract at call: (settlement price* - strike price)/entitlement =(\$94 - \$90)/1	\$4
<i>*It is assumed to be \$94 in this example.</i>	
Value of one board lot (100 shares)	\$400
Net loss [^] of one board lot = \$400 - \$2,450	-\$2,050
Rate of return [^]	-84%

[^]All transaction-related fees and charges are not included



Risks of CBBC

- **Mandatory call**
 - Once the CBBC is called, even though the underlying assets may bounce back in the right direction from the investors' point of view, it will not be revived
- **Gearing effects**
 - The percentage change in its price is greater compared with that of its underlying assets
 - Investors may suffer higher losses in percentage terms if they expect the price of the underlying assets to move one way but it moves in the opposite direction
- **Limited life**
 - With expiry date and a mandatory call feature
- **Movement of underlying assets' price**
 - The price of a CBBC is affected by a number of factors, including demand for the CBBC and the supply, funding costs and time to expiry
- **Liquidity**
 - No guarantee that investors are able to sell or buy CBBC at their target prices any time they wish
- **Funding costs**
 - Funding costs are charged upfront from the date of purchase to normal expiry, though CBBC may be called before the expiry
- **Trading of CBBC close to Call Price**
 - More volatile on price of CBBC with wider spreads and uncertain liquidity
 - There may be some time lapse between MCE time and suspension of the CBBC trading. Trades executed after the MCE will not be recognised and will be cancelled



Part 3

Latest Investor Protection Measures



Latest Investor Protection Measures

- **Investor's protection framework**
- **Investor's rights and responsibilities**
- **Financial Dispute Resolution Centre (FDRC)**
- **Investor Compensation Fund (ICC)**



