

**For discussion  
on 5 January 2006**

**Panel on Financial Affairs  
Meeting on 5 January 2006**

**Information paper on the SFC's review and  
proposals for the Derivative Warrants Market**

**Purpose**

On 25 November 2005, the Securities and Futures Commission (SFC) issued a paper entitled *A Healthy Market for Informed Investors – A Report on the Derivative Warrants Market in Hong Kong*. The Report reflects the results of a comprehensive review of the derivative warrants market undertaken by the SFC, and sets out a number of proposals to further improve market operations, integrity and conduct and investor understanding. This information paper summarises the key findings and proposals set out in the Report.

**Reasons for the review and Report**

2. Derivative warrants (DW) were first listed in Hong Kong in 1989. Since then, our DW market has grown significantly, and particularly so since the regulatory reforms of 2001/2002 (**2002 reform**).<sup>1</sup> Specifically, the average daily turnover in the DW market rose from HK\$0.6 billion (or 5% of the total stock market turnover) in 2000, to HK\$1.1 billion (or 10% of the total) in 2003, to HK\$2.1 billion (or 13% of the total) in 2004. For the first 10 months of 2005, the average daily turnover had already reached HK\$3.3 billion (or 18% of the total).

3. According to the World Federation of Exchanges, trading in our DW market from January to October 2005 was the most active in the world, with Borsa Italiana and Deutsche Borse being the second and third most active DW markets. In Asia, the second most active DW market was Singapore. It is worth noting that the total turnover in Hong Kong's DW market during these 10

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<sup>1</sup> The 2002 reform refers to the large scale revamp of the regulatory framework for DW in 2001/2002. The revamp was conducted in two phases. The major changes introduced included (i) removing the previous placement requirements and introducing a liquidity provider system; (ii) abolishing the previous quota system; (iii) facilitating further issues; and (iv) introducing new reporting requirements to enhance transparency.

months was only a little less than that on Borsa Italiana and Deutsche Borse combined, while the turnover on the Singapore Exchange was only about 6% of Hong Kong's.

4. In view of the significant growth in our DW market, the SFC has been keeping a close watch over activities in that market. At the same time, some market participants and market watchers have also voiced their views and concerns about the increased activity. In particular, there have been concerns that the increased trading in our DW market has increased volatility in the stock market and could pose systemic risks. There have also been concerns about the existing regulatory framework, with some individuals suggesting that the existing rules need further tightening and others calling for a reversal of some of the changes introduced under the 2002 reform. There has also been concern about the lack of investor understanding and the need for an enhanced investor education programme.

5. The SFC therefore considered it timely to undertake a comprehensive review of the DW market. The review focused on four areas, namely –

- (1) reviewing current market practices and characteristics;
- (2) assessing the impact of activities in the DW market on the overall stability of the stock market;
- (3) identifying which areas of the regulatory regime needed further tightening; and
- (4) assessing what further investor education initiatives might be needed.

6. The following paragraphs summarise the key findings of the review and the SFC's proposals going forward. We would also note here that we have discussed our proposals with Hong Kong Exchanges and Clearing Limited (**HKEx**) staff who have indicated that HKEx in large part supports the direction of the proposals. Before going into the specific proposals, it may be useful to highlight some basic information about DW and their particular characteristics.

## Derivative warrants

*What are they?*

7. DW give buyers the *right*, but not the *obligation*, to buy or sell<sup>2</sup> an underlying asset at a pre-determined price (usually called the strike price or exercise price) on or before a specified date (usually called the expiry date or maturity date). The underlying asset may be any asset, including stocks, indices, currencies, commodities or futures contracts. The regulation of DW is essentially embodied in Chapter 15A of the Rules for the Listing of Securities on the Stock Exchange of Hong Kong Limited (**Listing Rules**) and in certain SFC Guidelines.

8. DW listed on the Stock Exchange of Hong Kong (**SEHK**) are generally European style (ie exercisable *on* the expiry date but not *before*), cash settled, and automatically exercised.

*Value of DW*

9. DW have a value (usually called “theoretical value” or “fair value”) which may be very different from their actual price. This fair value is affected by a number of factors, namely (i) the price of the underlying asset; (ii) the volatility of that price; (iii) the time left to expiry; (iv) interest rates; and (v) the dividend yield on the underlying asset. Each of these factors will affect a DW differently, and hence it is the totality of their effect that has to be considered when assessing its fair value.

