

# LEGISLATIVE COUNCIL BRIEF

## SECURITIES AND FUTURES COMMISSION ORDINANCE

### SECURITIES AND FUTURES COMMISSION (ANNUAL RETURNS) (AMENDMENT) RULES 2002

#### INTRODUCTION

1. The Securities and Futures Commission (“**the Commission**”) has made the Securities and Futures Commission (Annual Returns) (Amendment) Rules 2002 (“**the Amendment Rules**”) at the Annex.

#### BACKGROUND

2. Rule 2 of the Securities and Futures Commission (Annual Returns) Rules (Cap. 24 Sub. Leg.) (“**SFC (AR) Rules**”) requires every registered person<sup>1</sup> to submit an annual return to the Commission by completing the form specified in the Schedule to those rules (“**the Schedule**”). Submission has to be made on or before every anniversary of his registration.

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<sup>1</sup> A “registered person” is one who is registered under the Securities Ordinance (Cap. 333), the Commodities Trading Ordinance (Cap. 250), or both, as a dealer, dealing partnership, dealer’s representative, investment adviser, investment advisers’ partnership, investment representative, commodity trading adviser, commodity trading adviser’s representative, securities margin financier or securities margin financier’s representative.

3. There is a proviso to Rule 2 whereby, with the prior consent of the Commission, a registered person may submit a Commission- prescribed notice (“**the notice**”) confirming that the last annual return filed by him remains correct, thus saving the effort of filing a new return.

## **PROPOSAL**

4. The Commission proposes to –
  - (a) amend the Schedule by including new reporting requirements; and
  - (b) amend the proviso to Rule 2 of the SFC (AR) Rules by extending the circumstances in which the notice may be submitted instead of requiring annual returns in the prescribed form.

### *Amendment to Schedule*

5. From 1 April 2001, the Commission started to implement a Continuous Professional Training programme (“**CPT programme**”). This programme obliges all individual registrants to complete 5 hours of CPT every year and all corporate registrants to develop, provide and facilitate continuous training for their staff.
6. To facilitate the reporting and monitoring of compliance with the CPT programme, the Commission proposes to amend the annual return form

in the Schedule by adding reporting requirements regarding such compliance. More specifically, pursuant to the revised form –

- (a) Corporate registrants will have to declare if they have implemented a training programme for their staff and evaluated it at least once a year. They will also have to report whether all their registered staff have complied with the CPT requirements and whether sufficient records have been kept to indicate such implementation and compliance.
- (b) Individual registrants will have to declare whether they have completed the number of CPT hours in the last calendar year as required and whether they have kept sufficient records to indicate such compliance.

### *Amendment to Rule 2*

- 7. Pursuant to Rule 2, instead of filing an annual return in the form of the Schedule, a registered person may submit a notice confirming that the last annual return filed by him remains correct. Currently, only registrants who are participants of Commission’s Common Anniversary Date programme (“**CAD programme**”) may enjoy the simplified filing arrangement.<sup>2</sup>
- 8. Under the CAD programme –

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<sup>2</sup> Participation in the CAD programme is open to all registrants. However, it would not be practically sound for sole proprietors or small firms with only a few registrants to participate since their burden of submitting annual returns is not that heavy.

- (a) Corporate registrants and their registered group companies and staff may adopt a common date for submitting annual returns. This reduces the administrative burden for registrants who would otherwise have to submit annual returns of their respective registrations separately.
  - (b) Registered group companies and staff of a corporate registrant need only submit notices to it (ie the corporate registrant) confirming that their particulars, as submitted previously, remain correct. The corporate registrant will then collect all these notices and condense them into a single combined return to the Commission in a format prescribed by the Commission.
- 9. The simplified filing arrangement is possible under the current proviso to Rule 2. However, since the Schedule will be amended to incorporate reporting requirements regarding compliance with the CPT programme, any notice confirming that the last annual return filed remains correct will become inadequate given that no CPT reporting requirement was in place before.
- 10. We therefore need to amend the proviso in Rule 2 of the SFC (AR) Rules to allow registrants, which are CAD participants, to use the notice to –
  - (a) confirm that the particulars submitted in the last annual returns remain correct; and

- (b) submit a one-off confirmation reporting their compliance with CPT requirements.

Identical to the practice of submitting notices, corporate registrants will aggregate confirmations from their registered group companies and staff and submit a single combined return to the Commission.

## **THE AMENDMENT RULES**

- 11. The Amendment Rules amend the Securities and Futures Commission (Annual Returns) Rules to –
  - (a) include new particulars in the Schedule regarding compliance with the CPT requirements; and
  - (b) extend the proviso to Rule 2 to allow the continued use of the simplified filing arrangement even after introduction of the CPT reporting requirements in the Schedule, or any other new requirements that may arise.

## **PUBLIC CONSULTATION**

- 12. Public consultation regarding the CPT requirements was carried out in March 2000 and the result of the consultation was published in July 2000. The Commission subsequently issued a Guidance Note on Continuous Professional Training in December 2000, which sets out the

continuous training requirements expected of registrants and the means of reporting compliance. The Guidance Note was updated in June 2001 following the implementation of the CPT requirements in April 2001. Notification of the issue of this Guidance Note and the revised version was sent to all corporate registrants at the same time.

