



**SECURITIES AND
FUTURES COMMISSION**
證券及期貨事務監察委員會

Consultation Conclusions on Proposed Enhancements to the Competency Framework for Intermediaries and Individual Practitioners

18 June 2021

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Executive summary

1. On 11 December 2020, the Securities and Futures Commission (SFC) issued a Consultation Paper on Proposed Enhancements to the Competency Framework for Intermediaries and Individual Practitioners (Consultation Paper) to bring our competency framework up-to-date in view of the changing regulatory landscape, evolving financial markets and the development of new financial products. The proposed enhancements will be reflected in the revised Guidelines on Competence (Competence Guidelines) and Guidelines on Continuous Professional Training (CPT Guidelines).
2. The SFC received a total of 31 written submissions, including from industry and professional associations, professional firms, licensed corporations (LCs), registered institutions (RIs) and other stakeholders. The respondents generally welcomed our proposals to enhance the competency framework. A list of respondents (other than those who requested anonymity) is set out in Appendix A to this paper. The SFC would like to thank all respondents for their time and effort in reviewing the proposals and providing us with their insightful comments.

Key comments

Competence requirements

3. We received broad support for our proposals in the following areas:
 - (i) raising the minimum academic qualification requirements for individuals and broadening the scope of recognised academic qualifications;
 - (ii) introducing full exemption from obtaining recognised industry qualifications (RIQs) for temporary licence applicants;
 - (iii) refining the applicability of the conditional exemption from passing the local regulatory framework papers (LRPs) under paragraph (8) of Appendix E to the 2003 version of the Competence Guidelines for licensed representatives (LRs);
 - (iv) elaborating on the relevant industry experience requirements;
 - (v) clarifying the management experience requirements for responsible officers (ROs); and
 - (vi) enhancing the competence requirements for individuals who intend to advise on matters in relation to the Codes on Takeovers and Mergers and Share Buy-backs (Codes on Takeovers).
4. In response to a respondent's proposal, we agreed to recognise post-graduate diplomas or certificates in designated fields under Option A¹, provided that the post-graduate diplomas or certificates are issued by a local or overseas university or

¹ Please refer to paragraphs 4.2.1.2 and 4.3.1.2 of the revised Competence Guidelines set out in Appendix B to this paper for details of the various options.

other similar tertiary institution, or recognised as Level 6 or above under the Qualifications Framework² in Hong Kong.

5. Regarding the scope of management experience of an RO applicant, a few respondents considered that such experience is more transferrable across regulated activities (RAs) and the industry, and should be accepted so long as it is relevant to the financial industry. We would like to clarify that management experience acquired in the financial industry will be accepted. The revised Competence Guidelines set out in Appendix B to this paper have been revised accordingly.
6. In response to a market query, we wish to clarify that the five years of corporate finance experience required of ROs or executive officers (EOs) who intend to advise on matters in relation to Codes on Takeovers in a sole-capacity (TCROs) must be acquired continuously and immediately preceding the date of TCRO application. The revised Competence Guidelines set out in Appendix B to this paper have been amended to provide this clarification.
7. Some respondents suggested other alternative proposals or sought clarifications, and our detailed responses can be found in Part I of this paper.

CPT requirements

8. The majority of the respondents supported the proposed changes to the CPT requirements, including:
 - (i) simplifying the basis of the CPT requirements from number of “RA competence groups” to “per individual”;
 - (ii) specifying 10 CPT hours per calendar year as the minimum requirement for LRs and relevant individuals (Rels), with two additional hours on regulatory compliance for ROs and EOs;
 - (iii) requiring each individual practitioner to attend at least five CPT hours on topics directly relevant to the RAs in which he or she engages;
 - (iv) requiring each individual practitioner to complete no less than two CPT hours on topics relating to ethics or compliance per calendar year; and
 - (v) requiring each individual practitioner who first joins the industry in Hong Kong to complete two CPT hours on ethics within 12 months.
9. In light of the growing importance of environmental, social and governance (ESG) issues in the financial market, we accept the suggestion of including this subject as a relevant topic for CPT purposes.
10. Details of major comments received and our responses are set out in Part II of this paper.

² The Education Bureau of the Government of the Hong Kong Special Administrative Region launched the Qualifications Framework in Hong Kong on 5 May 2008, which is a seven-level hierarchy covering qualifications in the academic, vocational and professional as well as continuing education and training sectors. Levels 5, 6 and 7 are considered as equivalent to a bachelor’s, master’s and doctoral degree respectively. Please refer to the Hong Kong Qualifications Framework website (www.hkqf.gov.hk) for more details.

Implementation

11. The marked-up texts of the revised Competence Guidelines and CPT Guidelines are set out in Appendices B and C to this paper respectively.
12. The requirements of the “Additional Fit and Proper Guidelines for Corporations and Authorized Financial Institutions applying or continuing to act as Sponsors and Compliance Advisers” (Sponsor Guidelines) currently set out in Appendix I to the Fit and Proper Guidelines have been moved to the respective sections in the revised Competence Guidelines and CPT Guidelines³. The entire Appendix I to the Fit and Proper Guidelines will therefore be repealed.
13. The revised Competence Guidelines, CPT Guidelines and Fit and Proper Guidelines will become effective on 1 January 2022.
14. The Consultation Paper, the responses (other than those from respondents who requested their submission to be withheld from publication) and this paper are available on the SFC website (www.sfc.hk).

³ Please refer to paragraph 63 of the Consultation Paper for details.

Comments received and the SFC's responses

Part I: Proposed amendments to the competence requirements

A. Raise the minimum academic qualification requirements for individuals and broaden the scope of recognised academic qualifications

Question 1:

Do you agree to raise the minimum academic qualification requirements to the attainment of Level 2 in either English or Chinese as well as in Mathematics in HKDSE or equivalent?

Public comments

15. We received overwhelming support for our proposal to raise the minimum academic qualification requirements. Respondents welcomed our proposal and agreed that it is unlikely to discourage new practitioners from joining the industry. Two respondents made a further remark that this minimum may still be considered low compared to international standards.
16. Two respondents commented that the SFC should consider local or overseas certificates or diplomas as equivalent to the Hong Kong Diploma of Secondary Education (HKDSE) under Option C. One explained that it may be difficult for some applicants to provide academic records for their secondary education if they have already acquired a tertiary level qualification and diploma holders may not be able to demonstrate the minimum required qualification, a pass, in English or Chinese as well as in Mathematics.
17. Two respondents raised questions relating to specific academic qualifications. One asked whether passes in the same subjects in the General Certificate of Education Ordinary Level (GCE O-Level) will be recognised; the other asked if, for clarity, we may specify the grades (instead of "passes") attained in the Hong Kong Certificate of Education Examination (HKCEE) and the English Language syllabi under HKCEE.

The SFC's response

18. The minimum academic qualification requirements are baseline competence requirements. Industry practitioners also need to meet the other prescribed industry and regulatory knowledge requirements to be licensed or registered.
19. We would like to clarify that local or overseas certificates or diplomas which serve as an entry channel for university will be considered as equivalent to HKDSE. This has already been reflected in footnotes 22 and 31 to the academic or professional qualifications under Option C for ROs and LRs in paragraphs 4.2.1.2 and 4.3.1.2 of the revised Competence Guidelines. However, holders of these certificates or diplomas will not be considered as having academic qualifications that are equivalent to HKDSE if they do not have passes in either English or Chinese as well as in Mathematics.

20. GCE O-Level has all along been recognised as equivalent to HKCEE and will continue to be after the revised Competence Guidelines come into effect. We do not consider it necessary to update the Competence Guidelines for this purpose.
21. As to HKCEE, we agree to replace “passes” with “the attainment of grade E or above” and have updated footnotes 22 and 31 for Option C in paragraphs 4.2.1.2 and 4.3.1.2 of the revised Competence Guidelines accordingly. With regard to the comment on the passing grade for English Language in HKCEE, we would like to point out that the Hong Kong Examinations and Assessment Authority (HKEAA) has in the past stated that grade C in Syllabus A is considered as equivalent to grade E in Syllabus B. Hence, we will continue to adopt HKEAA’s interpretation when assessing the academic qualifications of individual applicants.

Question 2:

Do you agree to broaden the scope of recognised academic qualifications to cover degrees in other disciplines?

Public comments

22. The majority of respondents agreed to broaden the scope of recognised academic qualifications to cover degrees in other disciplines.
23. While several respondents commented that degree holders of other disciplines (eg, Engineering, Physics, Mathematics, Statistics) may also have applicable knowledge, two respondents argued that there are differences between individuals who have degrees in the designated fields and those who do not.
24. One respondent raised the possibility of recognising post-graduate courses (eg, a post-graduate certificate in finance) under Option A. Another respondent weighed in that our framework should be even more flexible so that LCs can make their own judgement on the academic qualifications of licence applicants.

The SFC’s response

25. We are pleased by the strong support for the proposal to recognise individuals who hold a degree in other disciplines but have not completed two courses in the designated fields. To ensure that these individuals would have relevant industry knowledge, they are also required to obtain the relevant RIQs, complete Extra CPT⁴ or acquire additional relevant industry experience, where appropriate.
26. After due consideration of the suggestion about post-graduate diploma or certificate holders, especially given that these individuals should have already completed tertiary education and are already recognised under Option B, we will regard such holders of post-graduate diplomas or certificates in designated fields (or with at least two courses in designated fields) under Option A provided that such post-graduate diplomas or certificates are issued by a local or overseas university or other similar

⁴ “Extra CPT” refers to the completion of additional five CPT hours by the applicant for each RA he or she applies for, which is a one-off requirement. The additional CPT hours should be taken within six months preceding the submission of the application.

tertiary institution, or recognised as Level 6 or above under the Qualifications Framework in Hong Kong. Corresponding changes are made in the newly added footnotes 19 and 28 for Option A under paragraphs 4.2.1.2 and 4.3.1.2 of the revised Competence Guidelines.

27. On allowing LCs to make their own judgement on academic qualifications, we would like to emphasise that our competency framework sets out the minimum academic qualification requirements for all individual practitioners for the purpose of regulatory consistency and we have now broadened the scope so that all degree holders can qualify under Option A or B. LCs and RIs will only need to determine if applicants possess sufficient and relevant knowledge and experience to take on their specific roles before endorsing their applications for a licence or registration.

Question 3:

Do you have any comments on requiring licence applicants with degrees in other disciplines (without passes in at least two courses in the designated fields) and with HKDSE or equivalent academic qualifications to complete Extra CPT to ensure they have sufficient industry knowledge?

Public comments

28. The majority of respondents supported our proposal.
29. One respondent expressed the view that completion of Extra CPT does not guarantee that licence or registration applicants have sufficient industry knowledge and will only serve to lower the industry's standing. Two respondents expressed concerns that Extra CPT is not comparable to the alternative requirement to obtain relevant RIQ. One proposed raising the number of Extra CPT hours from five to 10 per RA; the other suggested substituting the Extra CPT with a bridging course.
30. One respondent recommended waiving the Extra CPT or RIQ requirements for Option B applicants who are currently LRs and seek approval as ROs, as these individuals should already have an understanding of the fundamentals of the financial market. Another respondent requested that applicants with years of experience (eg, at least five years in an eight-year period) and sufficient industry knowledge be similarly exempted.
31. Two respondents sought to clarify whether there are specific requirements (eg, specific topics or disciplines) for the Extra CPT, what kind of documentary evidence or proof of Extra CPT would be required for application purposes, and whether an attestation by the applicant may suffice.
32. We also received other suggestions such as that the Extra CPT should be provided by a selected list of institutions which are pre-approved by the SFC, there should be appropriate opportunities for overseas applicants to take the Extra CPT and topics relating to compliance and regulatory standards should be included as mandatory CPT hours.

The SFC's response

33. Under the existing competency framework, taking five Extra CPT hours per RA has always been an alternative means to satisfy the competence requirements in certain circumstances, such as obtaining RIQ or LRP exemptions, provided that the individual has also satisfied other prescribed criteria. Market practitioners have generally accepted this as a reasonable alternative and there has not been any feedback that five hours are insufficient for this purpose. Instead of designating a bridging course, we also believe that CPT, which may be delivered via various means (such as seminars, workshops, online learning) as mentioned in paragraph 6.2 of the revised CPT Guidelines, will allow market practitioners flexibility to satisfy the requirement.
34. We wish to clarify that if Option B applicants who are currently LRs have already obtained the relevant RIQs, then they will not be required to meet the RIQ requirement again when applying for approval as RO for the same RA, as mentioned in paragraph 4.1.6 of the revised Competence Guidelines; otherwise, they will have to obtain the relevant RIQs or complete Extra CPT. As to the other suggestion concerning applicants with years of experience, we suggest these individuals consider applying for the RIQ exemptions available in paragraph 4.4.2 of the revised Competence Guidelines or complete Extra CPT.
35. As to the requirements of the Extra CPT, we expect that the CPT taken by the individual must be relevant to the RA he or she applies for. Like other CPT, the individual's accredited principal would be in a better position to suggest topics or disciplines which are relevant to his or her duties and responsibilities. Regarding documentary evidence, we expect the individual to retain records⁵, which support his or her attendance or completion of CPT activities, such as certificate of attendance issued by the course providers and examination results. Self-attestation by the individual would not be sufficient.
36. Regarding the other suggestions, we tend to allow more flexibility for LCs, RIs and individuals to satisfy the Extra CPT rather than mandating its structure, format and content. Additionally, since the Extra CPT is meant to enhance the industry knowledge of Option B and C applicants, we do not consider it necessary to mandate compliance and regulatory standards as two compulsory subjects for the Extra CPT.

Question 4:

Do you agree with the proposal to grandfather current and ex-licensees who previously qualified under Option 3?

Public comments

37. We received overwhelming support for our grandfathering proposal as respondents believe this would minimise any potential impact to existing practitioners and institutions.

⁵ The individual should adopt the same standards in paragraph 5.6 of the revised CPT Guidelines.

38. One respondent sought to clarify whether the grandfathering arrangement applies to licensees or registrants who have left the industry for more than three years; another respondent instead suggested limiting the grandfathering arrangement to those who have been licensed or registered within the past three years.
39. Two respondents recommended that applicants who are entitled to grandfathering arrangements should complete the Extra CPT so that they are on par with the new Option B and C applicants. One respondent advocated the use of bridging courses to replace the Extra CPT in these circumstances.

The SFC's response

40. The proposed grandfathering arrangement is intended to exempt current and ex-licensees or registrants who previously qualified under Option 3 from the new minimum academic qualification requirement because they have been in the industry before. In order to be eligible for this exemption, they should also satisfy the other requirements (such as having recent and relevant industry experience and meeting the RIQ and LRP requirements, as applicable) under the grandfathering arrangements set out in paragraphs 4.2.1.3 or 4.3.1.3 of the revised Competence Guidelines. Thus, we do not consider that imposing a time limit on this arrangement would be necessary.
41. As for the recommendation to subject applicants who are entitled to grandfathering arrangements to Extra CPT, we consider that these applicants could be treated differently from new Option B and C applicants since they either are currently or were previously licensed or registered. For the same reasons stated in paragraph 33 above, we also do not consider it necessary to require a bridging course for these applicants.
42. Since the vast majority of respondents expressed support, the grandfathering arrangement would be adopted as proposed in the Consultation Paper.

B. Introduce a full exemption from obtaining recognised industry qualifications for temporary licence applicants

Question 5:

Do you agree to introduce a full exemption from satisfying the RIQ requirements for temporary licence applicants?

Public comments

43. We received strong support for the proposal.
44. One respondent commented that applicants who are subject to similar restrictions as a temporary licensee should not be eligible for this exemption.
45. One respondent sought clarification of whether authorisation by a regulatory body in the jurisdictions concerned could be at the firm or individual level (as the case may be).

46. Another respondent sought clarification of whether temporary licence applicants are required to satisfy the SFC that they possess the industry qualifications required by overseas regulators in order to enjoy the full exemption, and further suggested exempting academic or professional qualifications as well as relevant industry experience requirements for temporary licensees.
47. One respondent asked whether the full exemption would be extended to itinerant professionals.

The SFC's response

48. In considering whether to grant exemptions, we will consider all the relevant facts and circumstances presented. Where there are conditions or restrictions related to the temporary licence applicant's competence to carry on the RA concerned, the SFC may require applicants to demonstrate their competence where appropriate.
49. We would like to clarify that there are occasions where an overseas regulator only grants a licence or registration at the firm level and does not directly authorise the applicant. In these cases applicants need to demonstrate that they fulfil the requirements set out in paragraphs 5.3.7(a)(i) to (iii) of the Licensing Handbook.
50. Academic or professional qualifications, relevant industry experience, RIQ and LRP are competence criteria of varying significance and objectives. We do not consider it appropriate to grant further exemptions to temporary licensees. We note that the respondent sought to exempt all competence criteria for temporary licensees on the basis that temporary licence applicants, given their current overseas authorisation status, should possess academic qualifications and industry experience in respect of the RAs that they are applying for. If that were the case, there should not be any particular concerns for these applicants to demonstrate their competence to the SFC.
51. Temporary licensees, given their current overseas authorisation status, should already possess industry knowledge in respect of the RAs they are applying for and their SFC licences are only valid for a short period of time⁶. However, itinerant professionals are not required to hold a relevant licence or registration in other jurisdictions, thus may not necessarily possess industry knowledge in respect of the RAs that they are applying for, and furthermore their SFC licences have no stated expiry period. In view of these differences, we do not consider it appropriate to extend the RIQ exemption to itinerant professionals.
52. Having considered the above, we will adopt our original proposal as set out in paragraph 4.4.2.1(b) of the revised Competence Guidelines.

⁶ Under section 121 of the Securities and Futures Ordinance (SFO), a temporary licence will be granted for a period not exceeding three months at any one time, and not more than six months in total within any period of 24 months.

C. Refine the applicability of the conditional exemption from passing local regulatory framework papers under paragraph (8) of Appendix E to the 2003 version of the Competence Guidelines for LRs

Question 6:

Do you agree to refine the scope of the conditional exemption under paragraph (8) of Appendix E to the 2003 version of the Competence Guidelines as described in paragraph 37 above⁷?

Public comments

53. All respondents welcomed our proposal.
54. One respondent was uncertain about whether the extra five CPT hours achieve the same purpose as passing the LRP. Another respondent considers that there should be more specifics regarding the appropriate courses or content for the CPT hours concerned.

The SFC's response

55. As explained in paragraph 33 above, Extra CPT has served as an alternative means to satisfy the competence requirements on various occasions and no concerns have been identified. In fact, many respondents highlighted the appropriateness of completing additional CPT hours.
56. Regarding the additional five CPT hours required, they should be in local regulatory knowledge in the relevant RA being applied for. Since we have imposed similar requirements for other LRP exemptions in the past, applicants or their principals should have no difficulty deciding appropriate courses or content for meeting this requirement. The scope of this conditional exemption will be refined as originally proposed such that under specific circumstances LRs may complete an additional five CPT hours in regulatory knowledge in a new RA in lieu of passing the LRP for that new RA. Please refer to paragraph 4.4.3.7 of the revised Competence Guidelines.

D. Elaborate on the relevant industry experience requirements

Question 7:

Do you agree that on a case-by-case basis we should take into account licence applicants' overall career history within the industry?

