

10th February, 2021

The Securities and Futures Commission
54/F One Island East
18 Westlands Road
Quarry Bay, Hong Kong
Hong Kong SAR

Dear Sir / Madam,

Re: Consultation Paper on Proposed Enhancements to the Competency Framework for Intermediaries and Individual Practitioners

CFA Society Hong Kong ("Society") is pleased to provide you with our perspectives on areas for consideration in relation to the consultation paper issued by The Securities and Futures Commission ("SFC") on the proposed enhancements to the competency framework for intermediaries and individual practitioners.

The Society is a non-profit organization founded in 1992 by a group of CFA charterholders in Hong Kong. We have 6,852 members (as of 30th June, 2020) and is one of the largest member societies of CFA Institute which has more than 170,000 members in 162 countries/territories. The Society is mostly run by members volunteers with the support of a team of professional staff.

As one of the recognized providers of Continuous Profession Training ("CPT") programs since the introduction of the Competence Framework back in 2001, the Society has been among the strong advocates to raise the professional excellence the investment professionals and market integrity in Hong Kong.

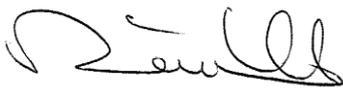
We applaud the SFC's initiatives to enhance the Competence Framework to raise the entry as well as ongoing requirements on industry practitioners who are facing with more sophisticated financial products and regulatory environment. The increase in minimum requirement on CPT hours to align with major financial centres with mandatory 2 hours on ethics and compliance content syncs well with the emphasis of ethics and professional conduct in the CFA Program.



Please refer to the Appendix 1 for our responses to the specific questions in the Consultation Paper

Should you have any question, please do not hesitate to contact me or our office staff, Mr. Ryan Lam at ryan.lam@cfahk.org / 2523 2917.

Yours faithfully,



Richard Mak, CFA
President
CFA Society Hong Kong



Appendix 1: Answers to specific questions in the consultation paper:

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?

Yes, we agree to raise the minimum academic qualification requirements for high school graduates as financial market participants have to deal with more complex financial products compared with 20 years ago when the competency framework was established. Besides, the proposed minimum requirements do not present a high barrier of entry to the industry.

Question 2:

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

Yes, we agree to accept degrees in other disciplines as recognized academic qualifications to align with the competency requirements for high school graduates.

Question 3:

Do you have any comments on requiring license 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?

It is reasonable to require license applicants who do not have an academic background in finance and accounting to complete Extra CPT to strengthen their competence, bringing them on par with other practitioners. The Extra CPT should be broad enough and specific to give sufficient industry knowledge to the applicants.

On the other hand, some of our members reckon the requirement of 5 Extra CPT hours may not be comparable to the alternative condition of obtaining relevant RIQ. We suggest 10 hours of Extra CPT instead of 5.



Question 4:

Do you agree with the proposal to grandfather current and ex-licensees who previously qualified under Option 3? Please provide reasons to support your views.

We agree with the proposal to grandfather current and ex-licensees who previously qualified under Option 3, as we should not penalize current and ex-licensees who previously qualified under a lower threshold and disqualify them. Besides, this group of licensed persons need to meet the annual CPT requirements going forward. To be fair with the license applicants under Option B or C, we suggest to impose the condition of completing 5 to 10 hours of Extra CPT for grand-fathering.

Question 5:

Do you agree to introduce a full exemption from satisfying the RIQ requirements for temporary license applicants? Please provide reasons to support your view.

We agree with the introduction of a full exemption on RIQ requirements for temporary license applicants, since they have to satisfy SFC that they are licensed to carry on the comparable regulated activities in their home countries under the authorization by the local regulatory body. These exemptions are necessary for LC and RI which have to rely on the support from the experts of their headquarters on various functions, including research and portfolio management, who have to visit Hong Kong, from time to time, to meet their clients.

We believe the conditions for exemptions, like maximum 30 days in each calendar year, as well as supervision by a RO of the sponsoring LC/RI which will be held accountable for regulated activity conducted by the temporary licensees during their stay in Hong Kong, are sufficient to prevent potential abuse by market participants.

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 above? Please provide reasons to support your view.

We agree with the refinement of the scope of the conditional exemption because the LRP for LRs of all RAs are the same (HKSI LE Paper 1) except for the Type 3 RA. It is inconsistent to request those LRs who have already passed the Paper 1 to complete additional 5 CPT hours if they apply for a RA while a new entrant to the industry just needs to pass the Paper 1 only. On the other hand, it would help to strengthen the competence of the LRs who look to apply for a new RA if they have to take additional CPT hours (5 or 10 hours) which are relevant to the new RA.



