

Professional Development Programme on Contemporary Perspectives of Personal Financial Management

Part I: Fundamentals of Financial Market

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1. Structure of Financial Market
 - Different sectors and participants
 - Different types of markets
2. Investor Protection in Hong Kong
 - Roles of different financial regulators
 - Investors' compensation regime
 - Rights and responsibilities of investors and consumers of financial services



1) Structure of Financial Market

What are the major sectors of the HK financial market?

Sector

- Banking
- Insurance
- Securities and Futures

Activities

- Deposits & loans, insurance, investment, etc.
- Life, medical, travel, investment-linked and other insurance
- Fund raising, trading of different investment products, e.g. stocks, bonds, funds, warrants, options, futures, etc.

Different markets

- Money vs. Capital Market
- Listed exchanges vs. Over-the-counter (OTC)
- Primary vs. Secondary Market



Money vs. Capital Market

Money Market (貨幣市場)

- The market for short-term debt securities with a maturity of one year or less such as commercial papers, certificates of deposit (CDs), Exchange Fund Bills, etc.
- Instruments can be converted into cash easily without substantial loss in value.



Money vs. Capital Market

Capital Market (財資市場)

- A market where debts or securities are traded.
- Instruments generally have longer term
 - E.g. stocks, bonds, funds, etc.

Listed exchanges vs. OTC

Stock exchanges

- Stocks need to meet the listing requirements of a stock exchange in order to get listed
- Stocks are traded through the trading system of that particular stock exchange
- Only qualified intermediaries can access to the trading system
- A more transparent market

Over-the-counter (OTC)

(場外市場)

- A decentralized market where brokers/dealers negotiate with each other directly by phone or through computer systems
- Stocks traded there can be listed or unlisted

Primary vs. Secondary Market

Different sections of a stock market

Primary Market

(集資市場)

- The market for newly issued shares
- Shares are sold directly from issuers to investors

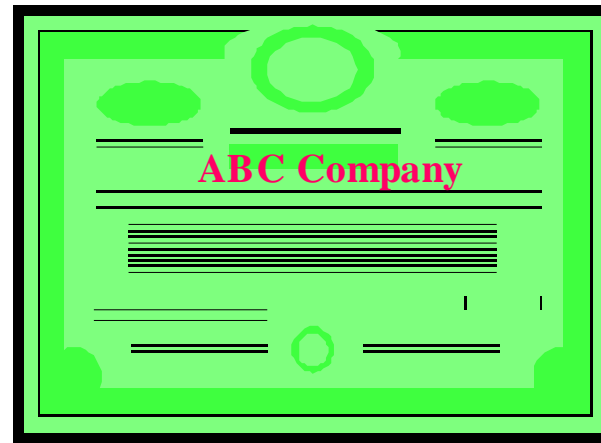
Secondary Market

(交易市場)

- A market where an investor buys a share from another rather than the issuer, subsequent to the issuance of the shares in the primary market

Capital Market- Stock Market

- **What is a stock?**
 - **Definition – A certificate representing a unit of ownership in a company**



Common types of stock

- Ordinary shares (普通股)
 - Voting right
 - Receive Dividend

- Preference shares (優先股)
 - Fixed dividend
 - Preferential distribution of profits prior to the ordinary shareholder

Statistics of HK stock market

- No. of listed companies
 - 1189
- Market capitalization
 - HK \$14,982 billion
- No. of H shares
 - 143
- No. of Red chips
 - 88

Figures as at the end of May 2007



Classifications of stock

- By business nature
 - Finance, utilities, properties, consolidated enterprises, & Industrials and hotels
- H-shares (國企股) / A / B shares
- Hang Seng Index (恒生指數): 39 constituents
- Several commonly used terms:
 - Blue-chips (藍籌股), Red-chips (紅籌股), Second / Third liners (二、三線股), Concept stocks (概念股)

