

**Speech by Mr OUYANG Jiansheng,
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at the Conference on Corporate Governance in the Financial Sector
8 December 2008**

(Translation of original Chinese speech as delivered)

**Deepening the Reform of Securities Offering System and
Enhancing Supervision over Listed Companies**

Ladies and Gentlemen, Dear Friends,

Good morning. Now, I will give you a brief account of the regulatory systems for securities offering and listed companies in the Chinese Mainland. It would be greatly appreciated if you could give comments on my speech.

I. Regulatory System for Securities Offering

As the fundamental system for the operation of China's capital market, the regulatory system for securities offering plays a crucial role in strictly enforcing market access rules, improving the quality of listed companies from the origin, and implementing the principles of openness, fairness and impartiality. Over the past few years, China Securities Regulatory Commission (CSRC) has been reforming the offering review system, strengthening the market discipline mechanism and increasing the transparency of review process. **Firstly, improving the securities offering filing system.** CSRC put in place a mandatory disclosure-based mechanism of *ex ante* compliance review and *ex post* accountability, which made the review process more standard-based and increased the accountability of all the market participants. **Secondly, improving the sponsor system for securities offering and listing.** In the latter half of this year, CSRC released the *Measures on the Administration of Sponsorship Business for Securities Offering and Listing*, which enhanced the responsibilities of intermediaries. **Thirdly, reforming the offering review system.** In May 2006, CSRC amended the *Measures on CSRC Public Offering Review Committee* and formulated the *Detailed Rules on CSRC Public Offering Review Committee*. Under the new rules, prior to each committee meeting, CSRC will disclose to the public the meeting schedule, the list of attending members and the list of companies under review. After the meeting, CSRC will announce the results of the meeting. This has greatly improved the transparency of the review process. **Fourthly, reforming the offering pricing mechanism.** In September 2006, CSRC issued the *Measures on the Administration of Securities Offering and Underwriting* to further regulate the IPO book-building, pricing and share placement and step up supervision of issuers, sponsors and securities service providers. **Fifthly, strengthening market discipline on securities offering.** From 2006 onward, CSRC has published a series of rules including the *Measures on the Administration of Securities Offering by Listed Companies* and the *Measures on the Administration of IPOs and Listing* as well as relevant supporting rules. All these rules and regulations combined to form a new IPO system, following the non-tradable share reform, which includes the introduction of follow-on offering at market prices, the removal of the mandatory



coaching period as previously required for any IPO, innovations in financing methods and instruments (i.e., developing the corporate bond market, launching the convertible bond with warrants and establishing the exchangeable bond system), and institutional arrangements such as simultaneous IPOs on both the domestic and overseas markets, pilot program for over-allotment option, private placement and equity warrant.

The above-mentioned regulatory reforms for securities offering have the following features: Firstly, the reforms bring into play intermediaries' expertise and hold market players accountable. Secondly, the reforms are market-oriented and allow market to play its role in terms of resource allocation. Thirdly, emphasis has been placed on independent opinions from the review committee members, intermediaries and practitioners. They must make judgments and express opinions independently according to law. Fourthly, the reforms have been carried out in a gradual and progressive manner, paving the way for the transition from the approval system to registration system.

Reform is the driving force of the continued capital market development. CSRC will persevere in the market-oriented reform while taking into account the realities of China's capital market. Firstly, we will further improve the sponsor system. Credibility record system for sponsors will be established as a way to strengthen management of sponsors and sponsor representatives and to enhance their sense of responsibility. Secondly, we will further optimize book-building and new share offering systems. CSRC will devote more efforts to market-oriented reform of the book-building system, raise pricing efficiency and facilitate more rational pricing of IPO shares. Thirdly, CSRC will further improve services, enhance the quality and efficiency of securities offering review and strengthen public supervision.

II. Regulatory System for Listed Companies

Next, I will brief you on two aspects: our regulatory system, and regulatory focus.

