



**IFPHK's Response to the Securities and Futures  
Commission (SFC) Consultation Paper on  
Proposed Enhancements to the Competency  
Framework for Intermediaries and Individual  
Practitioners**

**February 2021**

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## **Profile of IFPHK**

### **About IFPHK**

IFPHK was established in June 2000 as a non-profit organization for the fast-growing financial services industry. It aims to be recognized in the region as the premier professional body representing financial planners dedicated to upholding the highest professional standards.

The Institute is the sole licensing body in Hong Kong authorized by Financial Planning Standards Board Limited to grant the much-coveted and internationally-recognized CFP® Certification and AFP® Certification to qualified financial planning professionals in Hong Kong and Macau.

Currently there are more than 188,100 CFP certificants in 26 countries/regions; the majority of these professionals are in the U.S., Canada, China, Australia and Japan, with approximately 4,400 CFP certificants in Hong Kong.

IFPHK has more than 7,500 members in Hong Kong including 1,100 Qualified Retirement Adviser (QRA) holders; and represents financial planning practitioners in diverse professional backgrounds such as banking, insurance, independent financial advisory, stock broking, accounting, and legal services.

### **The IFPHK's interest in this consultation**

The IFPHK was established in June 2000 as a non-profit organization for the fast-growing financial services industry. It aims to be recognized in the region as a professional body representing those financial planners that uphold the highest standards for the benefit of the public. The IFPHK is the sole licensing body in Hong Kong authorized by FPSB to grant the much-coveted and internationally-recognized CFP® Certification and AFP® Certification to qualified financial planning professionals in Hong Kong and Macau.

As the leading professional institute representing the interests of the financial planning industry, the IFPHK has a duty to respond to any consultation paper that may impact its members and their clients. The IFPHK has previously provided feedback on the Consultation Papers regarding enhancing the professional standard of practitioners in the financial services industry and financial literacy. In this regard, the IFPHK has always

advocated raising the minimum qualification of licensees and increasing Continuous Professional Training (CPT) hours. In fact, “Certified Financial Planner” is one of the professional qualifications recognized by the SFC as equivalent to [RD comment: This sentence is incomplete.]

The relevant consultation paper submissions made by the IFPHK over the last decade include the following:

- Mandatory Provident Fund Authority’s Consultation on Guidelines on Conduct Requirements for Registered Intermediaries (2012)
- Consultation Paper on Specification of Competency Standards for the Insurance Industry (2014)
- Consultation Document on Hong Kong’s Financial Competency Framework (2015)
- Consultation Document on Hong Kong Strategy for Financial Literacy (2015)
- Consultation Paper on proposed guidelines on (i) “Fit and Proper” criteria and (ii) Continuing Professional Development requirements for licensed insurance intermediaries (2018)
- Consultation Paper on the Draft Code of Conduct for Licensed Insurance Brokers (2019)
- Consultation Paper on the Draft Code of Conduct for Licensed Insurance Agents (2019)
- Consultation Paper on the Task Force on Review of the School Curriculum (2019)

In view of the above, the IFPHK has a strong interest in responding to this Consultation Paper.

### **The IFPHK’s representation**

The IFPHK was founded by 30 members (the “Founding Members”) to raise the standards of financial planners and highlight the importance of sound financial planning.

The IFPHK currently has 39 Corporate Members, including banks, independent financial advisers, insurance companies, and securities brokerages. With our Corporate Members providing a full spectrum of client services and products, the IFPHK is well positioned to understand the needs, concerns, and aspirations of the financial planning community.

## **Executive Summary**

On 11 December 2020, the Securities and Futures Commission (“SFC”) launched a consultation paper (the “Consultation Paper”) on proposals to update its entry requirements for licence applicants, as well as its ongoing competency standards for individual practitioners. The deadline of the consultation period is 10 February 2021.

Under the proposals, the minimum academic qualification requirements would be raised and a broader range of qualifications would be recognized. In addition, applicants would have more flexibility for meeting the industry qualification and regulatory examination requirements. The Continuous Professional Training (CPT) requirements for individual practitioners would also be enhanced.

To address the SFC’s concerns about the quality of work performed by some financial advisers on matters regulated by the Codes on Takeovers, competence requirements would be upgraded for individuals who are to advise on these matters.

"Raising professional standards is essential to keep up with the evolving and growing complexity of our financial markets," said Mr Ashley Alder, the SFC’s Chief Executive Officer. "Our proposals aim to help the industry adapt to the changing regulatory landscape whilst minimizing the impact on those currently licensed."<sup>1</sup>

The IFPHK is a professional organization that promotes financial planning, so it is in our interest to respond to questions that are relevant to financial planners. In the context of this Consultation Paper, we have not responded to questions pertaining to the Codes on Takeovers (Questions 10 and 11).

