

Part A General Information of the Respondent

All fields are mandatory, except the fields with an asterisk (*) if you are an individual respondent.

Name/ Company Name*	:	Revenue Watch Institute
Contact Person*	:	
Title*	:	
Phone Number	:	
E-mail Address	:	

If you **do not wish** to disclose the above information to the public, please check the box here:

☐ I do not wish to disclose the information above.

Part B Consultation Questions

Please indicate your preference by checking the appropriate boxes. Please make your comments by replying to questions below against proposed changes discussed in the Consultation Paper at the hyperlink: <http://www.hkex.com.hk/consult/paper/cp200909me.pdf>

Where there is insufficient space provided for your comments, please attach additional pages.

For ease of cross-referencing, please note the question numbers in this questionnaire correspond to the question numbers as they appear in the Consultation Paper.

Consultation Questions on Additional Eligibility Requirements for New Applicant Mineral and Exploration Companies

- 3.1 Do you agree with the Exchange's proposal that new applicant Mineral and Exploration Companies must demonstrate that they have adequate rights to participate actively in the exploration or exploration and extraction of resources, either by having controlling interests in a majority (by value) of the assets in which they have invested or through other rights, which give them significant influence in decisions over the extraction of those resources?

☐ Yes

☐ No

Please provide specific reasons for your views.

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- 3.2 Do you agree with our proposal that new applicant Mineral and Exploration Companies that have not yet obtained rights to extract relevant reserves must disclose details of how they plan to proceed to extraction and must state risks relevant to obtaining relevant rights?

☐ Yes

☐ No

Please provide specific reasons for your views.

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- 3.3 Do you agree that new applicant Mineral and Exploration Companies must demonstrate that they have sufficient working capital for 125% of their budgeted working capital needs for the next twelve months? Do you consider that the requirement for a working capital statement should be extended beyond a period of twelve months?

☐ Yes

☐ No

Please provide specific reasons for your views.

- 3.4 Do you agree that estimates of cash operating costs must include those of: (a) workforce employment; (b) consumables; (c) power, water and other services; (d) on and off-site administration; (e) environmental protection and monitoring; (f) transport of workforce; (g) product marketing and transport; (h) non-income taxes, royalties and other governmental charges; and (i) contingency allowances?

☒ Yes

☐ No

Please provide specific reasons for your views.

We agree and would further suggest, following paragraph 90 of the VALMIN Code, that the listing rules require an explanation of the basis for tax, royalty, cost escalation and exchange rate calculations. Moreover, with regard to the various components of operating costs listed, we would argue that such figures are much less useful when reported only as aggregated sums and should thus be reported separately by category. It is particularly important that tax and royalty calculations be separately disclosed, as a fuller understanding of these figures will allow investors to better assess the nature of the financial arrangement that the applicant may have with the host country. Because of the high up-front costs, long production timelines and location specificity of extractive projects, the extractive industries can be more vulnerable to certain political risks that some other industries, and vulnerability to such risks depends to some extent on the nature of the financial arrangement that is agreed up front. Contractual arrangements that diverge markedly from international norms—or that seek to stabilize taxes at levels that may be unsustainable under changing economic circumstances—are increasingly understood to heighten project-specific political risks such as the likelihood of government-initiated renegotiations or even localized unrest resulting in operational disruptions. Disclosure of detailed information gives investors the ability to assess for themselves the degree to which long-term cost estimates are reasonable and thus sustainable.

- 3.5 Do you agree that producing new applicant Mineral and Exploration Companies must disclose their operating cash cost per appropriate unit for the mineral(s) and/or oil and gas produced?

☐ Yes

☐ No

Please provide specific reasons for your views.

- 3.6 Do you agree that a new applicant Mineral and Exploration Company must demonstrate that its board and senior management, taken together, have adequate experience relevant to the mining and/or exploration activity that the applicant is pursuing, unless it can meet the financial track record requirements under Listing Rule 8.05? Do you agree that individuals relied on must have a minimum of five years relevant experience?

☐ Yes

☐ No

Please provide specific reasons for your views.

Consultation Questions on Disclosure (General) Obligations

- 4.1 Do you agree with our proposal that technical reports and valuations required by the Listing Rules must be prepared by independent Competent Persons?

☐ Yes

☐ No

Please provide specific reasons for your views.

- 4.2 Do you agree with our proposal that a Competent Person must be a member of a Recognised Professional Organisation?

☐ Yes

☐ No

Please provide specific reasons for your views.

- 4.3 Do you agree that the Exchange should only accept Competent Persons' Reports (CPRs) prepared by Competent Persons who are registered in jurisdictions where the statutory securities regulator has adequate arrangements with the Securities and Futures Commission for mutual assistance and exchange of information for enforcing and securing compliance with relevant laws of each jurisdiction?

