

SFC Consultation Conclusions on Proposed Enhancements to the Competency Framework for Intermediaries and Individual Practitioners

In June 2021, SFC released its [Consultation Conclusions on Proposed Enhancements to the Competency Framework for Intermediaries and Individual Practitioners](#) (Consultation Paper). Since the implementation of the SFO in 2003, the SFC's existing competency framework has largely remained unchanged. Almost 20 years later, the updates and amendments set out in the Consultation Paper aim to bring the framework up-to-date in view of the changing regulatory landscape, evolving financial markets and the development of new financial products.

Implementation

The SFC will implement the following revised Guidelines effective 1 January 2022:

- Guidelines on Competence (Competence Guidelines); and
- Continuous Professional Training (CPT Guidelines)

As there has been substantial revision and amendments to the Guidelines above, the SFC may arrange briefings and publish FAQs with examples where appropriate so that the industry can better understand the implementation of the enhanced competency framework.

Summary of Key Amendments

Competence requirements:

- Raising the minimum academic qualification requirements
- Broadening the scope of recognized academic qualifications
- New full exemption for temporary license applicants from obtaining industry qualifications
- Refining the applicability of the conditional exemption from passing the local regulatory framework papers
- Elaborating on the relevant industry and management experience requirements

CPT requirements:

- Simplifying the basis of the CPT requirements from number of "RA competence groups" to "per individual"
- New implementation of minimum hours per calendar year:
 - LRs - 10 CPT
 - ROs - 12 CPT
- New implementation of minimum CPT topics per calendar year
 - ROs and LRs - 5 CPT on topics directly relevant to the RAs engaged, and 2 CPT on ethics or compliance

- ROs - 2 CPT on regulatory compliance
- New implementation requiring LRs new to the industry to complete 2 CPT on ethics within 12 months of license
- Acceptance of market developments, fintech, environmental, social and governance (ESG), cybersecurity and information technology as relevant topics for CPT purposes

Guidelines on Competence – Key Amendments

Matter	Current	Amendment
Raising the minimum academic qualification requirements	<p>At present, individuals without any academic qualifications may be granted a license if they meet the prescribed relevant industry (and management experience for ROs) under “Option 3”.</p> <p>Alternatively, for those who have some level of academic qualification, RO and LR applicants must at a minimum have obtained passes in English or Chinese, and mathematics in HKCEE¹ or equivalent, in addition to meeting prescribed industry and regulatory knowledge requirements.</p>	<p>The SFC have raised the minimum academic qualification for RO and LR applicants to needing to have attained Level 2 in either English or Chinese as well as Mathematics in the HKDSE² or equivalent. As such, “Option 3” is now replaced with “Option C”.</p> <p>This new requirement may still be considered low compared to international standards.</p>
Broadening scope of recognized academic qualifications	<p>In addition to passing the local regulatory framework paper (and fulfilling relevant industry and management experience for RO applicants), individuals applying for a license under “Option 1” test of competence are required to have attained either a degree in a designated field (Accounting, Business Administration, Economics, Finance and Law); a degree with passes in at least 2 courses in those designated fields; or a professional qualification (CFA/CIIA/CFP).</p>	<p>The SFC have expanded the scope of “degrees” to include post-graduate diploma or certificates issued by a university or similar tertiary institution in HK/ elsewhere; and qualifications recognized as Level 6 or above under the Qualifications Framework in Hong Kong. Essentially, this closes a gap where some tertiary degrees were not formally recognized by the SFC.</p>

¹ HKCEE is normally taken by students at the end of their five-year secondary school education

² HKDSE is normally taken by students upon completion of their six-year secondary education