Our submission is based on the following principles we always advocate:

### ***Raising the professional standards of intermediaries***

The IFPHK has always believed that qualified intermediaries and well-informed and educated consumers, together with a robust regulatory framework, should form the core pillars for assurance for the benefit of the investing public. The IFPHK has always

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<sup>1</sup> SFC press release

advocated that “If the professional standards of financial intermediaries do not keep up with the demands of the market, even if all the measures proposed are implemented, Hong Kong would not be able to maintain its reputation as an international financial centre and therefore grow its financial services industry”. In this regard, the IFPHK has had a long history of providing professional training. Since 2006, we have offered 2,202 courses for 5,979 hours, covering 225,549 participants.

***Enhancing consumer protection and financial literacy***

As financial products get more complex and sophisticated, it is of utmost importance that investors/consumers are provided with proper and adequate protection under a sound and effective regulatory system. The IFPHK supports a regulatory system that would facilitate delivering better financial products and services to the benefit of members of the public, as well as protecting them. As already stated, well informed and educated consumers are the core elements that form a healthy regulatory system. It is the IFPHK’s view that improved financial literacy levels will not only allow consumers to make more informed investment decisions, but also result in greater consumer appreciation of planning for a long-term financial future – a concept the IFPHK continuously promulgates.

***Ensuring a level playing field across the financial services industry***

It should be noted that the key assumption throughout our submissions is that any changes in legislation should be adopted consistently by all financial intermediaries servicing retail consumers operating in the IFA, banking, and insurance sectors. The IFPHK believes that a failure to implement a consistent approach across the industry could result in significant negative consumer and industry consequences. The IFPHK stresses the importance of adopting policy changes consistently by all financial intermediaries servicing consumers. The failure to implement a consistent approach across the industry could result in significant negative consumer and industry incidents.

Based on the abovementioned principles, the IFPHK agrees with the proposals to raise the minimum academic qualification requirements and to broaden the scope of recognized academic qualifications to cover degrees in other disciplines. However, we oppose the proposals of allowing the completion of extra Continuous Professional Training (CPT) as a requirement to ensure applicants of licensees have sufficient industry knowledge based on the following reasons:

- The purpose of having CPT is to ensure that licensees’ knowledge and skills are

kept up to date. **CPT is not intended to satisfy entry requirements, so theoretically it should not be used as an alternative to licensing examinations or the recognized industry qualifications (RIQs).**

- **CPT courses usually contain no assessment requirement** and thus no gate-keeping assurance to consumers that the practitioners with whom they converse possess the necessary skills and technical knowledge.
- **There is no scientific method for matching five hours of CPT to the RIQs paper.** According to their study manuals, most LE papers require at least 40 hours of study time. With this in mind, it would seem that five extra hours of CPT would be insufficient to satisfy the necessary competence requirements.

Whilst the IFPHK agrees that conducting examinations is not the only method for assessing competency levels, proposing five extra CPT hours per RA is inadequate to ensure that one has the necessary competencies and knowledge to enter into the industry. **The proposed change to the necessary requirements is too lenient and relaxed, which, as a result, may pose a threat to consumer protection. The IFPHK suggests that instead of allowing extra CPT hours to substitute for RIQs, the SFC may wish to use a bridging course as an option.** The design of the bridging course could take reference from the body of knowledge and study hours required for the RIQs. The bridging course could also contain certain assessment requirements. Similarly, instead of requiring an individual practitioner who first joins the industry in Hong Kong to complete two CPT hours on ethics within 12 months, the IFPHK suggests that the individual be required to take on a two-hour bridging course on Ethics.

On the proposed amendments to the CPT requirements, the IFPHK agrees with the proposal to change the determination of CPT hours to a “per individual” basis. We also applaud the requirement of two additional hours on regulatory compliance for Responsible Officers (“ROs”) and Executive Officers (“EOs”), as the IFPHK, nine years ago, started requiring certificants to have two CE hours on Ethics. The IFPHK thinks the **SFC may wish to take this opportunity to enhance CPT requirements up to 15 hours (to align with the practices of the Insurance Authority), which could include two hours on regulatory compliance or ethics for all individual practitioners.**

The IFPHK appreciates that CFP is recognized as one of the professional qualifications under Option 1, which is equal to degree holders with a relevant degree. **One reminder is that the Chinese version of Certified Financial Planners is 認可財務策劃師**

**instead of 註冊財務策劃師, please amend the Guidelines on Competence accordingly.**

**The views expressed in this submission paper are not necessarily summaries of the views taken from the industry. They may have undergone more independent and critical analysis and consideration by the IFPHK as a professional body. As a result, not all the views collected by the IFPHK are recorded in this submission paper and neither have all the views expressed in this submission paper been directly endorsed by those industry representatives or members consulted.**



## The SFC Consultation

On 11 December 2020, the Securities and Futures Commission (SFC) launched a consultation paper (the “Consultation Paper”) on proposals to update its entry requirements for licence applicants, as well as its ongoing competency standards for individual practitioners. The deadline for the consultation period is 10 February 2021.

