

December 11, 2002

SFC (Code of Conduct)  
12/F Edinburgh Tower  
The Landmark  
15 Queen's Road Central  
Hong Kong

Dear Sirs,

**Consultation on Proposed Revisions to the Code of Conduct for Persons Registered with the SFC**

I refer to the Proposed Revisions to the Code of Conduct for Persons Registered with the SFC and furnish you with my comments as follows:

**I. Schedule 1: Risk Disclosure Statements**

This schedule provides a detailed description of the following risk disclosure statements:

- Risk of Securities Trading
- Risk of Trading Futures and Options
- Risk of Trading in Leveraged Foreign Exchange Contracts
- Risk of Clients Assets Received on Held Outside Hong Kong
- Risk of Providing an Authority to Repledge your Securities Collateral etc.
- Risk of Margin Trading
- Risk of Trading Nasdaq-Anex Securities at the Stock Exchange of Hong Kong Limited
- Additional Risk Disclosure for Futures and Options Trading

In recent years, there are new developments and innovations in financial products and trading system. Hence, there are risks involved in the selling and distributing of those financial products or services. I suggest the following risk disclosure statements would also be added to this schedule:

- Risk of trading securities through Internet
- Risk of trading futures and options through Internet
- Risk of Collective Investment Schemes (i.e. Unit Trusts, Mutual Funds, etc.)
- Risk of hedge funds
- Risk of investment advising services

The addition of the above five risk disclosure statements will facilitate licensed or registered persons to handle recently developed financial products or services more effectively and to explain to their clients the appropriate risks in uniformity.

## II. Schedule 4: Other Requirements

These “other requirements” basically consist of circulars issued by HKFE from 1993 to 1999. A licensed or registered person is required to comply with such rules. However, most of the circulars are outdated and do not fall within the main purpose of the revision i.e. to rationalise the Code with the SFO and its rules. I endeavour to point out their deficiencies as follows:

(a) Circular 31/7/1998 (Ref. No. CIR/LEGAL/980274)

This 4 years old circular applied to Hang Seng 100 Futures/Options Contracts which were discontinued on 3 October 2001. This circular consists of two disclaimers, one for futures contract and the other for options contract and stipulates that the disclaimers are applicable to all HSI products developed by Hang Seng Data Services Limited. As a matter of fact, Hang Seng Data Services Limited has changed to Hang Seng Index Services Limited. I would suggest the Code of Conduct to specify more precisely what kinds of indices are now applicable to these disclaimers.

(b) Circular 8/5/1998 (Ref. No. CIR/Legal/980141)

It is noted that a licensed or registered person is required to distribute to its client a disclaimer under this circular for trading HKFE Taiwan Index or such other indices or proprietary products as may from time to time be developed by the HKFE. As trading of the HKFE Taiwan Index has been suspended, this circular needs revising.

I would recommend re-considering this circular with particular reference to present day products offered by the HKFE.

(c) Circular 7/12/93 (Ref. No. MEH/CIR/9312050/017)

This circular requests us to refer to the Exchange Rules 612 – 615 in relation to Omnibus Account. As a matter of fact, at present, only rule 613 of HKFE relates to Omnibus Account. Clarification is thus required.

(d) Circular 27/8/98 (Ref. No. CIR/CMP/980310)

This circular is a reminder of circular 3/3/97 (see below) only and can be considered as unnecessary.

(e) Circular 3/3/97 (Ref. No. AUD/9703001)

The “Interest Rate Cash Adjustment” has specifically been deleted in the Code of Conduct following the delisting of “One Day Rolling Currency Futures Contracts”. However, this circular still contains such term. In line with the objective of revising the Code of Conduct, this circular should also be amended.

(f) Circular 30/1/97 (Ref. No. CMP/CIR/9701010)

Basing on the following recent developments, I recommend that this circular should be modified:

1. “One Day Rolling Currency Futures Contracts” was delisted.
2. Commodities Trading (Position Limits and Trading Limits) Rules are now replaced by Securities and Futures (Contracts Limits and Reportable Positions) Rules.
3. New products, such as Mini-Hang Seng Index Futures and Options Contracts are not included.

(g) Circular 13/6/97 (Ref. No. MEM/CIR/9706036)

This circular was obsolete as NYMEX Contracts are no longer traded through NYMEX ACCESS.

(h) Circular 14/7/99 (Ref. No. CIR/CMP/990271)

This circular refers to large position reporting and should be read in conjunction with the Securities and Futures (Contract Limits and Reportable Position) Rules. Thus, the guideline under this circular should be revised to rationalise with the new regulatory environment.

(i) Circular 10/3/95 (Ref. No. MEM/CIR/9503029/023)

Any reference to obsolete ordinances such as CTO should be amended to coincide with the relevant section of the SFO.

In summary, I would suggest to revisit these circulars and produce a more meaningful guideline to licensed or registered persons.

### **III. Schedule 5: Additional Requirements for Licensed Persons Providing Margin Trading**

I would like to comment on paragraph 6 of this Schedule: Client Agreement.

This paragraph has an implied meaning that once a client signs a Margin Client Agreement, the account shall be specified as “margin account”.

However, in practice and in many cases, clients might sign a Margin Client Agreement for convenience sake only. They operate as “cash clients” until they request for a margin lending facility.

I am of the opinion that, execution of a Margin Client Agreement is not a prerequisite to become a “margin account”. The main concern should be, whether the client has actually borrowed money from the securities broker. I would therefore suggest amending the Code of Conduct to the extent that a client is required to acknowledge that he is a “Margin Client”. This means that he will not automatically become a margin client even if he has signed a Margin Client Agreement. In other words, all clients are “cash client” unless they specifically agree to be “margin clients” and intend to borrow money from the securities broker at that very moment.

Yours faithfully,

A handwritten signature in black ink, appearing to be the initials 'MH' with a stylized flourish.

Marcus Hung  
Executive Director  
Wocom Holdings Limited