		<p>The SFC have also provided a new option ("Option B") for those who hold other degrees which don't meet the designated fields requirement above. In addition to passing the local regulatory framework paper, individuals will need to have attained at least 2 years over the past 5 years of Relevant Industry Experience (RIE) (3 over the past 6 years for ROs) or, as a one-off requirement, complete 5hrs extra CPT for each RA they are applying for within 6 months preceding the submission of the application. RO applicants will also need to have attained a minimum 2 years' management experience.</p>
<p>Grandfathering current and ex-licensees who previously qualified under Option 3</p>	<p>At present, individuals without any academic qualifications may be granted a license if they meet the prescribed relevant industry (and management experience for ROs) under "Option 3".</p>	<p>As set out above, "Option 3" will be replaced by "Option C" whereby the minimum academic qualification for RO and LR applicants is raised.</p> <p>The SFC has grandfathered current and ex-licensees who previously qualified under "Option 3" from the new minimum academic qualification requirements because they have been in the industry before. Those eligible for this exemption, need to satisfy that they have taken the local regulatory framework paper(s) and the following:</p> <p><u>LRs:</u></p> <ul style="list-style-type: none"> - minimum 5 of the past 8 years RIE; or if they have attained the

		<p>relevant Recognized Industry Qualifications (RIQ), minimum 2 of past 5 years RIE.</p> <p><u>ROs:</u> - minimum 8 of the past 11 years RIE, have gained a minimum of 2 years management experience and have attained the relevant RIQ.</p>
<p>Full exemption from attaining Recognized Industry Qualifications (RIQ) for temporary license applicants</p>	<p>The Guidelines grant temporary license applicants a full exemption from passing the local regulatory framework papers. There is however no exemption for temporary license applicants from the requirement for recognized industry qualifications.</p>	<p>Under the revised Guidelines, individuals applying for a temporary license to carry on RAs 1, 2, 4, 5, 6, 10 or 11 may apply for full exemption from the RIQ requirements.</p>
<p>Refining the applicability of the conditional exemption for LRs from passing the local regulatory framework papers (LRP)</p>	<p>The Guidelines currently require all individual license applicants to meet LRP requirements unless an exemption applies.</p> <p>A conditional exemption allows LRs who are currently licensed or have been licensed within the past 3 years to be exempted from taking LRP when applying to become a LR for a regulated activity with a different competence requirement by completing an additional 5 CPT hours in regulatory knowledge in the new regulated activity.</p>	<p>Under the revised Guidelines, an individual who has been a LR within the past 3 years and fulfils the following:</p> <ul style="list-style-type: none"> (a) never attempted any LRP before but are still required to satisfy the LRP requirements of the new regulated activity; or (b) have passed 1 LRP but are still required to pass another to satisfy the LRP requirements of the new regulated activity (e.g. when applying for a license for Type 3) <p>may apply for a conditional exemption by completing a one-off additional 5hrs CPT in local</p>

		<p>regulatory knowledge in the new regulated activity in lieu of passing the LRP for that new regulated activity, either within 6 months preceding the submission of the application or within 12 months after license approval is granted.</p>
<p>Elaborating relevant industry requirements by taking in an applicants' overall career history</p>	<p>"Recency" is a key element in assessing an individual's industry experience. Therefore, only relevant industry experience accumulated within a prescribed period is recognized under the current regime. For example, under "Option 1", RO applicants must have at least 3 years of RIE over the past 6 years. Experience acquired outside of the past 6 years might not be counted.</p>	<p>Under the revised Guidelines, LR or RO applicants unable to entirely satisfy the recency element of their RIE, the SFC will take into account their overall career history within the industry on a case-by-case basis.</p> <p>The SFC has provided some non-exhaustive examples of relevant industry experience for asset management; discretionary account management; private equity; financial technology; and credit rating services.</p> <p>However, the SFC will critically review the experience of an individual who, for example:</p> <ol style="list-style-type: none"> a. claims industry experience with any firm which has been largely or completely dormant for a prolonged period; or b. shows a pattern of being accredited to their previous principals only for a short period.
<p>Clarifying management experience</p>	<p>Currently, RO applicants are required to accumulate at least 2 years of management experience prior to</p>	<p>The revised Guidelines have clarified that the SFC will also accept management experience</p>

