

CORPORATE REGULATION NEWSLETTER

An SFC newsletter to inform market participants about matters concerning disclosures by listing applicants and listed companies

Welcome to the first edition of the SFC's *Corporate Regulation Newsletter*. This series of newsletters will highlight specific issues related to disclosures by listing applicants and listed companies.

Proper disclosure gives investors confidence that they understand the companies they invest in. Investors are less likely to discount company valuations when they are confident that management provides proper disclosure to the market and maintains good corporate governance standards. This, in turn, should reduce the cost of capital for companies, enhance investor confidence and increase shareholder value.

In this edition, we set out the role of the new Corporate Regulation team, formed as part of the SFC's renewed emphasis on corporate behaviour. We also focus on specific areas where listed companies can improve their level of engagement with the market and the SFC. We include some specific guidance to companies on matters that they have raised with us or that we have identified in the course of our work. Finally, we raise two issues of concern identified in listing applications.

We hope that this newsletter will be of use to companies, sponsors, market practitioners and others interested in listed company disclosures. We would be grateful for your comments and feedback, including suggestions for topics you would like us to address in the future. Please send your comments to: CRnews@sfc.hk.

We look forward to hearing from you.

Highlights

- Renewed emphasis on corporate behaviour
- Disclosure matters
- Duty to submit quality listing applications

Disclosure matters

After Part XIVA of the SFO came into effect on 1 January 2013, a listed company has a statutory obligation to make an announcement when it has information that would have a material effect on the price of its shares². Subsequently, the number

Duty to submit quality listing applications

Anecdotal evidence suggests that the new sponsor regime³ has changed the way sponsors conduct the due diligence process. It appears that they do more background work prior to signing the sponsor agreement and are more careful about selecting the deals for which they act as sponsor. Except for 10 returned applications , the application proofs under the new sponsor regime have generally covered the key aspects of the listing applicants’ businesses. However, in some cases the quality of disclosure remains an issue.

Applications received	105	132

Each listing applicant is unique and there can never be a “one-size-fits-all” checklist for the preparation of meaningful disclosure in the listing document. An applicant and its sponsor should critically assess what constitutes meaningful disclosure in the applicant’s context rather than taking a mechanical box-ticking approach. In particular, a sponsor is required to use all reasonable efforts to ensure that the listing document is prepared to the required standard and no relevant information has been omitted or withheld. Failure to complete all necessary assessments prior to submitting a listing application casts doubt on whether the sponsor has discharged its responsibilities under the Code of Conduct⁵.

A listing document should provide comprehensive and balanced information to enable investors to assess the prospects and risks of the applicant. Risk disclosure should be tailored to the specific facts and circumstances and clearly state the possible consequences in the event the risk materialises. Where possible, it is also good practice to provide relevant quantitative information about risks to help investors assess the likelihood of occurrence and their possible consequences on the

When listing applicants engage experts to express independent opinions on technical matters, such as the legality of an applicant's business or the valuation of biological assets, sponsors are obliged to assess the reasonableness of the bases and assumptions on which the expert opinion is founded⁶