Different types of participants in the financial market

Roles of different participants



SEHK



Listed
Companies



Share
Registrars



Investors



Stockbrokers



Clearing House

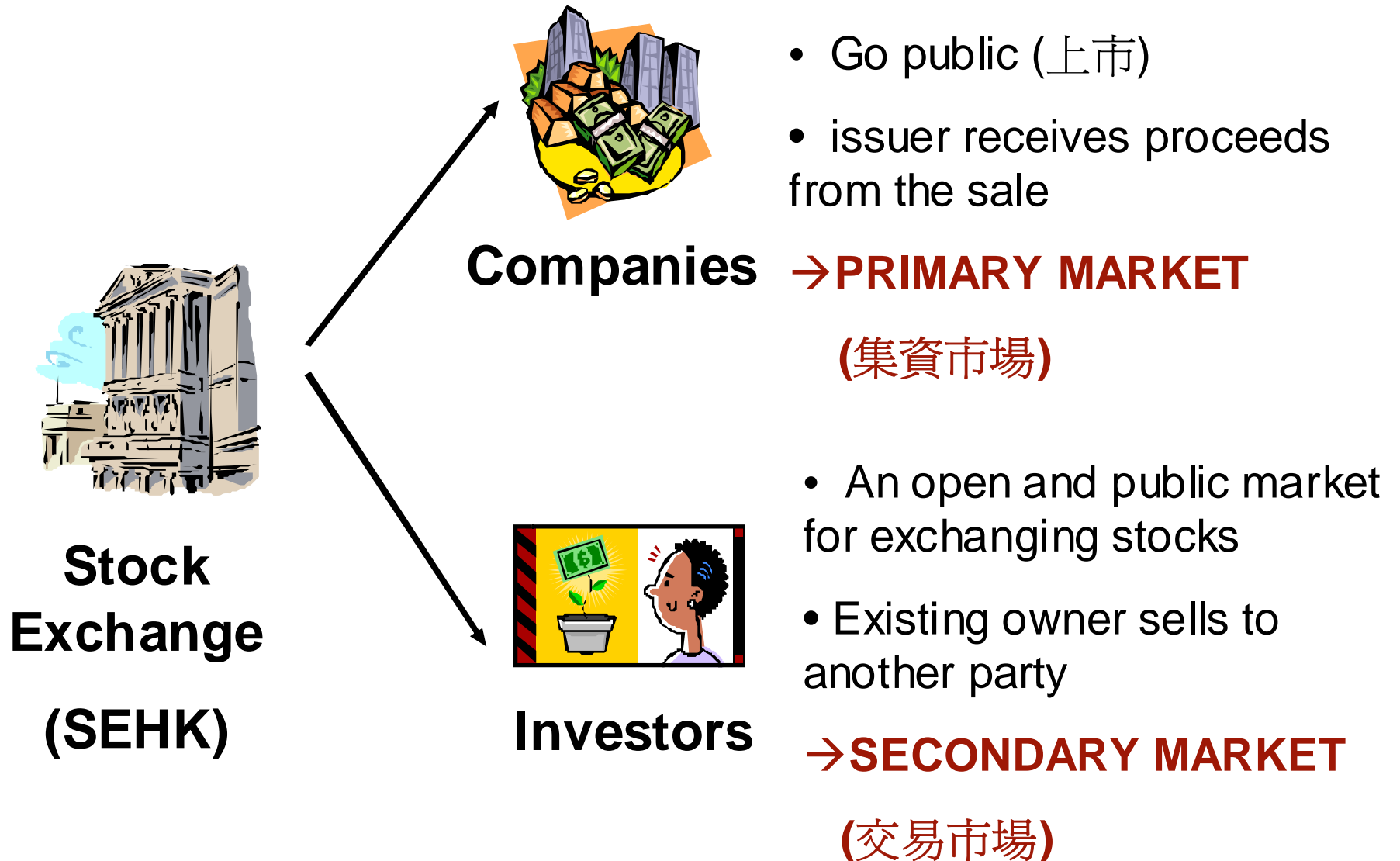


Regulators

Stock Exchange of Hong Kong (SEHK)

- Hong Kong Exchanges and Clearing Limited (HKEx) operates an efficient, transparent and orderly securities marketplace through its wholly-owned subsidiary, The Stock Exchange of Hong Kong Limited (SEHK).
- Investors can buy and sell a wide range of products on the SEHK, including: equities, equity/derivative warrants, debt securities, exchange traded funds (ETFs), unit trusts/mutual funds and structured products.