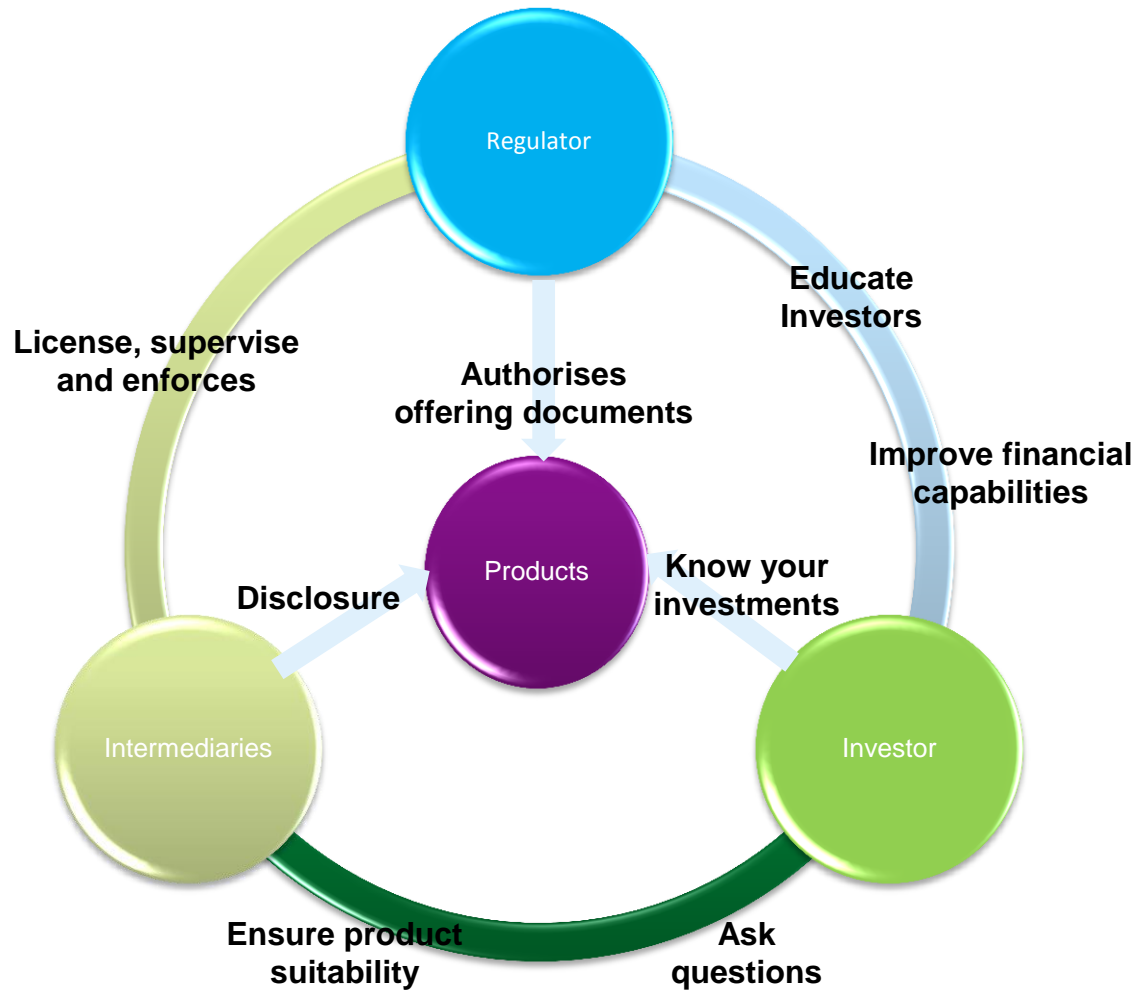


Investor's rights & responsibilities



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Investor's Protection Framework



Investor's Rights

Investors' rights as **users of financial services**

- **The right to choose the language version of Customer Service Agreement**
- **The right to receive transaction confirmation within specific time after completion of transaction**
 - For example: transaction confirmation or monthly account statement, etc.
- **The right to request related and sufficient information to facilitate personal investment management**
 - Receive information to facilitate choosing the suitable investment products
- **The right to complain the service providing company and staff for inappropriate handling of investment matters**



Knowing fees and charges

Example: Stock trading related fees

Description of Fees	Rate
Brokerage commission	Determined by intermediaries
Securities and Futures Commission transaction levy	0.003% of transaction amount
Stock Exchange of Hong Kong trading fee	0.005% of transaction amount
Stock Exchange of Hong Kong trading tariff (waived by most intermediaries)	\$0.5 per transaction
HKSAR Government stamp duty	0.1% of transaction amount (rounded up to the nearest dollar)
CCASS stock settlement fee	0.002% of transaction amount (min \$2, max \$100)



Investor's Rights

Investors' rights as a **shareholder**

- **Right to know**
 - Listed companies must distribute financial report to registered shareholders
- **Right to receive rights & interests**
 - For example: receiving dividends or rights issue, etc.
- **Right to vote at shareholders' meetings**



Investor's Responsibilities

- **Know yourself**

- Understand your investment objectives and financial situation
- Risk assessment tools:
<http://www.hkifa.org.hk/eng/RiskAssessmentTools.aspx>

- **Know your investment**

- Do homework before investing
- Read and understand thoroughly the offering documents of the investment products
- Understand features and corresponding risks of the investment products before making investment decision
- Make investment decisions based on facts
- Don't invest in products you don't understand



Investor's Responsibilities

- **Know your intermediaries**
 - Are the financial services providing companies and their staff licensed to sell the corresponding investment products?
 - www.sfc.hk (List of public register of licenced persons and registered institutions)
 - Understand all details of the customer agreement before signing
- **Work with investment advisors**
 - Request investment advice from your advisor in writing
 - Ask your advisor why the recommended products suit you
 - Fully understand the recommended products



Investor's Responsibilities

- **Track your investments**
 - Follow the market
 - Read your account statement regularly to monitor the status of your account and portfolio
 - Keep record of your important documents related to investment, eg. account statements, instructions to advisors for follow up when necessary





http://www.hkiec.hk/iec/tc/html/section/campaign/r_and_r_game.html

Financial Dispute Resolution Centre

- Financial Dispute Resolution Centre (FDRC) was set up in November 2011 as a non-profit making company.
- An independent and impartial organisation administering the Financial Dispute Resolution Scheme ([FDRS](#)) which requires financial institutions who are its members to resolve monetary disputes with their customers through mediation and arbitration.
- All financial institutions authorised by the Hong Kong Monetary Authority and Securities and Futures Commission, except those only provide credit rating services, are members of FDRS.
- More information about FDRC is available at www.fdrc.org.hk.



