Our Ref: B1/15C

2 March 2004

The Chief Executive
All authorized institutions

Dear Sir / Madam,

<u>Fraud cases involving stolen refund cheques in initial public offerings (IPOs)</u>

As you would be aware, some fraud cases involving stolen IPO refund cheques have been reported to the police in recent months. In these cases, after stealing the refund cheques from the IPO subscribers' mail boxes the culprits opened new deposit accounts in the name of the cheque payees, generally by presenting genuine identity documents after a formal change of name (i.e. Acknowledgement of Application for a Hong Kong Permanent Identity Card[1]). The stolen cheques were later deposited into the new accounts, and funds were subsequently withdrawn from the accounts in the form of cash.

(I) Preventive measures already implemented

In the light of concerns arising from the above fraud cases, the HKMA has been working closely with the SFC, the Commercial Crime Bureau and the Federation of Share Registrars on possible measures to enhance the security of the entire IPO subscription refund process. As a result of the discussions, the following measures have been put in place by share registrars:

(a) to use plain envelopes (i.e. not bearing the share registrar's logo) to send IPO refund cheques, making the envelopes less conspicuous targets for fraudsters; and

(b) irrespective of the value of the cheques, may consider entertaining individual requests for the collection of the refund cheques in person or may use registered mail for the posting of refund cheques (the share registrars have the discretion to request parties to submit their requests in written form).

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[1] This is a temporary identity document issued by the Immigration Department.

(II) Preventive measures currently under consideration

In addition, the HKMA, the SFC and other relevant parties are considering the following measures:

(a) printing the IPO subscriber's Hong Kong identity card number (or part of this number) next to the subscriber's name (i.e. the cheque payee) on the refund cheque and requesting authorized institutions (AIs) to cross-check both the name and the Hong Kong identity card number of the holder of the account in which the cheque is to be deposited; and

(b) changing the IPO subscription process to provide for an electronic refund instead of sending physical refund cheques, and requesting AIs to cross-check the account holder's name and Hong Kong identity card number in the automatic payment process.

(III) Interim measures

It will take some time before the measures set out in section (II) above can be implemented. This is because the measures will have impact on AIs' operations and their customers, and the HKMA wishes to discuss with the banking industry in further detail before finalization.

However, in view of the anticipated large number of IPOs this year, interim measures are required. AIs should consider reviewing their current procedures to ensure that they can adequately address the risks associated with the recent fraud cases. In fact, some simple measures would go a long way to prevent similar frauds. The following highlights some recommendations for your consideration.

(A) Opening of accounts for new customers holding temporary identity documents

1. If the word "Amendment" appears on the customer's temporary identity document[2], the responsible staff should ascertain the nature of the amendment. If the amendment was due to a change of name, the staff should ask for other identity proof in the former name (e.g. travel documents or formal legal document effecting change of name etc). The responsible staff should satisfy himself that the change of name is reasonable[3].

2. Experience shows that fraudsters will try to open accounts in a matter of days after they have stolen the refund cheques and changed their names.

[2] If a temporary identity document was issued by the Immigration Department due to loss of the Hong Kong identity card, the word "Loss" appears on the document.

[3] For example, adding husband's family name and adding Christian names would be considered as reasonable changes.

The responsible staff should check if the change of name is recently effected. If this is the case and if the AI has doubt on the reasonableness of the change of name, the AI should consider carefully whether it wishes to accept such identity proof. It should be cautious about the risk that the customer is opening an account in the name of another person for fraudulent purposes.

3. In case of doubt, the responsible staff should refer the case to a designated internal unit (e.g. Security Department, Fraud Control Department) for instruction.

4. There should be adequate oversight, which may take the form of prior approval or subsequent review, by a sufficiently senior staff, e.g. a manager or deputy manager at retail branch level.

(B) Handling cheque deposits for accounts newly opened by holders of temporary identity documents

1. To the extent permitted by AIs' systems, system alerts should be raised when cheques are deposited into accounts newly opened by holders of temporary identity documents. Enquiries should be raised if it comes to the attention of the responsible staff that the cheque issuing date is before the account opening date or the issue date of the temporary identity document.

2. Extra caution should be exercised if IPO refund cheques are deposited. Acceptance should be endorsed by a sufficiently senior staff at retail branch level.

The above interim measures will no longer be required after the implementation of the preventive measure set out in paragraph (a) or (b) of section (II) above.

Yours faithfully,

Raymond Li
Executive Director (Banking Development)

c.c. SFC (Attn: Mr Mark Dickens, Executive Director)