Form

(Made for the purposes of compliance with the requirements of section 156(1)(a) of the Securities and Futures Ordinance (Cap.571) as amplified in section 3(1) of the Securities and Futures (Accounts and Audit) Rules (Cap.571P))

Business and Risk Management Questionnaire
For Licensed Corporation

Name of Licensed Corporation: ________________________________
("Licensed Corporation")

Financial year ended: ________________________________

Completed by:
Name: ________________________________ Position: ________________________________
Phone No.: ________________________________

Approved by:
Name: ________________________________ Position: ________________________________
Phone No.: ________________________________
Foreword

Licensed Corporations are required under the Securities and Futures (Accounts and Audit) Rules to complete a Business and Risk Management Questionnaire ("BRMQ") and submit it within 4 months after the end of the financial year to the Securities and Futures Commission ("SFC") together with their audited accounts. The BRMQ aims to obtain information about the business operation and risk management measures of the Licensed Corporation, including controls and procedures in ensuring compliance with the regulatory requirements applicable to the Licensed Corporation. The BRMQ may also be used as a self-assessment tool for the Licensed Corporation to understand its business operation and assess the relevant risk management measures and internal controls. The Licensed Corporation is expected to complete the questionnaire to the best of its knowledge in order to accurately reflect its own operations and controls.

The SFC recognises that Licensed Corporations may adopt different policies and procedures given significant differences that exist in the nature and scope of their business activities, organizational and legal structures as well as degree of management supervision. Therefore, the questions in the BRMQ are not intended to imply, nor should be construed as, a single set of generally acceptable internal control or risk management practices.

Space is provided in each section for the Licensed Corporation to supplement its answers with additional information. Please use additional sheets where required.

Unless defined or the context requires otherwise, terms bear the same meanings given to them in the Securities and Futures Ordinance. If you have any question in relation to this questionnaire, please contact your responsible case officer in the Intermediaries Supervision Department.

Completed BRMQ should be submitted to:

Intermediaries Supervision Department
Securities and Futures Commission
35/F, Cheung Kong Center
2 Queen’s Road Central
Hong Kong
Securities and Futures Commission

Business and Risk Management Questionnaire
For Licensed Corporation

I. Business Overview

1. Regulated activities undertaken during the year: (please tick where appropriate)

   (i) dealing in securities
   (ii) dealing in futures contracts
   (iii) leveraged foreign exchange trading
   (iv) advising on securities
   (v) advising on futures contracts
   (vi) advising on corporate finance
   (vii) automated trading services
   (viii) securities margin financing
   (ix) asset management
   (x) credit rating services

2. Business activities carried out by the Licensed Corporation during the year: (please tick where appropriate)

   (i) engage in proprietary trading: (If yes, please also answer Q35 to Q38)
      
      (a) securities
      (b) futures contracts
      (c) off-exchange derivative products
      (d) others (please specify)

   (ii) engage in short selling for:
      
      (a) its own account
      (b) clients

   (iii) engage in stock borrowing and lending for:
      
      (a) its own account
      (b) clients

Supplementary Information
Management and Supervision

3. Does the Licensed Corporation allow any staff to be involved in both the front office function (e.g. dealing) and back office function (e.g. settlement or accounting function)?

   Yes  No  N/A

   ☐  ☐  ☐

   If yes, please specify the controls to minimize the potential errors, conflicts or abuses.

4. Does the Licensed Corporation have policies and procedures for its major business activities?

   Yes  No  N/A

   ☐  ☐  ☐

5. Does the management of the Licensed Corporation review the business and management and/or exception information or reports relating to the following business areas?

   (i) overall business performance
   (ii) safeguarding of client assets
   (iii) monitoring of liquid capital position

   Yes  No  N/A

   ☐  ☐  ☐

   If yes, how frequently does the management review the following areas?

