Annex B

Leveraged Foreign Exchange Trading (Books, Contract Notes and Conduct of Business) Rules

The key principles of the above Rules are set out below for reference of authorised institutions. Institutions engaging in or intending to engage in leveraged foreign exchange business should have regard to the Rules, the Monetary Authority's Guidelines on Foreign Exchange Risks and Internal Control Systems and the Code of Conduct issued by the Hong Kong Foreign Exchange and Money Market Practice Committee.

Keeping of proper records

Authorised institutions should maintain proper records of leveraged foreign exchange contracts and transactions they have entered into with or on behalf of their clients. The records should enable the management of the institution to ensure that the transactions are carried out by its staff in accordance with established policies and procedures, that the positions of individual clients are accurate and up to date and that the records would enable an audit to be conveniently and properly carried out.

The clients should be informed adequately and in a timely manner of transactions entered into by the institution on their behalf, the balance in their accounts, and movements in cash, margin deposits, income and expenses, and profits and losses.

Client agreement

The institution should explain clearly to its clients the terms and conditions of the agreement and enter into a formal written agreement with a client before executing on the latter's behalf leveraged foreign exchange transactions. Discretionary account services should form a separate agreement. The client agreement (and also advertisements) should include a statement which explains clearly the inherent risk of leveraged foreign exchange transactions. Institutions are advised to adopt the following Risk Disclosure Statement specified in the SFC Rules or statements with substantially similar contents:

"The risk of loss in leveraged foreign exchange trading can be substantial. You may sustain losses in excess of your initial margin funds. Placing contingent orders, such as "stop-loss" or "stop-limit" orders, will not necessarily limit losses to the intended amounts. Market conditions may make it impossible to execute such orders. You may be called upon at short notice to deposit additional margin funds. If the required funds are not provided within the prescribed time, your position may be liquidated. You will remain liable for any resulting deficit in your account. You should therefore carefully consider whether such trading is suitable in light of your own financial position and investment objectives."

Margin requirements

Institutions should set appropriate initial and maintenance margin levels. These minimum margin levels should be approved by the appropriate senior management of the institution (having regard to the risks involved and the levels specified in the SFC Rules, currently 5 percent and 3 percent respectively).

Other recommended practice

Institutions should have established policies governing or prohibiting personal dealings in leveraged foreign exchange transactions by their employees.

Appropriate procedures and/or devices (e.g. a centralised tape recording system) should be established to avoid disputes in respect of client instructions and contract execution.

Proper procedures and recording systems should be established to ensure that client complaints are dealt with promptly and remedial action is taken as soon as possible.