

**立法會**  
**Legislative Council**

LC Paper No. CB(1)159/02-03  
(These minutes have been seen  
by the Administration, the  
SFC and the HKEx)

Ref : CB1/PL/FA/1

**Legislative Council**  
**Panel on Financial Affairs**

**Minutes of special meeting held on**  
**Friday, 20 September 2002 at 4:30 pm**  
**in the Chamber of the Legislative Council Building**

- Members present** : Hon Ambrose LAU Hon-chuen, GBS, JP (Chairman)  
Hon Henry WU King-cheong, BBS, JP (Deputy Chairman)  
Hon Albert HO Chun-yan  
Hon Eric LI Ka-cheung, JP  
Hon NG Leung-sing, JP  
Hon Bernard CHAN, JP  
Hon CHAN Kam-lam, JP  
Hon Jasper TSANG Yok-sing, GBS, JP  
Hon Emily LAU Wai-hing, JP  
Hon MA Fung-kwok, JP
- Non-Panel members attending** : Hon Kenneth TING Woo-shou, JP  
Hon Martin LEE Chu-ming, SC, JP  
Hon Margaret NG  
Hon Miriam LAU Kin-ye, JP
- Members absent** : Hon James TIEN Pei-chun, GBS, JP  
Hon LEE Cheuk-yan  
Dr Hon David LI Kwok-po, GBS, JP  
Hon James TO Kun-sun  
Hon SIN Chung-kai  
Dr Hon Philip WONG Yu-hong

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**Attendance by invitation** : Mr Andrew SHENG  
Chairman  
The Securities and Futures Commission

Mr Ashley ALDER  
Executive Director, Corporate Finance Division  
The Securities and Futures Commission

Mr K C KWONG  
Chief Executive  
The Hong Kong Exchanges and Clearing Limited

Ms Karen LEE  
Executive Vice President  
Listing, Regulation and Risk Management  
The Hong Kong Exchanges and Clearing Limited

Mr David WONG  
Chairman  
Hong Kong Securities & Futures Industry Staff Union

Mr Roger LEUNG  
Deputy Chairman  
Hong Kong Securities & Futures Industry Staff Union

Mr Trini C TSANG  
Chairman  
Hong Kong Securities Professionals Association Limited

Mr Wilfred WONG  
Chairman  
Hong Kong Stockbrokers Association Limited

Mr Kenny LEE  
Vice-Chairman  
Hong Kong Stockbrokers Association Limited

Mr Stewart SHING  
Chairman  
The Hong Kong Association of Online Brokers

Ms CHEN Po-sum  
Chairman  
The Institute of Securities Dealers Limited

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Mr Kenneth LAM  
Director  
The Institute of Securities Dealers Limited

**Clerk in attendance** : Ms Anita SIT  
Chief Assistant Secretary (1)6

**Staff in attendance** : Mr Jimmy MA  
Legal Adviser

Ms Pauline NG  
Assistant Secretary General 1

Mr Watson CHAN  
Head  
(Research & Library Services Division)

Ms Rosalind MA  
Senior Assistant Secretary (1)9

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**I. Proposed research on the Linked Exchange Rate System**

At the beginning of the meeting, Mr Eric LI said that as members would be aware, the forward rates of the Hong Kong dollar against the US dollar had risen fairly sharply (at a high of over 240 basis points for the one-year forward rate) during the day, and this market movement, as widely believed among market analysts, was largely attributed to press reports amplified by rumours in the market that the Legislative Council was going to consider the way forward for the linked exchange rate system (the Link), including the option of abolishing the Link. In view of the important implication of the matter on the stability of Hong Kong's monetary system, he moved that an additional item on the proposed research on the linked exchange rate system be discussed at this meeting.

