

Facilitating overseas companies' listing

The SFC and SEHK have jointly published a policy statement to facilitate the listing of overseas companies by clarifying the Listing Rules requirements and providing a clear roadmap for companies regarding shareholder protection matters.

Applicants incorporated outside Hong Kong and other recognised jurisdictions, i.e. Bermuda, Cayman Island and the PRC, seeking listing in Hong Kong are currently assessed on a case-by-case basis, and have to demonstrate that they have standards of shareholder protection that are at least equivalent to those required under the Hong Kong laws.

The schedule of key shareholder protection measures in the policy statement will help applicants provide the necessary submissions to demonstrate that they are subject to the appropriate measures.

When the Exchange considers an application, incorporation in a jurisdiction where the regulator is either a full signatory to the International Organization of Securities Commissions' Multilateral Memorandum of Understanding (IOSCO MMOU), or has entered into a bilateral agreement with the SFC, will usually be viewed favourably, though it is not the only determinative factor.

Apart from the SFC, 31 jurisdictions have signed the IOSCO MMOU; three other jurisdictions have signed bilateral agreements with the SFC.

This initiative is expected to allow companies to focus on the more qualitative issues required in a listing candidate while maintaining the quality of Hong Kong's market for investors.

The issue of this policy statement implements the initiative of facilitating listing of overseas companies raised in the Economic Summit on China's 11th Five Year Plan and Development of Hong Kong. The SFC believes that this will help further develop Hong Kong as an international listing platform for quality companies from around the world.

For details of the policy statement, see press release issued on 7 March 2007.

Message from SFC CEO

Dear Reader,

The SFC has taken practical steps in further facilitating market development.

To promote the growth of the futures and options markets, the SFC has proposed adjustments of the position limits of H-shares index futures and options. We are also reviewing the position limits of HSI futures and options contracts, and will consult the market within the next few months (page 4). Recently, a policy statement on listing of overseas companies is set to further develop Hong Kong as an international listing platform for quality companies (see article on the left).

These initiatives are in line with the recommendations in the Economic Summit and our continued emphasis on enhancing the effectiveness and efficiency of the securities market, as highlighted in a recent speech by SFC Chairman (page 4).

Meanwhile, we have launched our investor education programme for 2007 with the theme of "Know your risk" (page 6). We will focus on encouraging the public to understand different aspects of "risk" in their investments. We plan to expand the scope of investor education, and we look forward to working closely with you in this regard.

Martin Wheatley

INSIDE

- SFC as Caring Organisation P.2
- SFC tightly controls expenses P.2
- Statutory backing for listing requirements P.3
- Understanding business prospects P.3
- Adjustments of position limits P.4
- A more effective and efficient market P.4
- Circularisation protects investors P.5
- SFC-SEC review of hedge fund managers P.5
- Investor education theme: "Know Your Risk" P.6

SFC named as Caring Organisation

The SFC has been named a Caring Organisation in a scheme of the Hong Kong Council of Social Service, an umbrella organisation of over 300 non-governmental organisations.

The SFC received this award for its achievements in encouraging and supporting employee volunteering; providing family-friendly work arrangements and staff activities; and assisting social service organisations.

The SFC is committed to building a socially responsible culture in its business behaviour. Through the Commission Possible Volunteers Group, which was formed in 2004 by staff members of the SFC on a voluntary basis, the SFC has organised activities for different groups in the community. These have included visits to homes for the elderly and schools, outings with elderly and ethnic minorities, and festive parties for underprivileged children. Its corporate social responsibilities extend to other aspects such as the donation of used computers and toys, and participation in fund raising activities.

The Council's scheme aims to raise public awareness of good corporate citizenship, and to motivate strategic partnership initiatives among public, business and the social service sectors.



Residents of an elderly home receive gifts from Santa Claus.



A staff volunteer, dressed up as the God of Fortune, plays games with children at a Chinese New Year gathering.



Mrs Cindy Fung, Director of Human Resources/Training & Development, receives the award on behalf of the SFC at a ceremony on 8 February 2007.

SFC tightly controls expenses

The SFC has kept its expenditure over the past year within budget and has proposed only a modest increase for 2007-08 to ensure it functions effectively.

