HKGCC

Hong Kong General Chamber of Commerce
香港總商會 1861

9 November 2007

Mr Paul Chow,
Chief Executive Officer
Hong Kong Exchanges and Clearing Limited
12th Floor, One International Finance Centre
1 Harbour View Street, Central
Hong Kong

Dear Mr Chow,

Consultation on the shortening of reporting deadlines for half-yearly and year-end announcements and reports, and the introduction of quarterly reporting for Main Board issuers

The Hong Kong General Chamber of Commerce is pleased to offer the following thoughts and comments on the captioned consultation proposals. In drawing these conclusions, the Chamber solicited views from members who would be directly affected by the proposed changes.

What we found was very clear unanimity in opposition to compulsory quarterly reporting, and against shorter time periods for release of results. Our members believe these measures would add significantly to the burden of compliance while providing little, if any, additional value.

Unlike the regulatory environment of the United States, which has more formal rules-based accounting standards revised by published rules, Hong Kong reporting standards are principles-based and therefore subject to interpretations in each specific set of circumstances. As a result, there has been a less formal evolution of the interpretations and so directors cannot rely on compliance with a prescribe set of rules. As with British accounting standards and reporting frameworks, Hong Kong's principles-based accounting environment is *not* conducive to mandatory quarterly reporting. Implementation of mandatory reporting not only will significantly increase the risk of errors arising from the interface of two different systems and approaches, but also will result in continuous restatement of prior results, with an adverse effect on Hong Kong's reputation as a world-class financial centre.

In addition, we note that US quarterly reporting is very much a "fill in the standard prescribed form" exercise, whereas Hong Kong employs a non-standardised form requirement, which provides a robust framework but is very dependent on the nature of business operations and developments. Consequently, quarterly reporting in Hong Kong will require significantly more time and effort, and thus cost.

As a business chamber concerned with the welfare of Hong Kong's future as a business and financial centre, we feel we must caution that the unintended result of more frequent reporting would likely be to force companies to focus disproportionately on the short-term, to the detriment of their longer term planning and management. At a time when Hong Kong is encouraging its enterprises to move up the value chain and to take more active part in projects which would improve the environment and sustainable development, we need measures which encourage companies to think and act long term rather than short term.

We note the HKEx's comment that quarterly reporting will provide for better investor protection and increased transparency. Regulations currently require the disclosure of price sensitive information as it arises between interim and year-end reporting dates. With these regulations in place we do not believe mandatory quarterly reporting increases transparency nor investor protection. If, for some reason, these regulations are not being fully or widely enforced, we should deal with that shortcoming. Resorting to more frequent reporting is unlikely to improve the quality of information disclosure, but most likely would increase the risk of errors, restatements, and fiduciary missteps. This, in turn, would make it even more difficult to find qualified individuals willing to serve as independent non-executive directors, particularly for the audit committee.

We note that companies already have significant problems meeting existing deadlines. This is borne out by the Stock Exchange's own studies on release of reports by listed companies. Forty percent of companies with a market capitalization over $10 billion have difficulty meeting existing half-yearly deadlines and 78% of those below $10 billion (a total of 700 of 975 companies listed in Hong Kong in 2006). For annual reports, the ratios are 32% and 81%, respectively, or 706 companies. More frequent reporting with shorter deadlines would, therefore, be contraindicated.

Furthermore, it is likely that smaller companies would face unmanageable demands on the time of senior management as well as unnecessary additional expenses in the form of audit and accounting fees. Given the very rapid increase in demand for accounting staff – and, as a result, salaries for professional CPAs – companies might well find themselves unable to comply in a timely manner with the new regulations. And even if they do, quarterly reporting may give rise to "star stocks" receiving the majority of attention at the expense of SME stocks, thus making it more difficult for small companies to raise money from the capital market. It is our belief that the 45 day time frame for quarterly reporting is not realistic considering Hong Kong reporting requirements, including property valuations, translation into Chinese language, and the prevalence of issuers' investments in non-controlled associates, joint ventures etc in many countries around Asia, which presents significantly challenges to get the requisite information and to adjust the numbers to comply with IFRS in the timeframe required.

We would also like to highlight the unacceptable risk levels in the proposal to require quarterly reporting at the end of 2008 and early 2009 with imminent adoption of new accounting standards on 1 January 2009.

As the Exchange will be aware, the moratorium on new IFRSs will end on 31 December 2008; new and revised IFRSs are required to be adopted effective for years starting 1 January 2009. As a result, companies will be reporting their 2008 financials under the old standards by end March 2009 and their 2009 first quarter results together with their 2008 first time first quarter results restated under the new standards by 15 May 2009. This will impose significant demand on senior management time, in-house accounting resources and auditors for all companies. This will also result in unnecessary additional expenses, which is expected to spiral with the shortage of qualified accountants and auditors already evident. The proposed timetable will significantly increase the risk of errors for all companies and thus places an unacceptable level of risk for all company directors and auditors.

Finally, the attraction of Hong Kong as a financial centre could be enhanced by *not* adopting mandatory quarterly reporting, thus making HKEx the exchange of choice in the region. Hong Kong can distinguish itself as the financial centre of choice in Asia with quarterly reporting being made on a voluntary basis (like the UK) and not made mandatory. This would attract more companies to list in the SAR, to establish their headquarters in Hong Kong and to thus benefit and promote our city as a sustainable financial centre.

Nevertheless, one item in the consultation upon which our members can agree is the proposal to do away with the requirement to print and mail statements to shareholders. We would support hosting such documents on the HKEx website, with hard copies only for those who specifically request it.

Yours sincerely,

Alex Fong
CEO

c.c. Professor K C Chan, Secretary for Financial Services and Treasury
Mr Kenneth Mak, Private Secretary to Chief Executive
Mr Freely Cheng, Administrative Assistant to Financial Secretary