⁷ This refers to paragraph 37 of the Consultation Paper.

Dated experience

Public comments

57. Most of the respondents supported the proposal. Several respondents maintained that the proposal can provide flexibility for applicants to justify their cases, having regard to different factors, such as the proposed duties to be undertaken, the relevance of the dated experience as well as the reputation and domicile of their previous employers.
58. One respondent expressed that the suggested approach should be limited only to the situation where we would like to take into account an applicant's dated experience so as to provide certainty to the process. Another respondent commented that a distinction should be made between those elements of industry experience which change over time and those which do not.
59. A number of respondents expressed that we could provide more guidance on the criteria for adopting the suggested approach and consider setting a benchmark for dated experience.

The SFC's response

60. We welcome the support for our proposal which is adopted in paragraphs 4.1.10 and 4.1.11 of the revised Competence Guidelines. As noted in paragraph 39 of the Consultation Paper, "recency" is a key element to demonstrate that an individual is on top of market developments and familiar with the regulatory landscape. In this connection, we wish to stress that our proposal mainly concerns dated experience for those applicants who cannot entirely satisfy the recency test.
61. Setting a bright line benchmark for the dated experience may overgeneralise the issue and therefore is not appropriate. Applicants may not be able to pinpoint aspects of their industry experience which change over time when submitting their applications. We take the view that it would be more suitable to adopt a substance-over-form approach and take into account the facts and circumstances on a case-by-case basis.
62. For example, if an RO applicant will be assuming the role of the Manager-In-Charge (MIC) of the Overall Management Oversight function and has not accumulated sufficient relevant industry experience entirely within the prescribed period, we will holistically take into account how his or her dated experience is relevant to his or her proposed duties, and whether, for example, sufficient infrastructure and human resources are available to his or her proposed accredited principal. If we accept the relevancy of the dated experience, the RO applicant may be granted a licence subject to licensing conditions, such as the non-sole condition.

Applicable to all applicants

Public comments

63. Two respondents sought clarification as to whether the proposal would apply to all applicants, including ROs, LRs, EOs and Rels, and whether the relevancy of Rels' dated experience should be determined by RIs.

64. One respondent also suggested providing an explanation to an applicant if his or her overall career history was not accepted and the application was rejected.

The SFC's response

65. To maintain a level playing field, the proposal shall be applicable to all applicants including ROs, LRAs, EOs and Rels. We understand that it is the responsibility of RIs to ensure that their Rels are competent. Where overall career history is to be relied upon, RIs should take reasonable steps such as making enquiries and maintaining sufficient records to satisfy themselves that their Rels have previously carried on relevant activities.
66. When an application is rejected, it is our practice that we would provide written communication setting out the basis of the decision, so that the applicant may re-submit the application after the key issues identified, such as failure to meet the relevant industry experience requirements, have been fully addressed.

Other suggestions

Public comments

67. One respondent suggested that we should consider the experience of a private equity (PE) manager in its entirety, including experience which might not be gained at the specified exchanges set out in Schedule 3 to the Securities and Futures (Financial Resources) Rules (FRR).
68. One respondent commented that licence applicants' overall career history within the industry could also be a consideration for LRP conditional exemptions.
69. One respondent also suggested that a licensee can provide confirmation of his or her industry experience acquired during a prescribed period in the annual return submission.

The SFC's response

70. We would like to clarify that we recognise a broader range of experience as being relevant when considering individual applications seeking accreditation to PE managers. The range of relevant experience is set out in paragraph 4.1.9(c) of the revised Competence Guidelines. References to specified exchanges set out in Schedule 3 to the FRR are used only in the LRP exemptions as we consider it necessary for the individual to obtain experience in jurisdictions which have a comparable regulatory framework with ours in order to qualify for the LRP exemptions.
71. We are of the view that an applicant may apply for a conditional exemption from the LRP requirements if he or she can satisfy the criteria prescribed in paragraphs 4.4.3 or 4.4.4 of the revised Competence Guidelines, taking into account the facts and circumstances of the case.
72. We consider that it would be appropriate for us to make enquiries as to whether an applicant has acquired sufficient relevant industry experience, rather than relying on an annual self-declaration. We thus consider that the current mechanism suffices to ensure applicants have sufficient relevant industry experience.

Question 8:

Do you agree that we should critically review experience of applicants claimed through accrediting to previous principals for only a short period of time?

Public comments

73. The vast majority of respondents agreed that we should critically review the experience of applicants claimed through accreditation to previous principals for only a short period of time. Some respondents acknowledged that frequent job changes may suggest that an individual has not acquired the requisite relevant industry experience. One respondent commented that this proposal can deter the hiring of ROs in name only.
74. A number of respondents sought clarification of what constitutes “a short period of time” and whether there is a benchmark for the period of accreditation. Some respondents suggested that there can be instances when an applicant is assigned to short term projects or engagements as a result of a corporate reorganisation, or resigns after not fitting in with the new employer’s corporate culture. As such, some suggested that we can seek to understand an applicant’s rationale for a change of principal in a relatively short period of time.

The SFC’s response

75. Setting a quantitative threshold for an applicant’s period of accreditation would not be appropriate. Furthermore, as suggested by some respondents, the facts and circumstances should be taken into account on a case-by-case basis.
76. During the application process, an applicant would have an opportunity to state his or her case when there has been a change of accreditation within a short period of time.
77. Considering the overwhelming support received, we will adopt our proposal as set out in paragraph 4.1.10 of the revised Competence Guidelines.

E. Clarify the management experience requirements for ROs

Question 9:

Do you agree to confine management experience such that it only refers to hands-on experience in supervising and managing essential regulated functions or projects in a business setting, including the management of staff engaging in these functions or projects?

Public comments

78. The respondents broadly supported that management experience requirements for ROs should be confined to hands-on experience in supervising and managing essential regulated functions or projects in a business setting, including the management of staff engaging in these functions or projects. A respondent commented that purely administrative management experience is not relevant to the proper supervision of RAs by an RO.

79. Several respondents were not amenable to the proposal for various reasons. Two respondents suggested that managerial and supervisory experience is more transferrable across industries when compared to industry experience. One respondent was concerned about the complex reporting lines and decision matrices in financial institutions and suggested that the management experience requirement should be satisfied if the applicant's experience is relevant to the financial industry.
80. A number of respondents sought clarification of the management experience requirements in the following circumstances:
- (i) whether the focus can be on the function rather than the number of staff managed by an applicant;
 - (ii) whether the supervisory experience of the Chief Executive, Business Head or Chief Operating Officer overseeing the performance of RAs by licensed individuals can be recognised as hands-on experience;
 - (iii) whether the experience in supervising an investment team which is not carrying out a regulated function and therefore has not been required to be licensed in an overseas jurisdiction counts as management experience; and
 - (iv) whether management experience acquired in one type of RA is transferrable to another type of RA.

The SFC's response

81. Having considered the industry feedback, we agree to accept management experience acquired in the financial industry and have amended paragraph 4.1.13 of the revised Competence Guidelines accordingly. We agreed with a respondent's comment that managing purely administrative functions (such as human resources or office administration) is not relevant management experience for our purpose.
82. In view of the respondents' comments, we would like to clarify that all along our focus has been on the supervision and management of essential regulated functions or projects in a business setting, including the management of staff engaging in these functions or projects. The number of staff under management, as with other information such as reporting lines and the length of time in management roles, facilitates our understanding of the applicant's management experience. While we generally expect there to have been at least one professional staff under management, we think that there is no need to prescribe a fixed number for the purpose of this requirement.
83. Noting the above, we will recognise the following illustrative examples, which are non-exhaustive, as management experience:
- (i) experience as senior management (eg, Chief Executive, Business Head or Chief Operating Officer) of an LC, RI or a corporation within the financial industry supervising the performance of RAs or financial services;
 - (ii) experience in supervising an investment team in the performance of an investment function, whether regulated or not; and
 - (iii) experience acquired from managing another type of RA.

84. We would also like to stress that the above examples are considered only in the context of assessing an RO applicant's management experience. An RO applicant is still expected to satisfy other competence requirements (eg, academic or professional qualifications, relevant industry experience) as detailed in paragraph 4.2.1.2 of the revised Competence Guidelines.

F. Enhance competence requirements for individuals who intend to advise on matters in relation to the Codes on Takeovers

Question 10:

In respect of the proposed enhancements to the eligibility criteria for ROs and EOs who intend to advise on Codes on Takeovers-related matters, do you agree:

- (a) to increase the number of completed TC Transactions from one to two?*
- (b) that members of the Hong Kong Takeovers and Mergers Panel should serve on the Panel for at least two years in order for that experience to be considered as relevant experience? and*
- (c) that the experience acquired by the ROs, EOs and members of the Hong Kong Takeovers and Mergers Panel should be recent (ie, within the last five years)?*

Public comments

85. Responses to this question generally supported the above proposals to enhance the eligibility criteria for TCROs.
86. One respondent suggested keeping the number of completed transactions subject to the Codes on Takeovers (TC Transactions) to one. Another respondent suggested lowering the number of years of corporate finance experience from five to three if the number of completed TC Transactions is increased from one to two. Both respondents were concerned that there would be a shortage of TCROs in the industry after raising the entry requirements. One respondent suggested to allow a longer period of time for ROs and EOs to accumulate the required number of completed TC Transactions given the prevailing economic conditions and decreasing number of takeovers activities.
87. One respondent commented that a distinction should be made between those aspects of industry experience which change over time and those which do not. Another respondent suggested that the SFC should require TCROs to confirm whether they have increased, maintained or reduced their experience via annual returns and that these measures should be extended to sponsor principals as well.
88. Some respondents sought clarifications of the following matters:
- (i) whether the five years of corporate finance experience must be acquired continuously and immediately preceding the date of the TCRO application and whether career breaks may be allowed;

- (ii) whether corporate finance experience refers to licensing experience in Type 6 RA⁸;
- (iii) whether overseas takeovers experience will be recognised; and
- (iv) whether an RO and EO can be appointed in a “non-sole capacity”⁹ if he or she has only completed one TC Transaction.

89. One respondent requested that we give examples of the unsatisfactory work and practices mentioned in paragraph 50 of the Consultation Paper which stated that in recent years we have noticed a deterioration of work quality of some financial advisers advising on TC Transactions.

The SFC’s response

90. TC Transactions are often complex and time-critical in nature, and a TCRO assumes an important role in leading and supervising a TC Transaction as well as the Transaction Team¹⁰. A TCRO should therefore have sufficient regulatory knowledge and management experience to discharge his or her duty as a financial adviser. Such experience and expertise takes time to accumulate. We therefore do not agree to reduce the required number of years of corporate finance experience.
91. Furthermore, to ensure that market practitioners have adequate case management experience, it is necessary to raise the number of completed TC Transactions from one to two. The proposed approach (ie, five years of corporate finance experience and two completed TC Transactions) is more conducive to ensure that TCROs meet the requisite competency expected of those advising on matters in relation to the Codes on Takeovers.
92. TC Transactions are becoming increasingly novel, complex and difficult. TCROs should have sufficient up-to-date experience in handling matters in relation to the Codes on Takeovers to ensure compliance with all relevant regulatory requirements. Allowing a longer period for ROs or EOs to accumulate the required number of completed TC Transactions would not serve the objective of ensuring a newly approved TCRO would have up-to-date experience in the Codes on Takeovers.
93. A TCRO is expected to have a solid understanding of the fundamental principles of the Codes on Takeovers and apply such principles to TC Transactions having regard to the latest development of the market and circumstances. Therefore, in assessing the industry experience of a TCRO applicant, it would not be practical to distinguish between industry experience which changes over time and that which does not.

⁸ Advising on corporate finance.

⁹ “Non-sole capacity” means the RO and EO is subject to a licensing condition that he or she must, in the capacity as an adviser to a client on matters or transactions falling within the ambit of the Codes on Takeovers, act together with another adviser (to the client) not subject to the same condition.

¹⁰ “Transaction Team” means the staff assigned by a corporation that is permitted under its licence or registration to advise on matters or transactions falling within the ambit of the Codes on Takeovers to advise on a TC Transaction.

94. Regarding corporate finance experience, we wish to clarify that a TCRO applicant should have at least five continuous years of corporate finance experience immediately preceding the date of application to ensure that he or she has sufficient up-to-date experience as explained above. Paragraph 2.2.2 of the TC Adviser Guidelines¹¹ has been amended to add clarity. Where there are career breaks during the five year period, we would consider them on a case-by-case basis, taking into account the reasons, duration, overall experience in corporate finance transactions and whether the applicant may have gained other relevant experience during the break.
95. Paragraph 2.2.2 of the TC Adviser Guidelines specifies the types of experience which would be considered as corporate finance experience. We would also like to point out that in considering whether an RO or EO for Type 6 RA would be eligible to advise on matters related to the Codes on Takeovers in a “sole capacity”, he or she should have participated in and gained experience from corporate finance transactions. An applicant who merely holds a licence or registration for Type 6 RA for the required number of years but was not involved in corporate finance transactions during that time will unlikely be regarded as having sufficient corporate finance experience.
96. For TCRO applicants with overseas experience, while their takeovers deals may not be regulated by the Codes on Takeovers and hence will not be counted towards the two completed TC Transactions, we may take into account any substantive experience in overseas jurisdictions with a takeovers regime similar to that of Hong Kong. These applicants should expect their licences or registrations, if approved, to be subject to a “non-sole capacity” condition. Similarly, applicants who have not fully met the eligibility criteria for a TCRO may still have their applications approved, provided that they act in a “non-sole capacity” only.
97. Regarding the suggestion to have TCROs (and sponsor principals) confirm their experience via annual returns, as explained in paragraph 72 above, we believe it would be more appropriate for us to make independent enquiries rather than relying on annual self-declarations. We have also explained in paragraph 63 of the Consultation Paper that we do not propose to introduce any changes to the existing competence requirements for sponsors and their principals as part of this consultation.
98. What might constitute “unsatisfactory work and practices” has to be viewed in light of the specific facts and circumstances of each case. We do not consider it appropriate to generalise the issue by giving examples here. We note that some financial advisers have an insufficient understanding of the requirements under the Codes on Takeovers or of the Executive’s¹² latest practices. In other cases, financial advisers have produced substandard work which requires extended vetting or processing time. These circumstances are not in the interest of the offeree company and its shareholders.

¹¹ “TC Adviser Guidelines” refers to the “Additional competence requirements for corporations and individuals which undertake activities in connection with matters regulated by the Codes on Takeovers and Mergers and Share Buy-backs”, which are included as Appendix B to the revised Competence Guidelines.

¹² “Executive” is as defined under the Codes on Takeovers.

99. In view of the above, we will proceed with the original proposal as set out in paragraph 2 of the TC Adviser Guidelines.

Question 11:

Do you agree with the additional examination requirement for LRs and Rels who intend to undertake TC Transaction work?

Public comments

100. All respondents supported the additional examination requirement for LRs and Rels who intend to undertake TC Transaction work. They generally agreed that requiring LRs and Rels to pass an examination specifically focused on the Codes on Takeovers can ensure that they have the requisite understanding of the requirements of the Codes on Takeovers.
101. One respondent requested that the SFC confirms whether existing TCROs are exempted from the additional examination requirement or if they are required to be subject to the grandfathering arrangement.
102. One respondent commented that it is difficult for an LC or RI to verify whether a new joiner is entitled to grandfathering arrangements and self-declarations may not be reliable. The respondent recommended that all new joiners pass the new examination no later than six months after the first engagement date.
103. One respondent suggested that the new examination should be organised once a month or more frequently.

The SFC's response

104. As mentioned in paragraph 3.2 of the TC Adviser Guidelines, TCROs are exempted from the new examination (ie, Paper 17 of the Licensing Examination for Securities and Futures Intermediaries (LE) administered by the Hong Kong Securities and Investment Institute (HKSI)). Therefore, an RO or EO who is already a TCRO does not need to consider the grandfathering arrangement when the additional examination requirement comes into effect. We consider it reasonable to grant exemption to TCROs as their TC Transaction experience have already been assessed¹³ and they have remained in the industry after they are approved as TCROs. However, we would like to remind existing and prospective TCROs that under paragraph 3.4 of the TC Adviser Guidelines, individuals who (a) have previously passed HKSI LE Paper 17 or (b) are exempted from the examination (for instance, current TCROs) will be required to take the examination again if they cease to be licensed or registered for Type 6 RA for more than three years.

¹³ Under the current regime, an RO or EO for RA 6 would be approved as a TCRO if he or she has experience in supervising at least one completed TC Transaction.

105. For the avoidance of doubt, ROs or EOs who can advise on Codes on Takeovers-related matters in a “non-sole capacity” will not be exempted from the additional examination requirement when it comes into effect and will be treated similarly to existing LRs and Rels when we consider whether they are eligible for the grandfathering arrangement¹⁴.
106. The purpose of the one-off grandfathering arrangement is to minimise the impact on the existing market practitioners. LCs and RIs should have established policies and procedures to ensure suitably qualified staff are in place. We do not envisage that LCs or RIs would have difficulty ascertaining whether a new joiner meets the grandfathering criteria or fulfils the examination requirement.
107. Given the majority support, the proposed additional examination requirement will be implemented. Regarding the industry’s feedback on the frequency of examinations, we have communicated this suggestion to HKSI.

G. Other responses to the proposed competence enhancements

108. Three respondents suggested that sustainable development planning should be regarded as a core competency of an individual who joins the industry at the senior management level. We share the view that market practitioners should be knowledgeable about this. Instead of mandating it in the entry requirements, we decided to regard ESG as one of the relevant topics for CPT purposes in the revised CPT Guidelines. This would encourage licensed or registered individuals to update their knowledge on an ongoing basis.
109. Two respondents asked about the interpretation of “relevant industry experience”, including whether financial industry and ordinary banking business experience could be accepted in general and whether experience in back office supporting roles would be considered as relevant for frontline positions. As explained in further detail in paragraphs 4.1.8 and 4.1.9 of the revised Competence Guidelines, “relevant industry experience” generally refers to hands-on working experience acquired through the carrying on of RAs in Hong Kong or similarly regulated activities elsewhere. We would like to emphasise that “relevance” includes whether the substance of the experience is directly relevant or crucial to the RA applied for and the role that the individual will undertake. For an applicant for Type 1 RA¹⁵ who only has ordinary banking business experience such as deposit taking or money lending, it would be difficult for us to accept his or her experience as “relevant” industry experience for this RA. However, we may consider the experience of a settlement officer who handles securities settlement, clearing and corporate actions during his or her daily work as “relevant” industry experience if he or she applies to carry on Type 1 RA; yet we may not consider this experience as “relevant” industry experience if he or she applies to carry on Type 9 RA¹⁶.

¹⁴ Please refer to paragraph 3.3 of the TC Adviser Guidelines for details of the grandfathering arrangement.

¹⁵ Dealing in securities.

¹⁶ Asset management.

