



**FOR INTERNAL USE ONLY 只供內部使用**

Account Number 帳戶號碼 \_\_\_\_\_

Account Effective Date (dd/mm/yyyy)

帳戶生效日期 (日/月/年) \_\_\_\_\_

## Derivatives Knowledge Assessment Form (Individual)

### Important Notices to the Client

This form serves to help QMIS Securities Limited ("QMIS Securities")(SFC CE Number : ARK249) understands the Account Client(s) knowledge in Derivatives and accesses whether the Account Client(s) chosen Securities and/or any Investment Product(s) is/are suitable for the Account Client(s)' need(s). Answer the below **TEN (10) PRE-SET QUESTIONS** would facilitate QMIS Securities and/or your designated Portfolio Manager ("PM") to provide the Account Client(s) with quality Financial Services and Recommendations. The QMIS Securities' Portfolio Manager ("PM") should will inform the Account Client(s) of the Account Client(s)' assessment result shortly.

### SECTION A ACCOUNT INFORMATION

Account Client Name \_\_\_\_\_

Completion Date

(dd/mm/yyyy) \_\_\_\_\_

Account Number \_\_\_\_\_

Contact Number /

Mobile Number \_\_\_\_\_

☐ Individual / Primary Joint Account Holder

☐ Secondary Joint Account Holder

### SECTION B ASSESSMENT QUESTIONNAIRE (Please tick ✓ the appropriate box.)

- Do the Client(s) has/have any general knowledge about Derivatives, such as its nature(s) and risk(s)? Do the Client(s) appreciate if some "Investment Products / Funds the Client(s)' Portfolio Manager ("PM") using Derivatives to achieve the Client(s)' Investment Objectives ? (ONLY Choose ONE (1) answer)  
☐ A. **NO**, I **Do Not** have and I **Do Not Intend** to gain such knowledge.(Please go to the **Section D**)  
☐ B. **NO**, I **Do Not** have but I **Intend** to gain such knowledge.(Please go to the **Sections C & D**)  
☐ C. **YES**, I **Do Have** but I **Do Not Intend** to further gain such knowledge.(Please go to **Question 2** and **Section D**)  
☐ D. **YES**, I **Do** and I **Intend** to further gain such knowledge.(Please go to **Question 2** and **Sections C & D**)
- How do the Client(s) acquire the Client(s)' knowledge of Derivatives ? (Can Choose ONE (1) or More answer(s))  
☐ A. Completion of Course(s) organized by an **Academic** and/or a **Professional Institution**.  
☐ B. Completion of Training Course(s) organized by a **Professional Institution**.  
☐ C. Present and/or Past **Working Experience** which relating to Derivatives Products.  
☐ D. Trading Experience of **FIVE (5) or More Transactions** in any Derivative Product **Within The Past THREE (3) Years**.
- Which is/are "Common Type(s) of Derivatives" in the market? (Can Choose ONE (1) or More answer(s))  
☐ A. Futures  
☐ B. Options  
☐ C. Swaps.  
☐ D. Indexes  
☐ E. Forwards or Forward Contracts  
☐ F. All of the Above
- What is/are the Main Purpose(s) of Trading Derivatives in the Client(s)' Portfolio Management? (Can Choose ONE (1) or More answer(s))  
☐ A. Hedging  
☐ B. Income Enhancement

- ☐ C. Speculation
- ☐ D. Changing Asset Mix of Investment Portfolio
- ☐ E. Arbitrage
- ☐ F. All of the Above

**5. Which is/are the “Key Risk(s)” of using Derivatives? (Can Choose ONE (1) or More answer(s))**

- ☐ A. Market Risk
- ☐ B. Liquidity Risk
- ☐ C. Counterparty Credit Risk
- ☐ D. Social Risk
- ☐ E. Credit Risk
- ☐ F. All of the Above

**6. Which will cause Derivatives to “Enlarge Loss” in the Adverse Condition(s)? (ONLY Choose ONE (1) answer)**

- ☐ A. Hedging
- ☐ B. Leverage
- ☐ C. Redemption
- ☐ D. Switching

**7. Which is/are the “Common Character(s)” that can be found in Derivatives? (Can Choose ONE (1) or More answer(s))**

- ☐ A. Coupon
- ☐ B. Margin
- ☐ C. Premium
- ☐ D. Time Value

**8. Which is an “Incorrect statement”? (ONLY Choose ONE (1) answer)**

- ☐ A. Futures can be traded Over-The-Counter.
- ☐ B. Options can be traded Over-The-Counter.
- ☐ C. Futures can be traded on the Stock Exchange of Hong Kong (“SEHK”).
- ☐ D. Options can be traded on the Stock Exchange of Hong Kong (“SEHK”).

