Our Ref : G16/5C
B1/15C

1 June 2000

The Chief Executive
All authorised institutions

Dear Sir/Madam,

**Securities (Margin Financing)**
**(Amendment) Ordinance 2000 (the "Ordinance")**

I am writing to draw your attention that the above Ordinance, which was published in the Gazette on 24 March 2000, is expected to come into effect on 12 June 2000.

Under the Ordinance, a new Part XA for the regulation of securities margin financing business has been added to the Securities Ordinance. As stipulated in Section 121B(2) of the Ordinance, Part XA does not apply to the activities listed in Schedule 4 of the Ordinance which include the provision of financial accommodation by an exempt dealer or an authorised institution ("AI") to facilitate acquisitions or holdings of securities. This means that AIs providing securities margin financing in Hong Kong to their clients, staff, or other group members will not be subject to the regulation of Part XA.

However, the Ordinance has introduced a number of consequential amendments to the Securities Ordinance which will affect exempt dealers. For instance, sections 77 and 81 relating to the provision of trading records to clients and the handling of clients' securities have been amended. In addition, new sections 81A and 81B relating to the handling of clients' securities collateral and the claims and liens over securities have been added. A copy of these provisions is attached to this letter.

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Authorised institutions which are exempt dealers should study the relevant provisions carefully and take appropriate measures to ensure compliance with the relevant requirements.

Yours faithfully,

Y K Choi
Executive Director
Banking Supervision

Encl.

c.c. Chairman, Hong Kong Association of Banks
Chairman, Deposit-taking Companies Association
Chairman, Securities and Futures Commission