☐ Yes

☐ No

Please provide specific reasons for your views.

- 4.4 Do you agree that the CPR must have an effective date less than six months prior to the date of the publication of the prospectus or circular required under the Listing Rules?

☐ Yes

☐ No

Please provide specific reasons for your views.

- 4.5 Do you agree that CPRs must include an up to date no material change statement?

☐ Yes

☐ No

Please provide specific reasons for your views.

- 4.6 Do you agree that all Mineral and Exploration Companies must disclose in the CPR, where one is required, risk factors and provide a risk analysis in the format outlined in Appendix I to the Consultation Paper?

☐ Yes

☐ No

Please provide specific reasons for your views.

- 4.7 Do you agree with the Exchange's proposal that disclosure on risks must be provided as part of a Competent Person's Report?

☐ Yes

☐ No

Please provide specific reasons for your views.

- 4.8 Do you agree that data on reserves and resources must be presented in tables in a manner readily understandable to a non-technical person?

☒ Yes

☐ No

Please provide specific reasons for your views.

We agree. We expect that non-technical presentations of data on reserves and resources would be useful for investors, and would add that such user-friendly presentations would be of significant benefit to other likely users of listing information. While the primary users of listing disclosures are investors, other stakeholders, including government officials, researchers and both international and host-country civil society, also rely heavily on information provided through stock exchange listings. For these groups in particular, the benefits of being able to access such data in a non-technical and readily understandable format would be immense.

Consultation Questions on Disclosure (Technical Reporting) Standards

- 5.1 Do you agree with the Exchange's proposal to accept the three main JORC-type codes for the presentation of information on resources and reserves, namely the JORC Code, NI 43-101 and the SAMREC Code?

☐ Yes

☐ No

Please provide specific reasons for your views.

- 5.2 Do you agree with the Exchange's proposal to request reconciliation to one of the above codes where information is presented in accordance with Russian or Chinese standards, until such time as they achieve widespread recognition or efforts at convergence between these standards and JORC-type codes are sufficiently advanced?

☐ Yes

☐ No

Please provide specific reasons for your views.

- 5.3 Do you agree with the Exchange's proposal to require that estimates of mineral reserves be supported at a minimum by a pre-feasibility study as defined in the SAMREC Code and NI 43-101?

☐ Yes

☐ No

Please provide specific reasons for your views.

- 5.4 Do you agree with the Exchange's proposal that information on mineral resources and mineral reserves must not be combined?

☐ Yes

☐ No

Please provide specific reasons for your views.

- 5.5 Do you agree with the Exchange's proposal that mineral resources must only be included in economic analyses if they are appropriately discounted for the probabilities of their conversion to reserves and the basis on which they are considered to be economically extractable is stated?

☐ Yes

☐ No

Please provide specific reasons for your views.

- 5.6 Do you agree with our proposal that Mineral and Exploration Companies must explain the methodology used to determine commodity prices used in pre-feasibility and feasibility-level studies and valuations of reserves and resources, and state the basis on which such prices represent reasonable views of future prices?

☒ Yes

☐ No

Please provide specific reasons for your views.

We agree. Given the volatile nature of commodities markets and the sometimes divergent views on future commodity prices, a complete explanation of the methodology used is essential.

- 5.7 Do you agree with our proposal that Mineral and Exploration Companies must present sensitivity analyses on price in their valuations of reserves and profit forecasts?

☐ Yes

☐ No

Please provide specific reasons for your views.

- 5.8 Do you consider that the requirement to state the methods used to determine prices and state the basis on which they are reasonable should extend to forecast prices of oil and gas?

☐ Yes

☐ No

Please provide specific reasons for your views.

- 5.9 Do you agree with our proposal to adopt the PRMS as the accepted reporting code for CPRs related to oil and gas resources?

☐ Yes

☐ No

Please provide specific reasons for your views.

- 5.10 Do you agree with the proposal that Proved and Proved plus Probable Reserves be presented as Net Present Values (“NPVs”) on a post-tax ‘unrisked’ basis at varying discount rates, including a reflection of the weighted average cost of capital or minimum acceptable rate of return applicable to the entity at the time of evaluation?

☒ Yes

☐ No

Please provide specific reasons for your views.

We agree, and further recommend that the Exchange require additional detailed disclosure of estimated future costs in line with the requirements of Canadian NI 51-101. NI 51-101, Item 2.3(b) requires disclosure, on an undiscounted basis, of (i) revenue; (ii) royalties; (iii) operating costs; (iv) development costs; (v) abandonment and reclamation costs; (vi) future net revenue before deducting future income tax expenses; (vii) future income tax expenses; and (viii) future net revenue after deducting future income tax expenses. Such disclosures, in particular disclosure of estimated royalties and tax expenses, give investors the best picture of the financial arrangement between companies and host governments. As noted in our response to Consultation Question 3.4, the nature of this financial arrangement is a key component of risk.

