

Implementation of Inside Information Disclosure Regime

March – April 2014



Agenda

1. Overview
2. Guidance

1. Overview

- Market Review
- Roles of the SFC and the Exchange
- False Market

- The Inside Information Provisions and the relevant amendments to the Listing Rules have been effective since 1 January 2013
- Transition to the Inside Information Disclosure regime went smoothly
 - 52% increase in Inside Information announcements
 - 16% increase in profit alerts and warnings
 - 25% increase in trading halt/ suspension
- Increased volume of Inside Information announcements is in line with overall market activities

Roles of the SFC

- Administer the Inside Information Provisions
- The Inside Information Provisions impose statutory obligations on issuers and directors to disclose inside information as soon as reasonably practicable after the information has come to issuers' knowledge
- The SFC issued Guidelines on Disclosure of Inside Information and FAQs

Roles of the Exchange

- Exchange has statutory obligation to maintain an orderly and fair market
- Listing Rules impose issuers' obligation to address the Exchange's concern over establishment of false market
 - Issuer must promptly respond to the Exchange's enquiry
 - Issuer must announce the information necessary to avoid or correct a false market

MB13.09&13.10/ GEM17.10&17.11

Roles of the Exchange

- Exchange monitors existence of potential or actual false market by:
 1. monitoring press and share price/ trading volume fluctuation
 2. making enquiries with issuers
 3. requesting issuers to publish announcements or halt trading

What is a false market?

A situation where there is **material misinformation** or **materially incomplete information in the market** which compromises **proper price discovery**.

Examples:

1. False/ misleading announcement published
2. False/ misleading information (including rumors) circulating in market
3. Failure to announce inside information as required under the Inside Information Provisions
4. Uneven dissemination of inside information

What is a false market?

Examples:

5. Media/ analyst reports contain information from a credible source **and**:
 - there is material share price/ trading volume movement which might be referable to such information; or
 - it is likely to have a material effect on share price/ trading volume if the market starts trading with such information

2. Guidance

1. Profit alerts and warnings
2. Trading updates
3. Handling of media
4. Material information about acquisitions
5. Trading halt
6. Overseas Regulatory Announcement

1. Profit alerts and warnings

Our observations

- Issuer can improve the **timeliness** and **quality** of profit alert and warning announcements

Our guidance

Timeliness

- Assess whether disclosure obligation under the Inside Information Provisions exists before financial period end or when preparing the financial results

Quality of disclosure

- Profit alert and warning announcements should contain:
 - ✓ specific and meaningful disclosures
 - ✓ quantitative information to enable investors to assess the financial impact

2. Trading Updates

Our observations

- Some issuers published periodic trading updates on their own websites or by press releases only
- Common use of announcement headline “*Others*” and caption “*Voluntary Announcement*”

Our guidance

- Disseminate material information (e.g. trading updates) by formal announcement on the Exchange’s websites
- Select headlines for proper classification of announcements
- Use specific and meaningful caption for its announcement

3. Handling of media

Our observations

- During press conference/ media interviews/ analysts' meetings, issuers' directors/ senior management comment on **market rumours**

Our guidance

- Clarification should be made by way of a formal announcement

3. Handling of media

Our observations

- During press conference/ media interviews/ analysts' meetings, issuers' directors/ senior management comment on **business update/ latest operational data**

Our guidance

- Business updates and responses to media's enquiry could be "inside information" discloseable under the Inside Information Provisions
- Avoid holding press conference during trading hours

4. Material information about acquisitions

Our observations

- Some issuers disclosed at press conference/ media interviews unpublished material information about their acquisitions

Our guidance

- Ensure full compliance with the specific disclosure requirements of issuer's transaction announcements under the Rules (Chapter 14)
- Disclose all material information about its transactions or corporate activities in issuer's announcement

5. Trading Halt

If issuer fails to publish inside information discloseable under the Inside Information Provisions and the Listing Rules, it must apply for a trading halt as soon as reasonably practicable

Our observations

- Some issuers had lengthy suspension without disclosing details about the reasons/ events leading to the suspension

Our guidance

- Trading halt does not absolve issuer's disclosure obligation under the Inside Information Provisions
- Publish periodic holding announcements to update the market
- Halt period must be as short as reasonably possible

6. Overseas Regulatory Announcements

Our observations

- Some Overseas Regulatory Announcements in single language contain material information about issuers' financial information or business activities/ development

Our guidance

- Information contained in Overseas Regulatory Announcements could be “inside information”
- Publish bilingual announcement (Chinese and English) to disclose material information
- Publish Overseas Regulatory Announcements on the Exchange's websites at the same time as the information is released to other markets

Thank You