For the year ending 31 March 2007, the SFC expects its revenue to reach \$1,153.5 million as a result of increased levy income derived from the robust market activities. With estimated total expenditure of \$555.2 million, a surplus of \$598 million is projected. The SFC is studying how it might utilise part of its reserves to expand the scope of investor education work in Hong Kong.

For 2007-08, the SFC is projecting revenue of \$1,077.8 million.

The SFC has budgeted a modest 7.9% increase in operating expenses to \$599.3 million mainly due to increases in personnel expenses arising from pay and benefits adjustments, and a small number of additional posts.

Despite the substantial increases in recent years and expected further increases in its workload as it assumes new regulatory functions and other additional responsibilities in the near future, the SFC has budgeted for only a very modest increase in staff numbers and continues to focus on achieving operational efficiency.

For details, see press release issued on 2 March 2007.

Statutory backing for listing requirements

The Government and the SFC have proposed a revised approach to giving statutory backing to major listing requirements.

The listing requirements covered are (i) periodic financial reporting, (ii) disclosure of price sensitive information, and (iii) notifiable transactions and connected transactions which require shareholders' approval. These areas will be deleted from the Listing Rules to avoid duplication.

Through enhancing the listing regulatory regime, the proposal aims to strengthen Hong Kong's position as a leading international financial centre. The SFC believes this will enhance investor confidence in the Hong Kong market and its competitiveness.

The revised approach has the following main features:

- a set of general principles will be written in the Securities and Futures Ordinance (SFO). These are fundamental obligations to be complied with by listed issuers, standards expected by the market and the spirit of the existing listing requirements;
- a new schedule to the SFO will explain the general principles,

including the definitions and factors used to determine compliance with the general principles; and

- a non-statutory Listing Code will be issued by the SFC to set out more detailed and technical provisions to assist with compliance.

It is intended that the SFC will administer the new regime.

The proposal seeks to address the insufficient investigation powers of the Stock Exchange and the limited sanctions available under the existing non-statutory Listing Rules. The SFC believes that the proposal represents a good balance between creating an effective deterrent and avoiding over-regulation.

The Government aims to introduce a Securities and Futures (Amendment) Bill as soon as practicable, and the SFC will publish a draft Code for public consultation.

The revised approach is described in a Consultation Conclusions paper released on 28 February which is available on the SFC website.

For details, see press release issued on 28 February 2007.

Understanding business prospects

The SFC stresses that understanding the business prospects of an issuer is as important as understanding its historical performance in making investment decisions.

The SFC noted that some draft prospectuses have failed to present a complete view of the business of the listing applicant, particularly where the applicant was involved in more than one line of business or where the continuation of the principal business was open to questions.

In a case reviewed by the SFC in its Dual Filing role in the last quarter of 2006, the listing applicant derived a substantial portion of its profits during the track record period from a business line

which required a licence that was due to expire with no certainty of renewal. The applicant placed great emphasis on the other businesses and played down the possibility of not being able to continue with its principal business.

The SFC considers it vital that prospectuses contain fair and accurate information to enable investors to understand and assess the applicant's business properly.

The case above and other cases are described in the latest Dual Filing update.

For details of the update, see press release issued on 1 March 2007.



Circulars

The following recently published circulars are available on the SFC website under "Legislation & Regulatory Handbook" - "Regulatory Handbook" - "Codes, Guidelines and Circulars".

1. Circular to Licensed Corporations which are Engaged in Asset Management and/or Giving Advice on Funds/Portfolios - Fund Management Activities Survey 2006 (28.02.2007)
2. Circular to Licensed Corporations and Associated Entities - Anti-Money Laundering / Combating Terrorist Financing (1) United Nations (Anti-Terrorism Measures) Ordinance (2) US President's Executive Order 13224 (27.02.2007)

Adjustments of position limits

The SFC has proposed adjusting the position limits of H-shares index futures and options to better meet the market's needs and promote the growth of the futures and options markets.

The amendments aim to adjust the prescribed limits for Hang Seng China Enterprises Index (H-shares index) futures and options contracts from 6,000 contracts per futures contract month or options contracts series, to an aggregate delta limit of 12,000 applicable to all futures contract months and options series.

The adjustment is in line with the proposed measures outlined in the Report of the Focus Group on Financial Services under the Economic Summit on "China's 11th Five-Year Plan and the Development of Hong Kong".