In this regard, we would also recommend that the Exchange require something similar to the disclosure described in Item 6.5 of Canadian NI 51-101. This provisions requires disclosure of a company’s “tax horizon”-- an estimation of the date on which the company will begin to be liable for income taxes. Aggregated and undiscounted estimations of taxes do not give investors any insight into the timing of tax payments, and such timing is a critical element of the underlying financial position of a company. It also bears heavily on an investor’s assessment of the reasonableness of estimations of future taxes. Thus, it is important to know not just the tax horizon, but the factors determining it. For instance, long-deferred tax payments that result from an agreed tax holiday may suggest a different degree of risk than long-deferred tax payments resulting from large capital expenditures or accumulated losses. The more detail, the better, though at a minimum a tax horizon estimate akin to that in Item 6.5 of Canadian NI 51-101 would be beneficial.

Further, we would recommend that these considerations apply equally to both mining and oil & gas reporting.

- 5.11 Do you agree with the proposal that Proved Reserves and Proved plus Probable Reserves must be analysed separately and the principal assumptions must be stated in all cases?

☐ Yes

☐ No

Please provide specific reasons for your views.

- 5.12 Do you agree with the proposal that companies must present estimates of NPVs of reserves using a forecast price as a base case but must also provide a sensitivity analysis including a constant price, to be represented by the unweighted arithmetic average of the closing price on the first day of each month in that 12 month period? Please note the possible variation in this proposed rule applicable for companies that may be subject to the SEC's Oil and Gas Disclosure Standards in paragraph 5.59 of the Consultation Paper.

☐ Yes

☐ No

Please provide specific reasons for your views.

- 5.13 Do you agree with the Exchange's proposal that disclosures about estimated volumes of oil and gas resources should be allowed, provided relevant risk factors are clearly stated?

☐ Yes

☐ No

Please provide specific reasons for your views.

- 5.14 Do you agree with our proposal that Mineral and Exploration Companies should not be permitted to attach economic values to Contingent or Prospective Resources?

☐ Yes

☐ No

Please provide specific reasons for your views.

5.15 Do you agree with the Exchange's proposed definition of 'Competent Person' for oil and gas reporting?

☐ Yes

☐ No

Please provide specific reasons for your views.

5.16 Do you agree with the Exchange's proposal that CPRs must be prepared by independent Competent Persons and deal with the list of items in Appendix II to the Consultation Paper?

☐ Yes

☐ No

Please provide specific reasons for your views.

5.17 Do you agree with the Exchange's proposal to accept the VALMIN, CIMVAL and SAMVAL valuation codes for the valuation of natural resources properties?

☐ Yes

☐ No

Please provide specific reasons for your views.

5.18 Do you agree with the Exchange's proposed definition of 'Competent Person' for valuation purposes?

☐ Yes

☐ No

Please provide specific reasons for your views.

5.19 Do you agree with the Exchange's proposal that company management and the relevant independent expert must determine whether a valuation report is required?

☐ Yes

☐ No

Please provide specific reasons for your views.

Consultation Questions on Continuing Obligations (for companies treated as Mineral and Exploration Companies and existing listed issuers engaging in mineral and/or exploration activity)

6.1 Do you agree with our proposal that Mineral and Exploration Companies must produce CPRs on transactions for the acquisition or disposal of resources and/or reserves, which require shareholder approval (i.e. transactions which are classed as 'major' or above)?

☐ Yes

☐ No

Please provide specific reasons for your views.

6.2 Do you agree with our proposal that listed issuers which enter into acquisitions for resources and/or reserves classed as major or above must also comply with the requirement to produce CPRs? Do you consider that such companies should be granted a short grace period for relevant transactions that have already been entered into and announced on implementation of the new rules?

☐ Yes

☐ No

Please provide specific reasons for your views.

- 6.3 Do you agree with our proposal that, we may dispense with the requirement for CPRs on relevant transactions if detailed information on reserves and resources, in accordance with our approved mineral and/or oil and gas codes, is already in the public domain?

☐ Yes

☐ No

Please provide specific reasons for your views.

- 6.4 Do you agree listed issuers that have previously published details of reserves and resources must update such statements once a year in their annual reports?

☐ Yes

☐ No

Please provide specific reasons for your views.

- 6.5 Do you agree with our proposal that Mineral and Exploration Companies must provide details of exploration, mining production and development activities and details of expenditure incurred on these three activities in their interim (half-yearly) and annual reports?

☒ Yes

☐ No

Please provide specific reasons for your views.

