

Press Release

LCQ7: Multiple applications for subscriptions for initial public offering shares

Wednesday, December 2, 2015

Following is a question by the Hon Chan Kin-por and a written reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (December 2):

Question:

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (Listing Rules), where listed securities are offered to the public for subscription or purchase, issuers, their directors, sponsors and underwriters (commonly referred to as "the parties involved in the issue") must take reasonable steps to ensure that multiple or suspected multiple applications are identified and rejected. On the other hand, investors may choose to subscribe for initial public offering (IPO) shares in their own names or electronically through the accounts maintained by intermediaries (such as brokers or banks) in the Central Clearing and Settlement System. However, at present, intermediaries are not required to furnish their clients' personal data when subscribing for IPO shares on their behalf, thus making it difficult for the parties involved in the issue to identify multiple applications for subscriptions for IPO shares. In this connection, will the Government inform this Council:

(1) whether it knows the total number of complaints about multiple applications for subscriptions for IPO shares received by the Stock Exchange of Hong Kong Limited (SEHK) in the past five years, the follow-up actions and the outcome, including the number of multiple applications rejected;

(2) whether it knows if SEHK has plans to amend the Listing Rules to stipulate that intermediaries should furnish, for facilitating identification of multiple applications, the full personal data of their clients when applying for subscription for IPO shares on their behalf; if SEHK has such plans, of the details; if SEHK has no such plans, of the authorities' measures to ensure that intermediaries will adopt a consistent practice in furnishing their clients' personal data, and that the parties involved in the issue can easily identify multiple applications; and

(3) given that some members from the finance industry have pointed out that it is not against the law for investors to make multiple applications for subscriptions for IPO shares and they therefore will not incur legal liability, whether the Government knows if SEHK will consider putting such investors on a central blacklist to prohibit them from applying for subscriptions for IPO shares in future; if SEHK will consider, of the details; if SEHK will not consider, SEHK's measures to step up efforts to combat the making of multiple applications for subscriptions for IPO shares, so as to ensure the fair operation of the securities market?

Reply:

President,

Our response to the three parts of the question is as follows:

(1) In the past five years, the Stock Exchange of Hong Kong (SEHK) recorded one complaint on suspected multiple applications regarding the use of several brokerage accounts maintained with various securities companies to apply for shares of an issuer.

In general, when complaints regarding multiple applications are received or multiple applications are suspected, SEHK will require the sponsor to address the issue and submit the measures it had put in place to detect multiple applications, for example measures in compliance with the "Best Practice Note on Treatment of Multiple/Suspected Multiple Applications" published by the Federation of Share Registrars and to provide confirmation that the share registrar it engages has the appropriate systems and controls to produce a list of possible multiple applications for it to review.

The number of multiple applications or suspected multiple applications which have been identified and rejected by an issuer can be found in the issuers' announcements of allotment results.

(2) and (3) Currently, an applicant using a white or yellow physical application form needs to provide his personal information (including name, Hong Kong identity card number/ passport number/ business registration

number, address and telephone number). However, if the applicant is a nominee (e.g. broker or custodian bank) applying for new shares on behalf of its clients, the applicant is only required to provide the account number or identification code of the beneficial owner (i.e. Hong Kong identity card number/ passport number/ business registration number of the beneficial owner is not required). This is also the case for an applicant using the yellow form EIPO (i.e. the yellow application form submitted by intermediaries electronically through the Central Clearing and Settlement System (CCASS) on behalf of their clients).

The Securities and Futures Commission (SFC) and SEHK will discuss the appropriate measures to be put in place to further reduce the possibility of multiple applications. SFC and SEHK will discuss with the industry to seek their input during the process.

Ends