the hong kong society of financial analysts limited
香港財經分析師學會

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The Hong Kong Society of Financial Analysts Limited
GPO Box 7667 Hong Kong

Telephone +852 2521 2543
Facsimile +852 2869 4800
E-mail: administrator@hksfa.com
URL: http://www.hksfa.com

Hong Kong Exchanges and Clearing Limited
Listing Division
11/F, One IFC
1 Harbour View Street
Central
Hong Kong

Dear Sirs,

Re: Consultation Paper on the Regulation of Sponsors and Independent Financial Advisers (the "Consultation Paper")

We have pleasure in responding to the invitation to comment on the Consultation Paper.

The Hong Kong Society of Financial Analysts Ltd. is a not for profit association of Chartered Financial Analysts and CFA candidates. The society has approximately 2,000 members, and one of its objectives is to "provide a convenient communication channel between financial analysts and investment advisors in Hong Kong and Hong Kong securities market regulators." Our Advocacy committee, which comprises of 11 society members, and is chaired by a director of the society has met to discuss the Consultation Paper. The Society has consulted its members on the proposals contained in the Consultation Paper.

In general we agree with and support the proposal for the Consultation Paper as set out on pages four to five and in parts A, B and C. We believe the overall quality of the listing process in Hong Kong needs to be improved and that the proposals contained in the Consultation Paper represent steps in the right direction. However we believe that the administration of the listing process and the Listing Rules should be in the hands of the Securities and Futures Commission (the "SFC") and not the Stock Exchange of Hong Kong (the "Stock Exchange"). We believe that administration of the Listing Rules should be more objective and there should be greater disclosure of the basis for decisions taken in interpreting the Listing Rules. We would support a move towards a disclosure-based system rather than the merit-based system currently in operation. We feel that Hong Kong has progressed to the point where a full disclosure and "caveat emptor" based system is now more appropriate than the current "vetting" process. However, we do feel that under such a system, there would be even greater need for sponsors to conduct in depth due diligence on the companies they were bringing to the market. As such, it is important that there is a significant deterrent to sponsors neglecting their due diligence duties. Sponsors receive remuneration for their work, and in our opinion must be held accountable for failures in the process. In our view, that is the only way to give investors access to the broadest array of investment opportunities, while safeguarding their rights to full and proper disclosure.

From our member survey, we have received various comments on the potential negative impact to the existing sponsors and IFAs under the more stringent rules (see Attachment 1). The board of HKSFA is fully aware of these concerns but as noted above, we believe the proposals set out in the Consultation Paper are the necessary steps to safeguard the competitive position of Hong Kong as a major financial center. We would of course be delighted to discuss some of these concerns, and possible means of allaying them, in detail with you at your convenience.

Yours Faithfully,
For and on behalf of
The Board of The Hong Kong Society of Financial Analysts

Richard Mak, CFA
President

Attachment 1: <u>Additional comments from our member survey</u>

Question	Additional Comments
1 to 3	• This duplicates with the SFC's authority in licensing and supervising market participants.
4	• The requirement of four eligible supervisors for sponsor firms is too onerous, and discriminates newly-established smaller firms who have highly experienced individuals. Suggest to reduce this to two. • The focus of requirement should weigh equally both on individual member of staff and firms.
5	• We should recognize overseas experience derived from overseas exchange <u>only</u> when the relevant overseas exchanges also grant qualified HK individuals reciprocal treatment. • Qualification requirements are too harsh. • Suggest including Mergers and Acquisitions Transactions in the definition of significant transactions.
7a	• HK$10m seems to small an amount for capital requirement. HK$50m seems more appropriate.
7b	• There should also be a capital requirement for IFA firms. • Financial adequacy is important. IFA is just a name. If they do the same work, then the same requirements.
11	• The proposal puts a disproportionate onus on the sponsor on areas which should be the directors' or the experts' (such as auditors') primary responsibilities respectively. For example, auditors rely on information provided by management during their audit.