We agree, though we would argue that the information typically provided by companies pursuant to the ASX requirement noted in paragraph 6.9 is not adequate with respect to disclosure of certain important expenditures, namely payments to host governments such as royalties, taxes, and fees.

In this regard, we note that the Consultation Paper does not directly address the issue of disclosure of payments to host governments in relation to mineral or oil & gas extraction activities. Such disclosure is clearly emerging as best practice and is supported by an increasing number of companies, governments and investors, as well as citizens in mineral-producing countries for whom such disclosure is a cornerstone of the push for more accountable natural resource management. While no exchange currently requires regular reporting of company payments to host governments, there are precedents for such disclosure. Mineral and exploration companies listed on London Stock Exchange's Alternative Investment Market (AIM) must disclose payments made to governments in relation to the acquisition of mineral rights, but such disclosure is only required once, at IPO. The requirement was instituted to provide a measure of transparency to protect both the exchange and investors in response to a number of embarrassing revelations and scandals pointing to corruption in the acquisitions of mineral rights. Revenue transparency, however, addresses more than just corruption at the acquisition of mineral rights; it is directly related to ongoing questions of governance and should thus be the norm not only at IPO but throughout the life of a project.

Two bills have recently been introduced before the U.S. Congress that, if passed, would institute a continual revenue transparency rule for U.S.-listed companies, requiring regular disclosure of all payments (royalties, taxes, fees, etc.) made by listed extractive companies to host governments. Such a rule will mirror and support the standard established pursuant to the Extractive Industries Transparency Initiative (EITI), which sets standards for similar disclosure and reconciliation of reported company payments and government receipts. The concern motivating both EITI and the U.S. legislation is that excessive opacity in the arrangements between extractive companies and host governments fosters not only corruption, but also the mismanagement leading to the poor outcomes of mineral wealth observed in so many producing countries. For citizens, greater transparency is the best tool available for promoting better accountability and management. For investors, it both promotes better stability of investments and allows for a more informed assessment of the various risks to be considered.

6.6 Do you agree with the Exchange's proposal to prohibit blanket disclaimers in technical reports?

☐ Yes

☐ No

Please provide specific reasons for your views.

6.7 Do you agree with the Exchange's proposal to disallow material indemnities in favour of the Competent Person or entity that prepared the report?

☐ Yes

☐ No

Please provide specific reasons for your views.

Consultation Question on Social and Environmental Standards

7.1 Do you agree with the Exchange's proposal to encourage Mineral and Exploration Companies to consider and provide disclosure on the social and environmental matters described in paragraph 7.1 of the Consultation Paper, where material to their business operations?

☒ Yes

☐ No

Please provide specific reasons for your views.

We agree, though we believe that the Exchange should go a step further to require such disclosure rather than merely encouraging it. Social and environmental factors are of increasing interest to investors, not only in terms of reputation risk and intrinsic ethical considerations, but also in terms of the potential financial risks they represent—risks that are especially present in an extractive industry context. We share the Exchange’s stated hope that consideration of such issues will improve standards of disclosure to the market. We also believe that attaining such a desired result would be facilitated by the creation of a more level playing field with respect to environmental and social disclosures, and that mandatory disclosure is the surest means of creating such a level field. The observation that the extensive disclosure that constitutes best standards of practice “will only be provided by companies that obtain financing from financial institutions that subscribe to the Equator Principles” may be true in the absence of similar disclosure standards elsewhere, but a required disclosure standard by the Exchange would go some ways towards promoting convergence of financial reporting standards around recognized best practice.

Given the fact that social and environmental standards can change over the life of an oil, gas or mining project, we would also recommend that such disclosures be updated annually to account for changing circumstances.

Consultation Questions on Eligibility of exploration companies

- 8.1 Do you agree that Chapter 18 should be amended to allow Mineral and Exploration Companies that have mineral or oil and gas resources to apply for listing?

☐ Yes

☐ No

Please provide specific reasons for your views.

- 8.2 Do you agree that it is not appropriate to list early stage exploration companies in the interests of investor protection, i.e. those that have not yet determined the existence of resources?

☐ Yes

☐ No

Please provide specific reasons for your views.

- 8.3 Do you agree that new applicant Mineral and Exploration Companies that have not yet commenced production must disclose their plans to proceed to production with indicative dates and costs?

☐ Yes

☐ No

Please provide specific reasons for your views.

- 8.4 Do you consider that new applicant Mineral and Exploration Companies which have not yet commenced production should be subject to any additional eligibility requirements, such as a requirement to have a minimum market capitalisation?

☐ Yes

☐ No

Please provide specific reasons for your views.

- 8.5 Do you agree with the Exchange's proposed definition for 'Mineral and Exploration Companies'?

☐ Yes

☐ No

Please provide specific reasons for your views.

- End -