The proposed enhancements to the Competence Guidelines in the Consultation Paper are as follows:

- to raise the minimum academic qualification requirements for individuals and broaden the scope of recognized academic qualifications;
- to introduce a full exemption from obtaining recognized industry qualifications (RIQs) for temporary licence applicants;
- to refine the applicability of the conditional exemption from passing the local regulatory framework papers (LRPs) under paragraph (8) of Appendix E to the 2003 version of the Competence Guidelines for Licensed Representatives (“LRs”);
- to elaborate on the relevant industry experience requirements;
- to clarify the management experience requirements for ROs; and
- to enhance the competence requirements for individuals who intend to advise on matters in relation to the Codes on Takeovers.

The proposed enhancements to the CPT Guidelines in the Consultation Paper are as follows:

- to simplify the basis for the determination of the CPT obligation by requiring each individual practitioner to take a specific number of CPT hours annually;
- to specify 10 CPT hours per calendar year as the minimum requirement for LRs and Relevant Individuals (“Rels”), and 12 CPT hours for ROs and EOs;
- to require that every calendar year each individual practitioner attend at least five CPT hours on topics directly relevant to the RAs in which he or she engages, those engaging in sponsor work take 2.5 hours of sponsor-related CPT and those engaging in transactions related to the Codes on Takeovers take 2.5 hours of Codes on Takeovers-related CPT;
- to require each individual practitioner to complete no less than two CPT hours on topics relating to ethics or compliance per calendar year;

- to require each new individual practitioner in Hong Kong (excluding temporary licensees) to complete two CPT hours on ethics within 12 months as a one-off requirement; and
- to update the list of topics relevant for CPT purposes in light of the latest market developments.

## **Overview of Consultation Questions**

### **Part II: Proposed amendments to the competence requirements**

#### ***A. Raise the minimum academic qualification requirements for individuals and broaden the scope of recognized academic qualifications***

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?
2. Do you agree to broaden the scope of recognized academic qualifications to cover degrees in other disciplines?
3. Do you have any comments on requiring licence 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?
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.

#### ***B. Introduce a full exemption from obtaining recognized industry qualifications for temporary licence applicants***

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

***C. Refine the applicability of the conditional exemption from passing local regulatory framework papers under paragraph (8) of Appendix E to the 2003 version of the Competence Guidelines for LRs***

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.

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

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.

***D. Clarify the management experience requirements for ROs***

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.

***E. Enhance competence requirements for individuals who intend to advise on matters in relation to the Codes on Takeovers***

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?

(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

(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)?

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.

### **Part III: Proposed amendments to the CPT requirements**

#### ***A. Simplify the basis of the CPT requirements from number of “RA competence groups” to “per individual”***

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.

#### ***B. Specify 10 CPT hours per calendar year as the minimum requirement for LRs and Rels, with two additional hours on regulatory compliance for ROs and EOs***

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

#### ***C. Require each individual practitioner to attend at least five CPT hours on topics directly relevant to the RAs in which he or she engages***

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.

#### ***E. Require each individual practitioner who first joins the industry in Hong Kong to complete two CPT hours on ethics within 12 months***

15. Do you agree with the proposed requirements concerning CPT on ethics and compliance? Please provide reasons to support your view.

### **Part IV: Way forward**

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

## **The IFPHK's Submission**

### **Key Principles**

Prior to providing our views on the questions stipulated in the Consultation Paper, we wish to point out that the IFPHK's responses are formed upon the following principles:

#### ***Raising the professional standards of intermediaries***

The IFPHK has always believed that qualified intermediaries and well-informed and educated consumers, together with a robust regulatory framework, should form the core pillars for assurance for the benefit of the investing public. The IFPHK has always advocated that "If the professional standards of financial intermediaries do not keep up with the demands of the market, even if all the measures proposed are implemented, Hong Kong would not be able to maintain its reputation as an international financial centre and therefore grow its financial services industry". Since its inception, the IFPHK has been striving to promote public awareness of the financial planning industry in Hong Kong and uphold the standard of CFP professionals by providing guidance notes and continuously improving the certification programme<sup>2</sup>.

The IFPHK has also had a long history of providing professional training. Since 2006, we have offered 2,202 courses for 5,979 hours, covering 335,549 participants.

#### ***Enhancing consumer protection and financial literacy***

As financial products get more complex and sophisticated, it is of utmost importance that investors/consumers are provided with proper and adequate protection under a sound

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<sup>2</sup> In 2006, with contributions from the patrons of leading industry practitioners and experts, the IFPHK published *The IFPHK Practice Guide for Financial Planners*. The Guide is the first set of guidance materials for financial planners to practice in Hong Kong. To supplement this effort, the IFPHK also launched the first *Guidance Notes, Suitability of Advice Obligations: Documenting your Financial Advice* for members. The IFPHK also participated in a global job analysis review and international studies on financial planning job skills analysis. Through this process, the IFPHK gained professional insights into core characteristics and practices vis-à-vis Hong Kong's financial planning practitioners and international CFP professionals. Based on the results of the job analysis, the IFPHK has made considerable efforts in revamping the certification programmes. In June 2011, the IFPHK introduced Associate Financial Planner ("AFP") certification to attract the broader population of the financial planning industry and thus raise the overall standard of the industry. In view of the growing importance of retirement planning, the IFPHK introduced the Qualified Retirement Advisor certification to uphold practitioners' knowledge in this area.

and effective regulatory system. The IFPHK supports a regulatory system that would facilitate delivering better financial products and services to the benefit of members of the public, as well as protecting them. As already stated, well informed and educated consumers are the core elements that form a healthy regulatory system. For a market to perform effectively and for consumers to be protected properly, a fundamental understanding of how these products work is essential.