1. Regulatory System

After over a decade of exploration, we have put in place a regulatory regime of listed companies that is based on the responsibility system of jurisdiction supervision, supported by the comprehensive supervisory system, characterized by joint regulation and quick response, and suitable to China's circumstances.

(1) Responsibility System of Jurisdiction Supervision

The so-called responsibility system of jurisdiction supervision leverages on the advantage of CSRC local agencies in front-line supervision, consolidates regulatory resources and divides the day-to-day regulatory responsibilities among CSRC, CSRC local agencies and stock exchanges. The highlights of the system include local agencies' supervision of listed companies in their respective jurisdictions, well-defined rights and responsibilities, the assignment of responsibilities to each individual and collaboration among regulators at various levels. Under the system, CSRC is responsible for policy-making, oversight, inspection, guidance and coordination and also spearheads investigations into events of great influence. CSRC local agencies are responsible for operation compliance of listed companies through on-site or ad hoc inspections. Stock exchanges are responsible for real-time monitoring of information disclosure of listed companies, which includes price sensitive information, trading suspension and resumption, and daily price limits etc.

(2) Comprehensive Supervisory System

The comprehensive supervisory system requires the participation of various ministries, commissions under the State Council, as well as local governments in the supervision of listed companies with the aim of coordinating and using all available resources to create an integrated regulatory framework. With the approval of the State Council, 12 Ministries and Commissions formed a Task Force on Compliance of Listed Companies including, among others, CSRC, the State-owned Assets Supervision and Administration Commission (SASAC), the National Development and Reform Commission (NDRC), the Ministry of Public Security and the Ministry of Finance. The Task Force has made great efforts to boost communication and collaboration among various regulatory authorities. They work together to mitigate risks of listed companies, facilitate the non-tradable share reform, urge the return of misappropriated funds by major shareholders, and promote the soundness of listed companies. The joint efforts lead to a favorable situation of good communication, effective coordination and joint supervision.

2. Regulatory Focus

(1) Information Disclosure

Information disclosure is a statutory obligation of listed companies. In recent years, in light of the actual development of China's capital market, CSRC strengthened supervision over information disclosure of listed companies, emphasized voluntary disclosure and the principle of bearing risks oneself, and stepped up investigations and punishment of violators of disclosure regulations. Meanwhile CSRC increased the responsibilities of intermediaries and gave play to their expertise according to the requirement of "understanding of responsibilities, fulfillment of obligations and exempt from liabilities". In addition, CSRC reinforced legislative efforts with regard to market infrastructure, in an effort to regulate the conduct of listed companies and present a true picture of listed companies to investors. According to the requirements on corporate disclosure prescribed in the revised *Company Law and Securities Law*, CSRC announced the *Measures on the Administration of Information Disclosure by Listed Companies* in February 2007 to meet the needs of supervision over listed companies in a new situation following the non-tradable share reform. The *Measures*, which include various provisions on on-going disclosure by listed companies, further developed the disclosure rules and process, enhanced the disclosure responsibilities of large shareholders and management, and required listed companies to develop internal rules for information disclosure. The concept of "fair disclosure" was introduced for the first time and the principle of phased disclosure was set forth. All these provisions significantly improved the quality of listed companies' disclosure and the efficiency of supervision.

(2) Corporate Governance

Corporate governance is the foundation of healthy development for listed companies as well as a top concern of regulators. In the past few years, CSRC rolled out a slew of rules and regulations to address the issue, including the *Guidelines for the Articles of Association of Listed Companies*, the *Code of Corporate Governance for Listed Companies*, the *Rules for the General Meeting of Shareholders of Listed Companies* and the *Measures on the Administration of Stock Incentives by Listed Companies*. It also introduced the independent director system. In light of the development of China's capital market, the *Code of Corporate Governance for*

