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Exchange Publishes Rule Changes to Complement New Sponsor Regulation

The Stock Exchange of Hong Kong Limited (the Exchange), a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited (HKEx), published today (Tuesday) rule changes to complement the Securities and Futures Commission's (SFC) new regulation on sponsors which will come into effect on 1 October 2013. The new requirements resulting from the rule changes will apply to listing applications submitted on or after 1 October 2013.

As stated in the SFC's "*Consultation Conclusions on the regulation of IPO Sponsors*" published on 12 December 2012 (the Conclusions), the Exchange will make appropriate changes to the Listing Rules to implement the proposal to publish the Application Proof¹ and will also make appropriate amendments to relevant Listing Rules (together with the rule changes, the Rule Amendments) with a view to bringing the revised rules into force when the Provisions² become effective. The Conclusions also stated that the SFC would work closely with the Exchange to formulate specific measures to streamline the regulatory commenting and other aspects of the initial public offering (IPO) process. Key features of these measures and the Rule Amendments are set out below.

The Exchange has streamlined the listing vetting process, refined the number of required documents and issued guidance on certain interpretations and procedures, all with a view to making the process more efficient, while maintaining the standards of companies to be listed on the Exchange.

"The Exchange has been working with the SFC and the financial industry in the last several months to produce Rule Amendments and Guidance Letters to dovetail the Listing Rules with the Provisions", said David Graham, HKEx's Chief Regulatory Officer and Head of Listing. "Our expectation is that these changes should lead to a high quality Application Proof, thereby shortening the regulatory commenting process. This should in turn lead to a more efficient listing process which enables us to continue to attract quality companies to list on the Exchange."

Key features

1. Publication of an Application Proof which should be substantially complete on the [HKExnews website](#) when a listing application is submitted;
2. An 8-week moratorium on listing applications returned on the grounds that the Application Proofs are considered not substantially complete. When applications are returned, the names of sponsors and applicants together with the return date will be published on the HKExnews website;
3. An accelerated review process for listing applications returned on the grounds that the Application Proofs are considered not substantially complete;
4. A streamlined regulatory commenting process focusing on major issues such as eligibility, suitability, sustainability, Listing Rules, Companies Ordinance (Cap. 32) and Securities and Futures Ordinance (Cap. 571) compliance and any material disclosure deficiencies; and
5. Revised sponsors' rules, undertakings and declarations to complement the Provisions.

Transitional arrangements

As anticipated in the Conclusions, there will be transitional arrangements to enable market practitioners to familiarise themselves with all related requirements and procedures before the publication regime is implemented.

- **Six-month suspension of requirement to publish Application Proofs on HKExnews website**

In order to have time to address any unanticipated issues in the new streamlined vetting process, the Exchange has requested, and the SFC has agreed, to suspend the requirement for applicants to publish their Application Proofs on the HKExnews website from 1 October 2013 to 31 March 2014, both dates inclusive (the Suspension). If listing applications are returned during the Suspension, applicant names, sponsor names and return dates will not be published on the HKExnews website. In addition, submission of Chinese version of Application Proofs will not be required during the Suspension.

All other requirements will be effective from 1 October 2013 (eg, the 8-week moratorium will be imposed on listing applications returned by the Exchange). Sponsors' responsibilities and accountability will remain the same notwithstanding the Suspension.

There will not be any extension of the Suspension beyond 31 March 2014. This means that the requirement to publish an Application Proof on the HKExnews website will commence on 1 April 2014 when the Exchange accepts the listing application

for detailed vetting.

▪ **Initial 3-day check**

From 1 October 2013 to 30 September 2014, both dates inclusive (the Transitional Period), the Exchange will accept listing applications for detailed vetting only after completion of an initial 3-day check of the Application Proof based on a prescribed checklist (the Initial 3-day Checklist). The Initial 3-day Checklist sets out the extent and nature of the initial check.

The initial 3-day check is not a substitute for the detailed and qualitative assessment of the Application Proof to be conducted by the Exchange. The SFC and the Exchange reserve the right to return a listing application during the initial 3-day period if there are grounds which render it not substantially complete, such as non-compliance with the Provisions and Main Board Rule 9.03(3) (GEM Rule 12.09). If after a qualitative assessment the Exchange and/or the SFC consider an Application Proof accepted for detailed vetting is not substantially complete, the listing application will be returned to the applicant.

Returned listing applications will be subject to an 8-week moratorium, and the names of sponsors and applicants together with the return date will be published on the HKExnews website.

The SFC and the Exchange will review the effectiveness of the Initial 3-day Checklist during the first six months of the Transitional Period to see if the arrangement should continue for the remainder of or after the Transitional Period. The SFC's prior consent is required for any decision to remove or continue the initial 3-day check after the first six months of the Transitional Period. A separate announcement on the results of the review will be made.

Replacement of the WPIP regime with the new PHIP regime

Effective 1 October 2013, the requirement to post a Web Proof Information Pack, or WPIP, as defined in the Joint Policy Statement issued by the SFC and the Exchange on 5 November 2007 will be replaced in its entirety with a new requirement to publish a Post Hearing Information Pack, or PHIP³.

Presentations to market practitioners

To assist the market in understanding the Rule Amendments and the streamlined vetting process, the Exchange will be holding seminars in August. For details of these seminars, please refer to the [HKEx website](#).

Online resources

The Rule Amendments ([Main Board](#) and [GEM](#)) and [Guidance Letters](#) on the streamlined vetting process and related interpretation are available on the HKEx website.

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- 1 An advanced proof of the listing document submitted with the listing application under the Listing Rules.
 - 2 Paragraph 17 of the Code of Conduct for Persons Licensed by or Registered with the SFC.
 - 3 In the case of a listing of the equity securities of an applicant, a near-final draft listing document for the listing of equity securities published on the HKExnews website; in the case of a listing of interests in a Collective Investment Scheme (CIS) with a listing agent appointed which is required to discharge the functions equivalent to those of a sponsor, a near-final draft listing document for the listing of interests in the CIS published on the HKExnews website.

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