

Peter Au-Yang  
Executive Director, Corporate Finance

14 September 2005

Ms Connie Szeto  
for Clerk to Bills Committee  
Legislative Council  
Hong Kong Special Administrative Region  
of the People's Republic of China  
Legislative Council Building  
8 Jackson Road, Central  
Hong Kong

**By post and by fax 2869 6794**

Dear Ms Szeto,

Further to my letter to you on 12 September 2005, I set out below further comments that we received from a member of the SFC's Investor Education Advisory Committee prompted by our letter of 12 September 2005.

- “(1) In order to address the concerns that the level of fine may not be sufficient to deter serious wrongdoings, as well as the danger that disciplinary cases will not proceed after referral if the investigation function and disciplinary function are housed in different bodies, the investigation results and disciplinary actions taken (and also actions not-taken) should be made **transparent** and **known** to the public to help achieving deterrent effects on wrongdoers and strengthening regulatory accountability.
- (2) It is noted that "the budget of the FRC was small as compared to budgets of similar bodies overseas" and "the FRC budget will not provide more than a small staff". Rather than worrying whether the FRC would be able to take on both investigatory and disciplinary roles, members of the public might be more concerned if such a small budget would allow the FRC to function effectively and to actively initiate investigation on its own, or just to act on complaints passively. The effects of not having sufficient funding may undermine the effectiveness of the FRC's gate-keeping role.
- (3) Last but not least, we support the provision allowing investors to use findings of the FRC and that of the disciplinary actions of HKICPA in their civil actions for damages.”

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We would be delighted to provide further information or elaboration on these points, if this would be of assistance to the Bills Committee.

Yours sincerely,

Peter Au-Yang