The SFC believes the adjustment will help maintain Hong Kong's leading position in the face of competition from the other exchanges which want to develop derivative products on Mainland-related equities.

Subject to negative vetting of the rule amendments by the Legislative Council, the new limit will come into operation on 30 March 2007.

The SFC is reviewing the position limits of HSI futures and options contracts, and will consult the market on any proposed changes within the next few months. The SFC is also studying other recommendations in the Economic Summit report relating to contracts limits and reportable positions.

Towards a more effective and efficient securities market



Mr Eddy Fong, Chairman of the SFC, spoke about how the SFC may enhance its effectiveness and efficiency to facilitate Hong Kong's development as an international financial centre, in a public speech in January.

The SFC has a core mission to protect the interest of investors. It sets high regulatory standards, encourages the use of best practices, and will take firm and fair enforcement against misconduct and illegal practices.

Mr Fong said that it was important that rules and regulations are effective without creating unnecessary or undue compliance burdens, and the SFC's processes must be efficient and user friendly.

The SFC will strive to achieve the right balance between investor protection and facilitation of market development.

Mr Fong was speaking at a luncheon of the Hong Kong Institute of Directors.

In brief

- The SFC has petitioned for the winding up of **Tiffit Securities (Hong Kong) Limited**. On 27 February, the High Court appointed KPMG's Edward Middleton and Jacky Muk as the Provisional Liquidators of Tiffit. The Provisional Liquidators, whose earlier appointment as Tiffit's Administrators was terminated by the Court's Order, will continue the work regarding the allocation and distribution of securities to Tiffit's clients. As the filing of the winding up petition will prevent any possible dissipation of Tiffit's assets, and that the eventual appointment of Liquidators will assist in the process of further recoveries being pursued, the SFC

believes the process is in the best interest of the public and of Tiffit's clients. Hearing of the winding up petition is scheduled for 2 May.

- FinNet participants can now enjoy **nowBusiness News Channel** (nowBNC) for free. Initiated by FinNet with the aim of enhancing its services, trial viewing of nowBNC is now available on users' personal computers connected to FinNet until 31 May 2007. All that users need to try out the real-time 24-hour financial news channel is a computer with a web browser and a Windows media player installed. For more details, please contact FinNet on 2283 6883.

Prompt response to circularisation requests protects investors

Independent circularisation by auditors is an effective tool for detecting unauthorised trading and misappropriation.

The provision of account details by a party independent of the broker provides investors with the opportunity to check their stockholding and account balances against the broker's record.

However, clients often ignore audit confirmation requests by auditors or fail to sign the confirmation correctly when returning them. As such, they are not taking advantage of the additional assurance that this exercise can provide regarding the integrity of their accounts.

It is in the client's interest to reply to audit confirmation promptly and properly. Investors should note the following:

The three DOs:

1. immediately and carefully check all information provided in an audit confirmation request;

2. record all identified discrepancies on the confirmation reply; and
3. sign and return the confirmation promptly and directly to the auditor.

The three DON'Ts:

1. Don't ignore the confirmation!
2. Don't discuss discrepancies with your broker!
3. Don't return the confirmation to your broker!

The above reminder to investors came after the recent prison sentences for three ex-staff of the now-liquidated Lawsons Securities Company for offences of client asset misappropriation. The misconduct was uncovered during a circularisation required by the SFC.

For details, see press release issued on 2 February 2007.

SFC and SEC work together on hedge fund issues

In late 2006, the SFC and the United States Securities and Exchange Commission (SEC) jointly conducted a thematic review of certain hedge fund managers operating in Hong Kong which were licensed by and registered with the two regulators respectively. The SEC examination team was led by Mr Gene Gohlke, Associate Director of the SEC's Office of Compliance Inspection and Examination.

The firms inspected were of different sizes in terms of assets under management and the number of staff employed. Like many other hedge fund operators in Hong Kong, they tended to adopt the investment strategy of holding mainly long and short equities with limited use of derivatives and leverage.

During this visit, the two regulators were concerned about

inadequate disclosure made of side-letter arrangements and the extent to which some of these arrangements might place material benefits on some preferred clients.

The SFC believes that it is important to maintain an active dialogue and share the latest regulatory thinking with industry practitioners. On 9 November 2006, the SFC arranged for Mr Gohlke to address over 80 industry practitioners on the regulation of hedge fund managers in the United States and share insights into the challenges ahead for the hedge fund industry.