110. Another respondent took the opportunity to ask for an elaboration of the management experience and relevant industry experience requirements for Option B and C applicants. We would like to confirm that for Option B and C applicants, these two requirements are assessed in the same manner as for Option A applicants. The relevant general principles can be found in paragraphs 4.1.8 to 4.1.13 of the revised Competence Guidelines.
111. One respondent sought clarification of the types of professional investors (PIs) an itinerant professional can serve. An itinerant professional will normally be subject to the licensing condition that he or she has to be accompanied by a licensed or registered person in performing RAs in Hong Kong and there is no restriction on the types of clients that he or she can serve. However, if an itinerant professional does not want to be subject to this condition, he or she can only serve PIs as defined in Part 1 of Schedule 1 to the SFO excluding any person of a class¹⁷ which is prescribed by the Securities and Futures (Professional Investors) Rules (PI Rules). We would like to clarify that this restriction is necessary for investor protection purposes in the absence of the chaperon arrangement.
112. One respondent asked whether in view of the COVID-19 pandemic HKSI might consider any changes to the existing arrangements for licensing examinations in respect of individuals who are currently not in Hong Kong. We understand that HKSI has made alternative arrangements for the required HKSI papers with its local partners in some other jurisdictions. We suggest affected individuals contact HKSI directly for any specific case.
113. Respondents also sought clarification of various technical matters, such as in relation to:
- (i) the display of an RO or EO for Type 6 RA who is a TCRO on the public registers;
 - (ii) the meaning of “each RA” for the Extra CPT in the context of competence groups;
 - (iii) whether an RIQ gained more than three years ago will be recognised for a current licensee or registrant; and
 - (iv) whether Associate Retail Wealth Professional and Certified Retail Wealth Professional could be recognised among the professional qualifications listed under Option A.
114. These specific queries are addressed below.
- (i) Currently, TCROs are not subject to any licensing conditions which limit their participation in TC Transactions. Those who cannot fully satisfy the requirements will be subject to licensing conditions which can be found in the SFC register in the case of an RO and the Hong Kong Monetary Authority register in the case of an EO.

¹⁷ This generally refers to individual PIs as well as certain trusts, partnerships and corporations as specified in the PI Rules.

- (ii) The “competence group” concept will no longer be relevant under the enhanced competency framework. As specified in footnotes 24 and 33 of the revised Competence Guidelines, an individual must complete five CPT hours for each RA he or she applies for. For example, if an individual applies for a licence to carry on Type 1 RA and Type 4 RA¹⁸, he or she will have to take five Extra CPT hours for each RA, which means 10 hours in total, unless he or she can demonstrate that a CPT course is relevant to both Type 1 RA and Type 4 RA so that the same course can count towards both.
- (iii) If the criteria in paragraph 4.1.6 of the revised Competence Guidelines have been met, we may recognise RIQs gained more than three years ago for an existing licensee or registrant.
- (iv) As stated in the footnote to “professional qualifications” in the 2003 version and the revised Competence Guidelines, we shall accept internationally recognised professional qualifications under the old Option 1 and new Option A.

¹⁸ Advising on securities.

Part II: Proposed amendments to the CPT requirements

A. Simplify the basis of the CPT requirements from number of “RA competence groups” to “per individual”

Question 12:

Do you agree with the proposal to change the determination of required number of CPT hours to a “per individual” basis?

Public comments

115. We received strong support for the proposed requirement. Respondents generally consider that the “per individual” basis is more straight forward, less confusing and easier for individuals and corporations to administer. It also aligns with international practice.
116. One respondent was concerned that under the proposed requirement individual practitioners may not get sufficient training in the RA in which he or she engages. Another respondent opined that individual practitioners have never encountered difficulty in complying with the CPT requirements under the “RA competence groups” basis.
117. A few respondents commented that the proposed CPT requirements may increase compliance costs since corporations would be required to track and monitor the CPT for each individual.

The SFC’s response

118. We appreciate the importance of having sufficient RA-related training. Therefore, we also propose that each individual practitioner attain at least five CPT hours on topics directly relevant to the RAs in which he or she engages. While this is the minimum number of CPT hours on RA-specific topics we require of each individual, corporations can arrange additional CPT hours on topics that cater for the specific training needs of the individuals they engage.
119. While we are not aware of any substantial difficulty encountered by individual practitioners in complying with the CPT requirements on the “RA competence groups” basis, we believe that adopting the simpler “per individual” basis can enhance our CPT regime and bring it in line with international standards, which was welcomed by most of the respondents.
120. We stress that corporations are already required to keep CPT records under the existing requirements. In formulating the proposed enhancements, we aim to strike an appropriate balance between raising the industry’s professional standards and mitigating the impact on existing practitioners. In our soft consultation with industry associations represented by intermediaries of different sizes engaged in various business activities, they generally agreed that it is essential for us to upgrade the CPT requirements to align with developments in our market and the changing regulatory landscape. As such, we maintain our view that the “per individual” basis for CPT requirements as set out in paragraph 5.2 of the revised CPT Guidelines is appropriate.

B. Specify 10 CPT hours per calendar year as the minimum requirement for LRs and Rels, with two additional hours on regulatory compliance for ROs and EOs

Question 13:

Do you agree with the proposal concerning minimum requirements for individuals?

The proposed 10 CPT hours as the minimum requirement for LRs and Rels

Public comments

121. Respondents generally supported the proposal. They were of the view that the proposed minimum requirements for individuals would not overburden the industry and are reasonable compared to those in other international and local standards.
122. Two respondents commented that the minimum hours for individuals are insufficient. One commented that it should be raised to 15 hours; the other suggested the SFC adopt a tiered approach to require individuals engaging in more than two RAs to complete a minimum of 15 CPT hours per year to ensure they maintain their competence in multiple disciplines.
123. One respondent suggested that the SFC should require only five CPT hours for individuals who engage in Type 10 RA¹⁹ on the basis that the Monetary Authority of Singapore exempts appointed representatives (including those who provide credit rating services) serving accredited investors or institutional investors from Continuous Professional Development requirements.
124. Another respondent commented that the proposed requirement will incur additional time, effort and cost for individual practitioners and corporations as CPT hours would double. The respondent also opined that given the varied quality of CPT training, an individual taking 10 hours of CPT training cannot be assumed to have acquired more knowledge than one taking five hours of CPT training.

The SFC's response

125. A few respondents suggested either raising or reducing the number of minimum CPT hours for each individual. However, we maintain our view that after careful consideration and benchmarking with other local and international standards, our proposal appropriately balances the need to enhance the benefits of CPT without overburdening the industry.
126. We do not agree to exempt individuals who are licensed or registered for a specific type of RA from the minimum requirement. The spirit of the CPT requirements is to ensure that a person engaging in RAs remains "fit", by undergoing training which enhances his or her technical skills and professional expertise, and "proper", by periodically refreshing his or her ethical standards and regulatory knowledge. This is relevant for all individual practitioners who carry on RAs regardless of the types of clients they serve.

¹⁹ Providing credit rating services.

127. Given the support received from the majority of the respondents, we will require LRs and Rels to fulfil a minimum of 10 CPT hours per calendar year.

The proposed two additional hours on regulatory compliance for ROs and EOs

Public comments

128. Respondents generally supported the proposal. They agreed that two hours of CPT on regulatory compliance for ROs and EOs can equip them with updated regulatory knowledge which can help maintain compliance standards and reduce regulatory breaches.
129. One respondent suggested that the SFC should extend this requirement to all individual practitioners given that every practitioner in the market has the responsibility and obligation to ensure their compliance knowledge is up-to-date.
130. Another respondent suggested that the SFC should count these two hours towards the minimum 10-hour CPT requirement as senior management is expected to have many years of relevant experience and regulatory knowledge in the industry. Moreover, this would reduce the administrative burden of monitoring compliance with the two additional hours. The respondent also sought clarification on:
- (i) whether these two hours are required to be relevant to the RA which the ROs or EOs engage in; and
 - (ii) whether topics on “regulatory compliance” are the same as those on “compliance” mentioned in Part III – Section D of the Consultation Paper.

The SFC’s response

131. While we agree that CPT hours on regulatory compliance will benefit all individual practitioners, senior management should have the primary responsibility to ensure the maintenance of appropriate standards of conduct and adherence to proper procedures and bear a higher level of accountability for the effective and efficient management of the corporations’ RAs. Therefore, these additional two CPT hours should be mandated for ROs and EOs. Corporations can always arrange CPT training on regulatory compliance for LRs or Rels if it will be beneficial to these individuals in conducting RAs.
132. We do not agree that senior management should be deemed as having possessed sufficient experience and up-to-date regulatory knowledge to enable them to discharge their obligation to ensure the corporations maintain appropriate standards of conduct and comply with applicable rules and regulations. In this ever-changing market and regulatory landscape, it is essential for senior management to stay up-to-date with the latest regulatory requirements.
133. Although we do not mandate that these two additional CPT hours to be relevant to the type of RA which an RO or EO is licensed or registered for, the training should meet the CPT objectives and enable him or her to efficiently and effectively perform the RAs in which he or she engages.

134. In our view, “regulatory compliance” is a subset of “compliance”, with the latter embracing a wider perspective. Examples of regulatory compliance include compliance with various rules and regulations administered by the SFC. At the same time, compliance also includes conforming with policies and guidelines put forward by the corporation or other professional bodies, which may be beyond what is required by regulatory authorities.
135. Considering the majority support from the respondents, we will require ROs and EOs to fulfil two additional hours on regulatory compliance.
- C. Require each individual practitioner to attend at least five CPT hours on topics directly relevant to the RAs in which he or she engages**

Question 14:

Do you agree that individual practitioners should attend at least five CPT hours on topics directly relevant to their RAs every year?

Public comments

136. The majority of the respondents supported the proposal and agreed that requiring individual practitioners to undertake CPT training and activities focusing on the particular RAs they engage in is crucial to ensure that they properly and professionally perform their roles.
137. Some respondents sought clarification from the SFC as to what constitutes “RA-relevant topics” and whether the 2.5 hours of sponsor or Codes on Takeovers-related CPT requirements can be counted towards these five CPT hours.
138. A number of respondents raised queries about the interpretation of “allocating these five CPT hours to cover the practice areas carried on by an individual in proportion to the time and effort that he or she spends in each area”, and asked the SFC to provide examples to illustrate compliance with this requirement.
139. A few respondents commented that certain training courses cover more than one RA and therefore the existing “RA competence groups” basis should be maintained in considering compliance with these five CPT hours.
140. One respondent suggested that senior management should have the discretion to determine which CPT topics are relevant to the RAs which each individual engages in.
141. Another respondent suggested that the SFC replace the “RA-relevant topics” with the “Relevant Topics” set out in paragraph 7 of the revised CPT Guidelines since individual practitioners already have practical knowledge of the RAs in which they engage. Individuals should broaden their overall industry knowledge by taking courses on other areas in the financial industry. The respondent also sought guidance from the SFC on whether individuals can take courses that are not directly related to the RAs for which they are licensed.

The SFC's response

142. Requiring individual practitioners to undertake CPT hours on the RAs in which they engage will enable them to remain fit and proper to perform their functions professionally. The topics should be relevant to their roles in performing the RAs, such as applicable compliance, legislative and regulatory standards; business conduct; market developments, new financial products and risk management systems. Corporations are reminded that they are primarily responsible for designing and evaluating training programmes to enable individuals to meet the CPT objectives and requirements.
143. We confirm that the 2.5 hours of sponsor or Codes on Takeovers-related CPT training can be counted towards these five CPT hours.
144. On the allocation of the five CPT hours in proportion to the time and effort that an individual spends in each area, we would like to make it clear that this should only be viewed as a general guidance on how the five CPT hours should be allocated. It is not our intent to require any precise calculation of the time and effort an individual spends during the year on different RAs. Furthermore, it will be the corporations' ultimate responsibility to plan and implement training programmes best suited to their staff.
145. For an individual whose RA licence is changed during a calendar year, we consider it reasonable for him or her to undertake topics on the RA for which he or she is licensed when the CPT training is taken.
146. Individuals and corporations are reminded that our CPT requirements set out the minimum standard. Individuals are encouraged to undertake additional CPT training and activities which are beneficial to them in performing their functions or enhancing their roles and responsibilities.
147. We recognise that certain CPT courses may cover multiple RAs. So long as the topic is relevant to the RA in which the individual engages and may help enhance the performance of his or her function, such courses can be counted towards the five CPT hours. As such, there is no need to adopt the "RA competence groups" basis to determine compliance with this requirement.
148. In relation to the suggestion to replace the "RA-relevant topics" with the "Relevant Topics" set out in paragraph 7 of the revised CPT Guidelines, we would like to emphasise the importance of individuals keeping their knowledge of the evolving financial market and regulatory landscape relevant to the RAs they perform up-to-date to ensure they can carry out their roles properly and diligently.
149. The proposal does not restrict individuals from taking courses not directly relevant to the RAs for which they are licensed. Although these CPT hours cannot be used to fulfil this proposed requirement, they can be counted towards the minimum annual requirement of 10 CPT hours for LRs and Rels or 12 CPT hours for ROs and EOs.
150. In view of the above, the proposal will be implemented as stated. The revised CPT Guidelines set out in Appendix C are amended for clarity purposes.

- D. Require each individual practitioner to complete no less than two CPT hours on topics relating to ethics or compliance per calendar year / Require each individual practitioner who first joins the industry in Hong Kong to complete two CPT hours on ethics within 12 months**

Question 15:

Do you agree with the proposed requirements concerning CPT on ethics and compliance?

Public comments

151. The majority of the respondents supported the proposal and agreed that it is important to uphold ethical and compliance standards in the industry as well as to promote market integrity and the best interests of clients.
152. One respondent commented that two hours per calendar year are insufficient and should be increased to three hours.
153. Another respondent commented that the one-off requirement for ethics training imposed on new joiners duplicates the annual ethics and compliance requirement imposed on all individual practitioners. The respondent also queried whether the requirement will be applied on a pro-rata basis for individuals who first join the industry during the year.
154. A few respondents were concerned about the availability of training on ethics. One respondent suggested that mental health and personal growth, stress management and counselling be included as topics under ethics.
155. Some respondents sought clarification from the SFC of whether training on ethics could be counted towards the five CPT hours relevant for RAs or the two CPT hours on regulatory compliance for senior management.
156. Another respondent sought clarification of whether a re-entrant who has left the industry for a long period would be required to complete the one-off CPT requirement on ethics within the 12 months after he or she re-enters the industry.
157. Certain respondents queried whether itinerant professionals and temporary licence holders would be required to comply with the proposed requirements.

The SFC's response

158. We recognise that there are topics which may be relevant to specific RAs, regulatory compliance and ethics. In that case, individuals and corporations have the flexibility to determine whether to count those CPT hours towards the RA-relevant, regulatory compliance or ethics requirements. However, a single CPT activity can only be used to fulfil one CPT requirement at a time²⁰. Similarly, repeatedly undertaking the same CPT activity with the same content will not satisfy the CPT requirements set out in paragraph 7.6 of the revised CPT Guidelines.

²⁰ Except for the one-off mandatory requirement of two CPT hours on ethics which can be counted towards the annual requirement of 10 CPT hours for LR's and Rels or 12 CPT hours for ROs and EOs.

159. In coming up with this proposal, we benchmarked similar requirements in other CPT regimes which ranged between two and six hours per calendar year. As the proposal is supported by the majority of the respondents, we will require two CPT hours on ethics and compliance per calendar year for each individual.
160. We reiterate that the one-off requirement for new joiners to undertake two CPT hours on ethics can be counted towards the annual requirement of 10 CPT hours for LR and Rels or 12 CPT hours for ROs and EOs. Hence there is no duplication. Moreover, the one-off requirement is to be completed within the first 12 months after the new joiners have obtained their licences. These two hours will not be calculated on a pro-rata basis.
161. For the avoidance of doubt, other CPT requirements set out in Part III - Section B to D of the Consultation Paper can be subject to pro-rata for individuals who are first licensed during the year, making reference to the licensed period.
162. Regarding the availability of training on ethics, many organisations and institutions currently providing CPT training for market practitioners also provide ethics training. Moreover, we understand that the Community Relations Department of the Independent Commission Against Corruption offers a range of free anti-corruption and ethics training to help business practitioners and professionals understand anti-corruption laws and uphold a high standard of integrity. In-house training provided by corporations is another option for providing ethics training to individuals.
163. Training purely on mental health and personal growth, stress management and counselling will not be counted towards training on ethics. The revised CPT Guidelines provide examples of ethics training topics, including integrity, fairness, due care and diligence, good faith, objectivity, best interests of clients, treating clients fairly, avoidance of conflicts of interest and confidentiality of clients' information.
164. On whether a re-entrant is required to fulfil the one-off requirement for ethics, we reiterate that this requirement is only applicable to those who first join the industry in Hong Kong. As such, it is not applicable to re-entrants. However, re-entrants are strongly encouraged to refresh their understanding of the ethical standards they are expected to uphold by undertaking training on ethics after they have re-entered the industry.
165. The requirements concerning CPT on ethics and compliance will not apply to itinerant professionals and temporary licence holders. However, corporations are reminded that under paragraph 4.1 of the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (Code of Conduct), they should ensure that any person they employ or appoint to conduct business is fit and proper, including having relevant professional training or experience.

E. Other responses to the proposed CPT enhancements

Public comments

166. Some respondents suggested that the SFC should include ESG as a relevant topic for CPT purpose.
167. One respondent recommended that the SFC should extend the CPT requirements to MICs for the purpose of raising the industry standard.
168. One respondent made a comment that the SFC should perform sample checks of compliance with the CPT requirements given their importance.
169. Some respondents sought clarification from the SFC on whether training conducted virtually and online learning courses can fulfil the CPT requirements.

The SFC's response

170. ESG has increasingly been recognised as a source of potential financial risks for businesses and regulation in this area has been stepped up in the financial market. ESG and Fintech have been included as relevant topics for CPT purposes in paragraph 7.1 of the revised CPT Guidelines.
171. As MICs may not be licensed with the SFC, they are not required to fulfil the CPT requirements. However, under paragraph 4.1 of the Code of Conduct, corporations should ensure that any person they employ or appoint to conduct business is fit and proper, including having relevant professional training or experience. Corporations have the primary responsibility to ensure the fitness and properness of their MICs.
172. As set out in the Consultation Paper, we also value the importance of CPT and hence we conduct CPT compliance reviews of corporations of different sizes engaged in various businesses to ensure that CPT requirements are met. We will continue to conduct these reviews.
173. Attending courses, workshops, lectures and seminars in both face-to-face and virtual formats are acceptable. For online learning courses which are accessible by individuals at any time, an independent assessment (such as an evaluation or test) is required to ensure that the CPT activity includes an element of interaction as required under paragraph 6.1 of the revised CPT Guidelines.

Part III: Way forward

Question 16:

Do you agree with the proposed timeframe for implementation?

Public comments

174. We received widespread support for the proposed implementation timeframe. Three respondents believed that the industry requires additional time for preparation, of whom two suggested at least 12 months after the publication of the revised Competence Guidelines and CPT Guidelines and no earlier than 30 June 2022.

The SFC's response

175. Since CPT requirements are on a calendar year cycle, it would not be desirable to implement the new competency framework in the middle of the year.
176. As most respondents agreed to our proposed timeframe, we will proceed to implement the revised Competence Guidelines and CPT Guidelines on 1 January 2022.