It is the IFPHK's view that improved financial literacy levels will not only allow consumers to make more informed investment decisions, but also result in greater consumer appreciation of planning for a long-term financial future – a concept the IFPHK continuously promulgates.

***Ensuring a level playing field across the financial services industry***

It should be noted that the key assumption throughout our submissions is that any changes in legislation should be adopted consistently by all financial intermediaries servicing retail consumers operating in the IFA, banking, and insurance sectors. The IFPHK believes that a failure to implement a consistent approach across the industry could result in significant negative consumer and industry consequences. The IFPHK is frequently urged by industry professionals to highlight the need for implementing a consistent approach across the industry to establish a **'level playing field'** among all financial service practitioners. We have already expressed our views in our responses to various consultation documents. In previous submissions, the IFPHK has stressed the importance of adopting policy changes consistently by all financial intermediaries servicing consumers. The failure to implement a consistent approach across the industry could result in significant negative consumer and industry incidents. Therefore, there is an urgent need to have a regular proactive review of the licensing, education and other qualification requirements, and continuous professional development requirements of all practitioners in order to ensure that proper advice has been rendered.

## **Part II: Proposed amendments to the competence requirements**

### **A. Raise the minimum academic qualification requirements for individuals and broaden the scope of recognized academic qualifications**

The test of competence for Licensed Representatives (“LRs”) and Responsible Officers (“ROs”) as set out in Appendix B to the 2003 version of the Competence Guidelines provides three different options to satisfy the test, all of which are based on the individual’s academic qualifications.<sup>3</sup> As the securities and futures market has become more sophisticated and tertiary education more commonly available, there is a need to raise the minimum requirements for individuals so that they are better equipped for the current market. In addition, it is recognized that knowledge in other disciplines may also be relevant or important to the development of the market.

It is proposed in the Consultation Paper **to raise the minimum academic qualification requirements for an individual licence applicant to the attainment of Level 2 in either English or Chinese as well as in Mathematics in the Hong Kong Diploma of Secondary Education Examination (HKDSE) or equivalent.** For this purpose, the aforementioned equivalent will include the previous HKCEE and other high school public examinations (such as university entry examinations) in Hong Kong and elsewhere.

Designated fields under the current framework refer to accounting, business administration, economics, finance, and law. However, it is noticeable that many Licensed Corporations (“LCs”) recruit individuals who hold a degree in other disciplines without two courses in the designated fields. Despite these individuals having completed tertiary education, their academic qualifications have not been properly recognized as they can only apply for a licence under Option 2, just like other high school graduates. Thus, there is a gap between these two options. The SFC therefore proposes to accept the academic qualifications of degree holders in all other disciplines as an additional means to satisfy the competence requirements. In order to ensure that degree holders in other disciplines have sufficient industry knowledge, it is proposed that for LR applicants, they either:

- (a) possess at least two years of relevant industry experience over the past five years;

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<sup>3</sup> Option 1 caters for those with a degree in the designated fields. Option 2 caters for those who have at least passed in public examinations. Option 3 caters for those who do not possess any academic qualifications, including those who are unable to provide proof of their academic qualifications.

- (b) have obtained the relevant Recognized Industry Qualifications (“RIQs”); or
- (c) have completed, as a one-off requirement, an additional five CPT hours in each RA for which they are applying, within six months preceding the submission of a licence application (Extra CPT).

For RO applicants, it is proposed that they must possess at least three years of relevant industry experience over the past six years, and have either:

- (a) obtained the relevant RIQs; or
- (b) completed the relevant Extra CPT.

Extra CPT means that the individual must complete a fixed set of CPT hours for each RA for which the individual applies, which is a one-off requirement. The additional CPT hours should be taken within six months preceding the submission of the application.

Furthermore, as a result of compulsory education in Hong Kong, individual licence applicants in general are much better educated nowadays as compared to 2001 when the competence requirements were first introduced. It is not envisaged that this proposal would discourage new individual practitioners from joining the industry. In order to mitigate the potential impact on existing licensees, the SFC proposes to grandfather current and ex-licensees who previously qualified under Option 3 but cannot meet the new minimum academic qualification requirements when the revised Competence Guidelines become effective. The grandfathering arrangement would also extend to situations where these individuals apply for a new licence, the addition of an RA, or the approval as an RO, provided that they can satisfy the other criteria.

