

Panel on Financial Affairs Meeting on 5 July 2007

**Response by Securities and Futures Commission (SFC)/
Hong Kong Exchanges and Clearing Limited (HKEx)
to List of Follow-up Actions**

Electronic Disclosure Project launched by HKEx

HKEx/SFC were requested to consider the views and suggestions of members and deputations, including but not limited to the following:

- (a) to consider possible improvements to the HKEx website to make it more user-friendly in locating information; and*
- (b) to consider exploring other viable or more acceptable means of dissemination, such as requiring Main Board listed issuers to publish summary announcements in local newspapers in parallel to the web based dissemination regime of posting full versions of the announcements both on HKEx's website and on the listed companies' own websites.*

HKEx's Response:

Possible improvements to the HKEx website

HKEx continues to monitor compliance with the requirements of the new regime and is reviewing feedback from investors and other users of our websites. Currently HKEx has received a few diverse and contradicting views on the relative merits of the current set-up of the HKEx websites.

2. HKEx plans to solicit further feedback from users over the coming months once users have had an opportunity over a longer period to acquaint themselves with the full range of functions available on its websites to access listed company news.

3. Where necessary and desirable, HKEx proposes to take further action to facilitate easy access to listed company news in a manner tailored to the preferences of different users.

Multiple track approach to dissemination of listed company news

4. Under the Electronic Disclosure Project (“EDP”), a paid announcement in newspapers will be optional after the transition period that ends on 24 December 2007 so long as the Main Board listed company publishes its announcements in full on its own website, in addition to the HKEx website, and access to the announcements on the issuer’s website is free. Listed companies can always publish their announcements in full in newspapers for investors’ reference when they submit the announcements for posting on the HKEx website or may choose to publish an advertisement for investor relations purposes. HKEx notes that some listed companies have adopted this latter approach on a voluntary basis.

5. During the process of finalising the operational model and associated Listing Rules for implementation of EDP, HKEx has explored the possibility of requiring summary announcements as a short-term transitional measure to facilitate a change in the habits of investors and market practitioners to go to the Internet for issuer disclosure filings. The text of the relevant paragraphs (26 and 28) of the 2005 Exposure Paper dealing with the form of transitional notification is reproduced below -

“26. There are divergent views on the relevant content of the short-form announcement. Some views are that the impact of total abolition will be so great that investors and market practitioners should be provided with summary information in the form of summary announcements. They argue that more detailed information in the summary announcement will make the process of investors changing their habits to look at the Exchange’s website for the full announcement easier. It would be up to the issuer to determine the contents of summary announcements and, in some cases, the issuer may choose to publish the full announcement in the newspaper. Others point out the legal risks associated with incomplete or misleading information and the risk that issuers might “cherry-pick” the information to be inserted in the summary and thereby distort the disclosure. They consider that notifications, rather than summaries, would make the transition to total abolition of paid announcements smoother. Summary announcements, they feel, may not have the desired effect of facilitating the change in the habits of investors and market practitioners as they may be content to rely on the summaries and not go to the Internet for information.

28. We summarise below certain views expressed on the advantages and disadvantages of summary announcements and notifications.

	Advantages	Disadvantages
Summary announcement	<ul style="list-style-type: none"> • Contains more information than a notification so this may help to ensure that the transition to total abolition of paid announcements is less abrupt 	<ul style="list-style-type: none"> • Risk of summary being incomplete or misleading • Some announcements are not easy to summarise, in which case the full announcement may need to be published • Investors may place total reliance on the summary announcement only
Notification	<ul style="list-style-type: none"> • Short, simple pro forma format • No risk of summary being incomplete or misleading • Encourages investors to refer to the full announcements 	<ul style="list-style-type: none"> • No meaningful information, may not always provide investors with sufficient information at first glance to decide whether to look at full announcement • Investors must refer to full announcement for meaningful information”

6. Having carefully considered the responses to the Exposure Paper and further analysis, HKEx concluded that, for two primary reasons,

it was not appropriate to introduce a summary announcement requirement. First, there are difficulties in establishing a clearly articulated standard for summary announcement disclosure which is consistent with the purpose of the disclosure requirement and which is widely understood by preparers. There is also a consequential adverse effect of these difficulties on the enforceability of such provisions in situations where there are concerns about whether or not a summary announcement is materially incomplete or misleading. Second, the preparation of summary announcements may distract issuer management and introduce an unwelcome and unacceptable delay in the publication of market sensitive information.