SEHK

- There are two markets on the SEHK



Main Board (主板):

For more established companies with previous trading and profit records

Growth Enterprise Market (GEM) (創業板):

For growth companies that may not have a track record of profits

Listed Companies

- Comply with the Listing Rules
- Continuing disclosure obligations
 - Price-sensitive information
 - Financial information – Annual, interim, quarterly (only for GEM companies) reports
 - Failure to publish reports on time may lead to trading suspension
 - Corporate actions
 - “Notifiable” transactions (須予公布的交易)

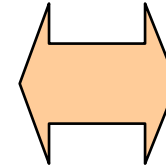
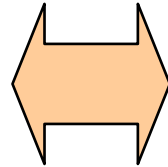
Listed Companies

- New rules to boost corporate governance standards
 - Interested directors cannot vote to approve certain corporate transactions at shareholder meetings
- Directors are subject to a trading blackout period (限制買賣期)
 - 1 month prior to publication of results announcement and ending on the date of announcement

Share Registrars



Investors



**Listed
Companies**

- Maintain the share register (股東名冊) of a listed company
- Issue new share certificates and replace lost certificates, distribute dividends and corporate documents to shareholders

Stockbrokers

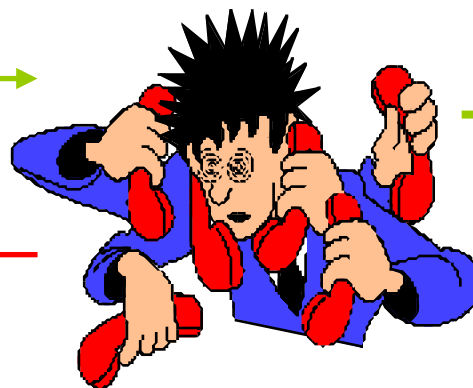
- 9 Regulated Activities under the Single Licensing Regime
 - RA1 – Dealing in securities
 - RA4 – Advising on securities
 - RA8 – Securities margin financing
- Act as a “bridge” between buyers and sellers
- File monthly returns on Financial Resources
Rules requirements to report financial health
- On-site inspections by SFC on rules compliance



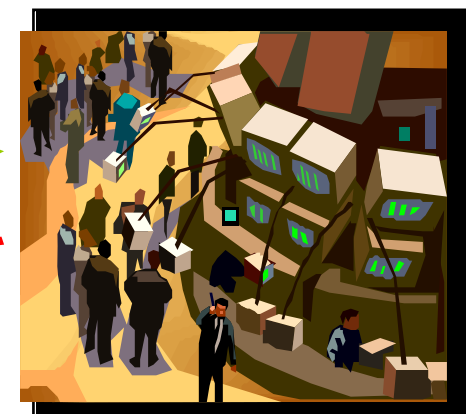
Stockbrokers



Buyer



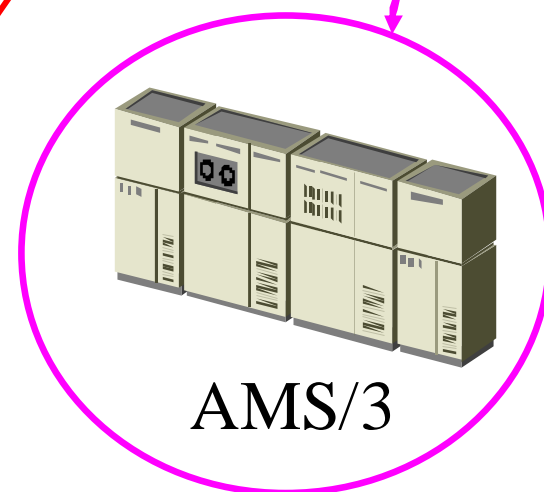
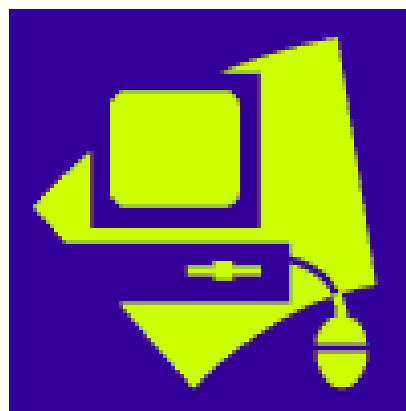
Brokers