*Price of DW and the significance of supply-demand imbalances*

10. As for the price of DW, this is affected by not only the above five factors, but also by the supply of and demand for the particular DW. Supply-demand imbalances can sometimes result in price anomalies, ie in the price of a DW deviating substantially from its fair value. However, because DW have a fixed life span, substantial deviations cannot last indefinitely, and towards expiry the price will have to revert nearer to its fair value. Investors who are not aware of the potential for such price anomalies are thus vulnerable to suffering losses if they buy an expensive DW near the time of its expiry and in the expectation that its price will rise further. It is important therefore to minimise the chances of supply and demand imbalances where possible.

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<sup>2</sup> Call warrants give buyers the right to buy and put warrants give buyers the right to sell.

## *Why DW are popular*

11. DW are popular for a number of reasons including –
- (1) they provide a much cheaper alternative to investing in the underlying asset – DW allow investors to profit from movements in the price of the underlying asset but cost only a fraction of the price of such asset;
  - (2) they allow a leveraged play on the underlying asset – a small change in the price of the underlying asset can result in a much larger change (in percentage terms) in the price of the DW, and thus bigger gains (or losses, as the case may be);
  - (3) potential loss to the investor is capped – because DW only confer a right but not an obligation to buy or sell the underlying asset, there is no need for the investor to pay up a further sum on maturity and his loss is thus capped at the amount paid for the DW;
  - (4) they are easy to trade – DW are listed on the SEHK and may be bought and sold in the same way as stocks, and hence investors are more familiar with the trading and clearing practices as compared to those for derivative products traded on the HKFE; and
  - (5) they have been more vigorously marketed by issuers recently.
12. Despite the increasing popularity of DW, it is important to remember that they are complex products and that their price and value are affected by a number of different factors, each of which may have a different or opposing impact. Many of the complaints received indicate that a significant number of investors do not fully understand how the price and value of DW are affected, and that many of their grievances are the result of misunderstandings in this regard.

## **Key Findings**

13. We started our review by going back to the basics – by revisiting what purposes DW and a DW market serve. We then reviewed the existing regulatory framework and structure of our market and its particular features (including the profile of its participants). Only then did we consider which areas needed reform and change. Our findings are summarised below.

### *Need for a DW market*

14. Our view at this stage is that there is no need for Hong Kong to abolish or abandon its DW market. DW provide opportunities for investors to use their capital more efficiently, to hedge their risk exposures from other investments and, as with many other financial products, to diversify and strengthen their portfolio. Therefore, if used properly they can play a useful role in the portfolio of an investor. We note also that many international markets, and certainly the major markets in Europe have DW markets. The existence of such a market in many international markets suggests that such products have an important role to play. Indeed, many markets in Asia are at present endeavouring to develop their DW market, including Singapore, Korea, Malaysia and the Mainland.

15. We recognize, and have emphasised for some time, that DW are complex products. We believe, however, that they may not be suitable for everyone and certainly not suitable for unsophisticated investors who have little or no understanding of their features, how they work and how they may be used. Nevertheless, they serve a genuine purpose and investors should have the option to use them to meet their investment needs.

### *Need to curb certain practices*

16. Although we believe there is a need for Hong Kong to keep a DW market, we also recognize that certain practices in our market may be inappropriate and not in the best interests of investors. Practices that we are particularly concerned about include the following –

- (1) There has been a significant growth in issuers' trading activities in the DW market. Given that DW are complex products, suited only to investors who have a good understanding of them, we are concerned whether such increased trading activities of issuers may be attracting unsophisticated investors, and if so, whether the practices used in this regard are acceptable or need to be restricted.
- (2) Certain DW issuers employ high penetration marketing techniques to promote their DW such as inviting analysts or market commentators to comment on sponsored radio or television programmes, and advertising DW via other mass media, such as broadcasts on public transport and in other public areas. As a result, the DW market has experienced tremendous growth and DW are now considered by many to be a mainstream financial

product. This, however, ignores the complexity of DW, and the higher risks associated with investing in them.

- (3) Retail investors commonly use DW as a short-term speculative instrument, sometimes without fully understanding their nature and complex pricing mechanism.
- (4) Unsophisticated investors tend to rely heavily on the turnover in a DW when making their investment decision and assessing liquidity, but without fully understanding why a particular DW might suddenly have become popular.