***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?***

***Question 2: Do you agree to broaden the scope of recognized academic qualifications to cover degrees in other disciplines?***

***Question 3: Do you have any comments on requiring licence 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?***

**The IFPHK's Responses to Questions 1 to 3**

The IFPHK applauds the proposal of raising the minimum academic qualification requirements and to broaden the scope of recognized academic qualifications. However, we have concerns over the proposal of ensuring sufficient industry knowledge by completing extra CPT to satisfy licensing competency requirements. The IFPHK worries that allowing CPT hours as a means to satisfy competency requirements may lead to the admission of incompetent financial services practitioners that may pose a threat to investor protection.

***Raising the minimum qualifications***

It is sensible to raise the minimum academic qualification requirements for an individual license applicant to the attainment of Level 2 in either English or Chinese as well as in Mathematics in the Hong Kong Diploma of Secondary Education Examination (HKDSE) or equivalent. However, it should be made aware that even with the enhancement, the minimum requirements may still not be comparable to the international standard.

After the collapse of Lehman Brothers in 2008, regulators in major jurisdictions imposed various consumer protection measures. These measures include but are not limited to imposing a fiduciary duty on advisers, enhancing disclosure requirements, and raising the minimum qualifications. (Please refer to Appendix A.) To keep abreast of international best practices, the IFPHK believes that there is a need to have a regular review of the licensing, examination, and education requirements of practitioners. The review will take into account their business scope and the risk they pose to consumers and to ensure that proper advice has been rendered. The IFPHK expects independent regulators like the SFC to be in a good position to ensure that this is done in an objective and efficient manner. Many countries started introducing reforms on competence more than 10 years ago. As such, the IFPHK has continuously advocated regulators to raise the minimum qualifications and to recognize professional qualifications based on our principle of enhancing the professional standard of the financial services industry. (Please refer to the extract from the November 2012 issue of *Advisory Today* in Appendix A.) We are pleased to learn that the SFC is finally reviewing and reforming the competency framework.

The IFPHK appreciates that CFP is recognized as one of the professional qualifications

under Option 1, which is equal to degree holders with a relevant degree. **One reminder is that the Chinese version of Certified Financial Planners is 認可財務策劃師 instead of 註冊財務策劃師, please amend the Guidelines on Competence accordingly.**

***Broaden the scope of recognized academic qualifications***

The IFPHK agrees in principle to broaden the scope of recognized academic qualifications to cover degrees in other disciplines. We recognize that degree holders of other disciplines, for instance, engineering, also have the necessary training to understand financial services concepts and technical knowledge.

The CFP certification also has different entrance routes to certification in order to take into account the abilities of candidates with different academic qualifications. Candidates may qualify for exemption from the Foundation Level Examination if they are holders of certain academic or professional credentials. Master's Degree Holders in Business/Economics or holders of a certain professional credential may qualify for exemption from the CFP Certification Education Programme (Courses 1 to 3). Doctoral Degree Holders in Business/Economics or a certain professional credential may qualify for exemption from the CFP Certification Education Programme (Courses 1 to 4). However, no exemption is allowed for the Level 1 and Level 2 Examination, as the IFPHK considers this examination to act as the gatekeeper of our professional standard. The examinations are designed to assess a candidate's ability in applying the financial planning knowledge and skills learned from the education programme. Examination questions are based on the knowledge, skills, and abilities required of financial planners in Hong Kong. This competency profile is constantly reviewed. Thus, passing the examinations demonstrates an examinee's proficiency in the knowledge, skills, and abilities related to financial planning.

***Satisfying the competence test by completing extra CPT hours***

"Extra CPT hours" in the proposals means that the individual must complete five CPT hours for each RA for which the individual applies, which is a one-off requirement. The additional CPT hours should be taken within six months preceding the submission of the application. **The IFPHK has concerns over satisfying the competence test by completing extra CPT hours**, based on the following reasons:

1. The purpose of having Continuous Professional Training (CPT) is to ensure that

licensees' knowledge and skills remain up to date. The **CPT is not intended to satisfy entry requirements. Thus, theoretically it should not be used as an alternative to licensing examinations or the RIQs.**

