

## Sounding Board



Dear Reader,

The global economic and financial environment is extremely challenging. There is much uncertainty and growing concerns of recession in advanced economies as banks in the West are particularly vulnerable to the sovereign debt situation and weakening economic prospects. Markets are experiencing huge volatility across various asset classes. As an investor, you need to stay vigilant during these challenging times and make sure that you understand how your investments may be affected.

It is increasingly common that investors hold diversified portfolios, spread across different products, asset classes and markets across the world. If you hold a diversified portfolio, be alert to changing economic, financial or political developments in local and overseas markets so that you may adjust your investment strategy accordingly.

With increasing market volatility, it is particularly important that you are aware of the risks that your investment portfolio is exposed to. Even the most simple investment products may expose you to risk. The risk is higher with products such as derivative warrants and equity-linked investments.

In addition, products such as structured funds and synthetic exchange-traded funds involve more than one counterparty because of swap arrangements and/or underlying assets. Make sure you understand the product structures and how changes in the creditworthiness of issuers and their counterparties may affect the market value of your investments.

But before making any changes to your portfolio, it is wise to find out as much as possible about the risks and features of the product you wish to switch to and the information on its issuer, guarantor and other counterparties. The websites of the stock exchange, listed companies, and other product issuers are readily available sources of information. Notices from your fund managers, bond or product issuers are also important sources for latest updates.

Always do your homework to safeguard your own interests before you invest or make changes to your portfolio. If in doubt about any aspect of an investment, check with your intermediaries and professional advisers.

To be forewarned is to be forearmed. Ask, understand and invest wisely.



Eddy Fong  
Chairman

## Contents

- Sounding Board
- Market Focus
- Words of Wisdom
- Case in Point
- IE Activities Planner
- Statspeak
- Jargon Buster
- Readers' Corner



*Why you don't get called to meet leveraged forex margins? Currency fluctuations can happen overnight. If you trade foreign exchange on margin accounts, make sure you don't let margins fall below accepted levels when you are sound asleep. Learn more from a real-life story in Case in Point.*





## Are you “fit” to trade shares on line?

In this day and age when Internet is so much a part of our daily life, many just heedlessly take its reliability for granted. But in the face of technological advances, even a highly secure environment could be vulnerable at times. As an investor, do you have the appetite to take this “intrinsic” aspect of Internet when you trade shares on line? That aside, are you aware of the relatively bigger role that you must play to do online trading as opposed to calling up a broker to place orders?



In much the same way as doing renovations DIY (ie, doing it yourself), you may be in for more responsibility – or even liability –

than you bargain for when you execute your own buy-sell orders of shares on the Internet. And if you are less than careful, under the worst-case scenario, you even may have to live with someone else’s mischief, irrespective of whether you have given your consent to such an action.

If you place your orders the conventional way, you call your account executive directly, who should be able to recognise you right away. But if you trade stocks on line, it is hard to prove your actual identity.

Let’s say in an extreme example of indiscretion, you allow your cousin to trade shares using your online account. Alas, he used your account to launder money, which is criminal. Who will be the first party the police or another relevant authority investigates? Almost certainly, it will be you, the account holder.

Besides, it is prescribed in the terms and conditions of most online financial services that an account holder duly safeguards his or her digital identity or be liable for the resultant loss or damage.

## How an online account may bind you

Online brokerages usually limit their responsibility to adopting reasonable measures to safeguard system security and to mitigate risks. A great deal of liability rests with you, the account holder.

- **Your liability for unauthorised actions:** If you give the account password to a third party, be that in the know or out of negligence, you will probably be held liable for the losses and consequences stemming from the unauthorised use.
- **Your accountability over self-inflicted errors:** Since an online brokerage merely acts on your instructions received through the systems, you are accountable for the content and timing of all orders placed. If you wish to withdraw or modify an instruction, the brokerage may try to do so, at discretion, provided that the transaction has not been executed. Meanwhile, you will be responsible for the costs incurred in any withdrawal or modification.
- **Your responsibility during system breakdown:** During trading hours, you may experience disruption with the online trading service or even stoppage related to system failure. If the problem is traceable to your own personal computer, then you have absolutely no recourse as you are fully responsible for the reliability of your own trading interface. Even if it is the trading platform itself or its connection that has broken down, the online brokerage still can disclaim liability to the extent of the terms and conditions set in the client agreement. You are fully responsible for the lost opportunities, if orders

cannot be placed during such a system breakdown.