   (i) overall business performance
   (ii) safeguarding of client assets
   (iii) monitoring of liquid capital position

   ☐  ☐  ☐

Branch Operation (only apply to a Licensed Corporation with branch(es) operated in Hong Kong)

6. (i) The branch(es) of the Licensed Corporation is/are directly responsible for the following areas:

   (a) account opening
   (b) safeguarding of clients’ assets
   (c) dealing
   (d) credit control
   (e) settlement e.g. cash-stock deposit or withdrawal
   (f) delivery of contract notes, statements of account and receipts
   (g) handling of clients’ complaints

   Yes  No  N/A

   ☐  ☐  ☐

   (ii) The branch(es) of the Licensed Corporation is/are subject to:

   (a) head office management onsite visit
   (b) internal audit review
   (c) compliance review

   Yes  No  N/A

   ☐  ☐  ☐

   If yes, please state the frequency of

   (a) head office management onsite visit
   (b) internal audit review
   (c) compliance review

   ☐  ☐  ☐
II. Risk Management

Operational Risk

Handling of Client Accounts

7. Does the Licensed Corporation have procedures which are designed to obtain information (where required by applicable codes and other regulations) about its clients’

(i) identity?
(ii) financial background?
(iii) investment experience?
(iv) investment objective?

8. Does the Licensed Corporation have procedures which are designed to ensure that amendments of client details (e.g. correspondence address) are

(i) supported with client’s written instruction?
(ii) checked by a staff who is independent of the front office?

9. Does the standard client agreement of the Licensed Corporation provide a right of disposal in the event that the client cannot settle his liability owed to the Licensed Corporation?

10. Does the Licensed Corporation allow its clients to give written authorisation so that its staff can

(i) place orders and/or
(ii) settle transactions and/or
(iii) receive contract notes, statements of account and receipts for them?

If yes, please specify the number of clients whose such written authorisation(s) remain valid as at the end of the financial year.
(ii) how frequently does the management perform review of activities in such accounts?

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
</table>

11. Does the Licensed Corporation have any clients who are professional investors?

If yes, please specify the number of clients who are professional investors as at the end of financial year.

12. Does the Licensed Corporation have any clients who have given hold mail instruction to the Licensed Corporation?

If yes,

(i) please specify the number of such clients as at the end of the financial year.

(ii) does the Licensed Corporation have procedures which are designed to

(a) obtain or renew written hold mail instruction from client?

(b) verify the client’s signature on the instruction against the signature record by a staff who is independent of the front office?

(c) require the client or person authorized by him to acknowledge the collection of the client’s contract notes, statements of account and receipts?

Supplementary Information

Dealing Practices

13. Does the Licensed Corporation allow its staff to receive order from clients by the following ways?

(i) face-to-face on the office premises

(ii) in writing (e.g. fax)

(iii) by fixed line phone

(iv) by mobile phone

(v) via electronic means (e.g. internet, WAP phone etc.)

(vi) others (please specify) ________________________________
14. Does the Licensed Corporation time-stamp dealing record to record the time including time record generated by computer system when an order

   (i) was received?
   (ii) was placed for execution?
   (iii) was executed/confirmed by counterparties or exchanges?

15. Does the Licensed Corporation allow its staff to deal in securities or futures contracts or other financial products for their own accounts through

   (i) the Licensed Corporation itself? and/or
   (ii) other intermediaries?

   If yes, please state the frequency of monitoring the staff trading activities by the Licensed Corporation.

16. Please specify the procedures in place to ensure trades are fairly allocated to clients (e.g. first come first serve, pro-rata etc), particularly in cases of partially filled orders.

17. Does the Licensed Corporation have procedures which are designed to ascertain whether the transactions carried out on a discretionary basis (including collective investment schemes and portfolios held for discretionary accounts) by the Licensed Corporation or its staff are in accordance with investment guidelines/objectives and restrictions agreed by the client with the Licensed Corporation?

   If yes, please specify the procedures.

18. Does the Licensed Corporation have procedures which are designed to ensure that cross trades are properly executed in accordance with relevant regulatory requirements and reviewed by management on a regular basis?

   If yes, please specify the procedures.

**Supplementary Information**
Asset Protection

Bank and Cash

19. (i) How frequently does the Licensed Corporation perform bank reconciliations for

(a) segregated account?
(b) other bank account?

(ii) How promptly are the discrepancies in the bank reconciliation followed up?

