



Hong Kong

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HONG KONG STOCK EXCHANGE PUBLISHES GUIDANCE LETTER FOR ISSUERS SUBJECT TO RUMOURS OR MARKET COMMENTARIES

Background

The Stock Exchange of Hong Kong Limited (the **Exchange**) has published a new guidance letter HKEx-GL87-16 for listed issuers subject to rumours or market commentaries making allegations of fraud, material accounting or corporate governance irregularities (together **allegations**) that may require a trading halt. The guidance letter provides guidance to issuers subject to such allegations and their obligations in handling such matters.

Issuers' Action

When there are allegations circulating in the market in relation to a listed issuer and the Exchange considers that the allegations have resulted, or are likely to result, in the development of a false market in the issuer's securities, the Exchange may make an enquiry under Main Board Rule 13.10/ GEM Rule 17.11. The issuer must then either: (i) promptly issue a clarification announcement denying the allegation(s); or (ii) apply for a trading halt if a clarification announcement cannot be promptly issued to avoid the development of a false or disorderly market. If a trading halt is applied for, its duration should be as short as possible: the issuer is required to publish a clarification announcement as soon as practicable in order to resume trading.¹ It should be noted that an issuer has an obligation to issue a clarification announcement to prevent the development of a false or disorderly market, whether or not the Exchange makes an enquiry, under MB Rule 13.10 /GEM 17.11.

A clarification announcement should refer to the allegations and explain the issuer's position regarding each allegation in order to avoid a false or disorderly market. If possible, the clarification announcement should also contain particulars to address, or to refute, the allegations. The issuer must also disclose any inside information required to be disclosed under Part XIVA of the Securities and Futures Ordinance where applicable, or an appropriate negative statement.

To minimise the duration of the trading halt, the Exchange will generally not pre-vet the clarification announcement and will expect it to be published as soon as practicable. The Exchange will normally expect share trading to resume (if it was halted) after publication of the clarification announcement. In the event that the clarification announcement does not address the concerns as to the development of a false or disorderly market, the Exchange may require the issuer to provide further information and halt trading pending further clarification. This may be required where the clarification announcement contains information which materially contradicts the issuer's other published documents, or provides information which creates market confusion which raises the Exchange's concerns about the possible development of a false or disorderly market.

Further reviews or investigations

After publication of the clarification announcement, the Exchange has the discretion to follow up with the issuer on any further disclosures, reviews or investigations it deems necessary on matters that have developed out of the allegations. Depending on the nature, gravity and credibility of the allegations, the Exchange may require the issuer to provide

¹ MB Rule 6.05 / GEM Rule 9.09.

further information to substantiate its denials of allegations, to review or conduct investigations into the claims and documents purportedly reviewed or used to support the allegations.

The Exchange may take further action to require an issuer to prove that its responses to allegations are supported and provide the basis for that support and require the issuer to demonstrate that it has in place internal controls and risk management measures to safeguard its assets, and financial and reporting controls to support timely and materially accurate reporting.

Save in exceptional circumstances, i.e. where a material development gives rise to concerns regarding orderly trading, any further action by the Exchange will generally not affect trading in the issuer's securities.

Finally, if the Exchange finds that any issuer announcement or document was materially inaccurate or misleading, or that there are serious concerns about the issuer's compliance with the Rules, trading in the issuer's securities may be suspended pending further clarification. If necessary, the Exchange may refer the matter to the relevant law enforcement agency (e.g. Securities and Futures Commission) for consideration of the institution of legal proceedings.

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