- **Your timely response to maintain margin levels, etc:** Without the assistance of a human broker, you certainly must stay on top of margin requirements and corporate actions. No account executive will call to urge you to maintain your margin positions or to remind you of the important deadlines for various corporate events of your stock holdings. You must monitor your investment positions yourself, using just the online platform.

Therefore, when deciding on whether to trade through a traditional brokerage or self-service online platform, please consider your computer-literacy, the reliability of your Internet access, and more importantly your self-discipline.

### How to mitigate the risks to trade on line

- **Never let a third party trade via your account:** This is the golden rule, regardless of what trading channel you are using. You know that being the account holder may not entitle you necessarily to share the profit of a third-party transaction but you definitely bear liability to some extent.
- **Ensure the authenticity of the brokerage's website:** Bogus websites are a prevalent trick used by many fraudsters. Avoid entering a brokerage's website via links posted on search engines or other websites. Always key in the website address carefully for the first time and bookmark it in your browser for future use.
- **Don't log in via a public computer:** Your log-in information is like a key to your safe. Bear in mind not to access your trading account via a public terminal. Nowadays, spyware or keystroke-logging software can be installed readily to steal your personal information.
- **Keep your password safe:** Select a password that is difficult to guess and change it on a regular basis. Do not disclose it to anyone, including your

broker. Furthermore, you should protect your personal computer by installing anti-virus and other security software.

- **Check account statements ASAP:** No matter which means you use to trade, you should always check your account statements as soon as you receive them. This allows you to inform your brokerage as soon as practicable about any errors or unauthorised transactions. Some online brokerages offer electronic statements only. If in doubt, contact your brokerage.



On your part, keep proper record of your trading instructions/modifications, trade confirmation and correspondence with the brokerage, etc. (For more tips on how to track trading records and safeguard your investments, please also read this issue's "[Words of Wisdom](#)" column.)

- **Backup plans:** Always keep the trading hotline handy and contact your brokerage immediately in case of a trading disruption or other emergencies. Make it a point also to find out about your brokerage's contingency plan and know exactly how to trade via alternative means when trading on line is not doable.

A number of new articles have been published on our InvestEd website to help you trade stocks on line wisely. Please read [them](#) on [www.InvestEd.hk](http://www.InvestEd.hk).

[See sidebar overleaf](#) >>>

## How to pick an online brokerage

In addition to conventional securities services, many brokerages also provide online self-service platforms as an alternate trading channel. Hong Kong alone has more than 300 online trading service providers.

As an investor, you are faced with many options. But regardless of what trading channels you prefer, you must first evaluate your needs and shop around for a brokerage that is suitable for you. The following checklist may help you go through the process:

### Perform basic check common to all trading channels

#### Is the brokerage legitimate?

Any intermediary that carries out securities and futures business in Hong Kong must first obtain a licence from the Securities and Futures Commission (SFC) (or if it is a bank, it must be registered with the SFC). Online brokerages are no exception.

Before subscribing, verify an online brokerage's licensing status by looking up the [Public Register of Licensed Persons and Registered Institutions](http://www.sfc.hk) on the SFC website ([www.sfc.hk](http://www.sfc.hk)).

If the brokerage is incorporated overseas, check to see if it is authorised by the respective regulator of the jurisdiction where it is domiciled. A similar licensee list is usually available on any financial regulator's website so you can verify the legitimacy of an intermediary.

#### What are the service offerings?

In addition to handling your transactions, some brokerages also provide a blend of value-added services such as price quotes (real-time or delayed), market news, research reports, advisory and analytical tools, discretionary account and margin trading services. Those offering more services tend to cost more while the simplistic ones focusing solely on order taking usually charge less. Choose one that meets your needs.

#### What are the fees and charges?

General fees charged by a brokerage include brokerage commission, data fee, stock transfer fee, custodian fee and dividends collection fee. For some, brokerage commissions may vary from product to product, with different order types (eg, market versus limit orders), order sizes and order placing channels. For instance, online trading commission is usually lower than trading through your account executive as less service will be required of a brokerage under the self-service arrangement. Read the pricelist carefully and ask the brokerage if you are unsure of anything.

If you also subscribe to the value-added services, you should understand the features and price structure beforehand. You may be charged separately for the subscription of real-time price quotes and research tools and the management of discretionary account, etc.