SEHK



Seller



AMS/3



Institutional Investors

- Substantial shareholders (大股東)
 - holding 5% or more of the voting shares
 - disclose of interests requirements
- Controlling shareholders (控股股東)
 - generally referred to those holding 30% or more of the voting shares, alone or together with concerted parties
 - may trigger a general offer under certain circumstances



Clearing House

- Clearing and settlement via Central Clearing And Settlement System (CCASS) under an immobilised mode (非流動形式)
- Settlement cycle : T+2 at brokerage level
- Investor Participant Account: a stock custody account for investors in CCASS
- Scripless trading (無紙化交易):
 - Investors can choose to hold or “dematerialise” their scrips
 - Progressive implementation starting with share certificates held in CCASS

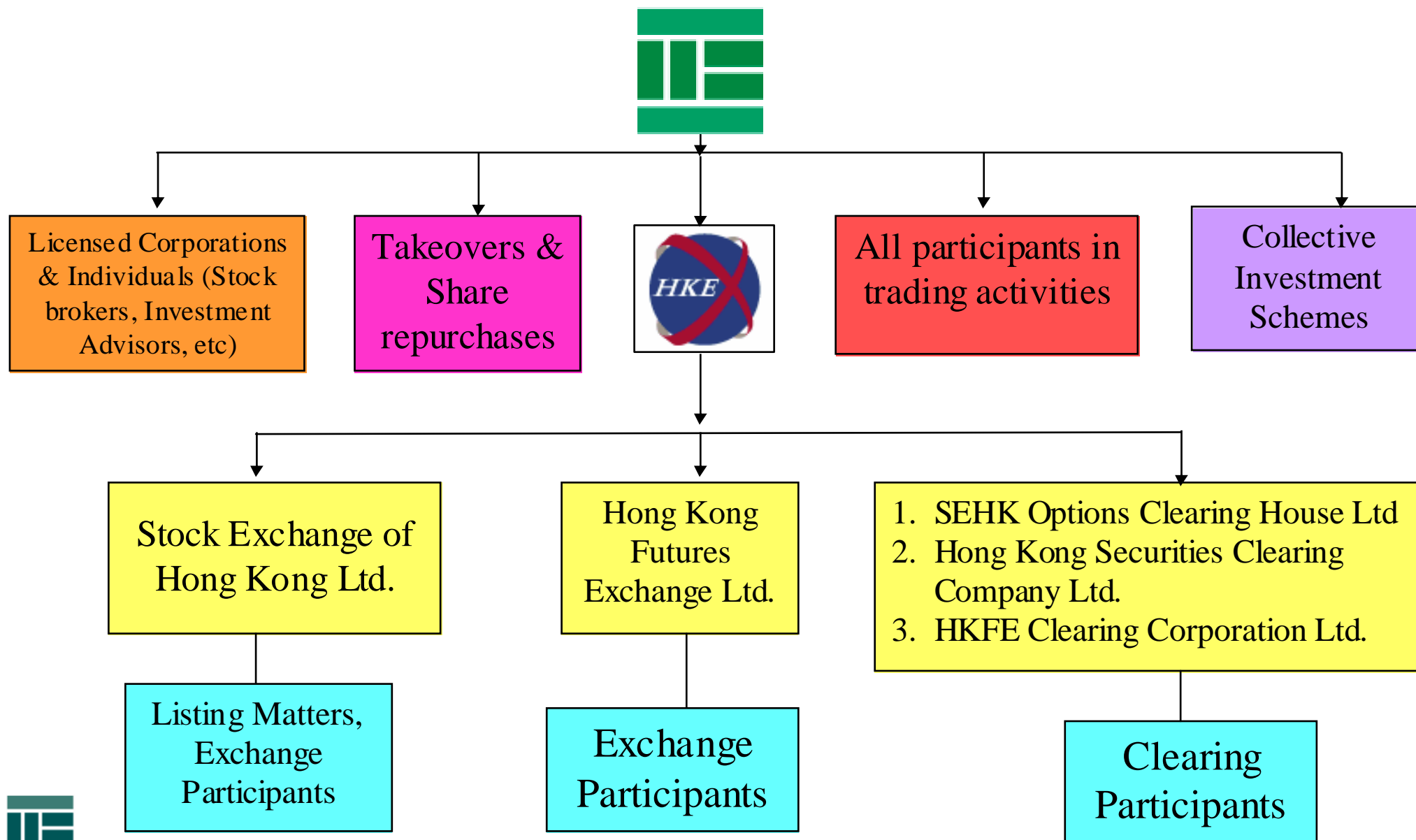
2) Investor Protection in Hong Kong

Roles of Different Financial Regulators

Regulatory Framework of Hong Kong

Major regulatory bodies:

- Securities and Futures Commission (SFC)
- Stock Exchange of Hong Kong Ltd (SEHK)
- Hong Kong Monetary Authority (HKMA)
- Office of the Commissioner of Insurance (OCI)



SEHK

- Front-line regulator of listing-related matters
- Administer the Listing Rules (上市規則)
- Pass listing applications and listed company disclosure materials to the SFC under the Dual Filing mechanism (雙重存檔)

HKMA

- Front-line regulator of banks' securities operations
- Banks must register with the SFC as Registered Institutions to carry out securities business
- Maintain currency stability
- Manage the exchange fund
- Ensure safety and stability of the banking system

OCI

- To protect the interests of policyholders and to promote the general stability of the insurance industry.
- Major duties and powers of IA:
 - Authorization
 - Regulation of insurers
 - Regulation of insurance intermediaries
 - Liaison with the insurance industry
- Emphasis self-regulation by the players



Insurance – Self Regulatory Organizations (SROs)



- Complaints on the conduct of an insurance agent/broker:
 - Insurance Agent Registration Board (保險代理登記委員會)