In supporting Hong Kong's continued development as a leading international financial centre, the SFC highly values this type of joint effort with fellow regulators, and will continue to work closely with overseas regulators to cope with international regulatory issues.



Investor resources

The following items of investor resources have been made available to the investing public or updated recently. They can be found on the InvestEd website at the URLs provided.

Investor Alert Updates:

Four unlicensed companies have been added to the Alert List: "Impex Consult Financial & Consulting Group", "Good Credit Assets Management Consultant Co.", "Trilliongold International Resources", "Trilliongold Resources Sdn Bhd" (05.03.2007).

Dr Wise's Column:

"Balancing Risk Against Return" (27.02.2007) and "Investing in Emerging Markets" (30.01.2007).

Other publications



The following publications have been published since the release of the last SFC Alert. They are available on the SFC website under "Speeches, Publications & Consultations" - "Publications".

1. SFC Quarterly Bulletin - Winter 2006 (8.03.2007)
2. Consultation Conclusions on Proposed Amendments to the Securities and Futures (Stock Market Listing) Rules (28.02.2007)
3. SFC Quarterly Report - October to December 2006 (22.02.2007)
4. SFC Enforcement Reporter - February 2007 (13.02.2007)
5. SFC Enforcement Reporter - January 2007 (19.01.2007)



Investor focus

“Know Your Risk” - Investor education theme for 2007

The SFC unveiled its investor education theme for 2007 - “Know Your Risk” - in the Investor Education 2007 Ceremony in January. Throughout the year, the SFC will focus its investor education on encouraging the public to understand different aspects of “risk” in their investments, including market volatility, increasing

complexity of products, scams and malpractices.

Many may find it easy to make quick profits in a fast market. However, investors are warned that volatility is a double-edged sword, and they must always keep in mind the risks they are exposing themselves to, especially if they are also using gearing.



Before making investment decisions, investors should obtain sufficient and up-to-date information about the business and prospects of their interested companies. It is unwise to trade on rumours or follow the herd. As retail investment products are becoming more complex, investors should not focus only on the nominally attractive returns without considering their suitability and downside risks.

Investors should also monitor their accounts and stay vigilant against misappropriation and unauthorised trading.



Mr Eddy Fong (left), SFC Chairman, presents a souvenir to Mr Ronald Chiu, Executive Director of i-CABLE News Limited at the Investor Education 2007 Ceremony.

IE month activities

The Investor Education Month (IE Month) in January kicked off the SFC’s investor education programme for 2007. A new TV drama series “Wishing up with Experience”, which for the first time was adapted from real-life cases, was screened on the Finance Channel of Cable TV during the IE Month.

Other on-going initiatives, such as Dr Wise’s Column, newspaper and magazine articles, and seminars on understanding and assessing risks of investing, will continue throughout the year.

Full-version videos and synopses of the drama series can now be viewed in the Studio section of the InvestEd website at www.InvestEd.hk.



Fashion model Ms Balia Chan (left), financial management consultant Ms Scarlett Pong and psychiatrist Dr Bruce Chan are among the guest speakers invited to the seminars.

Seminars jointly hosted by the SFC and The Open University of Hong Kong were also organised during the IE Month. Over 1,000 investors attended the seminars, which focused on assessment of the risks of investing. Audio excerpts of the seminars are available in the Studio section of the InvestEd website.



Recruitment

The following SFC positions are open. For application and details of the openings, please visit the Employment Opportunities section of the SFC website.

- **Manager - Intermediaries and Investment Products Division (Intermediaries Supervision Department)**
- **Translator**
- **Secretary - Corporate Finance**
- **Temporary Training Assistant**
- **Part-time Intern**



Subscription information

The bi-monthly *SFC Alert* forms part of our range of regular publications; others include the monthly *SFC Enforcement Reporter*, the *Quarterly Report*, the *Quarterly Bulletin* and the *Annual Report*. All these publications are posted on the SFC website.

Free subscription to the electronic version of the *SFC Alert* (and other publications) can be made to sfcalert@sfc.hk.



Feedback

Tell us what you think of the *SFC Alert*. Questions and comments can be sent to sfcalert@sfc.hk.

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