ROLE OF THE RECEIVING BANK IN NEW SHARE ISSUES

A Guideline Issued by the Monetary Authority
Under Section 16(10) of the Banking Ordinance

1 Introduction

1.1 This Guideline is issued under Section 16(10) of the Banking Ordinance ("the Ordinance").

1.2 It is one of the Minimum Criteria for Authorisation, as set out in Paragraph 12 of the Seventh Schedule to the Ordinance, that the Monetary Authority should be satisfied that the business of an authorised institution is conducted with integrity, prudence and the appropriate degree of professional competence. This Guideline, which supplements but does not supersede the earlier Guideline [1] on this subject, provides guidance to authorised institutions, in the light of recent experience, on various considerations in relation to performing the role of receiving bank in new share issues. The Monetary Authority would expect institutions intending to perform this role to have due regard to these considerations.

1.3 This Guideline should be read alongside the Securities and Futures Commission's Corporate Finance Adviser Code of Conduct [2], which sets out in detail the responsibilities of an Adviser acting as a sponsor in respect of IPOs. While this makes it clear that it is the sponsor who bears ultimate responsibility for the overall management of the public offer, the role played by the receiving bank (or banks) is also important, and receiving banks should ensure that they collaborate closely with the sponsor to try to ensure that the process runs smoothly.

2 Considerations in relation to performing the role of receiving bank in new share issues

2.1 [3] An institution should only take on a new share issue exercise which is manageable in relation to its operational and capital resources;

2.2 [3] An institution 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 institution's usual contact in the

[1] Number 5.1.4, issued 5 February 1994.
[2] Currently in draft form - See the SFC's Consultation Paper of May 2000.
[3] Included in the earlier Guideline.

HKMA Banking Supervision Department well in advance. In considering the proposal, the HKMA will wish to be satisfied that the institution has adequate systems and manpower resources;

2.3 There should be a clear understanding of the respective roles and responsibilities of the receiving bank and the sponsor. The receiving bank's role is to act as an agent of the sponsor and to follow the sponsor's instructions. However, if the receiving bank is not comfortable with its instructions it should endeavour to make this known to the sponsor;

2.4 There should be very close co-operation, good communication and a climate of trust between the sponsor and the receiving bank.

2.5 The receiving bank should ensure that it is given as much information on the issue as possible as soon as confidentiality restrictions do not preclude this. This will help the bank to form its own view on the likely response to the issue and the adequacy of the resources and manpower it has made available to handle the issue;

2.6 There should be as accurate an assessment as possible of the likely popularity of the issue, and this should be kept in view throughout the process and revised accordingly. While this is primarily a matter for the sponsor, if the receiving bank is uncomfortable with the estimates it should make this known clearly to the sponsor;

2.7 The receiving bank should satisfy itself that proper consideration is given to the number of branches to be designated as receiving branches. Being sure that the arrangements will be sufficient to cope with the demand should be the first priority; this may mean designating more branches as receiving branches than has been the practice hitherto;

2.8 The receiving bank should agree with the sponsor in advance a formal contingency plan for coping with an unexpected level of interest in the issue. This should include the following areas:

- The possibility of adding additional branches as receiving branches if necessary, including the related publicity issues;

- The possibility of bringing in another receiving bank to assist in the collection and/or processing of applications;

- The possibility of extending the closing time for submission of applications, if feasible;

- Arrangements for printing and distributing additional copies of application forms and prospectuses if necessary;

- Arrangements for drafting in additional staff if necessary; and

- Arrangements for liaison with the police on crowd management issues.

2.9 The receiving bank should work closely together with the sponsor should there be any question as to whether contingency measures should be triggered. While this is primarily a matter for the sponsor, the receiving bank should ensure that any concerns it may have are addressed;

2.10 The receiving bank should ensure that sufficient resources, including management resources, are devoted to the process. For popular issues, the bank should establish a command centre to co-ordinate the receipt of information about the subscription and to escalate issues to senior management should that prove necessary;

2.11 The receiving bank, in collaboration with the sponsor, should ensure that the security arrangements, including in respect of queue management, are appropriate, and that the minimisation of risks to safety and public order are foremost;

2.12 The receiving bank should keep the HKMA informed of any major problems arising from the subscription in a timely fashion.

Hong Kong Monetary Authority
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