Submission to the SFC Consultation on Proposed Amendments to the Guidelines for the Exemption of Listed Corporations from Part XV of the Securities and Futures Ordinance (Disclosure of Interests)

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Introduction

This submission responds to questions raised by the Consultation Paper ("the Consultation Paper") issued by the Securities and Futures Commission ("the SFC") to amend the Guidelines for the Exemption of Listed Corporations from Part XV of the Securities and Futures Ordinance (Disclosure of Interests) ("the Guidelines").

Scope of the Consultation Paper

Consultation Questions

Question 1: Do you agree with the proposed amendments to the Guidelines to extend the scope of exemption in the Guidelines?

As stated in the Consultation Paper, the main purpose for amending the Guidelines is to prepare for the Shanghai-Hong Kong Stock Connect ("the Pilot Programme") which was announced earlier this year on 10 April 2014. In light of such purpose, we agree with the proposed amendments made to the Guidelines with the following reasons:

First, the extension of the scope of exemption will facilitate the mutual trading market between Shanghai and Hong Kong. Under the Pilot Programme, the Stock Exchange of Hong Kong ("the SEHK") will be working with its Mainland counterparts, the Shanghai Stock Exchange ("the SSE") and the China Securities Depository and Clearing Corporation Limited ("the ChinaClear"). Since the Mainland investors are relatively unfamiliar with the procedures in the disclosure of interests in the Hong Kong market, simplifying such process while making sure its compatibility with the Securities and Futures Ordinance ("the SFO") will be deemed beneficial to the general market.

Second, the two newly-added categories to the exemption list are appropriately chosen to adapt to the future mutual market, which include Category 4: Exchange participants of the Stock Exchange and Category 5: Clearing houses that are clearing participants. The addition of these two categories shows the flexibility of the Hong

Kong stock market in adapting to the Pilot Programme and will not change the present market structure. We strongly share the same view expressed at page 14 and 15 of the Consultation Paper:

> *An exchange participant's interest arising from transactions conducted for an unrelated client on the Stock Exchange is no different and should be treated equally even if the exchange participant is not licensed or registered to conduct Type 1 regulated activity*.
>
> *Accordingly, the overseas clearing house should be treated equally with respect to its disclosure of interest obligations*.

Therefore, extending the scope of exemption will increase the overall efficiency of the mutual stock market access. Such slight relaxation of the disclosure obligations will hopefully allow the Hong Kong market to keep up with the influx of a large number of China investors.

Question 2: Do you agree with the general criteria for exemption discussed in paragraphs 14(f) and (g) above that the SFC will take into account in deciding whether to grant an exemption?

We agree with the general criteria for exemption listed in paragraphs 14(f) and (g). The general criteria for Category 4 and Category 5 can be divided into two common parts:

The first common part in the general criteria between the two categories is that the exempted parties must be recognized under its respective sections of the SFO. This criterion is undoubtedly necessary as the exchange participants and the clearing houses should have gained a legal status before they are allowed to participate in the stock market. This acts as a protection to both the market and the investors in Mainland and Hong Kong.

The second common part is that the types of interests which will be exempted from the disclosure obligations are laid down in an absolute list. Such way of exhaustive listing is in line with the way that the general criteria for Category 1, 2 and

3 are laid down. We are in agreement with the point that the exemptions should be applied to a person rather than a related corporation so as to provide clarity as to the party that is being exempted.

Conclusion

Being a world-class international financial hub, Hong Kong has developed a close relationship with the Mainland in order to promote the internationalization of Renminbi and to secure its leading place on the financial market. Overall, with the commencement of the unprecedented Pilot Programme right round the corner, the addition of Part 2 to the Guidelines will hopefully facilitate the implementation of the Pilot Programme.

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