### Run additional try-out for online platforms

#### Is the interface user-friendly?

Most online trading platforms feature demonstration or tutorials within the websites to familiarise investors with the various functions before they subscribe to the service. Check them out and choose one that works best with you.

## Words of Wisdom



## Keep track of your investment via paper trail

The other day a friend of mine grumbled about receiving numerous contract notes from his brokerage for his frequent stock trades. “Can I request them to stop wasting postage and stationery? I don’t have time to read them at all,” he asked aloud.

This friend certainly did not realise that a securities brokerage has a statutory duty to send him a contract note for every trade he conducts, as well as a statement of account every month. With the increase of computer usage, brokerages may post these trading documents on their websites, subject to appropriate safeguards and obtaining prior client consent, instead of sending a hardcopy by post or a soft copy via e-mail. This friend, therefore, may ask his brokerage to put the documents on line or e-mail them to him. But regardless of the way you retrieve the documents, your part as a prudent and responsible investor is to pay them due attention. No matter how busy you are, review them to confirm the status of your securities-trading account.



### Keeping track of account movements

Take trading documents seriously as they show the position of your securities-trading account either in a snapshot or over a period of time. Contract notes show the particulars of each transaction conducted in your account, eg, securities name, quantity, price, date, fees and charges. Monthly statements provide securities and cash balances of your account, as well as all movements in and out of your account during the reporting period.

These are the basic tools to monitor your account. Check to see if the information presented is correct. If you find discrepancies or query some of the information, contact immediately the settlement department of your brokerage, but not the account executive. The back office is the most appropriate party to verify what happened with your account.

If you find something suspicious, report it to the complaint officer of the brokerage. You can find the contact information of a licensed corporation’s complaint officer on the [Public Register of Licensed Persons and Registered Institutions](#) on the SFC website.

### Points to note in trading records

In addition to verifying the accuracy of information, please note the following about the paper trail:

- Brokerages are required to issue a contract note by the second business day after the trade and a monthly statement of each account by the seventh business day after the end of the reporting period. If the documents are not received or made available on time, contact your brokerage at once.
- Watch out for documents that seem “out of the ordinary.” Faxed copy, handwritten amendments, changes in presentation format and documents not printed on the brokerage’s letterhead are possible signs of something wrong. For one, stock prices and quantities may have been altered on a faxed copy and you wouldn’t even know. The brokerage should give you the original document.

- The brokerage may offer to “hold” your mail by keeping the trading documents at the brokerage for you to collect. Avoid such an arrangement unless you are going away for a length of time. If you do not review the documents as soon as they are issued, you could be creating an opportunity for interception and tampering for unscrupulous activities.
- Brokerages normally specify on trading documents the notification period (eg, 14 days, one month) during which clients should check and ask for amendments. Find out the notification deadline and don’t miss it. Avoid delay in contacting the brokerage for any discrepancies.

If the trading documents are in proper order, file them for future reference.

### **Respond in circularisation**

Sometimes brokerages may appoint an external party, usually an accounting firm, to conduct circularisation. As an important step of auditing, a circularisation aims at checking the completeness and accuracy of clients’ positions as recorded by brokerages. If you are among the sample picked to help with the spot checking, you will receive a statement of account detailing your account status (eg, cash position and account balance) and asked to confirm the accuracy of such positions.

Under the circumstance, check the information on the statement against your record before returning the signed confirmation to the designated party directly. Your response helps assess the accuracy and reliability of the brokerage’s records.

### **More tips for safe investing**

Looking up trading documents is important but is that all that you need to do to safeguard your interest when trading?

Brokerages are required to record the instructions and maintain telephone

recordings of client instructions for at least three months. To help maintain a proper audit trail, call only the designated phone numbers of your brokerage to place orders. Avoid ringing up your account executive on his/her mobile as your trading instructions are unlikely to be recorded. In case an argument arises out of the trade, you will be missing an important piece of evidence to prove your point.

In addition, don’t let anyone, including your account executive, use your account for his/her own trades. Also, think carefully before giving discretion to another person to trade with your account. As the account holder, you are fully responsible for the consequences of all trades conducted in your account, regardless of whether the orders were initiated by you or someone you appoint.

In case you hold a discretionary account that authorises your account executive to execute transactions on your behalf without your specific instruction, you should still closely monitor the activities conducted through your account. Raise questions and follow up with your account executive and brokerage immediately if you find that the performance of your account or the products traded is contrary to your original intention.

As I always say, read the terms of documents and make sure you understand them before signing on the dotted line. Never sign anything you don’t fully understand, or you may give up some of your rights.