Implementation timetable

177. Since the implementation of the SFO in 2003, our existing competency framework has largely remained unchanged. Almost 20 years later, the proposals set out in the Consultation Paper are essential to upgrade the competence of our market practitioners who operate in rapidly changing and increasingly complex financial markets. The SFC is pleased to see that most respondents shared this vision.
178. In light of the industry's general support, the SFC will implement the revised Competence Guidelines and CPT Guidelines with some modifications and clarifications of the application of specific requirements as set out and discussed in this paper. Marked-up versions of the amendments to the Competence Guidelines and CPT Guidelines are set out in Appendices B and C to this paper. As mentioned in paragraph 12 above, Appendix I to the Fit and Proper Guidelines will also be repealed.
179. The SFC will proceed with the gazettal of the revised Competence Guidelines, CPT Guidelines and Fit and Proper Guidelines which will become effective on 1 January 2022.
180. As the revised Competence Guidelines and CPT Guidelines have been substantially revised and amended, the SFC may arrange briefings and publish FAQs with examples where appropriate so that the industry can better understand the implementation of the enhanced competency framework.
181. Once again, the SFC would like to take this opportunity to thank all the respondents for their submissions.

Appendix A – List of respondents

(in alphabetical order)

1. Asia Securities Industry & Financial Markets Association
2. CFA Society Hong Kong
3. CompliancePlus Consulting Limited
4. Deacons
5. Dr. Angus Young
6. Dr. Chan Fung Cheung Wilson
7. Fidelity Consulting Services Limited
8. Global Compliance Company
9. Hong Kong Investment Funds Association
10. Hong Kong Securities & Futures Professionals Association
11. Institute of Financial Planners of Hong Kong
12. Masan Capital Limited
13. Private Wealth Management Association
14. Prof. Karen Cheung
15. S2 Compliance Limited
16. The Hong Kong Institute of Bankers
17. The Hong Kong Institute of Education for Sustainable Development
18. The Law Society of Hong Kong
19. World Institute of Sustainable Development Planners



**SECURITIES AND
FUTURES COMMISSION**
證券及期貨事務監察委員會

Guidelines on Competence



January 2022

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Appendix B Additional competence requirements for corporations and individuals ~~that~~ which undertake activities in connection with matters regulated by the Codes on Takeovers and Mergers and Share Buy-backs (TC Adviser Guidelines) 42

1. Introduction

- 1.1 The Fit and Proper Guidelines set out the general expectations of the Securities and Futures Commission (SFC) of what is necessary to satisfy the licensing or registration requirements that a person is fit and proper. Among the requirements are paragraphs 5.1.1, 6.1.1 and 6.1.2 which state that individuals and corporations will generally not be considered fit and proper unless they can demonstrate that they have the ability to carry on the regulated activity (RA)¹ competently.
- 1.2 The competence requirements stem from the fitness and properness requirements. The objective is to ensure a person is equipped with the necessary technical skills and professional expertise to be “fit”, and is aware of the relevant ethical standards and regulatory knowledge to be “proper” in carrying on any RA.
- 1.3 The SFC’s Academic and Accreditation Advisory Committee (AAAC), which is comprised of representatives from the SFC, the industry and academic institutions, will consider and approve industry based qualifications and local regulatory framework papers for meeting the competence requirements. The AAAC will from time to time amend the list of approved qualifications and local regulatory framework papers that it has endorsed for meeting the competence requirements. The list will be updated on the SFC’s website as and when changes occur.
- 1.4 The Guidelines on Competence (Guidelines) are published under section 399 of the Securities and Futures Ordinance (Cap. 571) (SFO). They are an elaboration of the Fit and Proper Guidelines and set out the matters that the SFC will normally consider in assessing whether a person is competent to carry on any RA. The expectations set out in the Guidelines are not exhaustive.
- 1.5 The Guidelines do not have the force of law and should not be interpreted in a way that would override the provisions of any applicable laws, codes or other regulatory requirements. Failure to follow the Guidelines may reflect adversely on the fitness and properness of a person to carry on any RA.
- 1.6 The Guidelines should be read in conjunction with the Fit and Proper Guidelines and the Guidelines on Continuous Professional Training (CPT).

¹ Any of the regulated activities specified in Part 1 of Schedule 5 to the Securities and Futures Ordinance. This includes:

- Type 1: dealing in securities (RA 1)
- Type 2: dealing in futures contracts (RA 2)
- Type 3: leveraged foreign exchange trading (RA 3)
- Type 4: advising on securities (RA 4)
- Type 5: advising on futures contracts (RA 5)
- Type 6: advising on corporate finance (RA 6)
- Type 7: providing automated trading services (RA 7)
- Type 8: securities margin financing (RA 8)
- Type 9: asset management (RA 9)
- Type 10: providing credit rating services (RA 10)
- Type 11: dealing in OTC derivative products or advising on OTC derivative products (RA 11)
- Type 12: providing client clearing services for OTC derivative transactions (RA 12)

For RA 11 and RA 12, effective upon the commencement of the new licensing regime for these RAs.

2. Application and interpretation

- 2.1 The Guidelines are applicable to the following persons carrying on any RA under Part V of the SFO:
- (a) a corporation which applies for a licence or is licensed as a licensed corporation (LC);
 - (b) an authorized financial institution which applies for a registration or is registered as a registered institution (RI);
 - (c) an individual who applies for a licence or is licensed as a representative (LR);
 - (d) an LR who applies for an approval or is approved as a responsible officer (RO);
 - (e) a relevant individual whose name is to be or is entered in the register maintained by the Hong Kong Monetary Authority (HKMA) under section 20 of the Banking Ordinance (Rel); and
 - (f) a person who applies to the HKMA for consent or who has been given consent to act as an executive officer of an RI under section 71C of the Banking Ordinance (EO).
- 2.2 An EO and an Rel have to meet the same competence requirements as an RO and an LR respectively. It is the responsibility of an RI to ensure that an Rel meets the same competence requirements as those applicable to an LR before the submission of his or her name to the HKMA for the purpose of entering it in the register. The HKMA will also take the Guidelines into account when considering whether to grant consent to an individual to act as an EO.
- 2.3 For the purposes of the Guidelines, corporate licensees and applicants in paragraphs 2.1(a) and 2.1(b) above are named as “corporations”; while individual licensees and applicants in paragraphs 2.1(c) to 2.1(f) above are named as “individuals”.
- 2.4 Throughout the Guidelines, unless otherwise stated, where references to “LC” are made, the term covers “RI”; similarly, where references to “RO” are made, the term covers “EO” of an RI and references to the term “LR” cover “Rel” of an RI.
- 2.5 For paragraphs 4.1 to 4.3 of the Guidelines, unless otherwise stated, regarding the SFC’s requirements and procedures for an individual to demonstrate compliance with a certain requirement:
- (a) the HKMA will adopt the same requirements and procedures for an EO of an RI; and
 - (b) for Rel, the RI concerned has to ensure that such individuals comply with the corresponding requirements, and that sufficient records (with supporting documents, where applicable) of how these requirements are satisfied should be maintained and made available for inspection upon request from the HKMA.

- 2.6 For the avoidance of doubt, the exemptions in paragraph 4.4 of the Guidelines are available to all individuals (including existing ROs, EOs, LRs and Rels as well as individual applicants) where applicable. Regarding the SFC's requirements and procedures to seek an exemption or the provision of a confirmation or undertaking:
- (a) the HKMA will adopt the same requirements and procedures for an EO of an RI; and
 - (b) for Rels, the RI concerned has to ensure that such individuals comply with the corresponding requirements and that sufficient records (with supporting documents, where applicable) of how these requirements are satisfied should be maintained and made available for inspection upon request from the HKMA. While an RI does not have to provide a confirmation or undertaking to the HKMA in relation to an Rel seeking exemption from the initial competence requirement, it will be held responsible for ensuring that the actions covered under such confirmation or undertaking are taken in the required manner.
- 2.7 The key elements for the competence requirements of corporations and individuals set out in paragraphs 3 and 4 of the Guidelines are high-level. The SFC is cognisant of the fact that the application of these elements would be different, taking into account a corporation's business model, the complexity of its business lines and an individual's particular circumstances, amongst other factors. The SFC will administer the competence requirements in a pragmatic manner.

3. Requirements for corporations

3.1 General principles

- 3.1.1 In determining whether a corporation is competent to carry on any RA, the SFC will consider various key elements including its business, corporate governance, internal controls, operational review, risk management and compliance as well as the combined competence of its senior management and other staff members.
- 3.1.2 A corporation applying to carry on an RA should have a clear business model, detailing its *modus operandi* and target clientele. It should also have written policies and procedures to ensure continuous compliance with the relevant legal and regulatory requirements.
- 3.1.3 For corporations in which the scale of business operations and the number of staff are relatively small, the SFC will take into account that segregation of duties may not be possible in certain aspects. Under such circumstances, if the corporation can demonstrate competence in managing its risk exposures and exercising effective control over its operations, the SFC may accept alternative arrangements either at the company or the group level. Clear written operational and compliance procedures should be available.
- 3.1.4 The SFC highlights that corporations must remain competent and ensure that the individuals they engage remain competent including compliance with the CPT requirements. They must also keep the SFC informed of any material changes in their business plans, organisational structures and personnel.

3.2 Key elements

- 3.2.1 The following non-exhaustive examples illustrate key elements that the SFC will consider for assessing the competence of a corporation:

Business

- (a) Information about the proposed business lines
- (b) Information about its target clientele, products and services
- (c) Information about its remuneration model and basis of calculation
- (d) Description of its modes of operation such as the extent of system automation and outsourcing arrangements
- (e) Analysis of risks inherent to the key business lines, such as market risk, credit risk, liquidity risk and operational risk

Corporate governance

- (a) The presence of a shareholding structure clearly setting out its chain of ownership and voting power² such that all substantial shareholders³ and those who exercise ultimate control over the corporation can be properly identified
- (b) The presence of an organisational structure⁴ clearly setting out the management structure of the corporation, including the roles, responsibilities, accountability and reporting lines of its senior management personnel
- (c) Policies and procedures for establishing, documenting and maintaining an effective management and organisational structure
- (d) The board of directors and senior management, including committees of the board, are composed of individuals with an appropriate range of skills and experience to understand and run the corporation's proposed activities
- (e) The board of directors and senior management, including committees of the board, are organised in a way that enables the board to address and control the activities of the corporation
- (f) Systems and controls to supervise those who act under the authority delegated by the board of directors

Staff competencies

- (a) Policies and procedures to ensure that suitably qualified staff are in post including, but not limited to, all ROs, LRs, Managers-In-Charge (MICs)⁵ and other supervisory staff
- (b) All supervisory staff for both front and back offices should have not less than three years of relevant experience and appropriate qualifications
- (c) Arrangements to ensure that operational and control policies and procedures are communicated to new recruits
- (d) Arrangements to ensure that updated operational and control manuals are distributed to staff and are accessible at all times

² For a corporation that has a complex ownership or control structure (eg, structures involving multiple layers, cross-holdings, trusts, nominee arrangements) without an obvious commercial purpose, the SFC may obtain further information to understand whether there is a legitimate reason for the particular structure.

³ As defined in Schedule 1 to the SFO.

⁴ See the "Circular to Licensed Corporations Regarding Measures for Augmenting the Accountability of Senior Management" (16 December 2016).

⁵ MICs refer to individuals appointed by an LC to be principally responsible, either alone or with others, for managing any of the core functions of the LC as set out in the circular in footnote 4. Although the SFC does not seek to apply regulatory approval to an MIC who is not a licensed person or a licence applicant, an LC should ensure that any person it employs or appoints to conduct business is fit and proper and qualified to act in the capacity so employed or appointed (see also paragraph 4.1 of the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission).

- (e) Arrangements to ensure that any changes to operational and control policies and procedures are communicated to staff
- (f) Policies and procedures to ensure staff competencies including compliance with the CPT requirements

Internal controls

- (a) Adequate internal control systems set up in accordance with the relevant codes and guidelines
- (b) Arrangements to ensure that proper audit trails are maintained
- (c) Requirements for the proper documentation of all operational and control procedures⁶
- (d) Reporting systems ensuring that robust information is produced for risk management and decision-making purposes
- (e) Appropriate control procedures to ensure data integrity and that data flowing into the risk management system should be consistent with trade and financial information
- (f) Appointment of a qualified information technology manager who is appropriately experienced to maintain the integrity of the corporation's operating systems

Operational review⁷

- (a) The presence of a function for reviewing the adherence to, and the adequacy and effectiveness of, the corporation's internal control systems
- (b) Operational review personnel have appropriate qualifications and working experience to understand the corporation's activities and risk profile
- (c) Operational review personnel are independent of core business functions and report directly to an independent, high-level authority
- (d) Operational review function to perform periodic (at least annual) risk assessment and ascribe various levels of risk to an appropriate review cycle
- (e) All review findings and issues that are not resolved within established time frames must be reported to senior management

⁶ Proper documentation of all operational and control procedures is essential for providing staff with the necessary guidance in running the business in accordance with the corporation's business objectives, professional standards and regulatory requirements.

⁷ The review function may not necessarily be performed by internal auditors.

Risk management

- (a) Policies and procedures with reference to the proposed business lines including:
 - (i) the setting of proper exposure limits for each key business line
 - (ii) the way that risk exposure limits are set and communicated to the responsible persons
 - (iii) the way that risks are being measured and monitored
 - (iv) the procedures to deal with exceptions to risk limits
- (b) Anticipated risks and outgoings being supported by sufficient capital available to the corporation (typically this is demonstrated by a projection of excess liquid capital computed according to the Securities and Futures (Financial Resources) Rules (FRR), if applicable)
- (c) The timing of review of established policies (eg, subject to regular review, or with respect to changes in business and markets)
- (d) Appointment of an independent risk manager⁸ or an MIC of risk management function who has the appropriate qualifications and authority to oversee and monitor the risk exposures and systems of the corporation
- (e) Processes to ensure that the corporation regularly carries out stress testing using appropriate measures

Compliance

- (a) Policies and procedures to ensure its compliance with all applicable legal and regulatory requirements as well as with its own internal policies and procedures
- (b) Policies and procedures to ensure that information submitted to the SFC is complete and accurate
- (c) Policies and procedures to deal with non-compliance
- (d) Adequate internal control systems to ensure its compliance with the FRR, and for it to commence and maintain its business operations

⁸ The SFC will not insist that an independent risk manager be appointed if there is alternative arrangement in place which is sufficient to manage business risk exposures and exercise effective control over operations. This is irrespective of whether the alternative arrangement is undertaken in Hong Kong or elsewhere, at the company level or group level. In any case, there should be clear segregation of duties; the responsibilities of the risk manager should be clearly separated from that of front office personnel. Clearly, in most circumstances, more than one person will need to be appointed.

- (e) Policies and procedures on “Chinese Walls” including “Wall Crossing Procedure” and other control procedures to address conflicts of interest arising from carrying on multiple types of RAs concurrently (eg, advising on corporate finance, securities research and asset management activities) in the corporation or its group of companies
- (f) Adequate internal control systems to address other conflicts of interest such as employee dealing and client priority
- (g) Policies and procedures to ensure that the corporation’s business activities conducted in a jurisdiction outside Hong Kong, if any, fully comply with the relevant legal and regulatory requirements of that other jurisdiction, including activities performed by any individuals acting for and on behalf of it in such jurisdiction⁹
- (h) Policies and procedures to ensure any branch office in Hong Kong or elsewhere has appropriate risk management and control strategy to comply with the relevant legal and regulatory requirements as well as internal policies and procedures

3.3 Further guidance

3.3.1 Corporations that intend to carry on the following activities are required to meet additional eligibility criteria:

- (a) Engage in sponsor and compliance adviser work under the Listing Rules¹⁰ of The Stock Exchange of Hong Kong Limited (SEHK). These corporations should also refer to the requirements set out in Appendix A.
- (b) Undertake activities in connection with matters regulated by the Codes on Takeovers and Mergers and Share Buy-backs (Codes on Takeovers). These corporations should also refer to the requirements set out in Appendix B.
- (c) Manage products authorised under the Code on Unit Trusts and Mutual Funds (UT Code) and Code on Real Estate Investment Trusts (REIT Code). Their eligibility would be assessed separately when they apply under these codes to take up the management role.

⁹ See the “Circular clarifying the licensing obligations of corporations and individuals and more particularly those conducting business outside Hong Kong” (1 April 2010).

¹⁰ The term “Listing Rules” refers to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Rules Governing the Listing of Securities on Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

4. Requirements for individuals

4.1 General principles

- 4.1.1 An individual applying to carry on an RA has to demonstrate competence and satisfy the SFC that he or she:
- (a) has the necessary academic, professional or industry qualifications;
 - (b) is knowledgeable about the financial products that he or she deals in or advises on and the markets in which he or she provides services;
 - (c) has sufficient relevant industry and management experience (where applicable);
 - (d) has a good understanding of the regulatory framework, including the laws, regulations and associated codes governing his or her intended industry sectors; and
 - (e) is familiar with the ethical standards expected of a financial practitioner¹¹.

Academic and professional qualifications

- 4.1.2 For academic qualification, an individual should attain at least Level 2 in either English or Chinese as well as in Mathematics in the Hong Kong Diploma of Secondary Education (HKDSE) or equivalent. Other academic or professional qualifications may also be considered as detailed in paragraphs 4.2.1 and 4.3.1 below.

Recognised industry qualifications and local regulatory framework papers

- 4.1.3 Recognised industry qualifications (RIQ) should be relevant to the activities to be performed by the individual, demonstrating that the individual is knowledgeable about the financial products which he or she deals in or advises on.
- 4.1.4 The local regulatory framework paper (LRP) requirement is to ensure that the individual has an acceptable understanding of the relevant local laws and regulations with which he or she must comply when conducting RAs. This is particularly important in light of the criminal nature of liability for violations under the SFO.

¹¹ For example, *Ethics in Practice – A Practical Guide for Financial Practitioners* published jointly by the SFC, the Independent Commission Against Corruption and other organisations in October 1999.

- 4.1.5 Individuals are expected to obtain the RIQ and pass the LRP not more than three years prior to the submission of the application.
- 4.1.6 However, the SFC may recognise RIQs gained more than three years ago if the individual has substantial relevant working experience and has remained in the industry or can prove recent licence or registration with a relevant regulator either in Hong Kong or elsewhere. The SFC may also recognise LRPs gained more than three years ago if the individual is or has been an LR or RO within the past three years for an RA in which such LRPs are relevant.

For example, if an individual has passed Papers 1 and 7 of the Licensing Examination for Securities and Futures Intermediaries (LE) administered by the Hong Kong Securities and Investment Institute (HKSI) and has been licensed by the SFC for RA 1 within the past three years, the individual will not be required to re-take both examinations when he or she applies to additionally carry on RA 2.

- 4.1.7 Without compromising investor protection, the SFC may, at its sole discretion, consider granting an individual an exemption from obtaining an RIQ, passing an LRP or both if the individual can demonstrate that he or she possesses qualifications comparable to those described in paragraphs 4.1.3 and 4.1.4. Criteria under which exemptions may be considered are detailed in paragraph 4.4.