 - The Hong Kong Confederation of Insurance Brokers (香港保險顧問聯會)
 - Professional Insurance Brokers Association Limited (香港專業保險經紀協會)
- Complaints relating to claims arising out of personal insurance policies:
 - Insurance Claims Complaints Bureau (保險索償投訴局)



Investors' Compensation Regime

Investor Compensation Fund (ICF)

- ICF is administered by the Investor Compensation Company Limited ("ICC"), a wholly-owned subsidiary of the SFC.
- ICF is set up for compensating investors who suffer pecuniary losses as a result of “default” of a licensed intermediary or authorized financial institution in relation to their trading of exchange-traded products in Hong Kong.

Investor Compensation Fund (ICF)

- "Default" covers insolvency, bankruptcy or winding up, breach of trust, defalcation, fraud or misfeasance.
- The source of money **used to** come mainly from the Investor Compensation Levy:
 - Securities transaction : 0.002% on transaction amount, payable by buyers and sellers
 - Futures contracts:
 - HK\$0.5 per side of a contract or
 - HK\$0.1 per side of a mini contract or stock futures contract.

But the Levy was suspended since 19 December 2005 as the net asset value of the ICF exceeded HK\$1.4 billion.

Investor Compensation Fund (ICF)

- The ICC is responsible for vetting and determining the claims against the ICF.
- Compensation is applied on a per-investor basis with a limit of HK\$150,000 for trading securities and futures respectively.

Deposit Protection Scheme (DPS)

- The Hong Kong Deposit Protection Board is a statutory body established under the Deposit Protection Scheme Ordinance to oversee the operation of the DPS.
- DPS aims to protect depositors and help to maintain stability of the banking system in HK.



Deposit Protection Scheme

- Unless exempted by the Hong Kong Deposit Protection Board, all licensed banks are the scheme members. The scheme covers deposits in any currency held in member banks.
- Should a member bank fail, DPS would compensate affected depositors the amount of their deposits less any money owed to the bank, and up to a maximum of HK\$100,000.