**9. What does “Hedging” involve? (ONLY Choose ONE (1) answer)**

- ☐ A. Holding a Portfolio of Assets in different markets.
- ☐ B. Holding both Derivatives and Assets.
- ☐ C. Taking a Futures Position “Opposite” to one’s Spot Market Position.
- ☐ D. Taking a Futures Position “Parallel” to one’s Spot Market Position.

**10. Which is a “Risk” led by Default of a Third Party ? (ONLY Choose ONE (1) answer)**

- ☐ A. Credit (Counterparty) Risk
- ☐ B. Liquidity Risk
- ☐ C. Management Risk
- ☐ D. Market Risk

**\*\* QUESTIONNAIRE IS FINISHED. \*\***

**If the Client(s) answer in QUESTION 1 is Either B or D, please spend time to go through SECTION C.**

## **SECTION C GENERAL KNOWLEDGE OF DERIVATIVES (\*\*OPTIONAL\*\*)**

Apart from assessment and characterize the Account Client(s)’ knowledge of Derivatives and basic requirement from the Securities and Futures Commission Hong Kong (“the SFC”), QMIS Securities, as a responsible intermediary, is highly recommended the Account Client(s)’ to understand the Natures, Key Features, Risks and/or Benefits of Derivatives Instruments Before Trading and Entering in ANY Transaction. Upon successful completion of the “Derivatives Knowledge Assessment Form (Individual)” and this Section C, the Account Client(s) should be characterized as having general knowledge of Derivatives by QMIS Securities and may subscribe to the relevant Investment Product(s) and/or Funds Products afterwards.

***The Account Client(s)' Assessment Result should be normally be Updated & Recorded within FIVE (5) Working Days upon receipt by QMIS Securities.***

## TOPIC 1 WHAT IS "DERIVATIVES" ?

"**DERIVATIVES**" is a Financial Instrument with a value that is reliant or derived upon from an underlying Asset or group of Assets. The Derivative itself is a contract between **TWO (2) or More Parties** based upon the Asset and/or Assets. Its price is determined by fluctuations in the underlying Asset.

The **Most Common** underlying assets include:

- |                        |                   |                   |                                |
|------------------------|-------------------|-------------------|--------------------------------|
| 1/ Securities / Stocks | 2/ Bonds          | 3/ Commodities    | 4/ Foreign Exchange (Currency) |
| 5/ Equity              | 6/ Interest Rates | 7/ Market Indexes |                                |

"**DERIVATIVES**" can either be traded:

- |                             |                   |
|-----------------------------|-------------------|
| 1/ Over-The-Counter ("OTC") | 2/ On An Exchange |
|-----------------------------|-------------------|

## TOPIC 2 COMMON TYPES OF DERIVATIVES

There are **FOUR (4) Basic Types** of Derivatives Instruments in Hong Kong.

### TYPE 1 "Futures"

"**Futures**" are standardized **Financial Agreements** and/or **Contracts** obligating the buyer to purchase an Asset or the seller to sell an Asset, such as a physical commodity or a **Financial Instrument**, at a **Predetermined Future Date and Price**.

### TYPE 2 "Forwards" or a "Forward Contracts"

"**Forwards**" or a "**Forward Contract**" is/are a **Customized** (i.e. **Non-Standardized**) **Contract(s) / Agreement(s)** similar in nature to a Futures except it is **Traded Over-The-Counter** ("OTC"). It enables **TWO (2) Parties** to buy or sell an Asset at a specified price on a future date.

### TYPE 3 "Options" or an "Option Contract"

An "**Options**" or an "**Option Contracts**" can be "**Traded On An-Exchange**" or "**Traded Over-The-Counter**" ("OTC"). It offers the buyer the right, but not the obligation, to "**Buy**" ("**Call**") or "**Sell**" ("**Put**") a predefined amount of the underlying asset at a **Predetermined Price** (**The Strike Price**) during the certain period of time or on a **Specific Date** (exercise date).

### TYPE 4 "SWAPS"

"**SWAPS**" is a "**Derivative Contract**" through which **TWO (2) Parties Exchange Financial Instruments** (or **Income Stream**). These instruments can be almost anything, but most SWAPS involve cash flows based on a "**Notional Principal Amount**" that both parties agree to.