Industry experience

- 4.1.8 Relevant industry experience generally refers to hands-on working experience acquired through the carrying on of RAs in Hong Kong or similarly regulated activities elsewhere. The SFC may also accept experience gained in a non-regulated situation, for example, where the experience is relevant to the carrying on of the proposed RAs (see elaboration in paragraph 4.1.9) but the related activities are exempted from the licensing or registration requirements in Hong Kong or elsewhere.
- 4.1.9 In assessing the “relevance” of an individual’s experience, the SFC will consider whether the substance of the experience is directly relevant or crucial to the RA proposed to be carried on by the individual and the role that the individual will undertake. Some non-exhaustive examples of relevant industry experience are set out below:

(a) Asset management¹²

The SFC recognises a broader range of industry experience as being relevant when considering RO applications seeking accreditation to private fund managers. For example, experience in proprietary trading, research, and managing alternative investment strategies such as special situations will be considered as industry experience directly relevant to the provision of asset

¹² See the circular “SFC Adopts a Pragmatic Approach to Licensing Fund Managers” (11 June 2007).

management services which target professional investors only. While the SFC may also consider an individual with experience which is indirectly relevant to asset management such as sales, marketing and risk management of funds, that individual will likely be imposed with the Non Sole Condition¹³ on his or her licence.

(b) Discretionary account management¹⁴

The SFC may consider industry experience acquired on a wholly incidental basis as relevant to asset management. For example, the SFC may recognise the discretionary account management experience acquired by an RA 1 LR or RO who conducts such management activities wholly incidental to his or her conduct of dealing activities as relevant industry experience when he or she applies to carry on asset management.

(c) Private equity¹⁵

An individual with the following experience will be regarded as having relevant industry experience for carrying on activities relating to private equity:

- (i) conducting research, valuation and due diligence of companies in related industries;
- (ii) providing management consulting and business strategy advice to companies in related industries;
- (iii) managing and monitoring a private equity fund's underlying investments for the best interests of fund investors; or
- (iv) structuring corporate transactions, such as management buyouts and privatisations.

(d) Financial technology¹⁶

If an individual has previously led the research, development and maintenance of an algorithmic investment and portfolio management system, such experience may be regarded as relevant industry experience for the purpose of his or her licence application accredited to a corporation which provides robo-advisory services.

¹³ A licensing condition where the individual must, when actively participating in or when directly supervising the business of the RA concerned, do so under the advice of another RO who is accredited to the same corporation for the same RA and not subject to this condition.

¹⁴ See the "Circular to clarify competence requirements for existing licensed persons intending to provide asset management services" (23 June 2017).

¹⁵ See the "Circular to private equity firms seeking to be licensed" (7 January 2020).

¹⁶ See the "Circular to clarify the "relevant industry experience" requirement for Responsible Officers under the Guidelines on Competence" (29 September 2017).

If the RA carried on by a corporation is based on the utilisation of a highly innovative technology, an individual's previous direct experience in the relevant technology itself may be essential in integrating the technology into the RA carried on by the corporation. The SFC may recognise this as relevant industry experience if the individual has been a key person in developing, or ensuring the proper and continued functioning of, a technology, platform or system (ie, not merely providing system support); and the technology, platform or system in which the individual has expertise is central to the RA of his or her new principal.

However, a traditional brokerage firm which provides some dealing services through an online trading platform is unlikely to be considered as conducting RAs with the platform being a central element of those activities. As such, the SFC may not recognise this as relevant industry experience.

(e) Credit rating services¹⁷

Apart from being an analyst involved in the rating process of a credit rating agency, experience acquired by an individual in relation to credit risk management of financial institutions, financial analysis, credit analysis or bank's internal counterparty risk assessment will also be considered as relevant industry experience for providing credit rating services.

4.1.10 In assessing whether an individual has acquired "sufficient" relevant industry experience, the SFC may consider the individual's overall career history accumulated within the industry in totality.

However, the SFC will critically review the experience of an individual who, for example:

- (a) claims industry experience with any firm which has been largely or completely dormant for a prolonged period; or
- (b) shows a pattern of being accredited to his or her previous principals only for a short period.

These kinds of situations cast doubt as to whether the individual has in fact carried on RAs for his or her principal, and such industry experience purportedly gained by him or her will less likely fulfill the competence requirements.

4.1.11 The SFC will consider all relevant factors in assessing each individual's application on a case-by-case basis, taking into account his or her principal's business model, governance structure and internal control systems as well as the competence of all its key personnel.

¹⁷ See the FAQs on "Credit rating agencies".

Management experience

- 4.1.12 Management experience refers to the hands-on experience in supervising and managing essential regulated functions or projects in a business setting, including the management of staff engaging in these functions or projects. For example, managing individuals conducting RAs, or an activity which would have been an RA in the absence of an applicable carve-out, may be considered as relevant management experience.
- 4.1.13 The SFC will also accept management experience acquired in the financial industry. However, the SFC would not normally accept management experience which is purely ~~of an administrative nature~~ (eg, supervision of human resources or office administration staff).

Further guidance

- 4.1.14 Individuals who carry on multiple types of RAs concurrently in the corporation or its group of companies should ensure that they and their principals have properly addressed all potential and actual conflicts of interest. ROs should also demonstrate that they can properly manage their time to effectively discharge their supervisory duties in all of the RAs and LCs concerned.
- 4.1.15 An individual who holds a directorship in, or is engaged in the business of, companies other than his or her principal should properly address any conflicts of interest arising from such activities, especially when the directorship or engagement will likely prejudice the interests of investors due to concerns about confidentiality or other factors¹⁸.
- 4.1.16 Individuals who intend to carry on the following activities are required to meet additional eligibility criteria.
- (a) Engage in sponsor and compliance adviser work under the Listing Rules. These individuals should also refer to the requirements set out in Appendix A.
 - (b) Undertake activities in connection with matters regulated by the Codes on Takeovers. These individuals should also refer to the requirements set out in Appendix B.
 - (c) Manage products authorised under the UT Code and REIT Code. Their eligibility would be assessed separately when they apply under these codes to take up the management role.

¹⁸ See the FAQ on “Outside directorships and business interests”.

4.2 Responsible officers

4.2.1 Basic elements

4.2.1.1 In assessing the competence of an individual applying to be an RO, the SFC will need to be satisfied that he or she possesses appropriate ability, skills, knowledge and experience to properly manage and supervise the corporation's proposed activities.

4.2.1.2 For an individual applying to be an RO, a summary of the options for satisfying the competence requirements is set out below:

	Option A	Option B	Option C	
Academic or professional qualifications	Degree ¹⁹ in the designated fields ²⁰ ; other degree ¹⁹ (with passes in at least two courses in the designated fields ²⁰); or professional qualifications ²¹	Other degree (without passes in two courses in the designated fields ²⁰)	Attained Level 2 in either English or Chinese as well as in Mathematics in the HKDSE or equivalent ²²	
Relevant industry experience	At least 3 years over past 6 years	At least 3 years over past 6 years	At least 3 years over past 6 years	At least 5 years over past 8 years
RIQ²³ or Extra CPT²⁴	-	Obtained relevant RIQ or completed relevant Extra CPT	Obtained relevant RIQ	Completed relevant Extra CPT
Management experience	2 years	2 years	2 years	
LRP²⁵	Pass	Pass	Pass	

¹⁹ If an applicant who is a degree holder has attained a post-graduate diploma or certificate which is (a) issued by a university or other similar tertiary institution in Hong Kong or elsewhere; or (b) recognised as Level 6 or above under the Qualifications Framework in Hong Kong, then the post-graduate diploma or certificate will also be taken into account in assessing the applicant's competence. For further details about the Qualifications Framework in Hong Kong, please visit www.hkqf.gov.hk.

²⁰ "Designated fields" refer to accounting, business administration, economics, finance and law.

²¹ Internationally-recognised professional qualifications in law, accounting or finance. Internationally-recognised professional qualifications in finance include Chartered Financial Analyst (CFA), Certified International Investment Analyst (CIIA) and Certified Financial Planner (CFP).

²² The SFC also recognises passes (a) the attainment of grade E or above in either English or Chinese as well as in Mathematics in the Hong Kong Certificate of Education Examination (HKCEE) and (b) passes in the same subjects in other high school public examinations (such as university entry examinations) in Hong Kong or elsewhere as equivalent to HKDSE.

²³ See paragraph 4.2.2.

²⁴ "Extra CPT" means that the individual must complete five CPT hours for each RA he or she applies for, which is a one-off requirement. The additional CPT hours should be taken within six months preceding the submission of the application.

²⁵ See paragraph 4.2.3.

- 4.2.1.3 For an individual who does not possess the academic or professional qualifications set out in paragraph 4.2.1.2 but has been a licensee before ~~the date of this version of the Guidelines~~ 1 January 2022, the SFC will consider his or her application if he or she has:
- (a) acquired at least eight years of relevant industry experience in the RA concerned over the past 11 years; and
 - (b) met the management experience and LRP requirements set out in paragraph 4.2.3.
- 4.2.1.4 For an RO who intends to engage in discretionary account services under RA 3, he or she:
- (a) must have attained the minimum academic qualification of Level 2 in either English or Chinese as well as in Mathematics in the HKDSE or equivalent; and
 - (b) has to obtain three more years of direct foreign exchange trading experience in the inter-bank foreign exchange market or currency futures market, or its equivalent, over the past six years.

4.2.2 Recognised industry qualifications

- 4.2.2.1 For an individual applying to be an RO, a summary of the RIQ requirements for each type of RA is set out below. These will be updated on the SFC's website as and when changes occur.

RA	RIQ
1, 4 & 8	HKSI LE Papers 7 & 8
2, 5 & 11 ²⁶	HKSI LE Papers 7 & 9
3	Vocational Training Council (VTC) Leveraged Foreign Exchange Trader's Responsible Officer Examination Paper 2
6	HKSI LE Papers 7 & 11
7	No RIQ requirement
9	HKSI LE Papers 7 & 12
10	HKSI LE Papers 7 & 10
12 ²⁶	HKSI LE Papers 7 & 14

²⁶ For RA 11 and RA 12, effective upon the commencement of the new licensing regime for these RAs.

- 4.2.2.2 The SFC will accept industry qualifications listed in Appendix C of the previous Guidelines issued in June 2011 (please refer to the SFC’s website for the previous version). Whilst the SFC may also accept qualifications obtained elsewhere, the individual has to provide supporting documents issued by the relevant academic or professional body which demonstrate the equivalence of such qualifications to the HKSI or VTC papers concerned.

4.2.3 Local regulatory framework papers

- 4.2.3.1 For an individual applying to be an RO, a summary of the LRP requirements for each type of RA is set out below. These will be updated on the SFC’s website as and when changes occur.

RA	LRP
1, 4 & 8	HKSI LE Papers 1 & 2
2, 5 & 11 ²⁷	HKSI LE Papers 1 & 3
3	VTC Leveraged Foreign Exchange Trader’s Responsible Officer Examination Paper 1
6	HKSI LE Papers 1 & 5
7	No LRP requirement
9	HKSI LE Papers 1 & 6
10	HKSI LE Papers 1 & 4
12 ²⁷	HKSI LE Papers 1 & 13

²⁷ For RA 11 and RA 12, effective upon the commencement of the new licensing regime for these RAs.

4.3 Licensed representatives

4.3.1 Basic elements

4.3.1.1 In assessing the competence of an individual applying to be an LR, the SFC will expect him or her to have a basic understanding of the market in which he or she is to work as well as the laws and regulatory requirements applicable to the industry.

4.3.1.2 For an individual applying to be an LR, a summary of the options for satisfying the competence requirements is set out below:

	Option A	Option B		Option C	
Academic or professional qualifications	Degree ²⁸ in the designated fields ²⁹ ; other degree ²⁸ (with passes in at least two courses in the designated fields ²⁹); or professional qualifications ³⁰	Other degree (without passes in two courses in the designated fields ²⁹)		Attained Level 2 in either English or Chinese as well as in Mathematics in the HKDSE or equivalent ³¹	
Relevant industry experience	—	At least 2 years over past 5 years	—	At least 2 years over past 5 years	—
RIQ³² or Extra CPT³³	—	—	Obtained relevant RIQ or completed relevant Extra CPT	Completed relevant Extra CPT	Obtained relevant RIQ
LRP³⁴	Pass	Pass		Pass	

²⁸ If an applicant who is a degree holder has attained a post-graduate diploma or certificate which is (a) issued by a university or other similar tertiary institution in Hong Kong or elsewhere; or (b) recognised as Level 6 or above under the Qualifications Framework in Hong Kong, then the post-graduate diploma or certificate will also be taken into account in assessing the applicant's competence. For further details about the Qualifications Framework in Hong Kong, please visit www.hkqf.gov.hk.

²⁹ "Designated fields" refer to accounting, business administration, economics, finance and law.

³⁰ Internationally-recognised professional qualifications in law, accounting or finance. Internationally-recognised professional qualifications in finance include Chartered Financial Analyst (CFA), Certified International Investment Analyst (CIIA) and Certified Financial Planner (CFP).

³¹ The SFC also recognises passes-(a) the attainment of grade E or above in either English or Chinese as well as in Mathematics in the HKCEE and (b) passes in the same subjects in other high school public examinations (such as university entry examinations) in Hong Kong or elsewhere as equivalent to HKDSE.

³² See paragraph 4.3.2.

³³ "Extra CPT" means that the individual must complete five CPT hours for each RA he or she applies for, which is a one-off requirement. The additional CPT hours should be taken within six months preceding the submission of the application.

³⁴ See paragraph 4.3.3.

4.3.1.3 For an individual who does not possess the academic or professional qualifications set out in paragraph 4.3.1.2 but has been a licensee before ~~the date of this version of the Guidelines~~ 1 January 2022, the SFC will consider his or her application if he or she has:

- (a) acquired either:
 - (i) at least five years of relevant industry experience in the RA concerned over the past eight years; or
 - (ii) at least two years of relevant industry experience in the RA concerned over the past five years and obtained the relevant RIQ; and
- (b) met the LRP requirements set out in paragraph 4.3.3.

4.3.1.4 For an LR who intends to engage in discretionary account services under RA 3, he or she:

- (a) must have attained the minimum academic qualification of Level 2 in either English or Chinese as well as in Mathematics in the HKDSE or equivalent; and
- (b) has to obtain three more years of direct foreign exchange trading experience in the inter-bank foreign exchange market or currency futures market, or its equivalent, over the past six years.

4.3.2 Recognised industry qualifications

4.3.2.1 For an individual applying to be an LR, a summary of the RIQ requirements for each type of RA is set out below. These will be updated on the SFC's website as and when changes occur.

RA	RIQ
1, 4 & 8	HKSI LE Papers 7 & 8
2, 5 & 11 ³⁵	HKSI LE Papers 7 & 9
3	VTC Leveraged Foreign Exchange Trader's Responsible Officer Examination Paper 2 or Representative Examination Paper 2
6	HKSI LE Papers 7 & 11
7	No RIQ requirement
9	HKSI LE Papers 7 & 12
10	HKSI LE Papers 7 & 10
12 ³⁵	HKSI LE Papers 7 & 14

³⁵ For RA 11 and RA 12, effective upon the commencement of the new licensing regime for these RAs.

- 4.3.2.2 The SFC will accept industry qualifications listed in Appendix C of the previous Guidelines issued in June 2011 (please refer to the SFC’s website for the previous version). Whilst the SFC may also accept qualifications obtained elsewhere, the individual has to provide supporting documents issued by the relevant academic or professional body which demonstrate the equivalence of such qualifications to the HKSI or VTC papers concerned.

4.3.3 Local regulatory framework papers

- 4.3.3.1 For an individual applying to be an LR, a summary of the LRP requirements for each type of RA is set out below. These will be updated on the SFC’s website as and when changes occur.

RA	LRP
1 – 12 ³⁶ (except 3 and 7)	HKSI LE Paper 1
3	VTC Leveraged Foreign Exchange Trader’s Responsible Officer Examination Paper 1 or Representative Examination Paper 1
7	No LRP requirement

³⁶ For RA 11 and RA 12, effective upon the commencement of the new licensing regime for these RAs.

4.4 Exemptions from the recognised industry qualification and local regulatory framework paper requirements

4.4.1 General principles

- 4.4.1.1 The objective of requiring individuals engaging in RAs to obtain RIQ and pass LRP is to ensure that they are adequately equipped to carry out the RAs and are aware of their legal responsibilities as well as potential liabilities.
- 4.4.1.2 Notwithstanding the above fundamental principle, the SFC will review and consider all relevant facts and circumstances presented in an application in a pragmatic manner, and may at its sole discretion consider:
- (a) granting an individual an exemption from obtaining an RIQ or passing an LRP or both, if he or she can demonstrate that he or she possesses comparable qualifications or industry experience; or
 - (b) granting approval to the licence application of an individual on the condition that he or she must pass an LRP within six months of obtaining the approval.
- 4.4.1.3 In granting the exemptions or approvals, the SFC may impose licensing conditions on, and request the provision of confirmations or undertakings from, the individuals, sponsoring corporation or both, as and when appropriate.
- 4.4.1.4 Exemptions or approvals so granted are specific to the facts and circumstances set forth in the application and in the context of the individual's engagement with the sponsoring corporation, and therefore, *non-transferable*. The individual may be required to obtain an RIQ or pass an LRP if there are changes to his or her role or the sponsoring corporation.
- 4.4.1.5 Criteria under which exemptions may be considered are detailed in paragraphs 4.4.2 ~~and 4.4.3~~ to 4.4.4 below. These criteria may be changed and updated where necessary.
- 4.4.1.6 Individuals and sponsoring corporations are reminded that:
- (a) breaching any of the conditions imposed or undertakings provided, or providing false or misleading information in the confirmations may impugn the fitness and properness of the individual, the sponsoring corporation, or both; and

- (b) failure to pass the requisite LRP within the specified time may render the approval invalid and cause the licence to lapse unless a further extension of time is granted by the SFC. The SFC may consider such an extension under exceptional circumstances as it considers appropriate. Where appropriate, the SFC may also impose additional conditions on the individual licensee limiting the scope of his or her business activities.

In addition, the above grace period (including any further extension) is usually granted once with respect to each LRP. If the individual has previously been granted a grace period (including any further extension) but did not pass the LRP concerned, he or she is expected to obtain a pass in that LRP before submitting his or her application again.

4.4.2 Recognised industry qualification exemptions

Full exemption for ROs and LRs

RIQ Full Exemption

- 4.4.2.1 An individual may apply for *full exemption* from the RIQ requirements if he or she:
 - (a) has been a licensee within the past three years or is a current licensee and now applies to carry on an RA with the same RIQ requirements³⁷ and in the same role³⁸ as previously licensed. An example is an LR who is licensed to carry on RA 1 applies to carry on RA 4 as LR; or
 - (b) applies for a temporary licence to carry on RAs 1, 2, 4, 5, 6, 10 or 11³⁹.

Conditional exemption for ROs and LRs

RIQ Conditional Exemption

- 4.4.2.2 Under exceptional circumstances, an individual may apply for *conditional exemption* from the RIQ requirements if he or she is a current licensee who has five years of related local experience over the past eight years and now applies to carry on an RA with different RIQ requirements³⁷ but in the same role³⁸.

For example, if an ~~individual LR~~ is licensed to carry on RA 1 and applies to carry on RA 2 or RA 9 as LR, the individual may be granted this exemption.

