

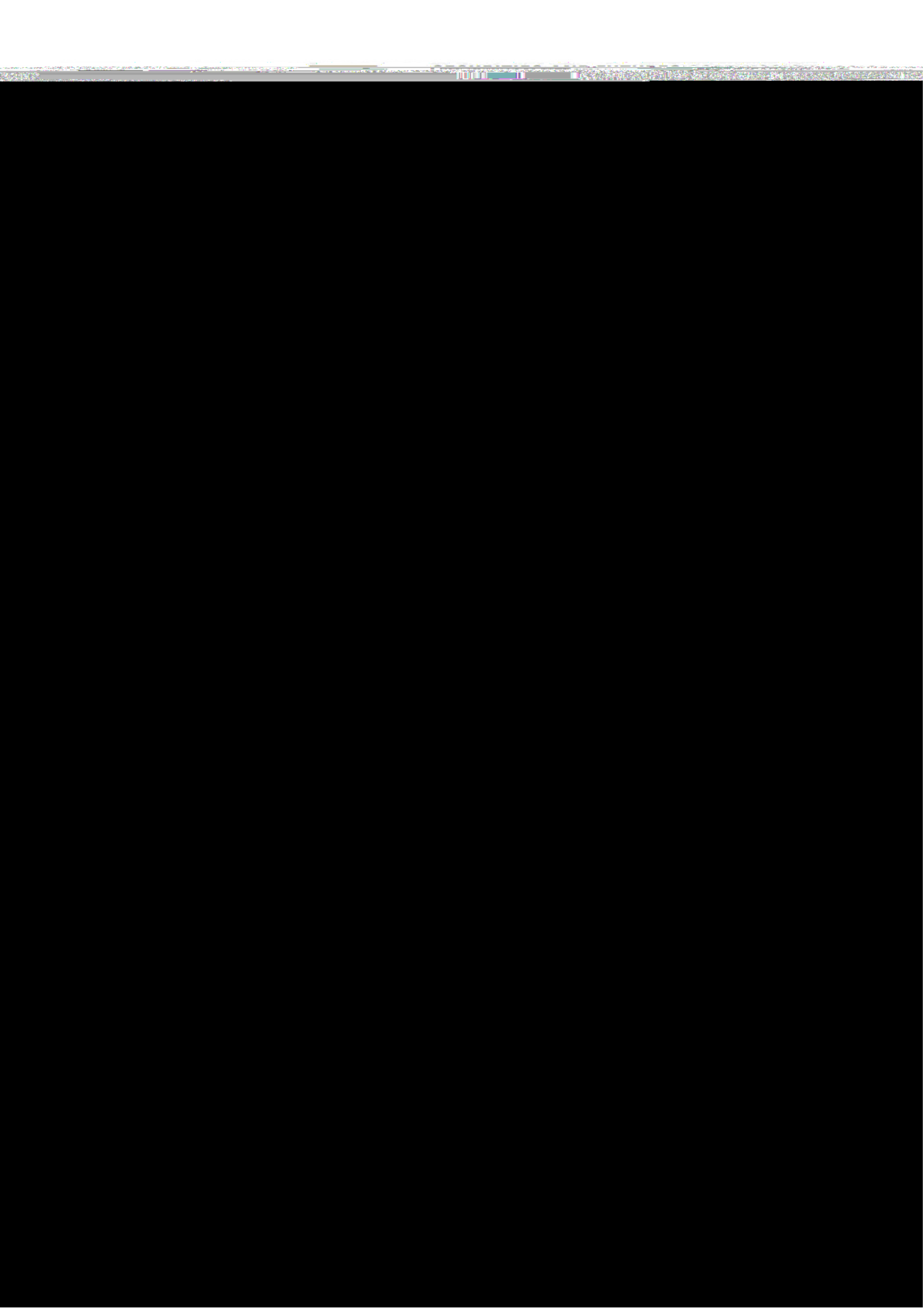




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Section 1

Purpose and focus of our review

7. This is our report on the 2012 review of the Exchange's performance in its regulation of





- (d) the Listing Operations Department which is responsible for processing listing applications for debt and structured products, such as derivative warrants and callable bull/bear contracts and the dissemination of information concerning listing



The assessment process

23. Our assessment of the Exchange's performance and our views expressed in this report are a combination of our on-site work, our consultation with market participants and Listing Committee members and our continuing interaction with the Exchange under the Listing Matters MoU.
24. We held an interview with the Head of the Listing Division and discussed our findings with him.
25. We sought the Exchange's comments on both the factual matters set out in this report and our conclusions.
26. The field work and review process were completed in May 2012. Where relevant, we have also made observations of the current issues and changes in the Exchange's operational procedures and decision-making processes in 2012.



