

Submission by the Hong Kong Society of Financial Analysts on the
Report of the Panel of Enquiry on the Penny Stock Incident
5 November, 2002

The Hong Kong Society of Financial Analysts Ltd. (“HKSFA”) was founded in 1992 (as the Hong Kong Chapter of the International Society of Financial Analysts Ltd. until it achieved independence in September 1996) to promote the professional and ethical standards of financial analysis and investment advice in Hong Kong. The HKSFA is a member of the Association for Investment Management and Research (“AIMR”), the Charlottesville Virginia based organization that, inter alia, administers the Chartered Financial Analyst (CFA ®) examination and awards the CFA designation. The HKSFA’s primary goal is to consider, investigate and inquire into all matters and questions connected with, or relating to, the practice of financial analysis or other businesses customarily carried on by financial analysts and investment advisors in Hong Kong. Our mission statement is as follows:

- (i) to work towards raising the standards of practice of financial analysis and investment advice in Hong Kong through setting up codes of conduct and educational programmes,
- (ii) to promote the CFA programme in Hong Kong and the rest of China and to assist CFA candidates,
- (iii) to provide a convenient communication channel between financial analysts and investment advisors in Hong Kong and the AIMR, other investment practitioners, and Hong Kong securities market regulators, and
- (iv) to promote and carry out research work in financial analysis and disseminate the results of such research.

The HKSFA has a current membership of 1,742 (as of 31st Oct 2002).

With regard to the report by the Panel of Enquiry on the Penny Stocks Incident (the Report), we agree with the basic conclusions of the report, namely that a combination of a surprise set of recommendations on the investing public, combined with the inefficiencies that clearly exist in the penny stock arena, created unforeseen and undesirable results.

The Report makes recommendations in 5 areas to improve the situation in the future. We believe that the first two areas mentioned, i.e. a) engaging the market and the public and b) assessing the market reaction, are the two key points and we would like to comment specifically on these points. We stress that this response does not address the issue of the penny stocks per se; rather it addresses the consultation process.

We agree with the broad conclusions of the Report, but instead of going through each recommendation, we would like to focus our attention on where we believe we could provide assistance to the authorities and we would like to make a recommendation of our own that we believe is in keeping with the spirit and objectives of the Report.

In the section on engaging the market and the public, the Report recommends that the HKEx and the SFC makes the most constructive and efficient use of the existing consultation channels and ensures that the consultative network should comprise key stakeholders.

The HKSFA would like to suggest that the consultative process is formalized through the establishment of a ‘practitioners’ panel’ that would be comprised of members of the various practitioners groups in Hong Kong, including stock brokers, professional investment managers, market analysts, and retail investor representatives. This panel could be appointed by the SFC/HKEx and meet on a regular (say monthly) basis to discuss various initiatives put forth by the regulators. This panel would be required to sign a confidentiality document, and care would obviously need to be taken to ensure that panel members were not able to use information received on the panel to their own financial gain. However,

such a panel would be a constructive and efficient manner for the authorities to consult with key stakeholders.

The HKSFA would like to volunteer its assistance in creating such a panel. With over 1,700 members from all parts of the investment community, all of whom are required to be investment practitioners, and over 75% of whom are CFA ® charter holders, the HKSFA is well placed to help bring together various representatives of the active investment community in Hong Kong to aid the authorities in its consultation process. Indeed, a key part of the HKSFA's mission statement is to "provide a convenient communication channel between financial analysts and investment advisors in Hong Kong, and...Hong Kong Securities market regulators."

In short, we believe that as part of our mandate, we would like to become an active part of any pre consultation process and that the size and professional qualifications of our members enables us to provide valuable and constructive input to the SFC and the HKEx.

We would invite the SFC and the HKEx to meet with us at their convenience to discuss these ideas further. We look forward to being of assistance to the financial markets regulators and to helping to improve the workings of the Hong Kong Securities Markets.

On Behalf of the Hong Kong Society of Financial Analysts,

A handwritten signature in black ink, reading "James A Soutar". The signature is written in a cursive, flowing style.

James A Soutar
Secretary