³⁷ See paragraph 4.2.2 (RO) and paragraph 4.3.2 (LR) for the RIQ requirements for each RA.

³⁸ Either as RO or as LR.

³⁹ For RA 11, effective upon the commencement of the new licensing regime for this RA.

(a) Conditions to be imposed

The SFC would consider imposing licensing conditions which restrict the scope of activities to be undertaken by the individual (eg, to act for an introducing broker only or to engage in discretionary account management only) or any other licensing conditions as the SFC considers appropriate.

(b) Confirmations and undertakings to be provided

The individual must complete an additional five CPT hours in industry or product knowledge in respect of the new RA which is a one-off requirement.

- The additional CPT hours may be taken within six months preceding the submission of the application. In this case, both the individual and the sponsoring corporation should provide confirmation that the individual has already completed the required CPT hours.
- Alternatively, the additional CPT hours may be taken within 12 months after licence approval is granted. In this case, both the individual and the sponsoring corporation should provide undertakings to this effect.
- The related supporting records and documentary evidence for the CPT hours taken may be inspected by the SFC as and when required.

4.4.3 Local regulatory framework paper exemptions

Full exemption for ROs and LRs

LRP Full Exemption

4.4.3.1 An individual may apply for *full exemption* from the LRP requirements if he or she:

- (a) has been a licensee within the past three years or is a current licensee and now applies to carry on an RA with the same LRP requirements⁴⁰ and in the same role⁴¹ as previously licensed;
- (b) applies for a temporary licence to carry on RAs 1, 2, 4, 5, 6, 10 or 11⁴²; or

⁴⁰ See paragraph 4.2.3 (RO) and paragraph 4.3.3 (LR) for the LRP requirements for each RA.

⁴¹ Either as RO or as LR.

⁴² For RA 11, effective upon the commencement of the new licensing regime for this RA.

- (c) has been actively involved in regulatory or compliance work:
 - (i) in Hong Kong;
 - (ii) on a full-time basis;
 - (iii) for at least three years over the past six years; and
 - (iv) in the same RA as the licence being applied for.

The SFC would consider imposing licensing conditions which restrict the scope of activities to be undertaken by the individual or any other licensing conditions as the SFC considers appropriate.

Conditional exemptions for ROs only

LRP Conditional Exemption 1

4.4.3.2 An RO applicant may apply for a *conditional exemption* from the LRP requirements if he or she can demonstrate all of the following:

(a) Experience

The individual has proven substantial related experience but simply lacks the required level of local regulatory exposure.

“Substantial” means having at least:

- (i) eight years of related experience in a jurisdiction where any of the specified exchanges in Schedule 3 to the FRR is domiciled; or
- (ii) six years of related experience with at least two years licensed in Hong Kong;

with some part of it gained in the most recent three years.

(b) Restriction of permitted activities

- (i) The individual is either only involved in a limited scope of activities for the sponsoring corporation or only assuming a very senior management level role; or
- (ii) the sponsoring corporation will only be carrying on a limited scope of business activities.

- (c) Regulatory support from other personnel
- (i) There is at least one approved RO at the sponsoring corporation who is licensed in the relevant RA, and would be directly reporting to or otherwise responsible for advising the individual as well as supervising the daily operations of the RA.
 - (ii) This approved RO should be designated by name to the SFC and replaced with someone else equivalently approved if the designated person changes job functions or employment. Instead of notifying the SFC whenever there are changes in the designated persons, the sponsoring corporation should provide a confirmation to the SFC that it has a system to maintain records whereby these designations are kept current to reflect personnel changes so that the SFC can inspect them if needed and that if a designated person is not available, the exempted individual and the sponsoring corporation will immediately inform the SFC.

- (d) Internal control system in place

The sponsoring corporation has in place an appropriate risk and regulatory compliance infrastructure (including a comprehensive risk management system, internal audit, compliance staff and procedures).

- (e) Conditions to be imposed

The SFC would consider imposing licensing conditions which restrict the scope of activities to be undertaken by the individual, the sponsoring corporation, or both (eg, the individual's activities are all confined within the same group of related companies, or the individual does not engage in any activities with retail clients) or any other licensing conditions as the SFC considers appropriate.

- (f) Confirmations and undertakings to be provided

The individual and sponsoring corporation should provide confirmations and undertakings on the following⁴³, as applicable:

- (i) confirmation from the sponsoring corporation that it has suitably qualified back office staff (including finance, compliance, and audit staff);

⁴³ These items are not intended to be exhaustive.

- (ii) undertakings from both the individual and the sponsoring corporation that they will update the SFC in the event there is any significant change to the underlying circumstances, including the job functions or the RA the individual engages in, the sponsoring corporation's business activity relevant to the individual, or changes in any designated licensed or support personnel; and
- (iii) the individual must complete an additional five CPT hours in local regulatory knowledge in the relevant RA which is a one-off requirement.
 - The additional CPT hours may be taken within six months preceding the submission of the application. In this case, both the individual and the sponsoring corporation should provide confirmation that the individual has already completed the required CPT hours.
 - Alternatively, the additional CPT hours may be taken within 12 months after licence approval is granted. In this case, both the individual and the sponsoring corporation should provide undertakings to this effect.
 - The related supporting records and documentary evidence for the CPT hours taken may be inspected by the SFC as and when required.

Note: After the individual has obtained the above conditional exemption and been licensed for three years, the requirement for a designated RO to provide regulatory support can be removed.

LRP Conditional Exemption 2

4.4.3.3 An RO may apply for a *conditional exemption* from the LRP requirements if he or she has five years of related local experience over the past eight years and now applies to carry on an RA with different LRP requirements⁴⁴.

(a) Conditions to be imposed

The SFC would consider imposing licensing conditions which restrict the scope of activities to be undertaken by the individual, the sponsoring corporation, or both (eg, to act for an introducing broker only or to engage in discretionary account management only⁴⁵) or any other licensing conditions as the SFC considers appropriate.

⁴⁴ See paragraph 4.2.3 (RO) and paragraph 4.3.3 (LR) for the LRP requirements for each RA.

⁴⁵ See the "Circular to clarify competence requirements for existing licensed persons intending to provide asset management services" (23 June 2017).

(b) Confirmations and undertakings to be provided

The individual must complete an additional five CPT hours in local regulatory knowledge relevant to the new RA which is a one-off requirement.

- The additional CPT hours may be taken within six months preceding the submission of the application. In this case, both the individual and the sponsoring corporation should provide confirmation that the individual has already completed the required CPT hours.
- Alternatively, the additional CPT hours may be taken within 12 months after licence approval is granted. In this case, both the individual and the sponsoring corporation should provide undertakings to this effect.
- The related supporting records and documentary evidence for the CPT hours taken may be inspected by the SFC as and when required.

LRP Conditional Exemption 3

4.4.3.4 An LR applying for approval to become an RO for the same RA may apply for a *conditional exemption* from the LRP requirements if he or she possesses at least three more years of relevant industry experience in addition to the general competence requirements set out in paragraph 4.2.1.2. The additional three years must be recent and licensed experience acquired in Hong Kong.

(a) Confirmations and undertakings to be provided

The individual must complete an additional five CPT hours in local regulatory knowledge in the relevant RA which is a one-off requirement.

- The additional CPT hours may be taken within six months preceding the submission of the application. In this case, both the individual and the sponsoring corporation should provide confirmation that the individual has already completed the required CPT hours.
- Alternatively, the additional CPT hours may be taken within 12 months after licence approval is granted. In this case, both the individual and the sponsoring corporation should provide undertakings to this effect.
- The related supporting records and documentary evidence for the CPT hours taken may be inspected by the SFC as and when required.

LRP Conditional Exemption 4

4.4.3.5 An RO applicant may apply for a *conditional exemption* from the LRP requirements if he or she can demonstrate all of the following:

(a) Experience

The individual has at least eight years of relevant industry experience in a jurisdiction where any of the specified exchanges in Schedule 3 to the FRR is domiciled.

(b) Serve professional investors⁴⁶ only⁴⁷

- (i) The individual will be accredited to an LC for any or all of its RAs, where the LC is a fund manager or belongs to a fund manager group which serves professional investors only; or
- (ii) the individual will manage private investment funds⁴⁸, and will be accredited to an LC which serves professional investors only in respect of RA 9.

(c) Confirmations and undertakings to be provided

- (i) Undertaking from the sponsoring corporation that it will provide regulatory and compliance support to the individual.
- (ii) The individual must complete an additional five CPT hours in local regulatory knowledge in respect of the relevant RA which is a one-off requirement.
 - The additional CPT hours may be taken within six months preceding the submission of the application. In this case, both the individual and the sponsoring corporation should provide confirmation that the individual has already completed the required CPT hours.
 - Alternatively, the additional CPT hours may be taken within 12 months after licence approval is granted. In this case, both the individual and the sponsoring corporation should provide undertakings to this effect.
 - The related supporting records and documentary evidence for the CPT hours taken may be inspected by the SFC as and when required.

⁴⁶ As defined in the SFO and its subsidiary legislation.

⁴⁷ See the circular "SFC Adopts a Pragmatic Approach to Licensing Fund Managers" (11 June 2007) and the "Circular to clarify competence requirements for existing licensed persons intending to provide asset management services" (23 June 2017).

⁴⁸ Collective investment schemes not authorised under Part IV of the SFO.

Conditional exemptions for LRs only

LRP Conditional Exemption 5

4.4.3.6 Itinerant professionals, being individuals from elsewhere who need to visit Hong Kong repeatedly for a short period each time to perform RAs in Hong Kong, may apply for a *conditional exemption* from the LRP requirements.

- (a) Conditions to be imposed
 - (i) The individual shall not carry on RAs in Hong Kong for more than 30 days in each calendar year;
 - (ii) the individual shall at all times be accompanied by a licensed person in performing RAs in Hong Kong; and
 - (iii) without compromising investor protection, the SFC may consider removing the chaperoning requirement in condition (ii) and impose an alternative condition to the effect that the individual can only provide services which constitute RAs to professional investors⁴⁹.
- (b) Undertakings to be provided
 - (i) For itinerant professionals subject to conditions (i) and (ii) above, the sponsoring corporation should provide an undertaking to the effect that it will assume full responsibility for the supervision of the individual's activities during his or her stay in Hong Kong and ensure that he or she will comply with the relevant rules and regulations at all times.
 - (ii) For itinerant professionals subject to condition (i) and alternative condition (iii) above, the sponsoring corporation should provide additional undertakings that it will:
 - provide training in the form of a structured course to the individual to ensure that he or she is fully aware of the Hong Kong regulatory framework before he or she commences carrying on RAs in Hong Kong; and
 - comply with the requirements set out under paragraph 4.4.3.2(c), in which it will arrange at least one approved RO who is licensed in the RA to directly supervise or otherwise be responsible for advising the individual in conducting RAs in Hong Kong.

⁴⁹ As defined in [the SFO and its subsidiary legislation—Part 1 of Schedule 1 to the SFO but does not include any person of a class which is prescribed by Securities and Futures \(Professional Investor\) Rules.](#)

LRP Conditional Exemption 6

- 4.4.3.7 An individual who has been an LR within the past three years or is a current LR and (a) has never attempted HKSI LE Paper 1 before and now applies to carry on an RA with the same LRP requirements⁵⁰ and in the same role⁵¹; or (b) now applies to carry on an RA with different LRP requirements⁵⁰ but in the same role⁵¹, may apply for a *conditional exemption* from the LRP requirements.

For example, this exemption may be granted to (a) an LR licensed to carry on RA 1 who has never attempted HKSI LE Paper 1 before applies for addition of RA 2 or (b) an LR licensed to carry on RA 1 applies for addition of RA 3.

(a) Confirmations and undertakings to be provided

The individual must complete an additional five CPT hours in local regulatory knowledge in the relevant RA which is a one-off requirement.

- The additional CPT hours may be taken within six months preceding the submission of the application. In this case, both the individual and the sponsoring corporation should provide confirmation that the individual has already completed the required CPT hours.
- Alternatively, the additional CPT hours may be taken within 12 months after licence approval is granted. In this case, both the individual and the sponsoring corporation should provide undertakings to this effect.
- The related supporting records and documentary evidence for the CPT hours taken may be inspected by the SFC as and when required.

⁵⁰ See paragraph 4.3.3 (LR) for the LRP requirements for each RA.

⁵¹ Either as RO or as LR.

4.4.4 Re-entrant exemption

4.4.4.1 An individual may apply for a *conditional exemption* from both RIQ and LRP requirements if he or she is a former practitioner who has left the industry between three to eight years, and re-applies for a licence with the same RIQ and LRP requirements⁵² and in the same role⁵³ as previously licensed.

To be eligible for the exemption:

- (a) the individual must complete five CPT hours per RA applied for, per year of absence (any fraction of a year would be rounded up), where training in local regulatory knowledge must make up at least 50% of the CPT activities;
- (b) the required CPT hours should be taken before the submission of the application;
- (c) both the individual and the sponsoring corporation should provide confirmation that the individual has already completed the required CPT hours and that training in local regulatory knowledge was not less than 50% of the CPT activities; and
- (d) the related supporting records and documentary evidence for the CPT hours taken may be inspected by the SFC as and when required.

⁵² See paragraphs 4.2.2 and 4.2.3 (RO) and paragraph 4.3.2 and 4.3.3 (LR) for the RIQ and LRP requirements for each RA.

⁵³ Either as RO or as LR.

Additional competence requirements for corporations and individuals engaging in sponsor and compliance adviser work (Sponsor Guidelines)

Introduction

The Sponsor Guidelines set out additional competence requirements for corporations and individuals which engage in sponsor and compliance adviser work. The Sponsor Guidelines do not replace the requirements set out in other sections of the Guidelines on Competence.

For the purpose of this appendix:

“Sponsor” means a corporation which acts as a sponsor in respect of an application for the listing of any securities under the Listing Rules⁵⁴.

“Compliance Adviser” means a corporation appointed to act as compliance adviser under the Listing Rules.

“Principal” means an individual who meets the criteria stipulated under the Sponsor Guidelines and appointed by a Sponsor to act as a Principal; in respect of a listing assignment, a Principal means an individual appointed by a Sponsor to supervise the Transaction Team⁵⁵.

Sponsors and Compliance Advisers are also reminded that in addition to the Sponsor Guidelines, they must also comply with all other relevant codes, guidelines and regulations prescribed by the SFC, such as the Fit and Proper Guidelines, the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission and the Corporate Finance Adviser Code of Conduct. These other codes and guidelines are not diminished in any way by any specific requirements set out in the Sponsor Guidelines.

1. Sponsors

- 1.1 A corporation must be licensed for RA 6⁵⁶ and not subject to a condition which prohibits it from carrying on sponsor work in order to be eligible to act as a sponsor in respect of an application for the listing of any securities on a recognized stock market under the Listing Rules.
- 1.2 It is the responsibility of the Management⁵⁷ to ensure that Principals appointed by the Sponsor meet the criteria required in the Sponsor Guidelines and are duly licensed.

⁵⁴ The term “Listing Rules” refers to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Rules Governing the Listing of Securities on Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

⁵⁵ “Transaction Team” means the staff appointed by a Sponsor to carry out a listing assignment.

⁵⁶ Type 6 regulated activity (advising on corporate finance).

⁵⁷ “Management” includes the board of directors, managing director, chief executive officer, ROs, EOs and other senior management personnel.

The Management should ensure that there are sufficient Principals engaged in a full-time⁵⁸ capacity to discharge its role in supervising the Transaction Teams taking into account the volume, size, complexity and nature of the sponsor work that is undertaken by the Sponsor. When there are joint Sponsors engaged in a particular transaction, each Sponsor should have its designated Principal to supervise the transaction.

- 1.3 A Sponsor should have at least two Principals who have satisfied the eligibility criteria under paragraph 3.2.3 and at least one of the Principals has satisfied the eligibility criteria under Option 1 of paragraph 3.2.3 at all times.

In appointing a Principal, the Management is required to provide a written endorsement to the SFC, on behalf of the LC that the individual proposed to be appointed as Principal has met the respective requirements set out in paragraphs 3.1 and 3.2.

Records of the appointment of an RO as a Principal and assessments made by the Management, the cessation of such appointment and the decision-making process of such appointment should be properly kept to demonstrate compliance with the Sponsor Guidelines.

- 1.4 A Sponsor should notify the SFC in writing of any changes in its appointment of Principals within seven business days after making such changes and, in the case of appointment of a Principal, file an endorsement pursuant to paragraph 1.3. The endorsement should include information, as required by the SFC, which demonstrates how the Principal has met the eligibility criteria.
- 1.5 A Sponsor should maintain an effective reporting line and communication between the Transaction Teams and other members in the Management regarding the sponsor work undertaken. Where circumstances require, a Transaction Team may appoint more than one Principal and they shall be jointly and severally responsible in discharging their roles as Principals.
- 1.6 A Sponsor should maintain a minimum paid-up capital of \$10 million at all times.
- 1.7 A Sponsor should ensure its staff engaging in sponsor work have satisfied or be exempted from the examination requirement pursuant to paragraphs 4.1 to 4.3 and that it would be able to demonstrate to the SFC its compliance with this requirement upon request.

⁵⁸ "Full-time" means the Principal should be engaged by the Sponsor for the purpose of conducting sponsor-related work on a full-time basis. In addition, the Principal, in his or her capacity as an RO of the Sponsor under the SFO, should be available at all times to supervise the RA to which his or her approval as an RO relates.

- 1.8 If a Sponsor ceases to have at least two qualified Principals, of which at least one is eligible to act as a Principal pursuant to Option 1 of paragraph 3.2.3 as required under paragraph 1.3, it will not meet the eligibility criteria to act as a Sponsor. Therefore, the SFC may, after considering the facts and circumstances of the case, impose a licensing condition on the Sponsor restricting it from carrying out sponsor and compliance adviser work. Further, the SFC will not accept any appointment of individuals as Principals under Option 2 or Option 3 from this Sponsor until at least one individual, who is qualified under Option 1 and based in Hong Kong, has been appointed to act as its Principal.

A Sponsor must not accept new sponsor or compliance adviser work once it no longer meets the eligibility criteria to act as a Sponsor. The undertaking of any new sponsor or compliance adviser work by such Sponsor when it is not eligible to do so may raise concerns as to its ability to control business risks and its overall fitness and properness to remain licensed.

- 1.9 Corporations which have been granted temporary licences or have applied for temporary licences will not be eligible to act as Sponsors.

2. Compliance advisers

- 2.1 A corporation must be eligible under its licence to act as a Sponsor in order to carry out work as a compliance adviser.
- 2.2 In addition, all compliance advisers must be eligible to act as Sponsors at all times in order to be initially eligible and continue to be eligible to act as compliance advisers. In the event that an LC ceases to be eligible to act as a Sponsor, it shall cease to be eligible to act as a compliance adviser.
- 2.3 In case of a breach by a compliance adviser of any of the relevant codes or regulations which call into question its fitness and properness to be an LC for RA 6, it may cease to be eligible to be a compliance adviser, a Sponsor or an LC for RA 6.

