

For discussion
on 13 June 2003

Legislative Council Panel on Financial Affairs

Proposed Framework for Consultation on the Regulation of Listing Matters

PURPOSE

This paper informs Members of the Administration's plan on how to take forward the recommendations of the Expert Group to Review the Operation of the Securities and Futures Market Regulatory Structure (Expert Group). It also briefs Members on the timetable for the public consultation which will be conducted to follow up the recommendations of the Expert Group.

INTRODUCTION

2. The Expert Group has, after widespread consultation, found overwhelming support for significant reform of the current regulatory structure governing listing matters. Their major recommendations are summarised as follows –

- (a) transfer of listing functions from the Stock Exchange of Hong Kong Limited to a Hong Kong Listing Authority to be part of the Securities and Futures Commission (SFC) (para 53(a) to (d) and (f) to (i) of the Report);
- (b) giving Listing Rules statutory backing (para 53 (e) of the Report);
- (c) raising entry levels for new listings (para 53 (j) of the Report);

- (d) enhancing enforcement efforts of SFC (para 53 (l) of the Report); and
- (e) enhancing regulatory cooperation between SFC and China Securities Regulatory Commission (CSRC) (para 53 (m) of the Report).

3. These recommendations aim to address the issues relating to listing matters identified by the Expert Group as effectively as possible, in order to help maintain and enhance Hong Kong's position as an international financial centre. The FS announced on 21 March that the direction recommended was appropriate and would enhance the quality of our market.

4. We are aware of the reaction of the community to the recommendations of the Expert Group. Some call for early implementation of the recommendations, while others felt strongly that their views expressed to the Expert Group during the course of preparing the Report have not been given due consideration. We also note that some of the concepts and recommendations set out in the Report have given rise to different interpretations in terms of their implications for the existing regulatory framework. In this context, the FS announced on 10 April 2003 that in view of the far-reaching implications of the recommendations and to ensure effective implementation, the community would be consulted further.

5. Against this background, the Administration has outlined a proposed framework for consultation, as set out in the following paragraphs. Our aim is to enable the community to have a more thorough and in-depth understanding of the issues raised by the Expert Group. This will no doubt promote consensus building not only on the general direction but also on the specific issues for the purpose of implementation.

CONSULTATION ON REGULATION OF LISTING MATTERS

6. In light of the Expert Group Report's recommendations and public comments thereon, we have identified a few major issues relating to market quality that have attracted most attention. They include deficiencies in the existing statutory framework, including regulatory gaps or overlaps; the need to review the enforcement and legal status of different parts of the Listing Rules; and the roles of the statutory regulator and the market operator in performing the listing functions. We would like to seek public views specifically on these critical issues in light of the Expert Group's deliberations. This will assist the Government in developing the broad concepts and recommendations put forward by the Expert Group into specific detailed measures for improvement that are sensitive to the needs of the market, and are conducive to the development of a listing regime that has an appropriate balance of market savvy and regulatory expertise.

7. The list of issues outlined above is by no means exhaustive and the public is welcome to raise any other important issues for discussion and consideration to facilitate the formulation of practical and effective improvements to the regulatory regime for listing.

8. During the consultation exercise, we will draw reference to the regulatory framework, experience and latest development in other international financial markets to ensure that any reforms to our listing regime will help strengthen our competitiveness as an international financial centre.

9. The timetable for the consultation exercise is at the **Annex**. Allowing time for preparing the consultation document and consideration by the public, we would aim at concluding the consultation exercise in early 2004 and reporting the outcome to Members thereafter. Related legislative amendments, if necessary, could be introduced to the Legislative Council in the beginning of the 2004/05 legislative session. It would be possible to map out a phased approach in order to advance the implementation of those items on which the community can arrive at a consensus at an early stage.

VIEWS SOUGHT

10. Members are welcome to comment on the plan for consultation outlined above, and note the timeframe at the **Annex**.

**Financial Services and the Treasury Bureau
June 2003**

Tentative Timetable for Consultation

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| Q2 2003 | <ul style="list-style-type: none">• Consult the LegCo Panel on Financial Affairs on the scope of public consultation |
| Q2/Q3 2003 | <ul style="list-style-type: none">• Prepare consultation document, with input from SFC and HKEx |
| Q3/Q4 2003 | <ul style="list-style-type: none">• Issue consultation document• Public consultation |
| Q42003/Q1 2004 | <ul style="list-style-type: none">• Evaluation of response• Draw up consultation conclusions |
| Q1/Q2 2004 | <ul style="list-style-type: none">• Consult the LegCo Panel on Financial Affairs on the way forward |
| Mid 2004 | <ul style="list-style-type: none">• Devise administrative arrangements and prepare legislative amendments to implement the proposals as appropriate |
| By end 2004 | <ul style="list-style-type: none">• Introduce legislative amendments to LegCo, as appropriate |