2. Broadening the scope of academic qualifications is usually based on the assumption that these degree holders have the ability to learn and pick up the knowledge by themselves. Aforementioned, there are multiple paths to CFP certification, and we have exempted certain education course requirements for different academic qualifications on the belief that they have the qualities to self-study the CFP examination. The examinations, however, still act as the gatekeeper of the professional standard. **For the current proposals, the IFPHK does not see any gatekeeping function in place if extra CPT hours are simply allowed to substitute the RIQs.** In fact, the SFC should be made aware of the risk of applicants who repeatedly fail the RIQs with very low marks but who can still enter the industry by means of simply participating in five extra hours of CPT. To reiterate, we believe that it is a loophole, and unless it is addressed, the consumer protection framework would be undermined.
3. **CPT courses usually contain no assessment requirement** except for attendance. As such, we are wary that they cannot ensure an individual has acquired the necessary skills and knowledge required.
4. We doubt that five extra CPT hours can reasonably satisfy the investing public that the practitioners possess the same level of competencies and knowledge achieved under the RIQs. **There is no scientific method in matching five hours of CPT to passing the RIQs paper. We checked the study manual of the following papers and most of them required at least 40 hours of study time.**

| LE Paper | Suggested study hours in the study manual   |
|----------|---|
| Paper 1  | there are 9 Topics:<br>"It is estimated that this study manual will require 9 hours of study time per Topic, although candidates may need slightly less or more depending on their work experience and background." |
| Paper 7  | "It is estimated that this study manual will require 40-70 hours of study time, although candidates may need slightly less or more depending on their work experience and background."                              |
| Paper 8  | "It is estimated that this study manual will require 40-60 hours of study time, although candidates may need slightly less or more depending on their work experience and background."                              |
| Paper 12 | It is estimated that this study manual will require 40-55 hours of study time, although candidates may need slightly less or more depending on their  |

|                 |  |
|-----------------|--|
| <b>LE Paper</b> | <b>Suggested study hours in the study manual</b> |
|                 | work experience and background.”                 |

Based on the above, it is very difficult to convince the IFPHK that five extra CPT hours per RA would match the same level of competence as passing the RIQs.

Whilst the IFPHK agrees that examinations are not the only suitable method for assess competency levels, having five extra CPT hours per RA is inadequate to ensure that one has the necessary competencies and knowledge to enter into the industry. **The proposed change to requirements is too lenient and relaxed, which may pose a threat to consumer protection.**

**The IFPHK suggests that instead of allowing extra CPT to substitute for the RIQs, the SFC may wish to use a bridging course as an option.** The design of the bridging course could take reference to the body of knowledge of the RIQs. The bridging course could also contain certain assessment requirements, e.g. quizzes, examinations, oral interviews, and coursework. The duration of the bridging course could be based on the number of hours examinees require on average to study in order to pass the RIQs. The SFC would need to provide a framework of the bridging course for the education providers to deliver the courses.

**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.***

**The IFPHK’s Response**

The IFPHK agrees with the proposal to grandfather current and ex-licensees who previously qualified under Option 3, on the condition that the proposal for extra CPT hours is instead changed to the fulfillment of a bridging course. (Please refer to our responses to Questions 1 to 3.)

## **B. Introduce a full exemption from obtaining recognized industry qualifications for temporary licence applicants**

Under the existing test of competence, individual licence applicants, including temporary licence applicants, may be required to obtain RIQs. We now propose to introduce an exemption from obtaining RIQs for temporary licence applicants.

Currently, paragraph (4) of Appendix E to the 2003 version of the Competence Guidelines provides a full exemption from passing the LRPs for temporary licence applicants; however, there is no equivalent exemption for RIQs. We consider that exemption from RIQs is justified on the basis that individual temporary licence applicants have to satisfy the SFC, amongst others, that they carry on in a place outside Hong Kong an activity which, if carried on in Hong Kong, would constitute carrying on an RA, under an authorization by a regulatory body in that place. Therefore, they should already possess industry knowledge in respect of the RAs that they are applying for.

As individual temporary licence applicants will only carry on RAs in Hong Kong for a short period of time, and are already exempted from satisfying the LRP requirements, we propose to introduce a full exemption from satisfying the RIQ requirements for them as well.

***Question 5: Do you agree to introduce a full exemption from satisfying the RIQ requirements for temporary licence applicants? Please provide reasons to support your view.***

### **The IFPHK's Response**

The IFPHK has no major concerns about introducing a full exemption for temporary licence applicants as long as they provide evidence of possessing industry knowledge in respect of the RAs for which they are applying. The IFPHK's support is based on the assumption that the SFC would impose conditions on the temporary licensees to limit their activities on the basis of protecting the investing public in Hong Kong.

**C. Refine the applicability of the conditional exemption from passing local regulatory framework papers under paragraph (8) of Appendix E to the 2003 version of the Competence Guidelines for LRs**

Under the test of competence, all individual licence applicants are required to fulfil the LRP requirements unless an exemption applies. One of the exemptions is paragraph (8) of Appendix E to the 2003 version of the Competence Guidelines, which we consider can be modified.

The conditional exemption under paragraph (8) of Appendix E allows LRs who are currently licensed or have been licensed within the past three years to be exempted from taking the LRP when applying to become an LR for an RA with a different competence requirement by completing an additional five CPT hours in regulatory knowledge in the new RA.

