Our Ref: B1/15C

22 July 2004

The Chief Executive
All Authorized Institutions

Dear Sir / Madam,

Enhanced security measures on refund cheques in initial public offerings (IPOs)

(I) New long-term measures for better security of refund

The HKMA issued a circular on 2 March 2004 recommending authorized institutions (AIs) to adopt certain interim measures to address the risks associated with fraud cases involving stolen IPO refund cheques. Since then, we have been working with the Securities and Futures Commission, the IPO Working Group of the Hong Kong Association of Banks, and the Federation of Share Registrars to devise long-term measures to prevent the misappropriation of IPO refund cheques. As a result of these efforts, **the relevant parties have agreed to implement the following arrangements for all IPOs launched on or after 9 August 2004**:

(a) Part of the Hong Kong identity card number or passport number (as the case may be) of an IPO subscriber will be printed immediately below the subscriber's name (i.e. the cheque payee) on the refund cheque. Certain positions of the Hong Kong identity card number / passport number are deliberately masked out and will be represented by asterisks. A sample of IPO refund cheque with such security features is enclosed at Annex A for reference.

(b) Before accepting the deposit of an IPO refund cheque, the handling staff of an AI should cross-check both the name and the printed part of Hong Kong identity card number / passport number (hereafter referred to as "the part ID number") of the payee shown on the cheque against the AI's own records on the same information of the holder of the account in which the cheque is to be deposited. In the case where the part ID number shown on the refund cheque cannot be matched against the AI's records (e.g. where a different identity document of the payee is maintained in the AI's records), the staff should request the customer to produce for verification the relevant identity document.

(c) AIs should review their policies and procedures for verification of identity of the payee of the IPO refund cheques to ensure that they provide clear guidance to staff as to the circumstances in which such cheques may be accepted or rejected.

(d) The IPO subscription forms will draw the subscribers' attention to the fact that their bankers may require verification of their Hong Kong identity card number or passport number before encashment of their refund cheques. Please refer to Annex B for a specimen IPO subscription form.

For the effective implementation of the above security measures, AIs should take timely actions to revise their procedures for handling IPO refund cheques and educate their frontline staff[1] accordingly.

(II) Interim measures no longer required

Upon the implementation of the above long-term measures, AIs are no longer required to adopt the interim measures set out in section (III) of the HKMA circular "Fraud cases involving stolen refund cheques in initial public offerings (IPOs)" of 2 March 2004. AIs should nevertheless incorporate such of these measures as they deem appropriate into their policies and procedures established pursuant to (I)(c) above for guarding against the misappropriation of IPO refund cheques.

Yours faithfully,

Arthur Yuen
Executive Director (Banking Development)

c.c. Chairman, Hong Kong Association of Banks
SFC (Attn: Mr Mark Dickens, Executive Director)

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[1] These should include all staff members who are responsible for handling cheque deposits, regardless of the means of depositing the cheques, e.g. through counters, drop-in boxes or ATM machines.