Remember, you have a significant role to play to protect your own interest. It’s your money that is at stake.



*Dr Wise*

## Case in Point



## Why calls may not be made to meet leveraged forex margins

### Sample case

When the 9.0-magnitude earthquake hit Japan's northeast in March, setting off a 10-metre high tsunami, many around the world had expected the yen to weaken. But on the contrary, the yen rose sharply in the wee hours of the morning several days later, catching many investors off guard. These investors literally had "slept on it" when their account balance dropped below the margin requirement.

Investor B, who held short positions expecting the yen to fall, woke up to discover that his account was deep in the red and his leveraged foreign exchange (forex) positions closed without warning. Upset with a wrong call on margin borrowing turning into massive losses, Investor B called the SFC to complain angrily against his firm for failing to warn him before closing his margin positions.

### Margin calls not obligatory

Investor B is not alone in thinking that the firm is responsible for calling him to meet margin requirements in what is commonly known as a "margin call." But a closer look at the fine print of the agreement signed between the firm and the client reveals that the former has, in most cases, no obligation to give the latter a margin call. Clients themselves are ultimately responsible for the level of funds in their margin accounts and have to ensure that enough cash is in the account to settle trades or else risk their positions being closed.

Putting it another way, if they make margin calls, firms are doing it as a service to their clients. They are not bound to do.

### Higher risk from higher leverage

In Hong Kong, you can borrow up to 20 times the amount you invest to trade in leveraged forex contracts. This means putting down just 5% of the monetary value of an investment and borrowing the remaining 95% from the firm.

When funds in your margin account fall below 5% of the monetary value of the forex investment, however, you should top it up so



that it does not fall further. If you do not do that and your available cash position drops to below 3% of the value of investment, the firm could close out your position without prior notice.

To avoid unpleasant surprises, be extra vigilant when trading in leveraged forex contracts:

- Watch out for that point at which your account drops below the 5% threshold. If your position is close to the trigger level, top up the account or close the position.

- Evaluate the risks before taking on any margin borrowing. Play safe with the leveraging as potential gains or losses are greatly magnified by leveraging. Even the most minute price movements can have a great effect on the forex contract.

As seen in the case of Investor B, changes to a forex position can happen overnight. Coupled with the margin aspect, leveraged forex trading is not for the risk-averse. To avoid disputes over service expectation, you should know the terms in a client agreement regarding margin requirements and make sure your margin account is funded properly at all times.

### On the watch around the clock

Unlike securities or futures, trading in forex is practically a 24-hour, seven-day-a-week affair. Trading begins either at 6am or 7am<sup>1</sup> Monday, Hong Kong time, when markets in Australia open, continues through different time zones and countries throughout the week and throughout the world until Saturday when markets on America's West Coast close at 8am or 9am Hong Kong time.

<sup>1</sup> The difference in start and close times reflects the fact that some overseas markets adopt daylight savings time during the warmer seasons.

## IE Activities Planner



The following shows the investor education (IE) activities in the coming two months:



### Radio interview segments

From late October onwards, a series of 13 interview segments hosted by market commentator Wu Mang Ching will be aired on Metro Finance every Friday. Celebrities from all walks of life will share their investment experience over the eight-minute programmes. Meanwhile, SFC representative will point out the investment do's and don'ts based on their real-life lessons.



### Sales process booklet

This booklet introduces a series of new investor protection measures the SFC launched to strengthen the sales process of investment products since June 2010.

In plain language, the finer points of the measures in each stage of a product sale are illustrated by a story line. A series of six episodes are presented in the format of dialogues and photo-arrangement of dynamic drama scenes. A [printable version](#) is here for you to download.



### Revised investment products list

The "[Unit Trusts & Mutual Funds](#)" under the "Unlisted Products" category in our "List of Investment Products" has been revised to lend more transparency and to make it easier for investors to search for the different specialized schemes falling into Chapter 8 of the Code on Unit Trusts and Mutual Funds.



### New articles on ETF's disclosures

In light of the implementation of the latest disclosure requirements, new articles are available to help you understand the enhanced ETF disclosures and common underlying investments of synthetic ETFs. Click [here](#) to check them out.



### New articles about online investing

In addition to this issue's "Market Focus" column, new articles are available to help you trade stocks on line wisely. Get to know how to choose an online brokerage, your role and responsibilities during the trading process, and what to note when using an online platform to trade overseas stocks. Click [here](#) to learn more.

