Our Ref : G16/1C
B1/15C

16 March 2001

The Chief Executive
All authorized institutions that are exempt dealers

Dear Sir / Madam,

The Revised Code of Conduct
for Persons Registered with the Securities and Futures Commission

I am writing to inform you that the Securities and Futures Commission ("SFC") has recently revised the Code of Conduct for Persons Registered with the SFC ("Revised Code"). This is now available on the SFC web-site (http://www.hksfc.org.hk).

Major changes introduced by the Revised Code are found in the following areas:

- (paragraph 3.7) Separate accounts – Separate accounts should be maintained for each client for transactions concluded on a cash basis or a margin basis.

- (paragraph 3.9) Order recording – Order instructions should be recorded (for phone orders, with the use of a telephone recording system) and immediately time-stamped.

- (paragraphs 6.1 to 6.4 and schedule 1) Client agreement and Risk disclosure statements – These documents should contain the minimum content as required in paragraph 6.2 and be executed in the required manner (e.g. explanation of the terms and relevant risks, provision of a copy to the client, and signed declaration by staff and acknowledgement by client regarding the risk disclosure process). New risk disclosure statements with respect to different products and services, e.g. margin trading and hold mail, are contained in Schedule 1.

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- (paragraph 7.1) Authorization and operation of a discretionary account – The terms of the authority should be properly explained to the client. Discretionary accounts should also be subject to annual confirmation with clients of the discretionary authority, explicit designation in the client agreement and internal records, senior management approval, and internal control procedures.

- (paragraph 8.3) Timely and accurate reporting – Monthly statement of account bearing the required specifications and contents should be issued.

- (paragraph 12.2) Employee dealings – Specific restrictions and controls should be implemented for employees' accounts and related accounts.

- (paragraphs15.1 to 15.5) Professional investors – Certain provisions of the Revised Code may be waived with respect to a client who is a professional investor as defined in paragraph 15.2.

The Revised Code will take effect on 1 April 2001, with the exception of paragraphs 3.9, 5.1, 6.1, 6.2 and paragraph 1A in Schedule 4 which will take effect on 1 October 2001 to provide more time for registered persons to prepare for compliance.

As stipulated in our Guideline on "Supervision of Exempt Dealers" issued in December 1995, the HKMA expects authorized institutions that are exempt dealers to follow the practices set out in the Code of Conduct. Your institution is therefore expected to study the Revised Code carefully and ensure its compliance with the recommendations therein.

Yours faithfully,

(Y K Choi)
Executive Director
(Banking Supervision)