Guideline No. 5.1.4

5 February 1994

To: The Chief Executive
Authorized Institutions

Dear Sir / Madam,

Role of the receiving bank in new share issues

The role of the receiving bank in relation to new share has hitherto been conducted mainly by a few large banks. It has become apparent from recent approaches to the Monetary Authority that a number of other banks are also interested in acting as receiving banks.

The Monetary Authority has no objection in principle to a particular bank performing the role of a receiving bank. However, we would wish to be satisfied that the bank is capable of performing this role prudently and efficiently. We believe that it is important that a bank should only take on a new share issue exercise which is manageable in relation to its operational and capital resources.

Thus, a bank which does not act regularly as a receiving bank or which proposes to act in respect of an issue which is larger than those it normally handles, should discuss the proposal with the HKMA well in advance. In considering the proposal, we would wish to be satisfied that the bank has adequate systems and manpower resources for processing the share applications and that is well placed to recycle the application monies arising from the new share issue.

Separately, the Monetary Authority has been looking at the scope improving aspects of the operating environment within which the processing of share applications and the recycling of applications monies take place. The first concerns the timing deadline for the submission of applications. It seems that some receiving bank have not had sufficient time to process and count applications cheques, thus affecting their ability to estimate more accurately the amount they have to recycle before the close of the market. We feel that it may help if the deadline is advanced from soon to, say , 10 a.m. The second concerns how some lending banks fund themselves. We understand that some banks have not made prior funding arrangements with the receiving banks before lending substantial amounts to customers. As a result they have sometimes found themselves unable to borrow adequate funds on the closing day. It seems advisable that banks which are active in this area should be encouraged to secure prior funding arrangements before lending large amounts to customers for the purpose of subscribing to new share issues. Banks are requested to comply with these recommendations.

In May 1993, the HKMA issued a guideline setting our recommended limits on a receiving bank's exposures to individual authorized institutions ("Ais") to which it recycle its application monies. It may now be helpful to elaborate on that guideline in the light of experience, as follows:

I. The aggregated exposure of the receiving bank to individual AIs in respect of recycled application monies <u>and</u> other types of exposure should generally be no higher than its normal credit limit for the AI in question.

II. There may be cases where a receiving bank's "normal" interbank limits are relatively low and it is felt that they may safety be increase should be carefully justified and controlled. It should not in any case result in a limit for an individual AI being increased to more than 25% of the receiving bank's solo capital base as required for capital adequacy purposes. Where the receiving bank is a branch in Hong Kong of a foreign bank, the limit will be 25% of the whole bank's solo capital base. Where the receiving bank is a subsidiary of a foreign bank, the limit will be 25% of the receiving bank's solo capital base.

It is possible that towards the close of the trading day, a receiving bank may find it has not been able to fully recycle the application monies. When this happens, the receiving bank would of course be able to place the surplus funds with the Liquidity Adjustment Facility of the Exchange Fund.

The Monetary Authority will continue to monitor carefully AIs' involvement in the financing of new share issues. Our guideline in this area will be kept under review and may be modified in the light of experience.

Your faithfully,

D T R Carse
for Monetary Authority