

Introduction

The SFC has continued its efforts to further strengthen Hong Kong's position as an international financial centre and to introduce practical measures to facilitate market efficiency.

We have taken another step forward in supporting the development of Islamic finance, and have signed a Memorandum of Understanding with the Dubai Financial Services Authority under which both parties will examine the possibility of mutual recognition of their regulatory regimes on Islamic funds to facilitate cross-border marketing and distribution of Islamic funds.

A co-operation agreement has also been signed with the China Insurance Regulatory Commission, which will enable Hong Kong to play a more active role in facilitating Mainland insurance companies using Hong Kong as a platform to conduct their investment and asset management activities outside the Mainland.

To generate the flexibility and practicality that the market requires, we have jointly proposed with the Stock Exchange of Hong Kong to allow electronic prospectuses to be an alternative to paper prospectuses when issuing paper application forms for public offers. The consultation will end on 30 May 2008.

Our proposals for electronic submission of financial returns and disclosure of interests notices are generally supported by the public based on comments we have received. We expect the rule amendments regarding online submission of financial returns to come into effect on 1 November 2008, and aim to implement the proposal for disclosure of interest notices as soon as possible.

Highlights

- Strengthening Hong Kong's position as an IFC
- Facilitative measure for electronic disclosure
- e-submission of financial returns and disclosure of interests notices
- More observations on IPO applications

Cross-border co-operation to strengthen Hong Kong's position as an international financial centre

The SFC has established the first co-operation agreement on the use of the Mainland's insurance funds outside the Mainland by signing a regulatory co-operation and information sharing arrangement with the China Insurance Regulatory Commission (CIRC).

The Regulatory Co-operation Agreement of Understanding signed in March 2008 covers key areas including the scope and effect, sharing of information, use of information and system of communication while stipulating the respective rights and obligations of the SFC and CIRC.

With the establishment of this information sharing and co-operation framework, Hong Kong will be able to play a more active role in facilitating Mainland insurance companies using Hong Kong as a platform to conduct their investment and asset management activities outside the Mainland.

Separately in April 2008, the SFC entered into a Memorandum of Understanding (MOU) with the Dubai Financial Services Authority (DFSA) for mutual cooperation on capacity building and human capital development in Islamic finance, as well as the promotion and development of their respective Islamic capital market segments.

Under the MOU, both parties will examine the possibility of establishing a framework for the mutual recognition of their regulatory regimes on Islamic funds to facilitate cross-border marketing and distribution of Islamic funds.

The MOU has established a platform for mutual cooperation to enhance Hong Kong's position as an international financial centre. It also promotes closer ties between the SFC and DFSA and paves the way for future initiatives that will benefit both Hong Kong and Dubai.

Facilitative measure for electronic disclosure

The SFC and The Stock Exchange of Hong Kong Ltd. (SEHK) have published a joint consultation paper on the proposal to allow electronic prospectuses to be an alternative to paper prospectuses when issuing paper application forms for public offers.

Under the proposal, paper prospectuses will no longer be compulsory when handing out paper application forms at receiving banks if electronic prospectuses are available on certain prescribed websites and other investor protection requirements are satisfied. The proposal is applicable to public offers of shares, debentures and interests in SFC-authorized collective investment schemes.

Factors that had been taken into account when formulating the proposal include (i) the increased popularity of the Internet; (ii) the HKEx website as a primary source of issuer information; and (iii) the protection of the environment.

The proposal seeks to relax the requirements with respect to the medium for communicating prospectus information while preserving the ability of investors to obtain physical prospectuses at specified branches of receiving banks.

The proposal, if implemented, will generate the flexibility and practicality that the market requires, and enhance Hong Kong's attraction as a competitive and efficient international financial centre. The proposal is also expected to reduce transaction costs.

The joint consultation paper is available on the SFC website and the HKEx website. Members of the public are invited to submit their comments on the proposal by 30 May 2008.

Electronic Submission of Financial Returns and Disclosure of Interest Notices

The SFC has recently released Consultation Conclusions papers on mandating electronic submission of financial returns and disclosure of interest notices.

The SFC consulted the public in November 2007 on the proposal to amend the Securities and Futures (Financial Resources) Rules, or the FRRs, to require all licensed corporations to submit their returns electronically. Under the proposed electronic submission regime, licensed corporations can enjoy more flexibility in preparing and amending their returns and the processing of the electronic data will be much more accurate and efficient.

The written submissions received were mostly concerned with technical questions regarding the submission procedures and generally supported the proposals.

The FRR amendments have been gazetted and tabled at the Legislative Council (LegCo) for negative vetting in April 2008. Subject to the expiry of LegCo's negative vetting period on 18 June 2008, the amendments will come into effect on 1 November 2008.