(Questions 20 to 24 below are applicable to a Licensed Corporation which receives or holds client money in Hong Kong)

20. Does the Licensed Corporation have the following procedures which are designed to ensure that all payments involving client money are appropriately processed by

(i) obtaining proper instruction from client? Yes No N/A
(ii) verifying the client’s signature on the instruction against the signature records by a staff who is independent of the front office? Yes No N/A
(iii) if the instruction is provided in the form of an electronic record, ensuring that the requirements in the Electronic Transactions Ordinance are satisfied? Yes No N/A
(iv) checking the availability of funds in the client account? Yes No N/A
(v) obtaining management approval? Yes No N/A
(vi) ensuring payment is only made to the client or any person to whom the client has instructed in writing the money to be paid? Yes No N/A

21. Does the Licensed Corporation issue cash or third party cheques for making payments to clients relating to its regulated activities? Yes No N/A

If yes, before issuing cash or third party cheques, does the Licensed Corporation require to obtain

(i) written client authorization? Yes No N/A
(ii) management approval? Yes No N/A

22. (i) Does the Licensed Corporation accept third party cheques deposited by clients including cheques drawn out by staff for settlement of clients’ purchases or indebtedness to the Licensed Corporation? Yes No N/A

(ii) Does the Licensed Corporation have procedures which are designed to identify third party cheques received by the Licensed Corporation (other than the cheques which are deposited by clients into the Licensed Corporation’s bank account directly)? Yes No N/A
23. Does the Licensed Corporation have procedures which are designed to ensure that cheque / money deposited by a client is correctly credited to the respective client account as instructed?

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24. Does the Licensed Corporation allow transfer of account balances among different clients?

If yes, does the Licensed Corporation have procedures to check that such transfers are appropriately processed?

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Supplementary Information

Securities (Questions 25 to 30 below are only applicable to a Licensed Corporation which receives or holds client securities in Hong Kong)

25. Does the Licensed Corporation have any clients who utilize the following services provided by Hong Kong Securities Clearing Company Limited when they deal with the Licensed Corporation?

<table>
<thead>
<tr>
<th>Service</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stock Segregated Account with Statement Service</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investor Participant Account</td>
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</tbody>
</table>

No. of clients as at the end of the financial year

26. Does the Licensed Corporation hold physical scrip for clients?

If yes,

(i) are the securities registered in the name of the following person/organisation?

(a) client

(b) Licensed Corporation (in case of securities collateral)

(c) Associated Entity of the Licensed Corporation

(d) HKSCC Nominees Limited

(e) others (please specify)

(ii) does the Licensed Corporation have procedures which are designed to restrict access to where such securities are kept?

(iii) please specify the frequency of performing physical stock count.

(iv) does the Licensed Corporation have procedures to record the movements of physical scrip?
27. (i) How frequently does the Licensed Corporation perform stock reconciliation?
   (ii) How promptly are the discrepancies in the stock reconciliation followed up?

28. Does the Licensed Corporation obtain standing authority from clients to pledge, lend or otherwise deal with clients’ securities and/or securities collateral?
   If yes,
   (i) is there a log to ensure that all authorizations remain currently in force?
   (ii) is there a procedure to ensure that client securities are repledged or lent only if there is valid authorization?

29. Does the Licensed Corporation have procedures which are designed to require clients to provide proof of ownership if the clients deposit physical scrip with the Licensed Corporation?

30. Does the Licensed Corporation allow transfer of securities among different clients?
   If yes, does the Licensed Corporation have procedures to check that such transfers are appropriately processed?

Supplementary Information

Credit Risk

31. Does the Licensed Corporation have procedures which are designed to assess and monitor the credit status of each client or counterparty?

32. Does the Licensed Corporation have policies and procedures in relation to the following areas?
   (i) making a margin call or a repayment demand to a client in a timely manner
   (ii) dealing with the consequence of a client’s failure to meet a margin call or a repayment demand
   (iii) regular exception reporting to the management
   (iv) compulsory closing out a client's position
   (v) record keeping for margin calls or repayment demands
   (vi) regular review of lending ratios on securities accepted by the Licensed Corporation

33. Are clients or counterparties allowed to trade even when there is a significant unsettled transaction or long overdue balance (except for the rolling balance cash clients and margin clients with adequate collateral)?
If yes, please specify the control procedures and follow up actions taken with these clients or counterparties.

__________________________________________________________________________________________

Yes No N/A

34. Does the Licensed Corporation have procedures to manage any concentration in the following exposures and report to management on a regular basis?