2. The Chairman said that there was no specific provision in the Rules of Procedures governing the addition of agenda items at Panel meetings without prior notice, and as far as he could recall, there was no relevant precedent case which the Panel could make reference to in this regard. As such, he considered it necessary to seek members' agreement for including the additional item as suggested by Mr LI. Members unanimously agreed to Mr LI's suggestion, on the understanding that this was a decision taken by the Panel having regard to the importance and urgency of the matter in question and that there was no intention that the decision would serve as a precedent.

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3. Mr Eric LI further said that pursuant to a decision of the Panel made at the meeting on 19 July 2002 that the Research and Library Services Division of the LegCo Secretariat should conduct a research study on the Link, the Secretariat circulated a draft research outline titled “Views of experts and academics on the linked exchange rate system” on 19 September 2002 for consideration at the Panel meeting on 24 September 2002. The paper had attracted wide press coverage and there had been speculations in the market about the implications of the proposed research. With appreciation of the sensitivity of the issue and its potential adverse impact on the stability of Hong Kong's monetary system, Mr Eric LI moved the motion that the proposed research should be shelved. Meanwhile, the Legislative Council Secretariat might explore with the Administration a proper approach, with particular regard to the risks entailed, for a meaningful deliberation of the Panel on the subject. Ms Emily LAU expressed support for Mr LI's motion. She said that it was mainly due to the misunderstanding among market players about the relationship between the Legislative Council and the Administration in Hong Kong and the purpose of the research as previously proposed that had caused the volatility in the market. She however agreed that members should act prudently and responsibly in discharging their duty of monitoring Government policies. She requested the Secretariat to explore with the Administration the proper approach for pursuance of the subject.

4. Mr Albert HO considered it more appropriate for the Panel to make a straight-forward decision without any ambiguity. He suggested that the Panel should suspend the execution of the previous decision of conducting a research on the Link until and unless there was a further suggestion to re-activate the research work. Mr CHAN Kam-lam concurred with Mr Albert HO.

5. Having noted other members' views, Mr Eric LI stated his motion that the proposed research on the Link should be shelved. He also clarified that his previous suggestion that the Secretariat might follow up with the Administration as appropriate on the matter should not form part of the motion. Members expressed unanimous support for Mr LI's motion.

**II. Report of Panel of Inquiry on Penny Stocks Incident and other related matters**

LC Paper No. CB(1)2497/01-02— Report of the Panel of Inquiry on Penny Stocks Incident and its executive summary

Meeting with the Securities and Futures Commission (SFC), the Hong Kong Exchanges and Clearing Limited (HKEx) and industry associations which had submitted representations to the Panel of Inquiry on Penny Stocks Incident

6. The Chairman welcomed the representatives of SFC, HKEx, and the five industry associations in attendance. The Chairman also reminded all the representatives in attendance that in addressing the Panel, they were not covered

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by the protection and immunity provided under the Legislative Council (Powers and Privileges) Ordinance (Cap 382).

*The Securities and Futures Commission*

*(LC Paper No. CB(1)2585/01-02(01) - Speaking note of the Chairman of SFC)*

7. Mr Andrew SHENG, Chairman of SFC said that SFC fully accepted the Report of the Panel of Inquiry on the Penny Stocks Incident (the Report) and had specifically taken up the recommendations of the Report in the following areas:

- (a) SFC had agreed with HKEx that SFC would be able to consult its Shareholders Group and Advisory Committee on draft consultation papers sent to SFC for comments by HKEx;
- (b) SFC was reviewing with HKEx the Memorandum of Understanding (MOU) Governing Listing Matters signed between SFC and HKEx on 6 March 2002 to see in what ways their respective functions and responsibilities could be further clarified;
- (c) SFC welcomed the proposal of the Financial Secretary to establish an Expert Group to review the operation of the regulatory framework for the securities and futures market; and
- (d) SFC proposed to establish a new high-level liaison body, comprising the regulatory heads of both HKEx and SFC, as well as the chairman of the Listing Committee, and the Takeovers and Mergers Panel, to examine regulatory policies and procedures, with specific responsibility for improving the protection of shareholders' rights.