17. Our Enforcement Division has commenced a number of investigations relating to activities in the DW market including possible false trading, fixing of the settlement price during the expiry process, non-compliance with the liquidity providing obligations and illegal short-selling of DW. Features common to a number of our investigations include –

- (1) A number of small and medium sized brokerages have been very active in the DW market. In some cases, over 80% of their aggregate turnover can be attributed to DW trading. Moreover, only a small number of clients account for the bulk of the activities.
- (2) The majority of these clients only conduct day-trading, with millions of units of DW being bought and sold within seconds at around the same price. Such “pair trading” is repeated many times during the day but towards the end of the day these positions are squared.
- (3) In many instances, it is difficult to discern any developed trading or risk management strategy being implemented. At face value, these clients appear intent only on taking advantage of a number of current market practices which encourage high volume day-trading including (i) the tight spread quoted by liquidity providers<sup>3</sup> which effectively reduces transaction costs for the clients; (ii) the commission rebates offered by issuers to brokers, which further reduce transaction costs when they are passed on to clients; and (iii) the readiness of some brokers to charge low commission rates or allow clients to trade unlimited quantities of DW for a fixed nominal commission payment.

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<sup>3</sup> Liquidity providers are Exchange Participants who are appointed by issuers of DW to provide firm bid/ask quotations for DW.

18. Our investigations continue in this area.

*Need to monitor market impact*

19. Apart from looking at market practices, we also considered whether the activities in our DW market pose any systemic risk or threat to our stock market. Many in the market and media have raised concerns in this regard. Our review indicates that given the size of the DW market and the current dynamics of our stock market, the trading activities in our DW market, though voluminous, do not currently pose a threat to the overall stability of our stock market. However, we will continue to keep a close watch over such activities. In this regard, we have developed a market risk monitoring system to assist in monitoring the markets and which serves to enhance our understanding of their dynamics. The system also helps us understand developments in the DW market and identify possible exceptions which might pose a threat to market stability. We will continue to enhance this system as the market develops further. HKEx has likewise committed to continue to enhance its own market monitoring systems.

**Proposals**

20. In view of the above, we believe our existing regulatory framework may be strengthened in a number of respects. In particular we propose –

- (1) tightening the liquidity provider provisions;
- (2) facilitating further issues (by the same issuer) and identical issues (by other issuers) to alleviate price anomalies and enhance market competition but not reinstating any quota system;
- (3) banning commission rebates and other incentive schemes altogether;
- (4) publishing new marketing guidelines;
- (5) requiring the use of plain language and summaries in listing documents; and
- (6) launching new investor education initiatives, and encouraging investor education by market participants including by using plain language and by making information more accessible to retail investors.

### *Proposal 1: Tightening the liquidity provider provisions*

21. There have been suggestions by some in the market that the current liquidity provider system<sup>4</sup> should be abolished. We disagree. The system provides a distribution mechanism for issuers to sell their DW, and an exit mechanism for investors who wish to pull out from an investment in a DW. Hence, in the absence of a viable alternative, we believe the system should be retained. However, to minimise misunderstandings by investors, and discourage inappropriate practices by issuers and liquidity providers, we propose tightening the current provisions by –

- (1) tightening the minimum service levels and thus discouraging wide deviations from service standards specified in listing documents;
- (2) requiring issuers to appoint liquidity providers in-house; and
- (3) requesting liquidity providers to disclose information relating to the intra-day prices executed by them on each DW, and to present such information in a useful and user-friendly manner.

### Discouraging wide deviations

22. The existing regulations do not prescribe in detail how liquidity should be provided. Hence, issuers are basically free to set their own standards for providing liquidity although the minimum standards proposed to be adopted by the issuer must be specified in the relevant listing document. Such standards include –

- (1) the proposed model for providing liquidity, ie whether the liquidity provider will provide liquidity by responding to requests for quotes or on a continuous quote basis or some other method;
- (2) the maximum response time;
- (3) the maximum spread between the bid price and ask price;
- (4) the minimum size of bid orders and the ask orders; and

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<sup>4</sup> The liquidity provider system refers to the current system which requires issuers of DW to provide liquidity by appointing liquidity providers who provide firm bid/ask quotations for DW. Before the 2002 reform, there was no obligation to provide liquidity providers. Instead, issuers had to meet certain minimum placement requirements. Specifically, there had to be either a minimum of 50 placees at the time of issue, each taking up at least HK\$100,000 of the issue, or a minimum of 100 placees. Issuers were also prohibited from retaining more than 15% of the issue at launch, ie they had to have placed at least 85% of an issue at launch. All of these requirements were removed under the 2002 reform.

- (5) any exceptions – ie the situations in which the liquidity provider will not provide a quote.