Section 2

Overall assessment

27. We are of the view that during 2011 the Exchange's operational procedures and decision-making processes in each of the Listing Division's operational departments as described in the "Scope of our review" section above, were appropriate during the review period to enable the Exchange to discharge its statutory obligation to ensure, so far as reasonably practicable, an orderly, informed and fair market.

Market perception of the Exchange's performance

28. We sent a questionnaire on the Exchange's performance to 189 (2011: 184) Listing Committee members and market practitioners and received 65 (2011: 61) responses. The response rate is 34.3% (2011: 33.2%).
29. The respondents were asked to rate the performance of the Exchange and each of the operating departments in the Listing Division in various key areas on a scale of 1 to 5 with



- (b) The IPO Department vetted 286 listing applications in 2011, an increase of 51 listing applications or 21.7% from 2010. The number of listing applications accepted has increased significantly in the last few years (2009: 123, 2010: 204 and 2011: 247). However, the number of new listing applications accepted by the department for the first five months ended 31 May 2012 was 61, a decrease of 47% as compared to the same period in 2011.
- (c) The average time between receipt of application and issue of first comment letter in 2011 was 16 calendar days compared to 20 calendar days in 2010. However the percentage of applicants reviewed by the Listing Committee within 120 days was 58% in 2011 compared to 79% in 2010. The time taken before a case is reviewed by the Listing Committee is partly dependant on the time taken by applicants to respond to queries. The Exchange attributes the increase in the time taken to process a listing application in 2011 to the poor quality of listing application materials, the complexity of issues presented by some listing applications and the high level of listing applications.
- (d) As from January 2010, C&M Department only pre-vets announcements on substantial transactions, such as very substantial disposals or acquisitions, reverse takeovers and cash companies. The Department's experience with the post-vetting regime continued to be positive as companies' compliance with the Listing Rules maintained at a satisfactory level. In 2011, 4% (2010: 4%) of the post-vetted announcements resulted in follow-up actions taken by listed companies, mainly by publishing clarification announcements. In terms of timeliness of the department's actions, in 2011, the department commented on post-vetted announcements within one business day for 96% (2010: 93%) of the cases. The department commented on pre-vetted announcements within the same day for 77% (2010: 66%) of the cases.
- (e) The Enforcement Department continued to refine its internal decision-making structures to enable earlier identification of serious misconduct and breaches of the Listing Rules. Also, training on investigation techniques was offered to its staff to improve efficiency of investigations. As a result, the average time for completion of an investigation was 5.6 months for cases with investigation commenced in 2010 and 2011. This compares to 7.7 months for cases with investigation commenced in 2009 and 2010.



Level of activities

35. The following table indicates the level of activity in the four operational departments of the Listing Division in 2007, 2008, 2009, 2010 and 2011².

	2007	2008	2009	2010	2011
Number of listing applications accepted by the IPO Department	125	137	123	204	247
Number of compliance and monitoring actions handled by the C&M Department ³	33,163	33,124	38,341	39,823	39,393
Number of investigations handled by the Enforcement Department	167	171	147	133	142
Number of listing applications processed by the Listing Operations Department	7,426	9,312			



48. The Listing Division staff and investors are accustomed to and generally understand property valuation reports. The terminology of these reports is well established and may not require further elaboration. However, where different methodologies and bases are applied to different properties, the reasons for the use of the different methodologies and bases should be clearly explained.
49. Experts' reports dealing with matters other than property valuations and accountants' reports, especially matters that are new or less familiar to the Hong Kong market, may not be well understood by investors. According to BT/644.62(s.63Tm(h)131 0 0 1 81.864 657.3463(ay)13(23Tm



Summary

56. In relation to IPO listing applications we recommend that:

- (a) The Listing Division should adopt a probing approach when dealing with experts' reports especially those dealing with matters that are new or less familiar to the Hong Kong market. The Listing Division should pay particular attention to whether:
 - (i) there is ambiguity or sufficient clarity in the work done and the conclusions reached;
 - (ii) the bases and assumptions adopted in reaching the conclusions are reasonable; and
 - (iii) sufficient information, including the bases and assumptions adopted,