(\*\*Remarks : "**Futures**" and "**Forwards**" or a "**Forward Contracts**" is the **most popular Traded Derivatives** in Hong Kong and they are mostly the foundation for all Derivatives.\*\*)

## TOPIC 3 DISTINGUISH FEATURES OF DERIVATIVES

There are **THREE (3) Key Distinguish Features** of "**Derivatives**" :

### FEATURE 1 "Risk-Shifting"

"**Derivatives**" are mostly used to "**Reduce Exposure**" to changes in Foreign Exchange Rates, Interest Rates, or Securities Indexes.

## FEATURE 2 “Leverage”

“**Derivatives**” are the “**Powerful Leverage Tools**”. Leveraging acts to multiply (favorably or unfavorably) the impact on the total repayment obligations of the Parties to the Derivative Instrument(s).

## FEATURE 3 “Time-Limit”

“**Derivatives**” have a “**Maturity**” or “**Expiration Date**” after which they become “**Worthless**” or “**Automatically Terminate**”. For examples, “**Optional Instruments**” have a specified life during which the holder can exercise some sort of right. At the end of that life, the contract expires whether that right has been exercised or not.

## TOPIC 4 WHAT IS THE RELATIONSHIP BETWEEN “DERIVATIVES” AND “FUND INVESTMENTS”?

Nowadays, Derivatives are becoming more popular as an Investment Techniques in Mutual Funds. Most of the Fund Managers use Derivatives Instrument to “**Reduce Risks or Costs**” or to a “**General Additional Capital**” or an “**Income**” in order to meet the “**Investment Objectives**” of the Investment Products and/or Funds. They often play a useful role for hedging and/or managing risk.

Derivatives are also used for other purposes. They can be used to make “**Speculative Investments**” on the movement of the value of the underlying asset, to obtain exposure to an area that it is not possible to invest in directly, or create option ability where the value of the Derivative is linked to a specific condition and/or event.

In general, there are Three (3) Main Purposes for the Client(s) and/or his/her/their Fund Managers' Portfolio Management :

- 1/ **Hedging**                      2/ **Income Enhancement**                      3/ **Changing Asset Mix of Their Investment Portfolio**

## TOPIC 5 BENEFITS OF USING DERIVATIVES IN THE PORTFOLIO MANAGEMENT AND FUND INVESTMENTS

The Client(s) or Portfolio Manager(s) or Fund Manager(s) often use Derivatives as a Financial Instruments to “**Greater their Flexibility**” and/or “**Cost Savings**” in achieving their intended Investment Objectives.

Other Benefits of the Derivative Instruments such as :

- 1/ **Hedge Against Adverse Movements In Price** : Possibly.
- 2/ **Risk Management** : **Hedging** and **Speculation Strategies**, along with **Derivatives**, are useful tools and/or techniques that enables the Client(s) or Portfolio Managers or Fund Managers to more effectively manage risks.
- 3/ **Reduce Market Trading Transaction Costs** : Derivatives are a “**Form of Insurance**” or “**Risk Management**”, the “**Cost of Trading**” in them are **Comparative Low**.
- 4/ **Gain Exposure** : Derivatives can allow you to underlying asset classes without having to spend the time and/or money to physically acquire those Assets.
- 5/ **Multiplication** : Derivatives are “**Highly Leveraged Product**” which enables a “**Multi Return**” on the Client(s)' or Portfolio Manager(s)' or Fund Manager(s)' investment if the Client(s) or Portfolio Manager(s) or Fund Manager(s) can establish a comparatively low position by chance.
- 6/ **Arbitrage a Risk-Free Profit** : Possibly by exploiting mismatches in pricing between the Cash and Derivatives Markets.

## TOPIC 6 MAJOR RISKS INVOLVED IN DERIVATIVES

The “**Risks**” and/or “**Benefits**” by using of Derivatives Instruments in Portfolio Management and/or Fund Investments are **Comparatively Higher** than normal traditional Securities Transactions and/or Financial Instruments.