(i) exposures to a particular client or group of related clients
(ii) exposures to a particular counterparty or group of related counterparties
(iii) exposures to a particular investment product

If yes, please state the frequency of management review.

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Supplementary Information

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Market Risk

35. Does the Licensed Corporation have policies and procedures relating to the following areas of its proprietary trading?

(i) clearly defined trading authority
(ii) setting up trading and exposure limits
(iii) management supervision to ensure proprietary trading is within limit
(iv) measures to be taken in case of exceeding the limits and applicable sanctions
(v) hedging strategy for its proprietary trading positions
(vi) performing regular stress testing to quantify the impact from changing market conditions

36. Does the Licensed Corporation establish a risk management function for the following areas?

(i) performance evaluation
(ii) price verification
(iii) model risk monitoring
(iv) risk management methodology and system
(v) new products

If yes to any questions above, is the risk management function

(i) staffed by employees with relevant knowledge and experience?
(ii) independent of the front office and reports directly to senior management?

37. Does the Licensed Corporation adopt any risk pricing model, e.g. Value at Risk, Economic value of Equity Models, etc., as primary risk measurement and management tool?
If yes, does the Licensed Corporation have policies and procedures for

(i) testing and authorization of risk pricing models and valuation systems used by front and back office personnel? □ □ □
(ii) controlling any alteration, release, update and maintenance of the risk pricing model? □ □ □
(iii) verification of accuracy of the risk pricing model through regular back testing programme? □ □ □

38. Does the Licensed Corporation have information available for the management to monitor the following areas of its proprietary trading?

(i) profit and loss □ □ □
(ii) exposure level □ □ □
(iii) value-at-risk □ □ □
(iv) limit utilization □ □ □
(v) stress test/simulation □ □ □
(vi) risk adjusted performance □ □ □

Liquidity Risk

39. How frequently does the Licensed Corporation project

(i) cash flows?
(ii) settlement obligations?

40. Does the Licensed Corporation have procedures designed to alert the management and the staff responsible for liquidity management to

(i) any potential material shortfall of any sources of funding available to the Licensed Corporation (e.g. client default in settlement, a drop in bank credit line)? □ □ □
(ii) any potential material increase in the Licensed Corporation’s funding requirements (e.g. marks payment)? □ □ □

41. Please state the frequency of review of the available funding by the management.

Supplementary Information
Compliance Risk

42. Does the Licensed Corporation have a designated function overseeing and handling the following areas?

(i) client’s complaints  
(ii) regulatory compliance  
(iii) money laundering  
(iv) continuous professional training requirement

If no, please state the alternative arrangement:

43. Does the Licensed Corporation have the following functions?

(i) internal audit  
(ii) compliance

If yes, please specify the reporting line of the internal audit and/or compliance function.

44. Has the Licensed Corporation received any serious client complaints relating to the following areas in the last 12 months alleging

(i) non-receipt of receipt(s), contract note(s) and/or statement(s) of account?  
(ii) unauthorized transactions?  
(iii) incorrect account balances and/or stock holding on statement(s) of account (except for disputes over price and fee charges)?

Derivative Position and Reporting Limits

45. Does the Licensed Corporation have procedures which are designed to ensure compliance with the following rules?

(i) the Securities and Futures (Contracts Limits and Reportable Positions) Rules  
(ii) reporting limits requirements of Hong Kong Futures Exchange Limited  
(iii) position and reporting limits requirements of the Stock Exchange of Hong Kong Limited in respect of Exchange Traded Options business

If yes, please specify the procedures.

Supplementary Information
Money Laundering

46. Does the Licensed Corporation establish a central point at supervisory management level for receiving suspicious transactions from individual staff members for review and onward reporting to the Joint Financial Intelligence Unit? ☐ ☐ ☐

47. How often does the Licensed Corporation provide any anti-money laundering training to staff? ______________________

Supplementary Information

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Credit Ratings Services (only applicable to a Licensed Corporation which provides credit rating services in Hong Kong)

48. Does the Licensed Corporation’s code of conduct fully implement the provisions of the Code of Conduct for Persons Providing Credit Rating Services (“CCPPCRS”)? ☐ ☐ ☐

If not, please specify where and why these deviations exist and state the alternative arrangements to achieve the objectives contained in the CCPPCRS.

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