It is proposed to refine this conditional exemption such that it applies to LRs who have:

- (a) never attempted any LRP (e.g. never attempted HKSI LE Paper 1 as the LR was migrated to the SFO regime by way of transitional arrangements) but are still required to satisfy the LRP requirements of the new RA; or
- (b) have passed one LRP (e.g. HKSI LE Paper 1) but are still required to pass another LRP (e.g. VTC Leveraged Foreign Exchange Trader's Representative Examination Paper 1) to satisfy the LRP requirements of the new RA. These individuals can complete an additional five CPT hours in regulatory knowledge in the new RA in lieu of passing the LRP for that new RA.

***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.***

**The IFPHK's Response**

The IFPHK is uncertain that an extra five CPT hours achieves the same level of knowledge and skills as in passing the LRP. Our rationale on this matter is the same as the one we put forward when we said that we do not agree an extra five CPT hours would served the same purpose as passing the RIQs. Please refer to our responses to Questions 1 to 3 above.

#### **D. Elaborate on the relevant industry experience requirements**

It is proposed to take into account relevant industry experience accumulated by individuals over their career history through considering it in totality on a case-by-case basis. In assessing an individual's industry experience, "recency" is a key element to ensure that he or she is kept abreast of market developments and the regulatory landscape. 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 three years of relevant industry experience over the past six years. Experience acquired outside of the past six years might not be counted.

To ensure licensees will have the necessary industry experience to carry on or supervise RAs, we will critically review experience claimed through short periods of accreditation to applicants' previous principals. These applicants would need to provide full details about their roles and responsibilities as well as the activities in which they actually engaged at their previous principals.

***Question 7: Do you agree that on a case-by-case basis we should take into account licence applicants' overall career history within the industry?***

***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.***

#### **The IFPHK's Responses to Questions 7 and 8**

The IFPHK has no objection on the proposed changes. It makes sense to establish the "recency" criteria in assessing relevant working experience.

To share the experience of the IFPHK, its CFP certification also has an experience requirement. To ensure the high standards of CFP certificants, the IFPHK will only award the CFP certification to those who have qualified work experience, defined as experience working in the financial services industry. Experience may be gained up to ten years before or eight years after the CFP Certification Examination date. If the work experience requirement is not fulfilled within this time frame, the candidacy for certification may be terminated. The submitted experience record must be verified and attested to by the candidate's current supervisor, or a member of the senior management, or the human resources manager of the candidate's current employer. If

the candidate is a sole proprietor, a third party product provider may verify his or her experience.

#### **E. Clarify the management experience requirements for ROs**

All RO applicants are required to accumulate at least two years of management experience prior to submitting their RO application. Currently, the Competence Guidelines do not clearly prescribe what kind of management experience would be accepted by the SFC. As a result, the term may have been interpreted by market participants to include management experience accumulated in any industry, including those unrelated to the RAs.

Individuals who will be approved as an RO for a particular RA are expected to supervise that RA for their principals. They are expected to have knowledge and experience in managing the business in that RA. To provide more clarity to the industry, we propose to make clear that management experience 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, such as through managing a team conducting RAs, or an activity that would have been an RA in the absence of an applicable carve-out. For example, experience gained via managing a team of account executives engaging in brokerage activities or a team of professionals engaging in proprietary trading would be counted; whereas experience gained from managing purely administrative functions, such as human resources or office administration, would not be counted.

***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.***

#### **The IFPHK's Response**

The IFPHK welcomes the proposal to be more specific on the scope of management experience. We agree that to be eligible to be an RO, one must demonstrate themselves that they have the experience and ability to manage a team in the regulated activities for which they are applying. This experience should be specific on the regulated activities instead of administrative or back-office tasks.



### **Part III: Proposed amendments to the CPT requirements**

#### **A. Simplify the basis of the CPT requirements from the number of “RA competence groups” to “per individual”**

The current CPT requirements are set out in paragraph 4 of the 2003 version of the CPT Guidelines. In essence, an individual practitioner must undertake a minimum of five CPT hours per calendar year for each RA he or she engages in, except for Type 7 RA.

To align with international practice and the changes of requirements of other local regulators, e.g. the MPFA, and the IA. The SFC proposes to adopt “per individual” basis for CPT requirements. If a “per individual” basis is adopted in determining the CPT obligation, an individual will no longer need to assess the relevance of the CPT topics to an individual RA competence group.

Based on the above, it is proposed that each individual practitioner will be required to complete a fixed number of CPT hours per calendar year, regardless of the number of RAs that he or she is licensed for. The proposed change will simplify our regime and provide more flexibility for individual practitioners and their accredited firms when they plan CPT programmes and monitor annual compliance.

***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.***

#### **The IFPHK’s Response**

The IFPHK agrees with the proposed change to calculate CPT hours on a “per individual” basis to meet our principle of a level playing field and aligning with international practice. It is also easier to administer on a “per individual” basis. CFP certification also calculates CE on a “per individual” basis. All CFP certificants are required to renew their certification annually in order to continue using the CFP marks. To renew their certification, they must maintain technical competence and fulfill ethical obligations. They must complete a minimum of 15 credits of continuing education (CE) every year (two of which must be obtained from CE programmes on compliance or ethics), in order to stay current with developments in the financial planning profession and better serve clients.

