



19 August 2010

Licensing Department
Securities and Futures Commission
8/F, Chater House
8 Connaught Road
Central
Hong Kong

Dear Sirs,

Re: Consultation on Regulatory Oversight of Credit Rating Agencies

The Chamber of Hong Kong Listed Companies is pleased to submit our views on the captioned consultation as in the following:

Q1. *Is it appropriate for Hong Kong to subject CRAs to a regulatory oversight regime consistent with international developments?*

We agree that Hong Kong should develop a regulatory regime for CRAs. This is compatible with international trends and is essential if Hong Kong is to stay connected with the international financial community in credit rating and ensure the integrity of the CRA industry.

Q2. *Should regulatory oversight of CRAs be achieved by extending the existing licensing regime under the SFO to CRAs and those of their staff who perform regulated functions?*

The existing licensing regime functions well and its structure is familiar to market practitioners. We agree it can be extended to cover CRAs and their staff.

Q3. *Do our draft amendments to the SFO effectively distinguish "providing credit rating services" from "advising on securities"?*

Yes, we agree.

Q4. *Should the proposed new licensing requirement apply to the rating of sukuk?*

Yes, it should. Sukuk is in essence a debt instrument only without the interest element and hence should be subject to the new licensing requirement.

- Q5. Should the following activities be excluded from the proposed new licensing requirement:**
(a) preparing credit ratings for an organization's internal purposes;
(b) preparing private credit ratings; and
(c) sharing or analyzing consumer or commercial credit data (such as through consumer or commercial credit reference agencies)?

We agree. The activities listed out in (a) to (c) fall outside the realm of assessing creditworthiness of a corporation or a rating target which is the focus of the consultation.

- Q6. Further to question 5, do our draft amendments to the SFO effectively exclude these activities from the proposed new licensing requirement?**

We believe that the draft amendments effectively state the exclusions.

- Q7. Are the proposed paid-up share capital and liquid capital requirements for Type 10 regulated activity appropriate?**

We agree the paid-up share capital and liquid capital requirements for Type 10 regulated activity be the same as those applicable to Type 4 licensees, as both do not involve holding client assets. However, Type 10 licensees should be required to have access to insurance coverage for professional indemnities to mitigate the risks that could be caused to themselves and the market.

- Q8. Does the CRA Code of Conduct satisfactorily set out the factors that should guide CRAs in the conduct of their business and which should be relied upon by the SFC in considering whether a person is, or remains, fit and proper to be licensed or registered for Type 10 regulated activity?**

Yes, it does.

- Q9. Should persons licensed or registered for Type 10 regulated activity be permitted to be licensed or registered for other types of regulated activity?**

We consider this question together with question 10.

We agree that avoiding conflicts of interests is important to the regulation of CRAs. We accept the principle that CRAs should separate their credit rating business operationally and legally from other types of business in which they are involved in order to avoid conflicts of interests. We believe that:

- (a) for licensed corporation as a firm, it should not be allowed to hold any other type of licence other than the licence to carry out credit rating agency business; and
- (b) for licensed persons as individuals, representatives or responsible persons, they should only be allowed to work for a licensed corporation that carries on the business of credit rating agency i.e. subject to a sole business restriction, although they should be allowed to continue to hold other licences for other types of regulated activities until such licences lapse.



Q10. *Should persons licensed or registered for Type 10 regulated activity be subject to a sole business restriction?*

See our answer for Q9.

Q11. *Is the draft list of Recognized Industry Qualifications and Local Regulatory Framework Papers for Type 10 regulated activity appropriate?*

Yes, we agree to what's stated in the draft list.

Q12. *Are the proposed transitional arrangements appropriate?*

The proposed transitional arrangements are fair and appropriate.

I hope you would find our answers useful. If you have any questions about them, please feel free to contact us.