*The use of Derivatives Instruments may give rise to a form of Leverage, which may cause the “Net Asset Value” (“NAV”) of these Transactions / Funds to be more volatiles and/or change by greater amounts than if they had not been leveraged. A relatively small market movement will have a proportionately larger impact which may work for or against these Transactions / Funds.*

There are **FIVE (5) Types of Major Risks** relating to the use of Derivatives:

<b>1/ Counterparty Risk</b>	The risk that a loss may be sustained by a portfolio management or a fund as a result of a counterparty whom shall not live up to its contractual obligations.
<b>2/ Portfolio or Fund Management Risk</b>	Derivatives instruments are highly specialized instruments that require " <b>Investment Techniques</b> " and " <b>Risk Analyses</b> " different from those associated with Securities and/or Bonds. The Portfolio Manager or the Fund Manager or the Fund House who fails to follow the Fund Prospectus and/or Policies is/are also the major " <b>Portfolio Management / Fund Management Risk</b> " too.
<b>3/ Liquidity Risk</b>	The Risk that buyers and/or sellers may not exist when it is necessary or desirable to enter or exit a position or lack of marketability which cannot be bought or sold quickly enough to prevent or minimize a loss.
<b>4/ Market Risk</b>	The Risk that arises from movements in prices as a result of changes in market conditions. Since most Derivatives Products involve a degree of leverage, market risks can be substantial.
<b>5/ Settlement Risk</b>	The Risk that one party may fail to deliver the terms of a contract with another party at the time of settlement. This Risk exists when <b>Futures, Forwards, Contracts</b> for different <b>Options</b> and <b>SWAPS</b> (of any type) are not settled in a timely manner, thereby increasing <b>Counterparty Credit Risk</b> prior to settlement and potentially incurring funding costs that would otherwise not be experienced.

## TOPIC 7 HOW TO KNOW IF THE PORTFOLIO MANAGER, THE FUND OR THE CLIENT(S)' FUND MANAGER MAY USE DERIVATIVES INSTRUMENT(S) FOR INVESTMENT PURPOSES?

There are several useful ways to know if the **Portfolio Manager**, the **Fund** or the Client(s)' **Fund Manager** using **Derivatives Instrument(s)** in the Investment(s):

Here are **FOUR (4) Effective Ways** for your reference :

- 1/ Refer to the "**Latest Fund Prospectus**" ;
- 2/ Refer to the "**Investment Policy(ies)**" ;
- 3/ Checking with the "**Fund House**" or the "**Licensed Corporation**" (i.e. "**QMIS Securities**" and/or "**QMIS AM**") ;
- 4/ Checking with your "**Portfolio Manager**" ("**PM**") and/or "**Fund Manager**" ("**FM**").

### **IMPORTANT NOTICES:**

*Investment involves "**RISK**". Before trading, investment and/or start any trading transactions, the Account Client(s) should seek an "Independent Advice" on the suitability or otherwise of any particular investments. Please refer to the relevant offering document(s) and/or financial report(s) for further information including the "**RISKS FACTORS**".*

## SECTION D ACKNOWLEDGEMENT AND SIGNATURE

- ☐ I / (We), \_\_\_\_\_ (Full Name in Block Letters) hereby **Confirm** that the above information is **Valid, True and Correct** and I / (We) provide **QMIS Securities** with the above information wholly based on my/(our) **Own Judgement and Decision**.
- ☐ I / (We), \_\_\_\_\_ (Full Name in Block Letters) hereby **Acknowledge** that I / (We) have **Read and Studied** the **Section C : General Knowledge Of Derivatives** which offered by **QMIS Securities** and now I / (We) have the basic knowledge of **Derivatives**.
- ☐ I / (We), \_\_\_\_\_ (Full Name in Block Letters) hereby **Acknowledge** and **Confirm** that I / (We) **Received and Read** the "**Personal Data (Privacy) Ordinance Statement**" attached and the "**QMIS Securities' Agreement for Securities Trading Account**" entered into by me / (us). I / (We) **Understand and Agree** that the information collected from me / (us) in this form together with any subsequent alternations and/or supplements to it can be used and/or transferred in accordance with any of the uses and purposes (including in relation to direct marketing) and/or to any of the transferees as **Fully Described** in the "**Personal Data (Privacy) Ordinance Statement**" and **Agreed** by me / (us) pursuant to the "**QMIS Securities' Agreement for Securities Trading Account**".

Signature of Account Holder(s)

Print Name (Full Name in Block Letters)

\_\_\_\_\_

\_\_\_\_\_

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### Assessment of Derivatives Knowledge:

From the above information provided by the Client(s), his/her/their “Derivatives Knowledge Classification” is :

☐ Well Known

☐ Average

☐ Lack of Knowledge

Signature,

Checked and Approved By \_\_\_\_\_

Name

(Full Name in Block Letters) \_\_\_\_\_

Title ☐ Compliance Officer ☐ Responsible Officer

Date of Approval (dd/mm/yyyy) \_\_\_\_\_