3. Sponsor Principals

3.1 General principles

- 3.1.1 As a general guidance, a Principal is expected to be in charge of the supervision of the Transaction Team. The Principal should be involved in the making of the key decisions relating to the work carried out by the Transaction Team and must be aware of the key risks in such work and responsible for the measures to address them.

For example, in respect of conducting due diligence review on a listing applicant, the Sponsor should ensure that the Principal is involved in determining the breadth and depth of the due diligence review and the amount of resources to be deployed for carrying out such work, making a critical assessment of the results of the due diligence and overall assessment of the adequacy of the due diligence review and ensuring that steps have been taken to properly resolve all issues arising out of such review. The Principal is also expected to be fully conversant with the key issues in each sponsorship appointment, to be able to respond and react promptly to requests of the regulators (such as the SFC and SEHK) on such issues and to properly advise the applicant.

3.2 Eligibility criteria for Principals

- 3.2.1 In order to qualify as a Principal, an individual must be an RO for RA 6 of the LC to which he or she is accredited and responsible for supervising the RA at all times.
- 3.2.2 The individual's licence should be free from any licensing condition concerning his or her competence to advise on, or engage in, sponsor work. However, a Sponsor can appoint an RO who is subject to the Non Sole Condition⁵⁹ as Principal, provided that he or she is fully competent to act as a Principal and his or her licence is subject to the condition solely because he or she is based elsewhere. Such appointment is subject to the Sponsor having at least one other Principal (i) who is eligible to act as a Principal under Option 1 of paragraph 3.2.3 and based in Hong Kong and (ii) whose licence is not subject to the Non Sole Condition or any other condition restricting him or her from advising on, or engaging in, sponsor work.
- 3.2.3 The individual should also demonstrate that he or she has fulfilled one of the following eligibility criteria.
- (a) Option 1
- (i) Has acquired a minimum of five years of corporate finance experience⁶⁰ in respect of companies listed on the Main Board or GEM Board of SEHK preceding his or her appointment as a Principal; and
 - (ii) in the five years immediately preceding his or her appointment, has played a substantial role⁶¹ in advising a listing applicant as a Sponsor in at least two completed Initial Public Offering (IPO) transactions⁶² on the Main Board or GEM Board of SEHK.

⁵⁹ A licensing condition where the individual must, when actively participating in or when directly supervising the business of the RA concerned, do so under the advice of another RO who is accredited to the same corporation for the same RA and not subject to this condition.

⁶⁰ See paragraph 3.2.4.

⁶¹ See paragraph 3.2.6.

⁶² See paragraph 3.2.5.

- (b) Option 2
- (i) Is highly experienced in the area of due diligence as a result of leading IPO transactions in Australia, the UK, or the US;
 - (ii) is highly experienced in the area of corporate finance in respect of companies listed in Australia, the UK, or the US;
 - (iii) has completed a refresher course or HKSI LE Paper 15 within six months preceding his or her appointment as a Principal; and
 - (iv) is accredited to a Sponsor which has at least one other individual who is appointed as a Principal pursuant to Option 1 above.
- (c) Option 3
- (i) Has participated actively and substantially in due diligence work in at least four completed IPO transactions⁶³ in Hong Kong within five years preceding his or her appointment as a Principal;
 - (ii) has acquired a minimum of five years of corporate finance experience⁶⁴ in respect of companies listed on the Main Board or GEM Board of SEHK preceding his or her appointment as a Principal;
 - (iii) has passed HKSI LE Paper 15 within six months preceding his or her appointment as a Principal; and
 - (iv) is accredited to a Sponsor that has at least one other individual who is appointed as a Principal pursuant to Option 1 above.

3.2.4 “Corporate finance experience” includes experience gained from providing advice on one or more of the following matters:

- (a) IPO transactions;
- (b) notifiable or connected transactions as defined in the Listing Rules;
- (c) rights issues or open offers by a listed company in accordance with the Listing Rules;
- (d) takeovers and share buy-backs subject to the Codes on Takeovers⁶⁵; and

⁶³ See paragraph 3.2.5.

⁶⁴ See paragraph 3.2.4.

⁶⁵ “Codes on Takeovers” refers to the Codes on Takeovers and Mergers and Share Buy-backs.

- (e) any other significant transactions or equity-fund raising exercises not listed above.

Also, in demonstrating that a Principal has the relevant experience, the Sponsor has to satisfy the SFC the following:

- (i) the appointee for the role of a Principal (Appointee) has acquired a majority of the five years' corporate finance experience from transactions which have an element of equity fund raising from the public by listed issuers and the Management has to be satisfied that such experience is sufficiently recent;
- (ii) the Appointee may acquire some (but not all) of the corporate finance experience in markets other than Hong Kong provided that these markets have comparable legal and regulatory standards for the listing of companies and the public offers of securities, conduct regulation for sponsors or their functional equivalents and enforcement of rules and regulations governing these respective areas. If the Appointee's experience is mainly acquired in markets other than Hong Kong, the Appointee has to demonstrate to the satisfaction of the SFC how the corporate finance experience has been met and the SFC may impose licensing conditions on the Sponsor or Appointee as it considers appropriate; and
- (iii) the Sponsor should avoid attributing the experience of all its Appointees to the same transaction in meeting the requirements.

Where an individual is required to demonstrate five years of corporate finance experience in paragraph 3.2.3, such experience must be obtained over a continuous five-year period.

3.2.5 "Completed IPO transaction" means that the IPO was duly listed on the Main Board or GEM Board of SEHK. Having been through a hearing of, or obtained an approval-in-principle from, the Listing Committee hearing is not a reference point for completion. If an individual left the Transaction Team before its completion, the SFC will not recognise it as a completed transaction, even if the bulk of work was already completed before the individual left the Transaction Team.

3.2.6 Apart from the factors set out in paragraph 3.1.1, the following matters will be taken into account in establishing whether an individual has been engaged in a "substantial role" in an IPO:

- (a) whether the individual was responsible for leading and supervising due diligence and participated in due diligence meetings and discussions with the listing applicant and other professional parties appointed;

- (b) whether the individual was responsible for making key decisions relating to due diligence work carried out by the Transaction Team and was fully aware of key risks involved;
- (c) whether the individual was responsible for signing off for the Sponsor that due diligence had been completed;
- (d) whether the individual was responsible for certifying the referral of any issues arising from due diligence or issues raising reputational risks or material changes in circumstances to the appropriate committee or senior management of the Sponsor;
- (e) whether the individual was responsible for determining the scope, review, and sign off of major documentation submitted to SEHK and the SFC such as the prospectus and formal notice of the IPO, Listing Application Form (Form A1), Sponsors' Declaration and Sponsor's Undertaking to SEHK and any waiver applications;
- (f) whether the individual had a leading supervisory role in advising the client on IPO requirements under the Listing Rules including:
 - (i) advising the listing applicant on corporate and financial structure and compliance with the Listing Rules;
 - (ii) formulating listing timetable and related plans; and
 - (iii) supervision of the transaction, including due diligence and IPO execution.

3.2.7 The SFC may seek further details from corporations and individuals to substantiate their submissions. The provision of false or misleading information in response to such a request is likely to constitute a criminal offence under the SFO and may also have implications for their fitness and propriety.

3.2.8 The SFC may exercise its discretion, on a case-by-case basis, to grant a dispensation from strict compliance with the eligibility requirements for Principals under Option 1 of paragraph 3.2.3 if the corporation can demonstrate that there are valid and justifiable grounds for such dispensation, which will not prejudice the overall protection of investors' interests. In considering an application for dispensation, the SFC may take into account, without limitation, the following:

- (a) the nature and structure of the business of the group companies to which the Sponsor belongs and the internal resources and support which the group is able to provide in the carrying out of the sponsor work;
- (b) the governance of the Sponsor and its group companies by securities regulators in other leading and well-regulated markets;
- (c) the Sponsor's internal controls and risk management standards as well as those of its group of companies; and

- (d) the Sponsor's compliance record in Hong Kong and other jurisdictions.

The SFC may impose conditions or require the provision of undertakings by a Sponsor and its group of companies as it considers appropriate in granting a dispensation.

3.2.9 For the avoidance of doubt, the requirements set out at paragraph 3.2.3 apply to Principals as initial eligibility criteria only, and are not continuing requirements. However, Principals should at all times ensure that they remain competent in their role as Principals.

3.2.10 An individual who has ceased to act as a Principal after having previously been appointed as a Principal under Option 1 or Option 3 will not be required to demonstrate that he or she has fulfilled the eligibility criteria concerning IPO transactions in the five years immediately preceding his or her new appointment as a Principal, provided that such new appointment is made within three years after ceasing to act as a Principal and he or she is seeking to become a Principal again under the same option as he or she was previously appointed.

However, where such appointment is not made within that three years period, the individual will be required to demonstrate that he or she satisfies the eligibility criteria to be appointed as a Principal stipulated in paragraph 3.2.3. This will be so irrespective of whether the individual has remained an RO or an LR for RA 6 during the period after he or she ceased to act as a Principal.

3.2.11 As itinerant professionals should not be ROs, they are not eligible to act as Principals.

4. Eligibility criteria for RA 6 LR engaged in sponsor work

- 4.1 Subject to paragraphs 4.2 to 4.3, RA 6 LRs intending to engage in IPO sponsor work are required to have passed HKSI LE Paper 16⁶⁶ not more than three years prior to and not later than six months after the date of their first engagement⁶⁷ in such work. For the avoidance of doubt, itinerant professionals and temporary RA 6 LRs are required to pass HKSI LE Paper 16 unless exempted under paragraph 4.3.
- 4.2 Individuals who are approved as Principals are exempted from passing HKSI LE Paper 16.
- 4.3 Individuals who have passed HKSI LE Paper 16 or are exempted from taking the examination will not be required to take the examination again unless the individuals cease to be licensed for RA 6 for more than three years.
- 4.4 No extension will be granted for taking HKSI LE Paper 16. Individuals who fail to pass HKSI LE Paper 16 before the expiry of the six-month period are prohibited from engaging in any sponsor work until they have passed the examination.

⁶⁶ LRs may also choose to take HKSI LE Paper 15 which requires more in-depth knowledge of sponsor work.

⁶⁷ "First engagement" refers to the first time that an individual is engaged in sponsor work as a member of a Transaction Team.

5. CPT Requirements

- 5.1 Individuals who engage in sponsor and compliance adviser work should also refer to the additional requirements set out in paragraph 5.3(a) of the Guidelines on CPT.

Additional competence requirements for corporations and individuals which undertake activities in connection with matters regulated by the Codes on Takeovers and Mergers and Share Buy-backs (TC Adviser Guidelines)

Introduction

The TC Adviser Guidelines set out additional competence requirements for corporations and individuals which advise on matters or transactions falling within the ambit of the Codes on Takeovers. The TC Adviser Guidelines do not replace the requirements set out in other sections of the Guidelines on Competence.

For the purpose of this appendix:

“Codes on Takeovers” refers to the Codes on Takeovers and Mergers and Share Buy-backs.

“TC Adviser” means a corporation that is permitted under its licence to advise on matters or transactions falling within the ambit of the Codes on Takeovers.

“TCRO” means an RO or EO for RA 6⁶⁸ who is eligible to advise on matters or transactions falling within the ambit of the Codes on Takeovers in a sole capacity⁶⁹.

“TC Transaction” means a transaction falling within the ambit of the Codes on Takeovers.

1. TC Advisers

- 1.1 A corporation should be licensed for RA 6 and not subject to a licensing condition which prohibits it from undertaking activities in connection with matters regulated by the Codes on Takeovers in order to be eligible to act as a TC Adviser.
- 1.2 It is the responsibility of the Management⁷⁰ to ensure that individuals appointed by the TC Adviser to advise on any TC Transaction meet the respective criteria required under the TC Adviser Guidelines and are duly licensed. The Management is expected to allocate to the TC Transaction in question sufficiently experienced and competent professional staff with the appropriate involvement of, and supervision by, a duly approved TCRO. The TCRO and his or her staff are expected to devote sufficient time and effort to the TC Transaction to discharge their responsibility as financial advisers under the Codes on Takeovers.
- 1.3 A TC Adviser should have at least one duly approved TCRO to supervise, and be involved in, each TC Transaction which the TC Adviser is advising on.

⁶⁸ Type 6 regulated activity (advising on corporate finance).

⁶⁹ “Sole capacity” means the RO or EO is not subject to any condition in relation to undertaking activities in connection with matters regulated by the Codes on Takeovers.

⁷⁰ “Management” includes the board of directors, managing director, chief executive officer, ROs, EOs and other senior management personnel.

If a TC Adviser does not have at least one TCRO, the SFC may impose a licensing condition under which the corporation must, in the capacity as an adviser to a client on matters or transactions falling within the ambit of the Codes on Takeovers, act together with another TC Adviser (to the client) not subject to the same condition.

- 1.4 A TC Adviser should maintain an effective reporting line and communication within each Transaction Team⁷¹ and between Transaction Teams and other members in the Management regarding the advisory work undertaken. Where circumstances require, a Transaction Team may appoint more than one TCRO and they shall be jointly and severally responsible in discharging their roles.
- 1.5 A TC Adviser should have adequate resources and internal procedures to ensure full compliance with the Codes on Takeovers and have measures⁵ in place to ensure that its clients and all its staff handling matters or transactions under the Codes on Takeovers understand and comply with the Codes on Takeovers.
- 1.6 A TC Adviser should have designated staff responsible for compliance with Rule 22 of the Code on Takeovers and Mergers and put in place internal procedures in this connection.
- 1.7 A TC Adviser should ensure its staff engaging in TC Transactions have satisfied or are exempted from the examination requirements under paragraphs 3.1 to 3.4 below and that it would be able to demonstrate to the SFC its compliance with these requirements upon request.
- 1.8 While there is an increasing trend for a TC Adviser to engage external legal advisers to assist or advise the TC Adviser in relation to TC Transactions, a TC Adviser's primary obligations and duties to its client (whether the offeror or the offeree company) remain and cannot be delegated to external legal advisers.
- 1.9 If a corporation does not intend to advise on matters or transactions falling within the ambit of the Codes on Takeovers, the SFC will impose a licensing condition under which the corporation shall not act as an adviser on the Codes on Takeovers-related matters.

2. ROs of TC Advisers

2.1 General principles

- 2.1.1 Where an individual applies to be an RO for RA 6 and intends to give advice on matters or transactions falling within the ambit of the Codes on Takeovers:
 - (a) if the SFC is satisfied that the individual has sufficient experience in the matter as stipulated under paragraph 2.2.1 below, he or she is eligible to advise on matters or transactions regulated by the Codes on Takeovers in a sole capacity (ie, TCRO); and

⁷¹ "Transaction Team" in this Appendix means the staff assigned by a TC Adviser to advise on a TC Transaction.

- (b) if the SFC is not satisfied that the individual is fully competent to act in a sole capacity, a licensing condition may be imposed on the individual's licence such that he or she shall act together with another TCRO when advising clients on matters or transactions regulated by the Codes on Takeovers (ie, "non-sole capacity"⁷²).

2.1.2 For the avoidance of doubt, an individual who applies to be an RO for RA 6 and intends to give advice on matters or transactions falling within the ambit of the Codes on Takeovers should also satisfy the examination requirement under paragraph 3.1 unless an exemption applies.

2.1.3 As a general guidance, a TCRO is expected to be in charge of the supervision of the TC Transaction and the Transaction Teams. The TCRO should be involved in the making of the key decisions relating to the work carried out by the Transaction Team and must be aware of the key risks in such work and responsible for the measures to address them.

For example, (i) due diligence relating to: the offeror's financial resources, concert party relationships and dealings made by associates of the relevant offeror and offeree company; (ii) alerting the legal and compliance departments so that any trade restrictions would be in place and dealing disclosures are made in a timely manner; (iii) cooperating with the Executive (as defined in the Codes on Takeovers) in accordance with General Principle 10 of the Codes on Takeovers; (iv) complying with the confidentiality requirement under Rule 1.4 of the Code on Takeovers and Mergers; and (v) ensuring all relevant disclosure requirements are met. The TCRO is also expected to be fully conversant with the requirements under the Codes on Takeovers, to be able to respond and react promptly to requests of the Executive and other regulators (such as other departments within the SFC and SEHK) on such issues and to properly advise its client.

2.2 Eligibility criteria for TCROs

2.2.1 In order to qualify as a TCRO, an individual must be an RO for RA 6 of the corporation that has appointed him or her and demonstrate that he or she has fulfilled one of the following eligibility criteria:

- (a) Option 1
 - (i) Has acquired a minimum of five years of corporate finance experience⁷³ in respect of companies listed on the Main Board or GEM Board of SEHK preceding his or her appointment as a TCRO; and

⁷² "Non-sole capacity" means the RO and EO is subject to a [licensing](#) condition that he or she must in the capacity as an adviser to a client on matters or transactions falling within the ambit of the Codes on Takeovers, act together with another adviser (to the client) not subject to the same condition.

⁷³ See paragraph 2.2.2.

- (ii) in the five years immediately preceding his or her appointment, has been substantially involved⁷⁴ in advising an offeror or an offeree company in at least two completed TC Transactions⁷⁵.

(b) Option 2

- (i) Has been a member of the Takeovers and Mergers Panel in Hong Kong for two years within the last five years preceding the appointment as a TCRO.

2.2.2 “Corporate finance experience” includes experience gained from providing advice on one or more of the following matters:

- (a) IPO transactions;
- (b) notifiable or connected transactions as defined in the Listing Rules⁷⁶;
- (c) rights issues or open offers by a listed company in accordance with the Listing Rules;
- (d) takeovers and share buy-backs subject to the Codes on Takeovers; and
- (e) any other significant transactions or equity fund raising exercises not listed above.

The five years of corporate finance experience described in paragraph 2.2.1 must be obtained over a continuous five-year period.

2.2.3 “Completed TC Transaction” means a TC Transaction which involves the issue, and was so issued, of an offer document, offeree board circular, whitewash circular, share buy-back offer document or off-market share buy-back circular. Engagement as an independent financial adviser would not be considered as being involved in a completed TC Transaction.

2.2.4 “Substantially involved” means taking, except for the TCRO for the relevant TC Transaction in question, the lead role in supervision and execution throughout the duration of the transaction. Apart from the factors set out in paragraph 2.1.3, the following matters will be taken into account in establishing whether an individual has been “substantially involved” in a completed TC Transaction:

⁷⁴ See paragraph 2.2.4.

⁷⁵ See paragraph 2.2.3.

⁷⁶ The term “Listing Rules” refers to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Rules Governing the Listing of Securities on Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

- (a) whether the individual was responsible for leading and supervising due diligence and participated in due diligence meetings and discussions with the offeror or offeree company and other appointed professional parties, including but not limited to:
 - (i) identifying parties acting in concert (as defined under the Codes on Takeovers) with the relevant offeror or offeree company;
 - (ii) identifying any previous dealings or transactions by relevant parties that may carry implications under the Codes on Takeovers; and
 - (iii) taking steps to ensure that the offeror has sufficient financial resources to satisfy the offers in full;
- (b) whether the individual was responsible for making key decisions relating to work carried out by the Transaction Team and was fully aware of key risks and implications under the Codes on Takeovers;
- (c) whether the individual was responsible for certifying the referral of any issues arising from due diligence or issues raising implications under the Codes on Takeovers or material changes in circumstances to the appropriate TCRO or senior management of the TC Adviser;
- (d) whether the individual was responsible for determining the scope, review and sign off of major documentation and relevant applications submitted to the Executive;
- (e) whether the individual had a leading supervisory role in advising the client on the Codes on Takeovers including:
 - (i) advising the offeror or offeree company on the transaction structure and compliance with the Codes on Takeovers, including dealing disclosure requirements, and ensuring timely and sufficient disclosure during the course of a TC Transaction;
 - (ii) formulating offer timetable and related plans;
 - (iii) supervising the transaction, including due diligence and execution;
 - (iv) maintaining strict confidentiality when necessary; and
 - (v) advising on the requirements in relation to meetings with outside parties.