23. The absence of prescribed standards was a deliberate policy choice made during the 2002 reform in the expectation that market forces would drive issuers to provide better services. However, we have since found that, in reality, liquidity providers are often prepared to quote far more favourably than the minimum standards specified in the relevant listing document. So for example, although the issuer may have undertaken that the maximum spread between its bid and ask price will be 10 or 20 minimum spreads, the liquidity provider may be prepared to quote bid and ask prices with just one minimum spread. Likewise, although the issuer may have undertaken to quote for a minimum of 100,000 units, the liquidity provider may be prepared to quote for as many as 2 million units. The willingness of liquidity providers to provide more favourable services than those stipulated tends to create an expectation in investors that the high service level is the norm and will thus continue. Consequently, when liquidity providers revert to offering quotes that are more in line with what was undertaken in the listing document, investors feel aggrieved. We propose therefore that the existing regulation be tightened so as to discourage wide deviations from the specified service levels.

#### Compelling issuers to appoint in-house liquidity providers

24. The main drawback of issuers appointing an external liquidity provider is that they have less control over the latter, and also less incentive to closely monitor the latter's activities as there is less reputational risk to the issuer. Conversely, if issuers were compelled to appoint in-house liquidity providers, they would be encouraged to supervise the liquidity provider's activities more closely and this in turn would discourage the latter from misbehaving. We therefore propose requiring issuers to appoint liquidity providers in-house. For issuers who do not have a local brokerage arm in Hong Kong which is an Exchange Participant, transitional arrangements will have to be considered.

#### Requesting liquidity providers to disclose certain information

25. At present, the Listing Rules require an issuer to report its dealings in DW to the Exchange the following day. This includes both its own dealings (as principal) and those of its related companies, the number of DW still outstanding in the market, the net number of DW bought or sold, and the average price per DW bought or sold. This information has significantly enhanced the transparency of the issuer's trading activities. However, more

information could better enable investors, market professionals and commentators to assess whether the services provided by liquidity providers or issuers are fair and reasonable.

26. We therefore propose requesting liquidity providers to disclose to the market information on the intra-day prices executed by them on each DW together with the associated implied volatilities and possibly prices of the corresponding underlying asset at day end, and to present such information in a useful and user-friendly manner. We believe this will help investors and the market in general to assess the quality of the liquidity providing services. We also believe that, over time, the availability of such information will provide a strong incentive to liquidity providers to offer better services to the market.

### *Proposal 2: No quota, but facilitate further and identical issues*

#### No quota system

27. Prior to the 2002 reform, there was a quota system<sup>5</sup> in place. There have been calls for this quota system to be reinstated. Again, we disagree. We maintain the view that a quota system creates supply-demand imbalances, and consequently, price anomalies. It can also facilitate market manipulation by cornering the supply of a DW which has reached its quota limit, ramping up the price and then attracting other retail investors to buy what is by then an overpriced product. We do not therefore propose to reinstate any quota system.

#### Facilitating further issues

28. Prior to the 2002 reform, issuers could only make further issues of a DW when their existing holdings of such DW fell to zero. Moreover, the total aggregate value of all further issues could not exceed HK\$50 million. Both these restrictions inhibited an issuer's ability to meet demand and thus encouraged supply-demand imbalances and hence price anomalies. Moreover, the restrictions also meant that issuers who had sold all of their existing holdings would be unable to quote two-way prices for their DW, and hence unable to meet their obligations under the proposed liquidity provider system. Both restrictions were thus relaxed under the 2002 reform. Specifically, the requirement that issuers' existing holdings fall to zero was relaxed so that further issues could be made so long as the issuer held no more than 20% of an existing issue, and the HK\$50 million limit was removed altogether.

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<sup>5</sup> Prior to the 2002 reform, the Listing Rules imposed a quota on the number of shares of a Hong Kong listed company that could be the subject of a DW issue, namely 20% of the issued shares or 30% of the public float, whichever was lower. This is referred to as the quota system.

29. Despite these relaxations, two factors relating to further issues still result in a time lag during which shortages in supply can arise. First, there is the time taken to process a further issue, currently 4 days. This is a fairly long period and shortages in supply can easily arise during such a period particularly given that although settlement is on T+2 days, settlement is not possible until the DW are actually listed. In other words, the earliest they can sell the derivative warrants would be 2 days before their listing because there will not be any derivative warrants to meet delivery if sold earlier. Secondly, although issuers can now hold existing DW when making a further issue, they can hold no more than 20%. This 20% can be distributed in a fairly short time and once distributed there is again the potential for supply shortage.