## Statspeak



### SFC licensees

No. of Licensees	As at 31/08/2011	As at 31/08/2010	% change
Licensed Corporations <sup>1</sup>	1,776	1,686	5.3
Individuals			
Representatives <sup>2</sup>	33,001	31,713	4.1
Responsible Officers <sup>3</sup>	4,957	4,565	8.6

<sup>1</sup> Licensed corporations refer to companies that are licensed with the SFC to carry out any of the regulated activities as defined under the Securities and Futures Ordinance, such as advising on or dealing in securities and futures contracts, leveraged foreign exchange trading and advising on corporate finance.

<sup>2</sup> Representative is an individual who is granted a licence by the SFC to carry on one or more than one regulated activity for a licensed corporation to which he/she is accredited.

<sup>3</sup> Responsible officer is a licensed representative who also is approved by the SFC as the person responsible for supervising the regulated activities of the licensed corporation to which he/she is accredited.

### New Alert List entries

The following unlicensed entities, suspicious websites, fake regulator and/or market operator have been added to our Alert List<sup>4</sup> in July and August 2011:

#### Unlicensed entities

- Alpha Trade
- Alternative Investments Advisors
- Affirmative Management Ltd
- Banner Commodities
- Butler Investment Managers
- Final Hurdle Ltd
- Gordon Group Services
- Hesketh Leihner
- HK Pacific
- HongKong Sega Bullion Limited
- ICAP Europe Ltd
- IN Commodities
- Institutional Equity Partners
- Intereast Securities Ltd
- Karway Transfer
- Master Vision Group of Banks
- Milton Financials
- Premier E-Finance
- Tsuen Wan International
- Waytung Global
- Westhorpe Capital
- Weissmuller and Sons
- Zenton Ltd

**Suspicious websites**

- www.cityindexfx.hk
- www.ftgoldexchange.com
- www.scbernstein.asia
- www.scb-hongkong.com
- www.yihehk.com
- www.yihe-HK.com

**Fake regulator and/or market operator**

- Beijing Futures Exchange

Total No. of entities on the Alert List (as at 31 August 2011) : 823

No. of new entries for the Alert List (July – August 2011) : 30

<sup>4</sup> Visit the Alert List for more details. Please note also that the names of the entities appear only in a single language as per the information available.

**Jargon Buster**

See below to learn more about financial terms and regulatory buzz words:

**Circularisation** – an exercise conducted by a party appointed by a brokerage (usually an accounting firm) to check the completeness and accuracy of client positions as recorded by the brokerage

**Discretionary account** – a securities account whereby the account holder has authorised in writing the licensed or registered person to carry out transactions for him/her without his/her specific instructions, except for following an agreed investment strategy and general direction

**Hold mail arrangement** – an arrangement whereby brokerages keep a client's trading documents (eg, contract notes, statements of account) on their premises for subsequent collection in person

**Margin account** – an account that allows the customer to borrow money from the firm to purchase securities/currencies. This differs from a cash account where the customer is required to pay the full amount due by the settlement date.

**Readers' Corner**

If you have read the "Words of Wisdom" column, then you shouldn't have any problem answering this question on how to monitor your investment via trading documents. Enter the quiz and you may even win a prize.



**Question:** Securities brokerages are required to issue a contract note to a client by...

**A:** the second business day after the trade.

**B:** the seventh business day after the trade.

[Click here](#) to submit your answer. From 21 September to 4 October, the first person of the day (starting from 9 am) to send us the correct answer will get a gift. Please note, however, that only one gift item will be awarded for the correct answer from the same person. Winners will be notified by e-mail.

In the July 2011 issue, we invited you to take a quiz to find out how well you understood new listings. Below is the correct answer.

**Question:** According to the article on new listings, what is the indispensable tool in helping you understand a new company?

- A: Analysts' research reports
- B: The prospectus

**Correct answer:** B. The prospectus

*A prospectus contains crucial information about the newly listed company. Reading it also will give you legal grounds should the prospectus be found to have contained misleading information later on.*

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The InvestEd Intelligence is available on the SFC's InvestEd website at <http://www.InvestEd.hk>.

Feedback and comments are welcome and can be sent to [InvestEd@sfc.hk](mailto:InvestEd@sfc.hk).

If you want to receive the InvestEd Intelligence by email, simply register for the Update Service on the InvestEd website and select "InvestEd Intelligence."

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