

Our Ref. B1/15C
B5/24C

11 December 2003

The Chief Executive
All authorised institutions

Dear Sir/Madam,

Initial Public Offering (“IPO”)

In view of the recent surge of public interests in the IPO market, I am writing to remind authorized institutions (“AIs”) of the supervisory requirements set out in the following circulars issued by the HKMA on IPO-related business:

- (a) “Financing of the subscription of new shares issues” dated 31 May 1993.
- (b) “Role of the receiving bank in new share issues” dated 5 February 1994.
- (c) “Role of the receiving bank in new share issues” (supplementary guideline) dated 30 May 2000.
- (d) “Electronic Initial Public Offering” dated 16 August 2000.

Copies of these circulars are available at the HKMA website (<http://www.hkma.gov.hk>).

In financing subscription of new share issues, AIs should establish and observe credit limits on exposure to individual customers. Normally, AIs should apply a margin requirement of not less than 10% on its lending to individual brokers and customers. AIs should also observe their normal credit standards, and limit total lending for individual IPOs to an amount which is well within the AI’s ability to obtain funding to meet its obligations on the day of settlement.

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Als acting as receiving banks for individual IPOs should establish and maintain good communication with the sponsors so that they could make as accurate an assessment as possible of the likely popularity of the issue and to make available adequate systems and manpower resources to the process. The receiving bank should agree with the sponsors in advance a formal contingency plan for coping with an unexpected level of interest in the issue, such as the designation of additional branches as receiving branches, arrangements for printing and distributing extra copies of application forms and prospectuses, and crowd management. The receiving bank should use its best effort to recycle the application monies to the money market, and in doing so, should observe its normal credit limit for individual AI. However, as we have previously indicated, the receiving bank may allow a short term increase of such limits for the purpose of facilitating the recycling of application monies. Such increase should be carefully justified and controlled and should not exceed 25% of the receiving bank's capital base.

Institutions are expected to have appropriate procedures in place to ensure that they comply with the above requirements when conducting IPO-related business.

Yours faithfully,

William Ryback
Deputy Chief Executive