**B. Specify 10 CPT hours per calendar year as the minimum requirement for LRs and Rels, with two additional hours on regulatory compliance for ROs and EOs**

In identifying the appropriate minimum number of CPT hours to be undertaken, one of our key objectives is to ensure that an individual undertakes training that enhances his or her technical skills and professional expertise and remains competent to perform his or her roles.

To bring the SFC's regime in line with similar regimes administered by other local and overseas regulatory and professional bodies, it is proposed to require LRs and Rels to take 10 CPT hours per calendar year. It is believed that this proposal appropriately balances meeting the need to enhance the benefits of CPT without overburdening the industry.

Senior management, ROs, and EOs should have the primary responsibility to ensure the maintenance of appropriate standards of conduct and adherence to proper procedures by their firms. They bear a high level of accountability for the effective and efficient management of their firms' RAs.

It is proposed that ROs and EOs should undertake two additional CPT hours on topics relating to regulatory compliance in addition to the 10 CPT hours required for all licensed individuals (i.e. a minimum requirement of 12 CPT hours per calendar year for ROs and EOs).

***Question 13:***

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

**The IFPHK's Response**

The IFPHK welcomes the proposed changes on CPT requirements. Indeed, to have adequate and structured continuous training is core in raising and/or maintaining professionalism of the financial services industry. However, the SFC may consider requiring 15 hours annually to align with the Insurance Authority.

As aforementioned, for recertification, CFP certificants are required to complete a minimum of 15 hours of continuing education credits. This requirement of 15 hours CE has been implemented since inception more than 20 years ago. In 2012, the IFPHK started requiring CFP certificants to complete two hours of CPD hours on ethics and compliance. We believe that not too many associations (or even regulators) mandate certificants to complete CPD on ethics and regulation. Thus, the IFPHK is one of the pioneering organizations in advocating and raising the ethical standards of the industry. We also perform sample audits every year, and we suspend the certifications of those who cannot fulfill their CE requirements, in line with our stringent CE-monitoring procedures.

Please note that the Insurance Authority will increase CPT hours to 15 hours in August 2021. Based on the principle of a level playing field, the SFC may wish to take this opportunity to align with other regulators by raising the CPT hours required to 15 hours per annum. We also urge the SFC to perform sample audits to monitor the CPT hours undertaken by their respective licensees. In addition, we think the two additional CPT hours on topics relating to regulatory compliance should be applicable to all licensees, as every practitioner (not just ROs and EOs) has responsibilities and obligations to ensure their compliance knowledge is up to date.

**C. Require each individual practitioner to attend at least five CPT hours on topics directly relevant to the RAs in which he or she engages**

It is proposed that each individual practitioner should attend at least five CPT hours per calendar year (out of the 10 hours for LRs and Rels, and 12 hours for ROs and EOs) on topics directly relevant to the RAs for which he or she is licensed. As a general principle, these five CPT hours should be allocated to cover the practice areas carried on by an individual in proportion to the time and effort that he or she spends in each area.

***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.***

**The IFPHK's Response**

The IFPHK has no further comment on the proposal of at least five CPT hours on topics directly relevant to their RAs every year. As aforementioned, CPT is intended to ensure licensees are maintaining technical competence, fulfilling ethical obligations, and receiving constant updates with regard to their industry. Thus, the IFPHK has always advocated having a structured CPT programme, and we welcome this proposal in the Consultation Paper. The IFPHK also suggests that the SFC give specific guidelines on the scope of the CPT courses that it considers relevant to each RA.

**E. Require each individual practitioner who first joins the industry in Hong Kong to complete two CPT hours on ethics within 12 months**

For individual practitioners who are new to Hong Kong (excluding temporary licensees) and as a one-off requirement, it is proposed that they should complete at least two CPT hours on topics relating to ethics within the first 12 months after they have obtained their licences.

For the avoidance of doubt, these CPT hours on ethics can be counted towards the annual requirement of 10 CPT hours for LRs and Rels or 12 CPT hours for ROs and EOs as described in the paragraph above. However, this cannot be counted towards the CPT requirements for conditional exemption of recognized industry qualifications and

local regulatory framework paper requirements.

**Question 15:**

***Do you agree with the proposed requirements concerning CPT on ethics and compliance? Please provide reasons to support your view.***

**The IFPHK's Response**

Again, the IFPHK thinks that a bridging course is more appropriate to serve as a competency requirement than requiring CPT hours. However, we do agree that a two-hour introductory course on ethics is good enough to serve the purpose of introducing the ethics behaviours of the local market for newcomers.

**Part IV: The way forward**

To allow sufficient time for preparation and adjustments, we propose to implement the revised Competence Guidelines and CPT Guidelines at least six months after their publication and in any event no earlier than 31 December 2021.

**Question 16:**

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

**The IFPHK's Response**

The IFPHK believes that a six-month implementation period would be sufficient.

## **Appendix A**

(Please see separate attachment)