

25 October 2002

Mr Eric Cheng's Opening Remarks at LegCo Panel on Financial Affairs

The following statement was made earlier today by Mr Eric Cheng, SFC's Senior Director of Enforcement, at the Legislative Council Panel on Financial Affairs:

"The Honourable Chairman and Honourable Members of the LegCo Panel,

1. First I would like to thank the LegCo Panel for this opportunity to brief the Honourable Members on how the Securities and Futures Commission seeks to protect the investing public through our commitment to enforce the relevant laws and through continuing improvements to the statutory regime.
2. The SFC is fully committed to enforcing the securities laws under our charge. Those who break any relevant provision will be investigated and prosecuted in accordance with the law. As Mr Alan Linning, Executive Director of Enforcement, told the media in June this year, and as Mr Andrew Sheng, our Chairman, emphasised again a few weeks ago, the SFC places a high priority on fighting corporate misgovernance. Since March 2002, we have initiated four major investigations under Section 29A and three under Section 33 of the Securities and Futures Commission Ordinance.
3. In cases of suspected corporate fraud, partnership with other law enforcement agencies is crucial, and in this regard we have excellent co-operation with the Police's Commercial Crime Bureau as well as the Independent Commission Against Corruption. In the past the SFC and the CCB have successfully worked together on matters ranging from corporate fraud to boiler room activities to market manipulation.
4. We have recently further strengthened this co-operation. From the beginning of September, the CCB has seconded two officers to the SFC's Enforcement Division for a three-month period. We also have shared training courses.
5. Turning to the roles of the various intermediaries and professionals, if the SFC finds that any persons have not done their work professionally in accordance with

accepted standards of due diligence or codes of conduct, we will take all necessary action, including engaging the respective self-regulatory organisations.

6. For sponsors, if any of our investigations reveal a corporate finance adviser to have inadequate standards of work, we will take the appropriate licensing and disciplinary action under our Corporate Finance Adviser Code of Conduct. In this regard, we look forward to the Exchange's introduction of new Listing Rules that would set out a sponsor's duties in more detail.

7. Many of the listed companies in Hong Kong are incorporated or have most of their business operations outside of Hong Kong. Any enforcement action will require some co-operation from the authorities there. The SFC has developed very good relationships with our fellow regulators in other jurisdictions, including the China Securities Regulatory Commission in the Mainland.

8. We have a Memorandum of Regulatory Co-operation with the CSRC and hold regular meetings with it. In addition, through ongoing staff secondments and frequent working visits, the channel of communications, both formal and informal, is very much open. Indeed, as we have already reported to the public, Mr Alan Linning and I visited the CSRC earlier this month.

9. The SFC constantly looks to deliver better investor protection wherever we can. We thank the Honourable Members who have spent countless hours in reviewing and passing the new Securities and Futures Ordinance. With the expanded powers under the Ordinance, we will be able to look into and get explanations for the records not only of listed companies, but also their banks, auditors, and transaction counterparties. This will greatly improve our ability to deal with corporate misconduct.

10. The Ordinance will also give auditors statutory immunity for communicating suspected corporate misconduct to the SFC.

11. The time limit of disclosure of directors' dealings will be reduced from five days to three business days, and the percentage limit from 10% to 5%.

12. The Market Misconduct provisions will establish civil liability and criminal offences for false and misleading information inducing securities transactions.

13. Investors will also have a new private right of action to seek compensation for

losses arising from reliance on false or misleading communications, including those issued by listed companies.

14. Very importantly, new subsidiary legislation for the dual filing of disclosure materials will enable the SFC to investigate and prosecute, using our existing powers, listing applicants and listed companies who intentionally or recklessly provide false or misleading information to the investing public.

15. To conclude, those who seek capital from the investing public have a reciprocal duty - to be truthful, honest, and fair. The SFC is on the watch and will pursue anyone who breaks the law.

16. Thank you."

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