61. Following the March 2011 incident, the Exchange became aware of further cases of documentation errors by other warrant issuers. The Exchange requested warrant issuers to review all other listing documentation and suspended new issuance until they had satisfied the Exchange that the errors did not affect the terms and conditions of the warrants, that they had been verified and satisfactory measures had been put in place to prevent documentation errors from recurring.
62. We reviewed the Exchange's processes and procedures in respect of processing listing applications of structured products and suspension of trading of structured products. In reviewing the Listing Division's operating manual for structured products, we note that procedures in respect of suspension of trading of structured products only cover routine circumstances where the underlying securities of a structured product are suspended from trading on the exchange on which they are listed. The Exchange's operating manual does not give any guidance to its staff in respect of suspension of trading of structured products that may arise from other circumstances.
63. We appreciate that a suspension of trading of structured products under other circumstances may be rare and that the Exchange may need to deal with the suspension of trading of structured products under these circumstances on a case-by-case basis. However, it is important that the Exchange gives specific guidance to its staff on what action they should take to deal with a possible suspension of trading of structured products other than the routine circumstances. Having clear internal guidance on suspension of trading of structured products is consistent with the Exchange's statutory obligation1004A>708(1004A>70850 1



68. In light of the malicious hacking attacks in August, an ad hoc Review Committee⁴ was established in September 2011 to review HKEX's IT security plans and the existing contingency measures with the objective to ensuring un-interrupted, fair and even distribution of market information for maintaining an orderly and open market. HKEx also commissioned external IT security specialists to give professional advice to the Review Committee. Following the review by the ad hoc Review Committee, HKEx have implemented relevant security enhancements to strengthen protection against further attacks. HKEx advised that they will pursue continuous improvements to sustain reliability and stability of the relevant systems.
69. The Exchange also published guidance on the HKExnews website informing listed companies and investors the arrangements in respect of listed company information dissemination and related trading arrangements in the event of interruption to the information dissemination system (including the HKExnews website service).
70. The Exchange advised that the first set of contingency measures that deal with possible disruption of the listed company information dissemination systems was finalised in June 2007. The Exchange has regularly reviewed its contingency measures since then.

Recommendations

71. We summarise below our recommendations of this year's review.
72. In relation to IPO listing applications we recommend that:
 - (a) The Listing Division should adopt a probing approach when dealing with experts' reports especially those dealing with matters that are new or less familiar to the Hong Kong market. The Listing Division should pay particular attention to whether:
 - (i) there is ambiguity or sufficient clarity in the work done and the conclusions reached;
 - (ii) the bases and assumptions adopted in reaching the conclusions are reasonable; and
 - (iii) sufficient information, including the bases and assumptions adopted, in respect of the experts' reports has been disclosed in the prospectus, with new or novel types of reports being brought to the attention of the Listing Committee; and
 - (b) The Listing Division



74. In relation to structured products listing applications, we recommended that the Exchange develops specific guidance to assist its staff to deal with suspension of trading of structured products and continues its effort to work with the SFC and structured products issuers in enhancing the regulation of structured products. As a result of our review, the Exchange developed specific internal guidance that deals with suspension of trading of structured products.



Appendix A

The table below sets out the weighted average scores given by the survey respondents. The respondents were asked to rate the Exchange's performance in various key areas on a scale of 1 to 5 with "5" being wholly satisfied and "1" being wholly dissatisfied. Some questions were asked starting from the 2011 survey and hence the scores for previous years are stated "N/A".

		2008	2009	2010	2011	2012
Views on the Exchange's performance in its regulation of listing related matters						
1.	Communications to the market of the Exchange's policies and practices under the Listing Rules as regards their clarity, adequacy and timeliness	3.8	3.7	4.0	3.8	3.9
2.	Timely response to the market developments	3.4	3.5	3.7	3.5	3.6
3.	Acting in the interests of the investing public	4.0	3.8	3.9	3.9	3.8
4.	Provision of a fair, orderly and efficient market for the trading of the securities	4.0	3.9	3.9	4.0	4.0
5.	Success in ensuring that the disclosure of price sensitive information made by listed companies is on a timely basis	4.0	3.8	3.8	3.7	3.7

6.



			2008	2009	2010	2011	2012
Views on the Exchange's performance in conducting consultations							
31.	Comprehensibility of the issues and proposals in the consultation papers		N/A	N/A	N/A	3.9	3.9
32.	Adequacy of the consultation period to consider and respond to the consultation papers		N/A	N/A	N/A	3.9	3.8