*(Post-meeting note: The speaking note of Mr Andrew SHENG was tabled at the meeting and issued to members vide LC Paper No. CB(1)2585/01-02(01) on 23 September 2002.)*

*Hong Kong Exchanges and Clearing Limited*

*(LC Paper No. CB(1)2585/01-02(02) - Speaking note of the Chief Executive of HKEx)*

8. At the invitation of the Chairman, Mr K C KWONG, Chief Executive of HKEx, made the following points -

- (a) HKEx accepted in principle the recommendations in the Report and agreed that there was room for improvement in the process of the incident;
- (b) HKEx had submitted a copy of the Report to its Board of Directors and its two Listing Committees. The Listing Committees would consider proposals on strengthening communications with the

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market and the securities industry during the preparation of consultation papers and the views of the Committees would be passed to the Board of Directors for consideration in mid October 2002; and

- (c) HKEx would continue to liaise closely with SFC on the preparation of the consultation paper on the continuing listing eligibility criteria due for release in October 2002, as well as on improving the functioning and communication flow between the constituent bodies of the three-tiered regulatory framework.

*(Post-meeting note: The speaking note of Mr K C KWONG was tabled at the meeting and issued to members vide LC Paper No. CB(1)2585/01-02(02) on 23 September 2002.)*

*Hong Kong Securities & Futures Industry Staff Union  
(LC Paper No. CB(1)2585/01-02(03))*

9. Mr David WONG, Chairman of the Hong Kong Securities and Futures Industry Staff Union, said his Union endorsed in part the improvement proposals recommended in the Report. He pointed out that there was room for improvement in the operation of the three-tiered regulatory framework, such as increasing the transparency of SFC and HKEx and the division of powers and responsibilities between the two organizations. The Union proposed to establish a consultative body, with representatives from the securities industry, to gauge the latter's views regularly. The Union also urged that SFC and HKEx should assess the market impact of their proposals before publication of any consultation papers. The Union urged the Administration to maintain the minimum brokerage commission rule in consideration of the hardship of the industry.

*Hong Kong Securities Professionals Association Limited  
(LC Paper No. CB(1)2585/01-02(04))*

10. Mr. Trini TSANG, President of the Hong Kong Securities Professionals Association Limited, said that the Report was comprehensive embracing all relevant facts and details. However, the role and functions of SFC as the statutory regulator of HKEx, according to paragraph 4.4 of the Report, appeared to be unclear and inconsistent. The appraisal of the roles of the individuals concerned in chapter 12 of the Report appeared to have focused merely on the Financial Secretary, the Secretary for Financial Services and the Treasury, the Chairman of SFC and the Chief Executive of HKEx, but had not included other responsible individuals of the Government, SFC and HKEx. The Association also expressed concern about the engagement of banks in securities trading business and urged the Administration to consider the industry's request for maintenance of the minimum brokerage commission rule.

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*Hong Kong Stockbrokers Association Limited  
(LC Paper No. CB(1)2585/01-02(05))*

11. Mr Wilfred WONG, Chairman of the Hong Kong Stockbrokers Association Limited, remarked that his Association concurred with the observations in the Report on the key issues, in particular, the lack of consultation with the industry during the course of preparing the consultation paper. The Association welcomed the constructive recommendations put forward in the Report and urged the Administration to ensure implementation of such recommendations. In addition, the Association urged the Administration to maintain the minimum brokerage commission rule.

*The Hong Kong Association of Online Brokers*

12. Mr Stewart SHING, Chairman of the Hong Kong Association of Online Brokers, opined that the Association was basically in support of the setting up of a delisting mechanism. The Association also concurred with the recommendation's in the Report that HKEx should increase and improve liaison with brokers and brokers' associations to gauge the views of the industry before releasing its consultation papers. The Association was pleased to see that their views had been reflected in the Report.