Deposit Protection Scheme

- The scheme does not cover
 - Common investment products like stocks, bonds, warrants, mutual funds, unit trusts and insurance policies
 - Time deposits with a maturity longer than 5 years
 - Structured deposits (equity/currency linked deposits)
 - Secured/offshore deposits
 - Bearer instruments (such as bearer certificate of deposits)

Rights and Responsibilities of Investors

Rights of Investors as Shareholders

- Right to be informed
 - Listed companies are required to send financial reports to registered shareholders
- Right to receive entitlements, e.g. dividends, bonus shares
- Right to vote in shareholders' meetings
- Right to raise questions with the senior management

Rights of Consumers of Financial Services

- Right to be informed of the licence status, fees and charges
- Right to choose a client agreement in the language you prefer
- Right to receive transaction documents e.g. contract notes, account statements

Rights of Consumers of Financial Services

- Right to ask for sufficient information to facilitate you to manage your investment
 - Monitor your account
 - Choose the right products
- Right to complain in case of mishandling of investments

Fees & Charges

- Transaction costs on stock trading
 - Brokerage commission
 - SFC's Transaction levy(0.004%)
 - SEHK's Trading fee (0.005%)
 - Stamp duty (0.1%)
 - Investor compensation levy (0.002%)
 - (suspended since Dec 2005)



Transaction Documents

- Contract Notes
 - They are issued by the second trading day after the dealing day (i.e. T+2)

- Statements of account
 - They are issued on a monthly basis unless there have been no transactions and a zero cash and stock balance in your account during the statement period.



Responsibilities of Investors

- Do your homework, e.g. read the product offering documents
- Know your investments, e.g. understand the features and risks of an investment before committing your money
- Don't follow the crowd. Bank on facts, not rumors
- Don't commit beyond your means



Responsibilities of Investors

- Know your financial services provider
 - Check the Public Register of Licensed Persons and Registered Institutions
 - Licence Details
 - Types of regulated activities
 - Licensing conditions
 - Addresses
 - Complaint Officers
 - Public Disciplinary Actions
- Read the client agreement before signing



Responsibilities of Investors

- Choose an appropriate account that suits your needs
 - Cash / Margin/ Discretionary account
 - Investor Participant (IP) account at CCASS
- Place clear instructions
- Settle transactions directly with your financial services provider on time
- Read transaction documents to monitor your account
- Don't lend your account to others to trade

Tips on Order Placing

When you place a buy/sell order, you have to specify clearly

- the code or name of the stock
- the purchase/sale price
- Quantity (no. of board lots or no. of shares)

Know Your Risks

- Price volatility
- Business failures
- Corporate misgovernance
- Liquidity risk
 - Trading suspension
- Brokerage failure / fraud
 - Pooling risk (匯集風險), misappropriation
- Leverage risk



Risk Management

- Diversification
- Don't chase rumours
- Read corporate news issued by the listed companies you have invested in
- Think twice before engaging in day trading (即日鮮)


Invest Wisely

Visit the SFC's investor education portal,

@ www.InvestEd.hk to learn more !



Flash Videos



The screenshot displays the InvestEd SFC Investor Education Portal. The website features a top navigation bar with links for SFC Website, Home, About Us, Search, Sitemap, Contact Us, and an UPDATE ALERT. Below this is a main menu with categories: Investor Alert, Education News, Publications, Features & Dr Wise, Monthly Focus, Game Zone, Studio, eLibrary, and Teachers Corner. The 'Features & Dr Wise' section is highlighted, showing a video player titled 'Reading the Prospectus'. The video player includes a play button, volume control, and a chapter selector (1-5). The video content shows a man standing and a woman sitting at a table, with the text 'Reading the Prospectus' overlaid. To the right of the video player, there is a list of articles related to IPO Investing, including 'of Listing', 'ng the Prospectus', 'ribing for New Shares', 'king the Allotment Results', and 'of IPO Investing'.

Useful links

HKEX	http://www.hkex.com.hk/index.htm
SFC	http://www.sfc.hk/sfc/html/EN/
InvestEd	www.InvestEd.hk
HKMA	http://www.info.gov.hk/hkma/index.htm
OCI	http://www.oci.gov.hk/
ICF	http://www.hkicc.org.hk/
DPS	http://www.dps.org.hk/

Questions and Answers