<p>requirements for ROs</p>	<p>submitting their application for approval as a RO. However, the Guidelines do not clearly prescribe what kind of management experience would be accepted by the SFC.</p>	<p>acquired within the financial industry. However, management experience gained which is purely administrative (e.g. supervision of human resources or office administration staff) would not normally be accepted by the SFC.</p> <p>The SFC has provided illustrative examples of recognized management experience:</p> <ul style="list-style-type: none"> a. senior management of a corporation within the financial industry supervising the performance or regulated activities or financial services; b. supervising an investment team in the performance of an investment function, whether regulated or not; and c. experience acquired from managing another type of regulated activity
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Guidelines on Continuous Professional Training - Key Amendments

Matter	Current	New									
<p>Competence grouping of regulated activities</p>	<p>Previously competence requirements groups were utilized. Individuals licensed to conduct regulated activities within the same competence group could use the same CPT obtained to satisfy the other RAs within the same group.</p> <table border="1" data-bbox="467 680 834 1121"> <tr> <td>Type of regulated activities</td> </tr> <tr> <td>1 – dealing in securities</td> </tr> <tr> <td>4 – advising on securities</td> </tr> <tr> <td>8 – securities margin financing</td> </tr> <tr> <td>2 – dealing in futures contracts</td> </tr> <tr> <td>5 – advising on futures contracts</td> </tr> <tr> <td>3 – leveraged foreign exchange trading</td> </tr> <tr> <td>6 – advising on corporate finance</td> </tr> <tr> <td>9 – asset management</td> </tr> </table>	Type of regulated activities	1 – dealing in securities	4 – advising on securities	8 – securities margin financing	2 – dealing in futures contracts	5 – advising on futures contracts	3 – leveraged foreign exchange trading	6 – advising on corporate finance	9 – asset management	<p>Simplifying the basis of the CPT requirements from number of “RA competence groups” to “per individual”.</p>
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<p>Minimum CPT hours requirement</p>	<p>Individuals to complete a minimum of 5hrs CPT per calendar for each regulated activity the engages in except for Type 7 (providing automated trading services) regulated activity.</p>	<p>LRs must undertake a minimum of 10 CPT hours per calendar year (regardless of the number and types of regulated activities licensed).</p> <p>ROs are held to a higher level of responsibility and accountability. As such, they are required to take at least 12 CPT hours per calendar year.</p>									
<p>Minimum CPT topic requirement</p>	<p>There is currently no minimum requirement for the number of CPT hours to be completed for specific topics – only that it should be relevant to the regulated activities that the individual is licensed. However, it should be noted that it is</p>	<p>Licensed individuals should attend at least 5 CPT hours per calendar year on topics directly relevant to the regulated activity(ies) to which they are licensed. As a general principle, such CPT hours should be</p>									

	<p>expected that 1 CPT hour is obtained on the topic of AML per calendar year.</p>	<p>allocated to cover the practice areas of the individual in proportion to the time and effort that he or she spends in each area.</p> <p>ROs are required to obtain 2 CPT hours on topics relating to regulatory compliance.</p> <p>LRs who are new to the industry are required to complete 2 CPT hours on ethics within the first 12 months of license.</p>
<p>Relevant CPT topics</p>	<p>Current relevant topics for CPT purposes include:</p> <ul style="list-style-type: none"> - applicable compliance, legislative and regulatory standards - business conduct and ethical standards - new financial products in the industry and the associated risk management systems - business communication skills and trade practices - general law principles - computer knowledge - basic accounting theories - fundamental economic analysis 	<p>The following additional topics have been added as being relevant:</p> <ul style="list-style-type: none"> - Market developments - Fintech - environmental, social and governance (ESG) - cybersecurity - information technology