*The Institute of Securities Dealers Limited  
(LC Paper No. CB(1)2585/01-02(06))*

13. Ms CHEN Po-sam, Chairman of the Institute of Securities Dealers Limited, accepted the recommendations of the Panel Report. She urged the Administration to implement the proposals on improving the consultation with the securities industry. Moreover, the Institute requested the Administration to pay heed to the industry's strong views and maintain the minimum brokerage commission rule. Mr Kenneth LAM also welcomed the proposal to strengthen the engagement of market practitioners in mapping out proposals on the Listing Rules.

Discussion with Members

*Alternative trading platforms and consultative machinery of SFC and HKEx*

14. Mr Albert HO queried whether the interest of small investors had been taken into consideration in the preparation of the Consultation Paper in question. He pointed out that both SFC and HKEx had focused on the minimum share price threshold, leaving out the issue of exit mechanisms and alternative trading platforms for delisted stocks, thus causing the anxiety of penny stocks shareholders and resulting in the panic selling of penny stocks on 26 July 2002. He urged SFC or HKEx to consider the establishment of a consultative machinery comprising small and medium market practitioners and small investors' groups, such as a consumers panel, with reference to similar arrangements in overseas

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jurisdictions.

15. In reply, Mr K C KWONG pointed out that the issue of an alternative trading platform had been addressed in detail in Chapter 11 of the Report. HKEx would follow up on the recommendations of the Panel of Inquiry in this regard to ensure that shareholders and market players would have proper channels to express their views and concerns at different stages of introducing changes to the Listing Rules. Mr Albert HO commented that HKEx had under-estimated the market reaction to the proposals on the delisting mechanism. Responding to his further enquiry on whether HKEx would consider providing an alternative trading platform for delisted stocks, Mr KWONG said that HKEx would examine the need and implications of providing such a mechanism together with SFC, and the details would be incorporated into the consultation paper due for release in October 2002. He stressed that the proposal on the minimum share price threshold was for consultation only and refinements could be made having regard to the views received during the consultation period.

16. Mr CHAN Kam-lam expressed similar concern about the lack of exit mechanisms for minority shareholders in the delisting proposals and queried the reasons behind this despite the fact that this issue had been raised during the exchanges of views on the minimum share price threshold between SFC and HKEx. Ms Karen LEE said that the detailed considerations behind the decision had been reflected in the Report. Mr K C KWONG added that the joint assessment of SFC and HKEx was that the number of companies affected by the whole delisting package would be around 20 or between 20 and 30. This figure was arrived at by assuming that all the proposed criteria for continuing listing would be implemented concurrently. Companies with the only problem of its share price being traded below 50 cents for 30 consecutive days could avoid delisting by share consolidation.

17. Mr Andrew SHENG explained that SFC had performed its role through giving views on the delisting proposals to HKEx. Referring to paragraph 7.85 of the Report, he pointed out that discussions on possible alternative trading platforms had been held between the Listing Division of HKEx and the Corporate Finance Division of SFC. He further quoted paragraph 11.38 of the Report where the Inquiry Panel set out its views that "*the HKEx already had a very clear stand on the matter .....Under the current structure, HKEx should be primarily responsible for deciding whether to set up an alternative trading board. In the preparation stage, SFC had suggested certain options, but HKEx had not been keen to pursue them.*" Mr SHENG said that as HKEx was primarily responsible for the consultation and the Listing Committee was the ultimate authority for approval of the proposals for consultation, SFC considered that it had duly performed its duty of giving views on the consultation proposals.

