



HONG KONG MONETARY AUTHORITY
香港金融管理局

Our Ref: B1/15C
G16/1C

1 April 2016

The Chief Executive
All Registered Institutions

Dear Sir / Madam,

Circular Issued by the Securities and Futures Commission (“SFC”) on Distribution of Bonds Listed under Chapter 37 of the Main Board Listing Rules¹ (“Chapter 37 Bonds”) and Local Unlisted Private Placement Bonds

I am writing to draw your attention to the attached circular issued by the SFC to licensed corporations on distribution of Chapter 37 Bonds and local unlisted private placement bonds (together referred to as “Bonds”) (“The Circular”). Many of the Bonds contain complex features and/or inherent risks including lack of a secondary market which results in them being highly illiquid, and Chapter 37 Bonds are targeted at professional investors only. The Circular shares examples of the SFC’s observations about licensed corporations’ selling practices, and some key controls and procedures in the distribution of the Bonds.

Registered Institutions (“RIs”) should have regard to The Circular where applicable. As some of the Bonds are high-yield bonds² and/or have special or complex features which carry additional risks, RIs should also have regard to HKMA’s circulars entitled “Selling of Fixed Income Products” and “Product Risk Rating of High-Yield Bonds and Related Products”³, which provide guidance to RIs to ensure appropriate investor protection for bank customers and especially for retail customers, taking into account the HKMA’s supervisory experience and feedback of the banking industry.

Yours faithfully,

Carmen Chu
Executive Director (Banking Conduct)

Encl.

c.c. SFC (Attn: Mr James Shipton, Executive Director (Intermediaries))

¹ The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

² High-yield bonds refer to bonds which are generally below investment grade or are unrated.

³ HKMA’s circulars dated 19 November 2012 and 9 August 2013 respectively.

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