



Circulars

26 Mar 2007

## Preventive measure against multiple applications in initial public offerings (IPOs)

Our Ref: B1/15C

26 March 2007

The Chief Executive  
All Authorized Institutions

Dear Sir/Madam,

### Preventive measure against multiple applications in initial public offerings (IPOs)

I am writing to draw the attention of all authorized institutions (AIs) to a new measure to prevent multiple applications in IPOs and some good practices that will help AIs identify and reject such applications.

#### New measure on IPO refund cheques

Recently, there have been incidents of suspected IPO multiple applications bearing identical applicant names with similar Hong Kong ID number or passport number<sup>1</sup> (hereafter referred to as "identity number"). Against this background, the HKMA, the Securities and Futures Commission (the SFC), the Hong Kong Association of Banks, and the Federation of Share Registrars have been working together to devise a measure to deter future attempts of multiple applications.

Under the new measure, the masked positions of identity numbers to be printed on refund cheques for each IPO will be randomly selected by computer programme of the responsible share registrar. This measure, which will take effect **for all IPOs launched on or after 2 April 2007**, will replace the existing arrangement of masking the 5th and 6th digits of the identity number on refund cheques for all IPOs. Please refer to [Annex](#) for a copy of the related press release.

To ensure effective implementation of the new measure, AIs should take appropriate actions to -

- (a) communicate the new measure to all relevant staff members<sup>2</sup>; and
- (b) ensure strict adherence by all relevant staff members to the requirement of proper verification of the identity of the payee of IPO refund cheques<sup>3</sup>. In

particular, an IPO refund cheque should be accepted only if the name and all of the printed positions of the identity number of the payee shown on the cheque match with the name and the corresponding positions of the identity number of the account holder. Where an IPO refund cheque is not accepted by an AI due to unsatisfactory result of the identity verification, the AI may suggest the subscriber contacting the relevant share registrar for assistance.

### **Controls when acting as a nominee to lodge IPO applications**

Als should also put in place adequate controls to identify and reject multiple applications when they act as nominees to lodge IPO applications on behalf of their securities customers or IPO financing borrowers<sup>4</sup>. Als are recommended to consider adopting the following good practices -

- (a) automate the checking process of the subscribers' identity number, including identification and rejection of multiple applications from the same person in an IPO by their computer systems;
- (b) implement the automated checking and rejection procedures on a consolidated basis to cover all channels of applications (such as Internet banking, phone banking and branches) to prevent multiple applications through different channels of the AI; and
- (c) document the related control procedures in policies or procedural manuals, and properly communicate such control procedures to all relevant staff members involved in the handling of IPO applications.

Should you have any questions about the content of this circular, please contact Mr Shu-pui Li at 2878-1826 or Ms Alice Lee at 2878-1603.

Yours faithfully,

Arthur Yuen  
Executive Director (Banking Supervision)

<sup>1</sup>The differences were only in the 5th and 6th digits of the identity number because these two digits are masked by an asterisk "\*" on the IPO refund cheque. It appeared that some IPO applicants had attempted to circumvent the existing arrangement for masking identity numbers in the refund cheques.

<sup>2</sup>The relevant staff members should include those personnel who are responsible for handling cheque deposits, for example through counters, drop-in boxes or ATM machines.

<sup>3</sup>Refer to the HKMA circular on "Enhanced security measures on refund cheques in initial public offerings (IPOs)" of 22 July 2004.

<sup>4</sup>For the purpose of this circular, securities customers and IPO financing borrowers do not include registered institutions and licensed corporations as defined in the Securities and

Futures Ordinance.

Encl.            [Controls vs multiple IPO applications](#) (Word file, 30KB)

c.c.            SFC (Attn: Mr Keith Lui, Executive Director, Supervision of Markets)  
Chairman, The Hong Kong Association of Banks  
Chairman, The Federation of Share Registrars

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