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*Assessment of market impact and timing of release of consultation paper*

18. Ms Emily LAU requested HKEx and SFC to clarify the following points in relation to her observations from the chronology of events at Annex 7.1 of the Report:

- (a) Serial no. 109, Ms Salina YAN of the Financial Services and Treasury Bureau (FSTB) sought the views of Ms Karen LEE of HKEx and Mr Laurence LI of SFC on 17 July 2002 about the controversial parts in the proposal and options available to investors in companies which might be delisted. The response of Ms Karen LEE however, did not appear to be directly addressing the concern raised. While Mr Laurence LI's advice was that around 25 companies might be at risk of being delisted if all the proposals were to be implemented, Ms Salina YAN had pointed out in the minute to her supervisors on 18 July 2002 ( serial no. 117) that about 53.2% of the companies in the Main Board were trading below 50 cents as at end 2001. Ms Emily LAU questioned that while concern had been raised on the potential market impact of the proposal, this concern had not been addressed properly before the presentation of the consultation proposals to the public;
- (b) Serial no. 128, in Mr Laurence LI's e-mail to Mr K C KWONG on 23 July 2002, Mr LI had stated that since the delisting proposals would likely affect the price of some stocks, SFC assumed that HKEx would do its briefing after market closed. However, HKEx did its media briefing well before the market closed on 25 July 2002.

19. Responding to Ms Emily LAU's query in point (a) above, Ms Karen LEE explained that as she had frequent teleconversations with Ms Salina YAN on the draft proposals, she had admitted to the Panel of Inquiry that she was unable to recall the details of the conversations. Nevertheless, she might have mentioned about the effect on "shell" buying activities during one of the occasions.

20. In reply to Ms LAU's enquiry in point (b) above, Mr K C KWONG said that HKEx's explanations on the timing for presentation of the consultation paper had been given on previous occasions. He further pointed out that as a matter of fact, some of the proposals in the Consultation Paper, including the 50 cents minimum share price threshold, had been covered by press reports about 10 days before the official presentation on 25 July 2002. However, there had neither been any adverse comments on the proposals nor unusual market movements until 26 July 2002 morning.

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*Minimum share price threshold for share consolidation*

21. With regard to the minimum share price threshold proposal, Mr Martin LEE sought clarification on whether there would be compulsory consolidation if an issuer failed to comply with the minimum share price criterion for continuing listing, and what would be done if the controlling shareholders of concerned companies chose to seek privatization instead of share consolidation.

22. Mr K C KWONG said that the current proposal on a minimum share price threshold for consolidation was more than a mere share consolidation proposal. Under the current proposal, the issuer would be prohibited from taking corporate actions, such as issuance of new shares, which would result in the theoretical share price falling below the threshold, unless the prescribed procedures governing privatization had been followed through. He advised that the original proposal of HKEx was that stocks with a closing price at 10 cents or below for an aggregate of 30 trading days in any period of up to three months should be consolidated and corporate actions resulting in the theoretical share price falling below 30 cents should be prohibited. Mr KWONG drew members' attention to paragraph 5 of the executive summary of the Report, which stated clearly that SFC had an important influence in the direction and content of the consultation paper and the proposed 50 cents threshold was a direct outcome of the discussion between SFC and HKEx.

23. Mr Andrew SHENG explained that as recorded under serial no. 73 at Annex 7.1 of the Report, SFC did raise concerns about policy issues concerning potential abuses by controlling shareholders seeking to privatize. He reiterated that the proposal on the minimum share price threshold was in itself not at stake and HKEx had been fully informed of all implications involved and deliberately so reminded of the importance of putting the right message across during the consultation exercise that the threshold was for consolidation but not for automatic delisting.

24. Mr Ashley ALDER, Executive Director, Corporate Finance Division of SFC supplemented that SFC had performed its role in relation to policy input, through raising the policy issues arising from the content of the proposals in the draft consultation paper to HKEx. The implementation of the consultation exercise was the responsibility of HKEx. Under the current split of functions between SFC, HKEx and the Administration, SFC would raise policy concerns with HKEx and provide a summary on the major proposals for the information of the Administration after commenting on the draft consultation paper. However, neither SFC nor the Administration would be involved in the consultation exercise. In reply to Mr Martin LEE's further enquiry, Mr ALDER said that in extremely vulnerable circumstances and where there was disagreements between SFC and HKEx, SFC would refer the matter to the Administration but the proposal on the 50 cents threshold was not considered a case of this nature.