- 2.2.5 The SFC will not consider an individual to have been substantially involved in a TC Transaction if the individual simply relies on the external legal advisers engaged by the TC Adviser in relation to requirements under the Codes on Takeovers.
- 2.2.6 The SFC may seek further details from corporations and individuals to substantiate their submissions. The provision of false or misleading information in response to such a request is likely to constitute a criminal offence under the SFO and may also have implications for their fitness and properness.
- 2.2.7 For the avoidance of doubt, the requirements set out at paragraph 2.2.1 apply to TCROs as initial eligibility criteria only, and are not continuing requirements. However, TCROs should at all times ensure that they remain competent in their role as TCROs.
- 2.2.8 An individual who has ceased to act as a TCRO after having previously been approved as a TCRO will not be required to demonstrate that he or she has fulfilled the eligibility criteria as stipulated in paragraph 2.2.1, provided his or her new application is made within three years after ceasing to act as a TCRO.
- However, where such application is not made within the three-year period, the individual will be required to demonstrate that he or she satisfies the eligibility criteria to be approved as a TCRO stipulated in paragraph 2.2.1. This will be so irrespective of whether the individual has remained as an RO or an LR for RA 6 during the period after ceasing to act as a TCRO.
- 2.2.9 As itinerant professionals should not be ROs, they will not be eligible to act as TCROs.

3. Eligibility criteria for RA 6 LRs of TC Advisers

- 3.1 Subject to paragraphs 3.2 to 3.4, RA 6 LRs intending to engage in TC Transaction work are required to have passed HKSI LE Paper 17 not more than three years prior to and not later than six months after the date of their first engagement⁷⁷ in such work. For the avoidance of doubt, itinerant professionals and temporary RA 6 LRs are required to pass HKSI LE Paper 17 unless exempted under paragraphs 3.3 or 3.4.
- 3.2 Individuals who are TCROs are exempted from passing HKSI LE Paper 17.
- 3.3 Subject to paragraph 3.4, individuals who have engaged in TC Transaction work as an RA 6 LR in at least one completed TC Transaction throughout the duration of that transaction within the three years preceding ~~the effective date of the TC Adviser Guidelines~~ 1 January 2022 are exempted from passing HKSI LE Paper 17.

⁷⁷ "First engagement" refers to the first time that an individual is engaged in a TC Transaction as a member of a Transaction Team following 1 January 2022 ~~the effective date of the TC Adviser Guidelines~~.

- 3.4 Individuals who have passed HKSI LE Paper 17 or are exempted from taking the examination will not be required to take the examination again unless the individuals cease to be licensed for RA 6 for more than three years.
- 3.5 No extension will be granted for taking HKSI LE Paper 17. Individuals who fail to pass HKSI LE Paper 17 before the expiry of the six month period are prohibited from engaging in any TC Transaction work until they have passed the examination.

4. CPT Requirements

- 4.1 Individuals who advise on matters or transactions falling within the ambit of the Codes on Takeovers should also refer to the additional requirements set out in paragraph 5.3(b) of the Guidelines on CPT.



Guidelines on Continuous Professional Training

January 2022

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1. Introduction

- 1.1 In a fast changing and highly competitive financial market, persons engaging in regulated activities should continuously update their knowledge and skills through continuous professional training (CPT) in order to maintain their professional competence to remain fit and proper.
- 1.2 The spirit of the CPT requirements is to ensure that a person engaging in regulated activities remains “fit”, by undergoing training that enhances his or her technical skills and professional expertise, and “proper”, by periodically refreshing himself or herself about the relevant ethical standards and regulatory knowledge.
- 1.3 The Guidelines on Continuous Professional Training (Guidelines) are published under section 399 of the Securities and Futures Ordinance, Cap. 571 (SFO) by the Securities and Futures Commission (SFC). They provide general guidance for persons to comply with the CPT requirements.
- 1.4 The Guidelines do not have the force of law and should not be interpreted in a way that would override the provisions of any applicable laws, codes or other regulatory requirements. Failure to follow these Guidelines may reflect adversely on the fitness and properness of a person to continue to carry on the regulated activities.
- 1.5 The Guidelines should be read in conjunction with the Fit and Proper Guidelines and the Guidelines on Competence.

2. Application and interpretation

2.1 The Guidelines are applicable to the following persons carrying on any regulated activities under Part V of the SFO:

- (a) a licensed corporation (LC);
- (b) a registered institution (RI);
- (c) a licensed representative (LR);
- (d) a licensed representative who is approved as a responsible officer (RO);
- (e) a relevant individual (ReI) whose name is entered in the register maintained by the Hong Kong Monetary Authority (HKMA) under section 20 of the Banking Ordinance; and
- (f) a person who has been given consent to act as an executive officer (EO) of an RI under section 71C of the Banking Ordinance.

2.2 For the purposes of the Guidelines, persons in paragraphs 2.1(a) and (b) above are named “corporations” while persons in paragraphs 2.1(c), (d), (e) and (f) above are known as “individuals”.

3. Objectives of CPT

- 3.1 CPT is the systematic maintenance, improvement and broadening of knowledge and skills to enable individuals carrying on regulated activities to perform their duties competently and professionally. The objectives of the CPT programme are:
- (a) to maintain and enhance their technical knowledge and professional expertise;
 - (b) to provide reasonable assurance to investors at large that they have the technical knowledge, professional skills and ethical standards required to perform the regulated activities efficiently, effectively and fairly; and
 - (c) to maintain and enhance Hong Kong's international reputation for high professional standards.
- 3.2 The SFC takes the view that the objectives of CPT could not be achieved solely through work experience or on-the-job training. It will generally be necessary for individuals to undertake CPT if they are to remain fit and proper.
- 3.3 The requirements for CPT will vary according to the size and nature of the business and the nature of the responsibilities to be undertaken by an individual. Rather than mandating particular programmes, these Guidelines describe the general attributes of the CPT programme.
- 3.4 LCs, ROs and LRs are required to confirm their compliance (or explain non-compliance) with the applicable CPT requirements annually with the SFC. SFC licensees shall provide such confirmation for the previous calendar year when they submit their annual returns electronically¹.
- 3.5 Failure to satisfy any applicable CPT requirements will cast doubt on the fitness and properness of corporations and individuals to remain licensed or registered and may lead to disciplinary action by the SFC or the HKMA (as the case may be). Nevertheless, the SFC or the HKMA will adopt a pragmatic approach taking into account the circumstances and the facts of the breach before taking any action.

¹ For example, in their electronic submission ~~of~~made with an annual return ~~with an anniversary date~~ in 2020, they would confirm their compliance (or non-compliance) with the CPT requirements for calendar year 2019.

4. Requirements for corporations

- 4.1 Corporations are held primarily responsible for planning and implementing a continuous education programme best suited to the training needs of the individuals they engage which will enhance their industry knowledge, skills and professionalism. The apportioning of training costs will be a matter between the corporations and the individuals.
- 4.2 Corporations should at least annually evaluate their training programmes and make commensurate adjustments to cater for the training needs of the individuals they engage.
- 4.3 In developing the training programmes, consideration should be given to the corporation's size, organisational structure, risk management system and scope of business activities as well as the prevailing regulatory framework and market development.
- 4.4 The training programmes can be provided internally or the corporations can make use of appropriate external sources. In selecting training courses, corporations should satisfy themselves of the quality of the trainers and the standard of the training programmes. They should also ensure that the contents of such courses are appropriately structured and of benefit to the individuals in performing their functions. Subjects which are relevant to the individuals' functions and may help to enhance the performance of their functions would meet the CPT purpose.
- 4.5 Neither the SFC nor its Academic and Accreditation Advisory Committee (AAAC)² would endorse any training courses, whether provided internally or externally.
- 4.6 Corporations should keep the details of the training conducted, the attendance records and materials provided for individuals who have completed the training.
- 4.7 Sufficient records of the programmes and the CPT activities undertaken by the individuals should be kept for a minimum of three years and be made available for inspection or upon request by the SFC (for training undertaken by LRs and ROs of LCs) or the HKMA (for training undertaken by Rels and EOs of RIs).

² The AAAC is comprised of representatives from the SFC, the industry and academic institutions. It regularly reviews the CPT requirements to ensure that they meet general market needs and international standards and considers applications as recognised institutions for CPT purposes (see paragraph 8 below).

5. Requirements for individuals

- 5.1 Individuals must remain fit and proper at all times. One of the criteria is that an individual is continuously competent to perform the regulated activities. The SFC considers that an individual's competence may be achieved by undertaking training that enhances his or her technical skills, professional expertise, ethical standards and regulatory knowledge.
- 5.2 An LR or ~~a~~Rel must undertake a minimum of 10 CPT hours per calendar year (regardless of the number and types of regulated activities he or she engages in). In view of the higher level of responsibility and accountability placed on ROs or EOs, they are required to take two additional CPT hours (ie, at least 12 CPT hours per calendar year). These two CPT hours should cover topics relating to regulatory compliance.
- 5.3 An individual should attend at least five CPT hours per calendar year (out of the 10 hours for LRs and Rels and 12 hours for ROs and EOs) on topics directly relevant to the regulated ~~activity or~~ activities³ for which he or she is licensed at the time the CPT hours are undertaken. As a general principle, such CPT hours should be allocated to cover the practice areas of the individual in proportion to the time and effort that he or she spends in each area. In addition, the following two types of individuals are required to comply with specific requirements:-
- (a) Individuals who engage in the sponsor work of a corporation are required to attend training on topics which are relevant to their sponsor work, eg, relevant skills and knowledge of the regulatory rules and their changes. Training on these topics should amount to at least 2.5 CPT hours per annum.
 - (b) Individuals who engage in Codes on Takeovers⁴ transaction work for a corporation are required to attend training on topics which are relevant to their Codes on Takeovers advisory work, eg, relevant skills and knowledge of the regulatory rules and their changes. Training on these topics should amount to at least 2.5 CPT hours per annum.

For the avoidance of doubt, the specific requirements set out in paragraph 5.3(a) and (b) can be counted towards the five CPT hours on topics directly relevant to the regulated activities for which the individual is licensed. Moreover, for an individual whose RA licence changes during the calendar year, it is reasonable that these five CPT hours be on topics which are directly relevant to the regulated activities for which he or she is licensed at the time.

- 5.4 Within the 12 months after a person first becomes an individual as defined in paragraph 2.2, that person must undertake two CPT hours on "ethics", which include, but are not limited to, topics relating to integrity, fairness, due care and diligence, good faith, objectivity, best interests of clients, treating clients fairly, avoidance of conflicts of interest and confidentiality of clients' information. Thereafter, he or she is required to complete at least two CPT hours per calendar year on topics relating to ethics or compliance. Topics relating to "compliance" include, but are not limited to,

³ Such as applicable compliance, legislative and regulatory standards, business conduct, market developments, new financial products and risk management systems.

⁴ "Codes on Takeovers" refers to the Codes on Takeovers and Mergers and Share Buy-backs.

the legal and regulatory framework for the financial industry, codes of conduct and industry guidelines issued by regulatory authorities, as well as policies and guidelines set out by individual corporations internally or by other professional bodies.

- 5.5 For the avoidance of doubt, an individual who first joins the industry can count the mandatory two CPT hours on ethics towards the annual CPT requirement set out in paragraph 5.4. However, they cannot be counted towards the two additional CPT hours required of ROs and EOs set out in paragraph 5.2 nor be used to meet the CPT requirements for conditional exemption of recognised industry qualification and the local regulatory framework paper requirements.
- 5.6 Individuals are also required to retain appropriate records of all CPT activities completed in a calendar year. Documentary evidence sufficient to support their attendance or completion of the CPT activities such as certificates of attendance issued by the course providers and examination results should be kept by the individuals for a minimum of three years. The SFC may request LRs and ROs of LCs, and the HKMA may request Rels and EOs of RIs, to produce such documentary evidence as and when required.
- 5.7 The SFC or the HKMA (as the case may be) may impose a higher CPT hours requirement under certain circumstances, such as, a person seeking exemption from meeting the recognised industry qualifications or completing a recognised local regulatory framework paper. Please refer to the Guidelines on Competence for details of the exemption criteria and the additional CPT hours required.
- 5.8 Several practical issues regarding the accumulation of CPT hours are set out in the following paragraphs.
- (a) The CPT hours required for an individual⁵, who is first licensed during the year, can be applied pro-rata with reference to the licensed period⁶. For example, if an individual was granted a licence as an LR a representative on 1 July, the total number of CPT hours required of him or her for the calendar year would be five (ie, one half of the annual CPT requirement for LRs).
- (b) The training courses attended prior to the date of licence but within the same calendar year can be counted as CPT hours. This would include study hours for fulfilling competence requirements if a pass in the relevant examination is proven.
- (c) When an individual changes his or her employer within the same calendar year, he or she can carry forward his or her CPT hours undertaken at the previous employer. The new employer does not need to get the CPT information from the previous employer. It can rely on the declaration and the documentary evidence provided by the individual.

⁵ Including the (i) 10 CPT hours per calendar year for LRs, Rels, ROs and EOs; (ii) additional two CPT hours on regulatory compliance for ROs and EOs; (iii) five CPT hours on topics directly relevant to the RAs in which an individual engages; and (iv) two CPT hours on topics relating to ethics or compliance.

⁶ Except for the one-off mandatory requirement of two CPT hours on ethics required of new joiners as set out in paragraph 5.4.

- (d) It is not necessary for an individual to apportion his or her CPT hours undertaken in accordance with his or her periods of employment with the previous and new employers.
- (e) The new employer will not be accountable for the non-compliance of the individual who has not undertaken enough CPT hours at his or her previous employer. Thereafter, it has to ensure that the individual meets the annual CPT hours requirements, ie, 10 CPT hours for LRs or Rels, or 12 CPT hours for ROs or EOs.
- (f) Excess CPT hours accumulated in one calendar year cannot be carried forward to the following year.

6. Relevant activities

- 6.1 CPT hours are time spent by individuals in undertaking CPT activities. The CPT activities should be relevant to the functions to be performed by them⁷ and should incorporate significant intellectual and practical content and involve interaction with other persons.
- 6.2 The following are acceptable means of obtaining CPT:
- (a) attending courses, workshops, lectures and seminars⁸;
 - (b) distance learning which requires submission of assignments;
 - (c) self-study or online learning courses⁹;
 - (d) industry research;
 - (e) publication of papers;
 - (f) delivery of speeches⁸;
 - (g) giving lectures or teaching⁸;
 - (h) providing comments to industry consultation papers;
 - (i) attending meetings or undertaking activities as members of the SFC's regulatory committees or formal working groups¹⁰; and
 - (j) attending luncheon talks which normally last for one to two hours in total (0.5 hour will be counted).
- 6.3 Normal working activities, general reading of financial press or technical, professional, financial or business literature and activities which do not involve interaction with other persons will generally not be regarded as CPT activities.

⁷ See paragraph 5.3 above for specific requirements.

⁸ Both face-to-face and virtual formats are acceptable.

⁹ Independent assessments (such as evaluation or test results) and sufficient records are required to demonstrate fulfilment and duration of training.

¹⁰ Formal working groups set up for the purpose of making decisions on a predetermined subject, meetings of which are presided over by a chairman and with minutes.

7. Relevant topics

- 7.1 Individuals are required to remain fit and proper to perform their functions at a professional level. Relevant topics for individuals at the LR or Rel level include:
- (a) applicable compliance, legislative and regulatory standards¹¹;
 - (b) business conduct and ethical standards¹²;
 - (c) market developments, new financial products and risk management systems;
 - (d) business communication skills and trade practices;
 - (e) general law principles;
 - (f) basic accounting theories;
 - (g) fundamental economic analysis;
 - (h) Fintech;
 - (i) environmental, social and governance (ESG);
 - (j) cybersecurity; and
 - (k) information technology.
- 7.2 Relevant topics for ROs or EOs who play a crucial role in ensuring effective corporate governance and control may, in addition to the above topics, include the following:
- (a) business management;
 - (b) risk management and control strategies;
 - (c) general management and supervisory skills;
 - (d) macro and micro economic analysis; and
 - (e) financial reporting and quantitative analysis.
- 7.3 The topics listed above are only examples and are by no means exhaustive.
- 7.4 Generally speaking, language courses cannot be counted as CPT. Management training can be counted towards CPT if the training assists in enhancing the person's ability to carry out the regulated activities.
- 7.5 Seminars given by the SFC pertaining to regulatory updates and other relevant topics can be counted towards CPT.
- 7.6 Repeatedly undertaking the same CPT activity with the same content will not satisfy the requirements.

¹¹ See paragraph 5.4 above.

¹² See paragraphs 5.4 and 5.5 above.

8. Seeking approval as a recognised institution for providing CPT

- 8.1 The AAAC is responsible for endorsing applications from professional bodies and tertiary institutions to be recognised institutions for providing CPT.
- 8.2 Applications should be made to the Secretary of the AAAC in the “Application Form for Professional Bodies and Tertiary Institutions for Approval as a Recognised Institution”.
- 8.3 The criteria for approval as a recognised institution for providing CPT include the following:
- (a) it is an established professional body or institution with a track record of at least three years in providing training;
 - (b) it has and will develop training related to regulated activities;
 - (c) it has set up an independent committee, with representatives who are industry participants, to develop and ensure the quality of training;
 - (d) its training programmes are evaluated on an ongoing basis;
 - (e) the trainers are professionally qualified and have relevant industry experience;
 - (f) the training is interactive (self-study and online learning courses without assessments or examinations are not acceptable);
 - (g) it has attendance controls in place, including verification of the identity of the person attending the training, an audit trail to keep track of the duration of each person’s training and attendance records which are kept for at least three years; and
 - (h) attendance certificates are issued upon successful completion of training, eg, when an attendee achieves a pass in an assessment for an online learning course.
- 8.4 Recognised institutions for providing CPT are expected to notify the SFC if there are any material changes to the matters set out in paragraph 8.3 above. The SFC may, if necessary, monitor their CPT programmes and review their status as a recognised institution for providing CPT.
- 8.5 The AAAC has endorsed a list of recognised institutions for providing CPT. Institutions which provide recognised industry qualifications for competence purposes can also provide CPT courses. The list will be updated and posted on the SFC’s website as and when changes occur.
- 8.6 As mentioned in paragraph 4.5 above, neither the SFC nor the AAAC endorses CPT courses. Generally, it is expected that the contents of these courses would relate to the topics set out in paragraphs 7.1 and 7.2 above.
- 8.7 The AAAC will regularly review the CPT requirements to ensure that they meet general market needs and international standards.