Listed Companies set forth the basic principles of corporate governance of listed companies, the methods of protecting investors' rights, as well as the code of conduct and professional ethics for senior management of listed companies. Apart from that, following the non-tradable reform and the rectification of large shareholders' misappropriation of listed companies' funds, CSRC launched a one-year massive campaign to strengthen corporate governance of listed companies in 2007. All these initiatives have proved helpful in improving the independence of listed companies in terms of assets, personnel and decision-making process, in regulating the operations of the board of directors, the board of supervisors and the general meeting of shareholders, in optimizing the internal control system as well as relevant rules and regulations, and in promoting the culture and mechanism of "autonomy of shareholders and corporations". However, we are well aware that the capital market in the mainland remains an emerging market in a transitional period. Listed companies still lack a robust corporate governance structure, Directors, supervisors and senior management need to further develop their awareness of the significance of integrity. The internal control and external discipline mechanisms have yet to be improved. In short, a lot of work remains to be done in raising the governance level of listed companies.

(3) Insider Trading

Insider trading is a challenge for all the securities markets around the world. The crux lies in the identification of insiders with access to non-public information and of insider trading. Compared with that in mature markets, prevention of insider trading in China is special in that due to redundant and prolonged approval process, insider information links are extended, information diffusion channels are more complicated, and evidence collection is more difficult. The Central Commission for Discipline Inspection and the Ministry of Supervision have paid great attention to the misconduct of some staff of the CPC and State organs and employees of intermediaries who leak confidential information or abuse their authority to conduct insider trading. Staff of the CPC and State organs are strictly prohibited from misappropriating non-public information for insider trading purposes. Likewise, employees of listed companies and intermediaries are forbidden to exploit the non-public information about public offerings or about listed companies' mergers, acquisitions or private placements for their own benefits or for the benefits of any "person with a specific relationship". Efforts have been continued to reform the administrative approval system and simplify approval procedures. Great efforts were also devoted to disclosure of government affairs in a bid to enhance regulatory transparency. In addition, the central government has incorporated the task of improving the system for preventing, investigating and punishing false disclosure and market manipulation into its overall anti-corruption plan for the years 2008-2012. Accordingly, CSRC together with other 14 ministries or commissions under the State Council set forth 4 main objectives and came up with nearly 30 measures. Currently, all the work is being advanced in an orderly manner.

(4) Merger and Acquisition and Restructuring

In order to intensify supervision over Merger and Acquisition (M & A) and restructuring of listed companies, CSRC promulgated the *Measures on the Administration of Acquisition of Listed Companies*, the *Measures on the Administration of Major Asset Restructuring of Listed Companies* and the *Measures on the Administration of Financial Advising Business for M & A and Restructuring of Listed Companies*. Meanwhile, it went full steam ahead with disclosure of the review process of M & A and restructuring of listed companies to make the whole process

known to the public. Additionally, CSRC unveiled a series of work rules which highlight reporting transparency, regulatory transparency, M & A and restructuring review transparency and the *ex ante* announcement and *ex post* filing system so as to put an end to insider trading and corruption through institutional arrangement.

(5) Infringement of Listed Companies' Interests

Investor protection is our top priority. CSRC has cracked down on infringement of the interests of listed companies by large shareholders. Firstly, CSRC announced regulations to strictly restrict controlling shareholders and other related parties from misappropriating the funds of listed companies. CSRC launched a pilot program of “debt for equity swap” and, with the cooperation of local governments, embarked on a drive to force large shareholders to repay misappropriated funds. Secondly, CSRC has been refining laws and regulations for the establishment of a long-term mechanism. “Misappropriation of the assets of listed companies” was added to the *Amendment VI to the Criminal Law* as a criminal offence, which increased the accountability of large shareholders and *de facto* controllers that have misused the assets of listed companies.

Listed companies are the cornerstone of capital markets. In light of China's conditions and the development of the capital market, CSRC will deepen the reform of securities offering system and rigorously enforce market access rules. According to our regulatory philosophy of “scientificness, effectiveness, dynamism and suitability”, we will continue to improve the market infrastructure, regulate the market in a more systemic, forward-looking and effective manner and promote the healthy and steady development of China's capital market.

This concludes my speech. Thank you. 🙏