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Panel on Financial Affairs

Special meeting on 31 August 2011

**Background brief on HKExnews website service
of the Hong Kong Exchange and Clearing Limited**

Purpose

This paper provides some background information on the HKExnews website service of the Hong Kong Exchange and Clearing Limited (HKEx) and summarizes the main concerns and views expressed by members when a relevant subject was discussed by the Panel on Financial Affairs (the Panel) on 5 July 2007.

Background

2. The Listing Rules¹ include extensive requirements for issuers to provide timely information not only to their shareholders but also to the public. With the increasing popularity of the Internet and in order to satisfy the market's demand for more timely information disclosure by issuers, the Exchange published a consultation paper in April 2000 proposing the launch of a Electronic Disclosure Project (EDP) by having all issuer announcements released on the Exchange Website and abolishing the requirement to publish their announcements in newspapers. According to the Exchange, the consultation paper received a favourable response from the market. To take the EDP forward, the Listing Rules

¹ The Listing Rules are made by the Stock Exchange of Hong Kong under section 23 of the Securities and Futures Ordinance (Cap. 571) prescribing the requirements for the listing of securities on the Exchange. The Listing Rules are non-statutory and are subject to the approval of the Securities and Futures Commission.

were amended in May 2001 to require the submission of electronic copies of announcements to the Exchange for publication on the Exchange Website. Meanwhile, it had remained a requirement under the Listing Rules for Main Board issuers to publish their announcements in newspapers by way of paid advertisement. In November 2005, the Exchange published an exposure paper to seek market views on three specific aspects of the EDP. The thrust of the Exchange's proposal was to abolish the requirement for issuers to publish their announcements in the newspapers and to require mandatory submission of issuer disclosures to the Exchange electronically through the Exchange's eSubmission System (ESS). According to the Exchange, the overwhelming majority of respondents expressed support for the proposal.

3. The Exchange launched the first phase of EDP on 25 June 2007. Under the EDP, a paid announcement in newspapers has become optional so long as the Main Board listed issuer publishes the full announcement on its own website, in addition to the Exchange Website. As a transitional arrangement, Main Board issuers were required in the first six months of the EDP to publish notifications in newspapers to notify the market of the online publication of announcements. The Exchange introduced on 4 February 2008 the HKExnews website at www.hkexnews.hk as the dedicated website for the dissemination of issuer information. The HKExnews covers two main areas:

- (a) information generated directly by listed issuers and/or their major shareholders and directors such as documents submitted via ESS and disclosure information filed via the Disclosure Interests System; and
- (b) HKEx-generated regulatory information on companies listed on the Main Board or Growth Enterprise Market (GEM).

4. The final phase of the EDP took effect on 25 June 2008. From that date, Main Board and GEM issuers have been required to have their own website on which they must publish announcements and other Listing Rule documents in addition to publication on the HKEx website or GEM website.

Deliberations of the Panel on Financial Affairs

5. The Panel discussed issues relating to the launch of the EDP on 5 July 2007. In its paper provided for the Panel meeting, HKEx set out the background to the project, the relevant consultation process, the justification for implementing the project, and HKEx's assessment of the impact of the project on investors' rights to information relating to issuers. The Newspaper Society of Hong Kong and the Hong Kong Institute of Investors also attended the meeting to present their views on the implementation of the EDP.

6. During the discussion, the main concern raised by members and the deputations was whether and how HKEx would cater for the need of retail investors who might not have access to or not be conversant with the use of the Internet. There was a suggestion that the EDP be implemented under a "dual approach", i.e. requiring listed issuers to publish summary announcements in newspapers in parallel to the web-based dissemination, so as to better serve the needs of individual investors.

7. HKEx responded at the meeting that the experience of overseas jurisdictions had shown that given the changing profile of investors, electronic dissemination of information was a pre-requisite for the financial markets to develop into international financial centres and attract international investors. To tie in with the implementation of EDP, a number of support measures had been put in place. For example, HKEx had enhanced the email/mobile alert service available through the Investment Service Centre on the Exchange Website. The service provided free email or SMS alerts to each subscriber advising them of the publication of a new disclosure by or notices on disclosure of interest relating to companies that they invested in.

8. In its follow-up paper provided to the Panel subsequent to the meeting, HKEx advised that during the process of finalizing the operational model and associated Listing Rules for implementation of the EDP, HKEx had explored the possibility of requiring summary announcements as a short-term transitional measure. Having carefully considered the responses to the relevant Exposure Paper issued in November 2005, HKEx concluded that, for two primary reasons, it was not appropriate to introduce a summary announcement requirement. First, there were difficulties in establishing a clearly articulated standard for summary announcement disclosure which was consistent with the purpose of the disclosure requirement and which was widely understood

by preparers. Second, the preparation of summary announcements might distract issuer management and introduce an unwelcome and unacceptable delay in the publication of market sensitive information.

9. During the Panel discussion, members and deputations had also raised concerns about the user-friendliness and reliability of the dissemination service provided under the EDP, and highlighted the need to upgrade the Exchange Website to ensure that all investors had convenient and equal access to information on listed issuers, in particular price-sensitive information. A member suggested that the Exchange should upgrade its website with reference to the EDGAR database which was maintained by the Securities and Futures Commission in the United States.

10. HKEx responded that it was committed to enhancing its website to facilitate information flow for the investing public. An enquiry hotline had also been set up and suggestions on how the website should be improved had been received. A separate project was underway to establish a standalone website on issuers' disclosure to facilitate search and retrieval of relevant information by investors.

11. On the concern about HKEx's monopoly of information and whether there would be a future levy on access to information on the Exchange Website, HKEx responded that it had no intention to charge investors for access to information in the future. The Securities and Futures Commission (SFC) advised that fees and charges of the Exchange were subject to the approval by SFC and the latter would unlikely approve charges which were inconsistent with public interest.

Recent development

12. On 10 August 2011, the trading in the shares of certain issuers that released their periodic results announcement on the HKExnews Website during the lunch publication window and the related structured products were suspended in the afternoon trading session. According to the news release of HKEx issued at around 1:40 pm on that day, the HKExnews website services were being interrupted due to technical problems. As a result of the website service disruption, issuer documents submitted to HKEx for publication on the HKExnews website and the GEM website might not be published on the HKExnews website. HKEx had adopted a half day (i.e. one trading session) suspension policy, which aimed to give all investors sufficient time to understand the contingency

arrangements and locate issuers' announcements on their websites, for issuers which announced price sensitive information during the lunch publication window on 10 August 2011. On 11 August 2011, HKEx issued another press release announcing the measures which HKEx had adopted to ensure the market functions normally and investors continue to have timely access to announcements by issuers.

13. The above incident in particular the suspension of trading arrangement has given rise to wide public concern. The Panel will discuss the incident and related issues at the coming special meeting on 31 August 2011. The Administration, SFC and HKEx have been invited to attend the meeting.

Relevant papers

14. The relevant papers are available at the following links:

Meeting of the Panel on Financial Affairs on 5 July 2007	<ul style="list-style-type: none">• <u>Agenda</u>• <u>Minutes</u> (paragraphs 23-49)• <u>Follow-up paper provided by SFC and HKEx</u>
Newsletter of HKEx	<u>Issue in July 2008</u>
Press releases issued by HKEx	<ul style="list-style-type: none">• <u>Press release on 10 August 2011</u>• <u>Press release on 11 August 2011</u>

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