30. We therefore propose that the current 4-day period for processing further issues be reduced to 2 days, and that the 20% limit on existing holdings be increased.

#### Facilitating identical issues

31. We believe that fair pricing is encouraged by the availability of competing products. Two aspects of the existing rules however restrict the ability of other issuers to mirror an existing DW, ie to compete by issuing identical versions of an existing DW. These are –

- (1) the requirement that a DW have a minimum life of 6 months – this effectively means that if an existing DW is due to expire in less than 6 months, identical versions of it cannot be issued; and
- (2) the requirement that the issue price of a DW be not less than HK\$0.25 – likewise, this effectively means that if the market price of an existing DW is less than HK\$0.25, identical versions of it cannot be issued.

32. To enhance market competition, we propose removing both these requirements, but only for the purpose of issuing identical versions of an existing DW.

#### *Proposal 3: Banning commission rebates and other incentive schemes*

33. We have a number of concerns regarding commission rebates and other incentive schemes, including –

- (1) Unlimited or unrestricted rebate schemes have the potential to attract investors whose main objective is to generate commission rebates rather than use DW as an investment tool. This can confuse or mislead the market by giving a wrong impression of turnover.
- (2) Some rebate schemes have effectively reduced the cost of trading. While cost reduction is generally regarded as beneficial to all investors, it has also encouraged an over-exuberance in DW trading and, in turn, attracted investors who do not understand the nature of DW, how they work or their associated risks.
- (3) Issuers can change the terms of schemes frequently to make individual DW attractive. It is difficult for investors to know whether the change in turnover of a particular DW is the result of a change in market sentiment for that DW or the result of a change in a related rebate scheme, and hence a reduction in the related transaction costs. Moreover, frequent changes to rebate schemes make it difficult for investors to ensure that they receive the rebates they are entitled to.
- (4) We believe issuers do not have sufficient control over matters such as (i) the identity of persons receiving the rebates; (ii) whether the payments made are in fact passed on to investors; (iii) whether the rebates reflect the net commission costs borne by individual investors; and (iv) whether the trades resulting in the rebates are the result of investors trading with each other in order to generate the commission rebate.

34. We therefore propose imposing a total ban on commission rebates and other incentive schemes.

*Proposal 4: Publishing new marketing guidelines*

35. The SFC has issued guidelines to DW issuers regarding marketing material for such products. The SFC has also incorporated guidelines in its Code of Conduct<sup>6</sup> on potential and actual conflicts of interests relating to analysts who are licensed by or registered with us. These guidelines apply in respect of all securities listed or traded on the SEHK, including therefore DW. Licensed or registered analysts who make commentaries or recommendations

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<sup>6</sup> This refers to the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission. The guidelines are set out in paragraph 16 of this Code.

on DW through the mass media must therefore comply with these guidelines. In addition, commentaries or recommendations made in financial programmes on the radio and television are subject to the relevant codes issued by the Broadcasting Authority (**BA**) governing due impartiality and factual accuracy.<sup>7</sup> Moreover, there are also BA codes safeguarding conflict of interest of programme presenters.<sup>8</sup>

36. Despite the existing guidelines, we have observed a number of increasingly prevalent marketing and promotional practices employed by DW issuers, which give us cause for concern. In particular –

- (1) advertisements in newspapers regarding DW often only include a positive analysis;
- (2) it is sometimes not clear whether the material in question is intended to be an advertisement or a commentary; and
- (3) issuers selectively quote investors, noting only those who claim to have made a profit from trading the issuers' DW.

37. These practices contribute to giving investors a distorted view of DW, thus making this already complex product less likely to be properly understood. We therefore propose publishing new guidelines on marketing DW. The new guidelines will clearly cover marketing via all forms of media such as radio, TV, the Internet, etc. They will also adopt a principle-based approach rather than a prescriptive approach, governing the whole spectrum of the marketing and promotion campaign. Our preliminary view is that these guidelines will likely need to be incorporated in the Listing Rules, thus placing the burden of ensuring compliance on the issuers. We acknowledge however that our own rules may be insufficient to catch all marketing activity. We are therefore also currently discussing this issue with the BA with a view to

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<sup>7</sup> Paragraphs 21 and 22 of the Radio Code of Practice on Programme Standards (**the Radio Code**) and paragraphs 2 and 3 of Chapter 9 of the Generic Code of Practice on Television Programme Standards (**the Television Code**) require a licensee to ensure that due impartiality is preserved in news programmes and any factual programmes (ie non-fiction programmes which are based on material facts) dealing with matters of public policy or controversial issues of public importance in Hong Kong. Programmes should not be slanted by the concealment of facts or by misleading emphasis. Every reasonable effort must be made to ensure that the factual content of programmes is accurate.