Question 7:

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

Agreed. This is a positive development and a reasonable approach that should be encouraged. While it makes sense to review the applicants' overall career history within the industry on a case-by-case basis, a thorough review of these information, which relies on the self-declaration by the applicants or cross-referencing with previous applications, will require a lot of resources. To enhance the transparency of the requirements, we suggest listing out the key criteria for assessing the industry experience, such as the "recency", scrutiny of experience with short durations, the reputation and domicile of the past employers, etc. It is important to ensure consistency of standards of reviewing the past career 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? Please provide reasons to support your views.

We agree, in principle, the proposed critical review of RO applicants' experience claimed through accrediting to previous principals for only a short period of time, as the multiple short-duration experiences may cast doubts on whether these applicants can accumulate sufficient relevant industry experience and has properly discharged their duties.

On the other hand, SFC needs to provide more guidance on how to define a "short period of time". In case the applicant is a consultant who is engaged by LCs to review and revamp their process via short term projects, it would be unfair to disregard these experiences because of the short durations. In addition, short engagements could be a direct result of corporate re-organizations which are not uncommon in the current environment. Hence it may not be fair to penalize licensed representatives over short engagement with LCs. A case-by-case approach to review the experience will be critical here.



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? Please provide reasons to support your view.

Agreed. Since the RO is held responsible to ensure the LRs conduct the RAs in compliance with the internal rules as well as the regulatory requirements, hands-on experience in supervising and managing essential regulated functions or projects is essential. Pure administration management experience is irrelevant to the proper supervision of the RAs by the RO.

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?***

Agreed.

- (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***

Agreed.

- (c) *that the experience acquired by the ROs, EOs and members of the Hong Kong Takeovers and Mergers Panel should be recent (i.e. within the last five years)?***

Agreed.

Question 11:

Do you agree with the additional examination requirement for LRs and Rels who intend to undertake TC Transaction work? Please provide reasons to support your views.

Agreed. The additional examination requirement is fair given the work quality issues of some TC transactions advisers in the past. A higher barrier of entry is preferred for these specialist activities.



Question 12:

Do you agree with the proposal to change the determination of required number of CPT hours to a "per individual" basis? Please provide reasons to support your view.

Agreed. It makes sense to simplify the approach and have a general requirement, regardless of the number of licensed RAs undertaken by the licensed person in view of the increased number of RAs and a high proportion of licensed persons engaging in multiple RAs. The judgement on whether a training program is relevant to various RAs and eligible for CPT can be subjective and varies among LCs which will lead to inconsistency.

Question 13:

Do you agree with the proposal concerning minimum requirements for individuals? Please provide reasons to support your view.

Agreed. Indeed 10 CPT hours per individual is just bare minimum by international standards when other professional and regulatory bodies require 9 to 35 CPT hour per year as highlighted in the consultation paper. We suggest SFC to consider a tiered approach to require licensed persons engaging in more than 2 RAs to complete minimum 15 CPT hours per year to ensure they can maintain their competence in multiple disciplines, especially in the context that each individual practitioner has to attend at least 5 CPT hours on topics directly relevant to the RAs in which he/she engages. For example, 3 hours each for each RA for a licensed person with 3 RAs looks insufficient.

Two additional hours on regulatory compliance for ROs and EOs are also reasonable. They are the key persons to ensure their firms can comply with the regulatory requirements and maintain the standards of conduct. The mandatory 2 CPT hours can help them to keep abreast with the dynamic regulatory environment.

Question 14:

Do you agree that individual practitioners should attend at least five CPT hours on topics directly relevant to their RAs every year? Please provide reasons to support your view.

Agreed. Dedicated CPT hours on topics directly relevant to their RAs can help practitioners to reinforce their competence in their core regulated activities. The combination of minimum 2 CPT hours relating to ethics or compliance with minimum 5 CPT hours dedicated to their core RA within the 10 CPT hours requires the individual to assess the relevance of the CPT hours against the RA. Besides the practitioner has to decide on his core RA if he is engaged in more than 1 RA. They will need more guidance from the regulator to validate their classifications that may be prone to challenge during a regulatory inspection.



Question 15:

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

Please provide reasons to support your view.

Agreed. Strong ethics and sense of compliance are important underlying factors driving individual behaviours. Practitioners need to adopt the right mindset. Given the changing business and operating environment, there is certainly a need for continuous education.

Question 16:

Do you agree with the proposed timeframe for implementation? Please provide reasons to support your view.

Agreed. The proposed timeframe for implementation that provides at least six months of lead time for the industry and CPT program providers to adapt to revised competence requirements is reasonable as there is no major change in the required CPT content.

