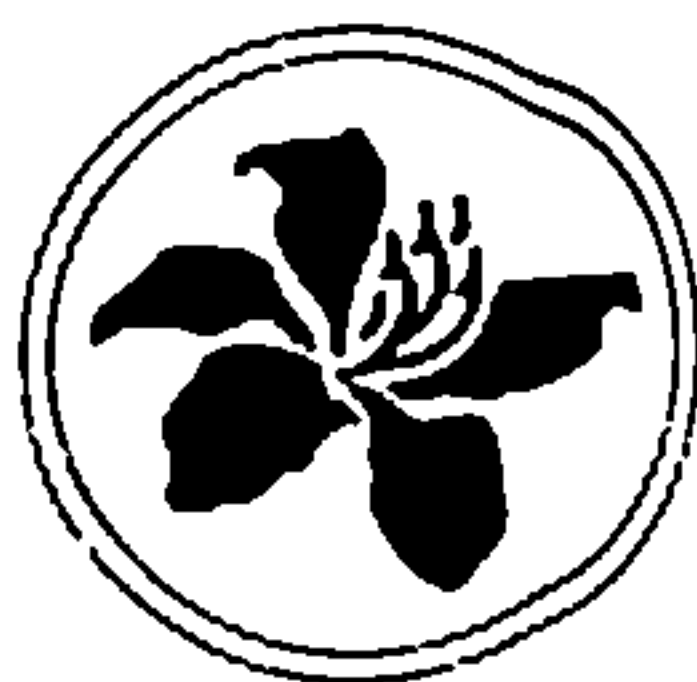




D T R Carse JP
Deputy Chief Executive (Banking)

簡達恆 太平紳士
副總裁(銀行)

Our Ref : CB/POL/6/10/3

19 December 1994

The Chief Executive
All Authorised Institutions

Dear Sir/Madam,

Leveraged Foreign Exchange Trading Ordinance 1994

The Securities and Futures Commission (SFC) issued in July detailed rules and requirements which apply to traders who are licensed under the above Ordinance which came into effect on 1 September 1994. The Leveraged Foreign Exchange Trading (Books, Contract Notes and Conduct of Business) Rules ("the Rules") were published in the Gazette on 22 July 1994. These deal with such areas as:

- the issue of contract notes and statements of account
- client agreements
- margin requirements
- operating procedures

A copy of the Rules is attached at Annex A and the key principles are summarised

in Annex B.

Authorised institutions are not subject to the licensing and regulatory regime set out in the above Ordinance nor to the rules made under it by the SFC. This acknowledges that authorised institutions are subject to their own supervisory regime set out in the Banking Ordinance.

It should however be noted that some of the provisions of the above Ordinance are of general application to all persons e.g. sections 39 and 40 concerning unsolicited calls and employment of fraudulent or deceptive devices respectively. Authorised institutions, particularly those which are already involved in leveraged forex business should therefore familiarise themselves with these aspects of the Ordinance.

It is the Monetary Authority's expectation that all the activities of authorised institutions should be conducted in a responsible, honest and business-like manner.

Institutions are therefore required to be financially sound, to be prudently managed by fit and proper persons and to have adequate systems of internal control for the various aspects of their business. Within this overall framework, it is not generally the practice of the Monetary Authority to provide detailed guidance in relation to particular products offered by authorised institutions to their customers. However, where such rules have been established by another supervisor in relation to non-authorised institutions which engage in a particular class of business in which authorised institutions are also engaged, it is clearly necessary to consider the implications of such rules for authorised institutions. Generally the presumption would be that authorised institutions should be subject to the same, or higher, standards.

Generally speaking it appears that authorised institutions are following practices which are comparable to those set out in the Rules, though some institutions have queried the relevance or purpose of some of the detailed requirements contained in the Rules. It is not the Monetary Authority's intention to make adherence to the Rules compulsory for authorised institutions. Nonetheless, we believe that the Rules do provide an appropriate guide to the standards which authorised institutions should maintain. Institutions should therefore study the Rules carefully and should assess whether their own practices should be brought into line with the Rules where they do not already comply. The Monetary Authority will use the Rules as a guide in conducting on-site examinations of institutions' leveraged forex business and institutions will be required to justify any departure from the Rules. In such cases, the Monetary Authority would look to be satisfied that alternative procedures and practices were in place which achieved the same objective as the Rules.

Yours faithfully,

D T R Carse
Deputy Chief Executive (Banking)

c.c. SFS (Attn : Mrs Erika Hui)
SFC (Attn : Mr Siva Singham)
HKSA (Attn : Mr James Fawls)
Auditors of authorised institutions