

**Legislative Council Panel on Financial Affairs
6 May 2005**

Statement by Peter Au-Yang,
Chief Operating Officer and Executive Director
Securities and Futures Commission

**Re: Agenda VI – The Review of the Disclosure of Interests regime under
Part XV of the Securities and Futures Ordinance**

Mr. Chairman,
Honourable Members,

1. Thank you for this opportunity to explain the Commission's key proposals following its review of the disclosure of interests regime conducted over the last year.
2. The overriding objective of Part XV of the Securities and Futures Ordinance is to provide investors with more detailed and better quality information, to enable them to make investment decisions. With regard to transparency our disclosure regime in Hong Kong is well on par with those in major jurisdictions.
3. At the same time, we recognize the need to balance the requirement for transparency with the burden for those who need to comply with the rules. Accordingly the underlying direction of the review has also been to minimize compliance burdens and to keep Part XV in line with developments in the Hong Kong market while preserving market transparency.

General support for key changes

4. I am pleased to report that the responses to most of the Commission's key proposals in the Consultation Paper of January this year show general public support.
5. The Commission's key proposals, taking into account public responses, have already been set out in our written submission to Panel on 28 April 2005.

6. As noted in our paper, some of the proposed changes will directly benefit the public at large. For example, we recommend changes to make the disclosure forms easier to fill in and easier to understand, and similarly recommend changes to clearly define triggering disclosure events for “changes in nature of interest”. We also recommend synchronizing dates for reporting sales and purchases, and the simplification of the *de minimis* exemption regime.

7. In other areas, proposals for change assume a business friendly approach. For example, we recommend excluding “Saturday” from the time frame for reporting purposes. We also recommend changes in specialist areas to take into account business practices, for example, with regard to exemptions for investment management groups and credit derivatives.

8. The proposals will include technical or drafting changes to the Ordinance, related rules and regulations, the disclosure forms and certain guidelines on Part XV. We believe our proposals will fine-tune and rationalize the regime, and provide greater clarity for those obliged to make filings and greater understanding by users of the information.

9. These proposals will be implemented in a phased manner with those involving more complicated issues being implemented at a later date.

Disclosure of share pledges

10. Today, when security interests are given to “qualified lenders” (mainly licensed banks and brokers) no disclosure is necessary. It is only at the point that steps are taken to enforce the security interests that disclosure is required. The issue of whether there should be disclosure of a security interest when it is first created has received particular attention in the press.

11. There are various arguments for and against disclosing security interests when the security interest is created. On the one hand there is the argument that investors have the right to know of the existence of the security interest. On the other hand there is the argument that the informational value of such disclosures does not justify the burden imposed to the market. There is little consensus on a practical solution.

12. It has been pointed out that should a general disclosure requirement be imposed without more thorough consideration, there could be potentially

damaging consequences. Accordingly the Commission believes that all the relevant factors and implications should be properly weighed before making a policy decision. We propose that a working group, comprising market participants, investors and representatives of the lending industry should be set up to see if there are better alternatives.

Concluding remarks

13. We are mindful of the need to meet the rising expectations of the investing public and the business sector, and to ensure a fair and transparent market. On the whole, from our review, we note that the public has welcomed the transparency brought about by the disclosure regime in Part XV.

14. The Commission is committed to keep under review the effectiveness of the disclosure regime, with a view to improving the quality of information provided, while minimizing compliance burdens.

15. In this regard, we believe that the recommended changes would be beneficial to Hong Kong's status as an international financial centre and the development of its capital markets.

16. Thank you.

Securities and Futures Commission
6 May 2005