The other Consultation Conclusions paper recently released was on the proposal to make electronic submission of disclosure of interests notices to the Stock Exchange of Hong Kong (SEHK) mandatory so as to improve the timeliness of information dissemination to the public.

The comments we have received indicate that the proposal, on the whole, is supported by the public.

Under the proposal, electronic submission of disclosure of interests notices to SEHK will become mandatory. The SEHK will in turn provide electronic copies of the notices to the listed corporations. The current practice of updating the disclosure of interests section on the website of Hong Kong Exchanges and Clearing Limited (HKEx) at about 5pm on every business day will be retained.

The listed corporations' obligation to keep and maintain registers of interests and short positions will also remain. The SFC will continue to work with the market on the plan to lessen specific requirements in relation to the maintenance of these registers.

The SFC aims to implement the proposal as soon as possible and will work with the Government and the market on the implementation details.

The above Consultation Conclusions papers and the gazetted FRR amendments are available on the SFC website.

Disclosure of impact of changes in laws and regulations on listing applicants

The latest quarterly update on the Dual Filing arrangements highlights some deficiencies in disclosure of the implications of changes in laws and regulations on the operating environment of listing applicants.

In two cases reviewed, new industry specific government regulations were introduced which imposed limitations that could significantly affect the listing applicants' cash flows and business prospects. However, until the SFC raised queries, the draft prospectuses only provided a general overview of the recent regulatory development and did not provide a comprehensive assessment of how they expected the business and financial position to be affected nor how they were seeking to comply with the new regulations.

Deficiencies were also observed in the quality and completeness of information submitted for vetting, raising the question of whether the sponsor had properly assisted the listing applicant in preparing the draft prospectus.

In one case reviewed, the draft prospectus not only failed to properly explain the applicability of recently introduced regulations to its business, it also lacked details in a number of other important areas such as detailed discussion on how the business evolved to its current state, sufficient information on its business model and key operating assets, and certain key financial information.

We would like to stress that assessment of the impact of regulatory changes to a listing corporation is important to enable investors to make informed investment decisions, and sponsors are expected to help ensure such assessment and other relevant information is properly disclosed in the prospectus.

For more details of the update on Dual Filing, please follow this [link](#) to our press release dated 27 March 2008.

Publications & Circulars

The following publications and circulars have been published since the release of the last newsletter. Publications are available on the SFC website under 'Speeches, Publications & Consultations' – 'Publications'. Circulars can be found under 'Legislation & Regulatory Handbook' – 'Regulatory Handbook' – 'Codes, Guidelines and Circulars'.

Publications

1. SFC Research Paper No. 40 - Hong Kong Consolidates its Role as a Fund-raising Platform for the Greater China Region with Increased Listing of Taiwanese Companies (09.05.2008)
2. Consultation Paper on the Proposed Amendments to the Guidelines for the Exemption of Listed Corporations from Part XV of the Securities and Futures Ordinance (Disclosure of Interests) (05.05.2008)
3. Consultation Conclusions on the Proposal to Make Electronic Submission of Disclosure of Interests Notices Mandatory (03.04.2008)
4. SFC Takeovers Bulletin - March 2008 (02.04.2008)
5. Joint Consultation Paper on Issue of Paper Application Forms with Electronic Prospectuses (01.04.2008)
6. Investor education leaflet on equity-linked instruments (18.03.2008)

Circulars

1. Circular to Licensed Corporations and Associated Entities - Anti-Money Laundering / Combating Terrorist Financing - United Nations Sanctions (Iran) (Amendment) Regulation 2008 (the "Iran Regulation") (16.05.2008)
2. Circular to Fund Management Companies of SFC-authorized Funds - Proposal to Exempt Collective Investment Schemes from Disclosure of Interests Requirements (05.05.2008)
3. Circular to Licensed Corporations which are Participants of the Stock Exchange of Hong Kong Limited and/or Hong Kong Futures Exchange Limited - Licence Holders Insurance for Exchange Participants (07.04.2008)
4. Circular to Licensed Corporations and Associated Entities - Anti-Money Laundering / Combating Terrorist Financing - Questions and Answers on Identification and Handling of High Risk Customers and Politically Exposed Persons ("FAQs") (03.04.2008)
5. Circular to Licensed Corporations and Associated Entities - Anti-Money Laundering / Combating Terrorist Financing - (1) United Nations (Anti-Terrorism Measures) Ordinance (2) United Nations Sanctions (Liberia) Regulation 2008 (3) US President's Executive Order 13224 (28.03.2008)

The SFC Bulletin is available under 'Speeches, Publications & Consultations' – 'Publications' of the SFC website at <http://www.sfc.hk>.

Feedback and comments are welcome and can be sent to sfcbulletin@sfc.hk

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