<sup>8</sup> Paragraph 27 of the Radio Code and paragraph 8 of Chapter 9 of the Television Code also require the licensee to devise and institutionalize a mechanism whereby its presenters of news programmes and factual programmes dealing with matters of public policy or controversial issues of public importance in Hong Kong are required to disclose the existence of any commercial agreement, arrangement or understanding, whether committed to writing or not, that may call into question the fairness or impartiality of the programmes. The licensee is also required to receive and consider any complaint from the public with respect to the potential conflict of interest of its programmes; inform the complainant and the BA of the findings of its investigation; and make the findings available for public inspection free of charge.

identifying measures to strengthen the regulation of financial programmes on the radio and television.

*Proposal 5: Requiring the use of plain language and summaries*

38. Currently, listing documents tend to be drafted in formal legal language that is hard for retail investors to understand. We believe market participants, and issuers in particular, can play an important role in enhancing investors' understanding by ensuring that any materials concerning their products – and listing documents in particular – are written in clear non-technical language and, where excessively lengthy, accompanied by a concise summary.

39. We further note that many DW contain nearly identical features regardless of the issuer. Moreover, there is a general expectation in the market that all DW over the same underlying shares with the same strike price and same expiry date are in effect identical except that they have different issuers. However, without a careful study of the terms offered by the issuers, investors are not able to check that this is the case.

40. We therefore propose that issuers be required to use “plain language” in their listing documents for DW and to prepare a one to two page summary document containing the key features, benefits and risks of their product. We further recommend that the industry and regulators agree on common definitions and standard terms for standard products. Issuers would then only need to disclose departures from these standard terms in their listing documents. The result would be shorter and more informative documents that allow investors to readily compare the terms for apparently similar DW.

*Proposal 6: Enhancing Investor Education initiatives*

41. The SFC has been relentless in its investor education efforts. It is clear however that despite these efforts, there continues to be considerable misunderstanding about DW and in particular (i) how their prices may be affected; (ii) the significance and impact of implied volatility; (iii) the significance and impact of gearing ratios; (iv) how exotic warrants, and in particular their pricing mechanisms, work; (v) the features and risks of low-priced DW; (vi) where to find information about DW; and (vii) the role and obligations of liquidity providers. This has reinforced our view that DW are not suitable for everyone.

42. There is therefore clearly a need to continue our investor education efforts and we have a number of new initiatives in the pipeline. We believe our proposal to introduce plain language requirements will also contribute to enhancing investor education.

43. We also believe that there is a need to draw retail investors' attention to the more technical information about DW by simplifying it where possible, and presenting it to them in a format that is readily accessible and easy to use and understand. This would enhance investors' awareness and understanding of the features and complexities of the particular DW they have or intend to invest in.

44. We therefore propose working with the industry to see how such information may be provided. In this regard, HKEx has already proposed to enhance its website in a number of ways to improve information dissemination. In particular, it is looking into –

- (1) improving the disclosure and dissemination of technical information, information on re-issuance and other basic terms of each DW;
- (2) requiring issuers to submit their Daily Trading Summary for posting on HKEx's website in Excel-like format instead of text format for ease of analysis;
- (3) enhancing the user interface to facilitate easy navigation, comparison of DW over the same underlying assets, and searching of related information;
- (4) allowing users to download historical data on DW;
- (5) providing all information in both English and Chinese where practicable;
- (6) adding links to other websites that provide investor education information; and
- (7) compiling and making available on HKEx's website a contact list of information vendors who provide real-time technical data such as real-time implied volatility to their subscribers.

## **Conclusion and Way Forward**

45. In devising the proposals discussed in this paper, our emphasis has been on achieving the right balance between securing an appropriate degree of protection for members of the investing public and not over-regulating the market so as to stifle continuous innovation and development. We also believe our proposals will make it easier for both the regulator and market participants to identify improper practices and behaviour, and respond accordingly.

46. We have invited comments from the public and asked that these be submitted by the end of January 2006. Our next step will be to consider the comments received and discuss these with HKEx. Specific proposals for amendments to the SFC's Codes and Guidelines, and/or the Listing Rules will thereafter be developed and consulted on in due course, as appropriate.

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