13. The Commission has sounded out industry bodies on the proposed amendments to the annual return form and the declaration arrangements. No adverse feedback has been received. In line with past practice, the Commission will be issuing letters to registrants reminding them to submit their annual returns, or in the case of registrants participating in the CAD programme, the prescribed notices. The Commission will take this opportunity to highlight the changes to the forms as a result of the new CPT reporting requirements introduced this year.

## **FINANCIAL AND STAFFING IMPLICATIONS**

14. There are no financial or staffing implications for the Government.

## **COMMENCEMENT DATE**

15. The Amendment Rules will come into operation on 15 March 2002.

## **PUBLICITY**

16. The Amendment Rules will be published in the Gazette on 1 February 2002. The Commission will issue a circular to registrants after the negative vetting by the Legislative Council but before the new requirements take effect.

## **ENQUIRIES**

17. For any enquiries on this brief, please contact Ms Thrity Mukadam, Senior Counsel of the Legal Services Division of the Commission, at 2840 9209 or Ms Pamela Chew of the Licensing Department of the Commission, at 2842 7632.

The Securities and Futures Commission

31 January 2002

**SECURITIES AND FUTURES COMMISSION (ANNUAL  
RETURNS)(AMENDMENT) RULES 2002**

(Made by the Securities and Futures Commission under section 34  
of the Securities and Futures Commission Ordinance (Cap. 24))

**1. Commencement**

These Rules shall come into operation on 15 March 2002.

**2. Rule substituted**

Rule 2 of the Securities and Futures Commission (Annual Returns) Rules (Cap. 24 sub. leg.) is repealed and the following substituted -

**"2. Registered persons to make annual returns**

(1) Subject to subrule (2), every registered person shall make an annual return to the Commission -

- (a) to be received by the Commission on or before each successive anniversary of the date of his registration under the Securities Ordinance (Cap. 333) or the Commodities Trading Ordinance (Cap. 250), as the case may be; and
- (b) in the form and containing the particulars specified in the Schedule.

(2) A registered person or a person acting on his behalf may, with the prior consent of the Commission, give notice in a form approved by it in lieu of an annual return in the specified form, stating -

- (a) any particulars required to be reported to the Commission as a result of any amendment to the



Schedule since the date of the last annual return made by that registered person; and  
(b) that the following particulars remain correct -

- (i) the particulars contained in the last annual return made by that registered person; and
- (ii) the particulars reported under paragraph (a)."

### **3. Schedule amended**

The Schedule is amended, in Part F, by adding immediately after paragraph 37 -

#### **"Part G: CONTINUOUS PROFESSIONAL TRAINING ("CPT")**

A registered person which is a corporation, partnership or sole-proprietorship ("registered corporation, partnership or sole-proprietorship") shall complete Division 1. A registered person who is an individual ("registered individual") (including a director, partner, sole proprietor and representative) shall complete Division 2.

\* Where the response to any question is "No", please explain the reasons and provide details of such non-compliance under Part D "SUPPLEMENTARY INFORMATION".

	Yes	No*
<p><i>Division 1: Registered corporation, partnership or sole-proprietorship</i></p>		
<p>38. State whether the registered corporation, partnership or sole-proprietorship has implemented a training programme to meet the training needs of its registered individuals</p>		
<p>39. State whether the registered corporation, partnership or sole-proprietorship has evaluated its training programme at least once during the last calendar year</p>		
<p>40. State whether all of the registered individuals of the registered corporation, partnership or sole-proprietorship have attained the required number of CPT hours during the last calendar year</p>		
<p>41. State whether the registered corporation, partnership or sole-proprietorship has maintained sufficient records as evidence of its training programme and the CPT activities undertaken by its registered individuals</p>		
<p>Note: The registered corporation, partnership or sole-proprietorship may be requested to produce the records for inspection</p>		
<p><i>Division 2: Registered individual (including director, partner, sole proprietor and representative)</i></p>		
<p>42. State whether the registered individual has attained the required number of CPT hours during the last calendar year</p>		
<p>43. State whether the registered individual has retained sufficient records of all his CPT activities undertaken during the last calendar year</p>		
<p>Note: The registered individual may be requested to produce the records for inspection</p>		
		<p>" .</p>

Andrew Len Tao SHENG  
Chairman,  
Securities and Futures Commission

January 2002

**Explanatory Note**

Rule 2 of the Securities and Futures Commission (Annual Returns) Rules (Cap. 24 sub. leg.) ("the Rules") requires a registered person to make annual returns to the Securities and Futures Commission ("the Commission") in the form and containing the particulars specified in the Schedule to the Rules or, in certain situations, in the form of a notice approved by the Commission.

2. Rule 2 of the Rules is amended by extending the situations in which notice may be given in lieu of an annual return in the specified form. The Schedule is also amended by including new reporting requirements relating to registered persons' continuous professional training obligations.