7. Since HKEx published the July 2006 Exposure Conclusions, no new arguments or developments have been introduced that would warrant a re-examination of the conclusion drawn on the option of introducing a summary announcement requirement. Accordingly, HKEx will not take this suggestion any further.

8. The Electronic Disclosure model in its current phase of operations utilises a multiple track approach to dissemination of listed company news and notification of the publication of that news. The primary channel, which carries the full version of the listed company news, is the HKEx website. HKEx, in turn, provides feeds carrying this information to secondary providers (commercial information vendors and certain news media companies).

9. These additional feeds allow a cross-section of information providers, including newspapers, to either provide further notifications of the publication of that news or to provide value added analysis and commentary of the key aspects of material or news worthy listed company announcements. One of the positive developments witnessed since the implementation of EDP is the much improved capacity for listed company news coverage, on a timely basis, by an increased number of newspapers and other information providers. Although HKEx notes that the current evening publication session, which ends at 11p.m., results in some practical difficulties for the newspapers to provide full coverage of listed company news which emerges close to the end of the publication session. As HKEx implements future phases of EDP and the proposed revisions to the current Trading Halt policy, HKEx will consider the benefits and drawbacks of an earlier close to the publication session which might assist.

10. Currently, the twin channels for notification of the publication of listed company news are paid notification announcements in two newspapers (one English language newspaper and one Chinese language newspaper) and the email and SMS alert service offered by HKEx free of charge. The arrangements approved by the Listing Committee and the SFC provide for the cessation of notifications in newspapers from 25 December 2007. The HKEx email and SMS alert service will continue.

11. HKEx recognises that some newspaper readers may find it helpful to be able to refer to a tabulated list of all of the announcements issued by listed companies on a particular day. HKEx is exploring how it might provide such information for the newspapers to download and publish. This mechanism, which would be available to a wider range of newspapers than the current notification arrangements, would be similar to the current arrangements whereby certain newspapers cover the daily price quotations of listed securities. It would serve as an additional means of notifying investors of the published announcement on the HKEx website.

Cross border enforcement mechanisms in relation to listed companies

Under the provisions of Multilateral Memorandum of Understanding of the International Organization of Securities Commission (IOSCO MMOU), to which the China Securities Regulatory Commission (CSRC) is a signatory, the Securities and Futures Commission (SFC) might seek the assistance of CSRC to obtain necessary information in the Mainland to facilitate SFC's investigation into suspected regulatory breaches of Hong Kong-listed issuers. The SFC was requested to provide a more detailed breakdown containing information/statistics on the number of cases in which such assistance from CSRC has been sought since CSRC became a signatory to the IOSCO MMOU, as well as the details of the responses received from CSRC and/or cases that CSRC has followed up.

SFC's Response :

12. The Multilateral Memorandum of Understanding of the International Organization of Securities Commission (IOSCO MMOU) is the first global information-sharing arrangement among securities regulators for the purpose of combating violations of securities and derivatives laws. The IOSCO MMOU signifies a commitment among signatories to provide each other with mutual assistance and co-operation

in accordance with the terms of the MMOU. Shortly after entering into enhanced bilateral arrangements with the SFC, the CSRC also became a signatory to the IOSCO MMOU in April 2007. The SFC expects the new investigative cooperation arrangements to improve its ability to take action against crimes or misconduct that have a Mainland element.

13. The SFC has had a constructive and cooperative relationship with the CSRC. For the year ended 31 March 2006, the SFC made a total of eight requests to the CSRC for regulatory co-operation. Since the CSRC became an IOSCO MMOU member in April 2007, one such request has been made by the SFC. The CSRC provides positive and reasonable assistance in response to these requests. Due to the confidentiality obligations undertaken by each signatory under the IOSCO MMOU, the SFC is not in a position to disclose the contents of such requests and details of any responses received from the CSRC.

14. It should be noted that the figures referred to above measure specific matters of concern (e.g. a specific investigation or enforcement action) in relation to which assistance may and often will be provided more than once (e.g. the SFC may receive or make multiple requests for assistance over the life of that investigation or enforcement action).

15. The SFC and CSRC also now cooperate on areas of mutual concern where both regulators have independent concerns and are investigating in parallel (e.g. the SFC has an investigation in Hong Kong and the CSRC has its own separate investigation on the Mainland into the same set of facts that may constitute crime or misconduct in both HK and the Mainland).

Securities and Futures Commission and
Hong Kong Exchanges and Clearing Limited
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