25. Noting Mr KWONG's remarks on the influence of SFC on the minimum share price threshold, Ms Emily LAU sought clarification on whether HKEx

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would have set the threshold at another level if it could have made the decision on its own. Mr K C KWONG said that as he had stated in his response to Mr Martin LEE earlier on, the 50 cents threshold was the result of compromise with SFC. HKEx's original proposal was a two-level structure with price thresholds at 10 cents and 30 cents respectively. Mr KWONG said that in practice, SFC had the final say on the consultation proposals of HKEx relating to Listing Rules.

26. Mr Andrew SHENG said that the role of SFC was on policy input and monitoring, while the ultimate authority for approval of consultation proposals on Listing Rules was the Listing Committee of HKEx. He disagreed with Mr K C KWONG's comment that in practice, SFC had final say on HKEx's proposals. He remarked that in its letter dated 12 December 2001 HKEx had requested SFC, not to pass consultation papers of HKEx to the Shareholders Group of SFC unless SFC had obtained the prior agreement of HKEx. This request had demonstrated HKEx's understanding that SFC had no authority over the consultation proposals of HKEx.

27. Referring to serial no. 109 of the chronology of events, Mr Eric LI pointed out that whilst SFC and HKEx had assessed that the number of companies which might be at risk of delisting upon the implementation of the delisting mechanism was about 20 to 30, such assessment had not been conveyed to the public. He sought the views of Mr Andrew SHENG and Mr K C KWONG on measures to improve assessment of market impact and communication of such assessment to the public.

28. In response, Mr Andrew SHENG said that SFC had performed due diligence in emphasizing that the 50 cents threshold was meant to be a trigger for share consolidation instead of automatic delisting. SFC had also drawn the attention of HKEx to make this point clear in the presentation of the consultation proposals. On the timing for release of the consultation paper, SFC had suggested to arrange it on Friday afternoon after the market closed. Mr SHENG further referred members to paragraph 8.11 to 8.13 of the Report that although the point on the 50 cents threshold for consolidation instead of delisting had been made during Mr K C KWONG and his staff's media lunch with journalists, this had neither been emphasized in the press release nor the media briefing paper of HKEx. Mr SHENG quoted paragraph 8.13 of the Report that "*Mr K C KWONG has acknowledged, very fairly, that with hindsight, the message could have been made clearer and that he could have further emphasized that there would not be automatic delisting of stocks trading below the threshold, and that the number of companies which may be at risk of delisting, even if all the proposals were accepted by the market and implemented, would likely be small (i.e. 20 to 30)*".

*Pre-consultation sounding out by HKEx*

29. Referring to the concerns of HKEx in conducting pre-consultation sounding out exercise as set out in paragraph 5.19 of the Report, Ms Emily LAU sought

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clarification from Mr K C KWONG on how the recommendations in the Report on engaging the market and the public could be implemented.

30. In reply, Mr K C KWONG said that detailed consideration would be given to the implementation of the recommendations concerning improvement in market consultation with due regard to the concerns over confidentiality and uneven dissemination of information. He said that one possible arrangement would be the setting up of working groups under the Listing Committee, with market experts as members who would be subject to confidentiality requirements as appropriate.

*Roles and responsibilities of parties under the three-tiered regulatory framework*

31. Ms Emily LAU and Mr Martin LEE sought the personal views of Mr K C KWONG on the Report. Mr K C KWONG said that while the Report had given a detailed account on the chronology of events relating to the incident and he accepted the recommendations of the Panel in principle, he did not, however, agree with some of the conclusions in the Report. Mr KWONG said that many in the community questioned whether the Report had used the same yardstick in assessing the responsibilities of the various organizations and people involved. He said that the extent and nature of participation and involvement of relevant parties in the process of preparing the consultation paper were rightly described in paragraph 5 of the executive summary of the Report.

