HONG KONG MONETARY AUTHORITY
香港金融管理局

Circulars

26 Jan 2007

Supervisory Policy Manual ("SPM") CR-S-4 : New Share Subscription and Share Margin Financing

Ref.: B1/15C
B1/21C

26 January 2007

The Chief Executive
All authorized institutions

Dear Sir/Madam,

Supervisory Policy Manual ("SPM")
CR-S-4 : New Share Subscription and Share Margin Financing

I am writing to inform you that, following consultation with the two industry Associations, the Monetary Authority is issuing the above SPM module as a statutory guideline by notice in the Gazette today under section 7(3) of the Banking Ordinance. This module takes immediate effect and supersedes the guidelines and circulars previously issued on the subject.

The purpose of this module is to set out the minimum business and control standards expected of AIs which are engaged in IPO-related or share margin financing activities, including (i) financing their clients' subscription for new shares in an IPO, (ii) performing the role of a receiving bank in an IPO, and (iii) providing share margin financing to their clients (including stockbrokers and investors). In addition, the module analyses the risks that are relevant to AIs involved in such activities, and draws their attention to the security measures that they should observe in handling IPO refund monies.

In developing this module, the HKMA has taken into account its supervisory experiences and guidelines and circulars previously issued to AIs on the subject, relevant standards and requirements issued by the Securities and Futures Commission (SFC) on securities margin financing, and current industry practices.

Most of the requirements set out in the module are not new. The opportunity is taken to further enhance some existing requirements relating to receiving banks. In particular, emphasis is made on the need for a receiving bank to be able to thoroughly assess the financial impact arising from an IPO and to adequately plan for and manage the recycling of application monies. In addition, there are some new requirements on share margin financing, including the requirements for lending AIs to observe (i) relevant SFC requirements to enhance the disclosure of account information to share margin financing clients and (ii) some precautionary measures on lending to stockbrokers to mitigate the risk of unauthorized pledging of shares associated with such lending.

On-line access to the SPM module is available to AIs under the icon "Supervisory Policy Manual" in the HKMA's public (http://www.info.gov.hk/hkma) or private (http://www.stet.finnet.hk/index.htm) website.

Should you have any questions relating to the module, please contact Rita Yeung at 2878 1388 or Ronnie Wong at 2878 1399.

Yours faithfully,

Simon Topping
Executive Director (Banking Policy)

Encl.

cc. The Chairman, Hong Kong Association of Banks
The Chairman, The DTC Association
FSTB (Attn: Ms Angelina Kwan)

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