Eligibility of Claims

- An individual or a sole proprietor is eligible
- The financial institution involved in the dispute is a FDRS member
- The claim is in monetary nature with claimable amount not more than \$500,000
- A written complaint has been lodged to the relevant financial institution and received a final written reply but the dispute cannot be solved or has not received written reply more than 60 days after lodging the complaint
- The claim is made within 12 months from the date of purchase
- The claim is not under or has gone through court proceedings
- The claim is not about policies, fees and investment performance, except a dispute concerning an alleged non-disclosure, inadequate disclosure, misrepresentation, negligence, incorrect application, breach of fiduciary duty, breach of any legal obligation or duty, or maladministration



Investor Compensation Fund

- The Investor Compensation Fund ("Fund") is established to pay compensation to investors of any nationality who suffer pecuniary losses as a result of a default of a licensed intermediary or authorized financial institution in relation to exchange-traded products in Hong Kong occurring on or after 1 April 2003.
- Range of intermediaries includes both exchange and non-exchange participants, banks and securities financiers.



Eligibility of Claims

- **Default means an intermediary, its employee or its associated person is in bankruptcy, winding up, or insolvency, or breach of trust, defalcation, fraud, or misfeasance.**
- **The defaulting intermediary must be:**
 - Licensed or registered for dealing in securities or dealing in futures contracts, or
 - Licensed for securities margin financing, or
 - An authorized financial institution which provides securities margin financing. In other words, all licensed brokerage firms and banks that provide securities and futures contracts trading services are covered.
 - The defaulting intermediary can be an organization or an individual. Broker is an example.



Compensation Limits

- If you sustained losses in relation to securities, the amount of compensation payable to you will not exceed HK\$150,000. If you sustained losses in relation to futures contracts, the upper limit of the compensation is also HK\$150,000. The limit is per person. For joint account, each of the account holders will be subject to a maximum payment limit of HK\$150,000.
- Where the ICC makes any payment out of the Investor Compensation Fund in respect of any claim for compensation, the SFC and the ICC shall be subrogated to all the rights and remedies of the claimant in relation to the loss. All assets recovered by the SFC or the ICC from the subrogation shall become part of the Investor Compensation Fund.



Time Limit for Claims

- When it is appropriate and necessary, the ICC may issue a Notice Inviting Claims in at least one Chinese and one English newspaper to invite claims regarding a particular intermediary to be lodged with the SFC or the ICC within the time specified, usually 3 months from the date of the notice.
- If no such notice has been published, you must lodge your claim within 6 months after the day you first become aware of the default. A claim lodged outside the deadline may be disallowed.
- More information of Investor Compensation Fund is available at <http://www.hkicc.org.hk>.



Visit the IEC website www.hkiec.hk

The screenshot displays the IEC website homepage. At the top, there is a purple header with the IEC logo and navigation links for 'About IEC' and 'Contact Us'. Below this is a blue navigation bar with categories: 'Financial Planning', 'Managing your Money', 'Banking & Credit', 'Insurance', 'Investment', 'Retirement', 'Life Events & You', and 'Tools & Resources'. The main content area features a large banner with the text 'Get money smart, get rewards!' and four colorful icons representing 'Keeping Track of Personal Finance', 'Setting Financial Goals', 'Understanding Investment Risks', and 'Using Credit Responsibly'. Below the banner is a 'Hot Topics' section with four items: 'RMB bond ETF', 'Securities market review', 'Money smart for new year resolutions', and 'Risks of virtual currencies'. A search bar is present with the text 'I want to find out about common tricks in market crime.' To the right, there is a 'Life Events & You' section with icons for 'Getting married', 'Setting up a home', 'Getting a pet', 'Illness and death', 'Being a student', and 'Pre-retirees / Retirees'. The footer includes social media icons for YouTube, Facebook, and Twitter, along with a 'Share' button and a 'More' button.



The above information is for discussion and reference only and should not be treated as investment advice

Thank you