32. Responding to Mr Albert HO's question on his self assessment of his own responsibilities, as the Chief Executive of HKEx, in the incident, Mr K C KWONG said that as the Consultation Paper was issued by HKEx, he had the responsibility as the Chief Executive for the inadequacies in the consultation proposals, and the arrangements for the consultation exercise. The Board of Directors of HKEx would consider implementation of relevant recommendations in the Report in consultation with SFC. As to Mr HO's question on whether the unusual market movements on 26 July 2002 were directly triggered by the 50 cents minimum share price proposal, Mr KWONG said that the proposal, just as other proposals in the Consultation Paper, had been reported by the media well before the formal publication of the paper and there was no unusual market movement in the week or so thereafter. He commented that it would not be logical to conclude that the unusual movements were triggered directly by the proposal alone. On Mr HO's further enquiry about the reasons for his apology made earlier to the public, Mr KWONG said that as stated in his speech at the special Panel meeting held on 31 July 2002, he felt deeply regretful for those shareholders who had suffered financial losses as a result of the market reactions to some of the proposals in the Consultation Paper.

33. On the responsibilities of SFC, Mr Andrew SHENG explained that the public had high expectations on SFC as the statutory regulator of HKEx. Whilst SFC had apologized for not being able to meet the public expectations in this particular incident, SFC had performed its three major functions properly during the preparation of the consultation paper. For SFC's function in providing policy

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input, it was clearly stated in paragraph 11.35 of the Report that "*The crux of what went wrong is that the public associated the threshold with delisting rather than consolidation..... The SFC, in particular, assumed, not unreasonably, that the distinction between delisting and consolidation would be made clear and therefore readily understood. This turned out not to have been the case*". The Panel of Inquiry had also commented in point (e) of the same paragraph that the 50 cents threshold for consolidation was a sensible compromise in the circumstances and a reasonable figure for consultation. Mr SHENG added that SFC had performed its monitoring role in accordance with the Memorandum of Understanding Governing Listed Matters signed between SFC and HKEx on 6 March 2000. Hence, the final decision on the consultation proposals was in the hands of the Listing Committee of HKEx and SFC should not be and was not involved in the implementation of the consultation.

34. Responding to Mr Albert HO about the propriety of the decision on withdrawing the proposals on the delisting mechanism after the unusual market movements on 26 July 2002, Mr K C KWONG said that the decision was made in consultation with SFC and the Administration, taking into consideration the market reactions and views of the securities and futures industry. The very purpose of the move was to minimize market disturbance.

35. Referring to paragraph 12.16 of the Report which listed out four broad categories of responsibilities, Ms Emily LAU sought the views of Mr K C KWONG and Mr Andrew SHENG on whether they agreed to such categorization and whether they considered that these would be the appropriate yardsticks for measuring the performance of senior government officials and senior executives of SFC and HKEx.

36. Mr K C KWONG said that while he had not been aware of such categorization of responsibilities before he read the Report, he had responsibilities as the Chief Executive of HKEx, no matter what the categories would be. Mr Andrew SHENG responded that the categorization was suggested by the Panel of Inquiry and he agreed to the observations of the Report in respect of the responsibility issue.

37. At the close of the discussion, the Chairman thanked all the representatives for their attendance and views on the Penny Stocks Incident.

### **III. The way forward**

38. The Chairman sought members' views on the way forward for the Panel's deliberation on the issues arising from the Penny Stocks Incident. Ms Emily LAU suggested and members agreed that as the meeting was already overrun, the Panel should convene another meeting to consider how to follow up the various issues raised. Mr Martin LEE suggested that the Panel should examine the Report in further detail. The Chairman said that the Panel Clerk would liaise with members

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on the timing of the special meeting for the above purposes.

*(Post-meeting note: A special Panel meeting was subsequently scheduled for Tuesday, 8 October 2002 at 4:30 pm. Other Members were also invited to join the discussion.)*

39. There being no other business, the meeting ended at 6:45 pm.

Legislative Council Secretariat

29 October 2002