

How to Present Financial Information – Role of Disclosure in Complementing Financial Literacy Campaigns

by

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Who We Are

The Securities and Futures Commission is a statutory regulator responsible for administering the laws governing the securities and futures markets in Hong Kong.

Transparency & Informed Choices

We promote a transparent and informed market.

- **Transparency helps investors make informed investment decisions.**
- **Investors should have the right to access timely information to appraise their investments.**

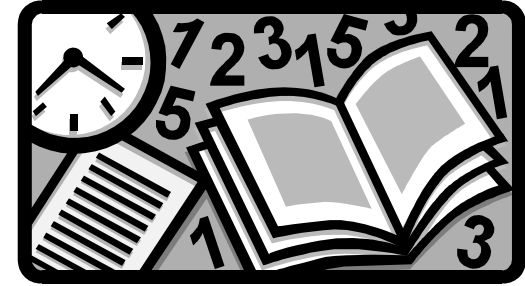
Disclosure-based Regime



Let investors form their own views about a listed company before buying its shares!

- ◆ **Share application forms in an initial public offering (IPO) must be distributed together with a prospectus.**
- ◆ **A prospectus is also required in a rights issue.**

Contents of an IPO Prospectus



- ◆ ***Summary:*** a broad view of the company's history, type of business, plans and prospects, and timetable of the new shares issue
- ◆ ***Risk factors:*** what might go wrong with the company, its market or the economies in which it operates
- ◆ ***Industry overview / Business / Future plans and prospects:*** key facts about the industry in which the company operates, revenues, profits, management's strategy etc.

Contents of an IPO Prospectus (Cont'd)

- ◆ ***Management:*** background and qualification of directors and senior executives
- ◆ ***Use of proceeds:*** money raised for business development, debt repayment or for paying back existing shareholders?
- **Format of prospectus:** hardcopy, electronic format on CD ROM or website of company or stock exchange

Continuous Disclosure Obligations

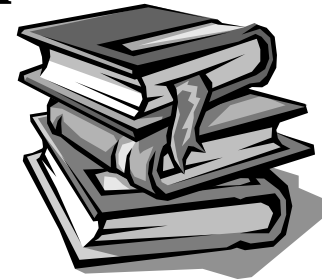
Some corporate actions may provoke a fundamental re-appraisal of the company's investment potential!

- ◆ **Listed companies must publish announcements when there are significant changes, e.g.**
 - **Changes in business nature / directorships**
 - **A possible takeover and merger**
 - **A share placing or a rights issue**
 - **Discloseable / connected transactions**
 - **Explanation of unusual price or volume fluctuations**
- ◆ **Pre-vetting by the regulators to ensure full and clear disclosure**
- ◆ **Company directors must take full responsibility for accuracy of the contents**

Annual Reports: Know about a Listed Company

A real chance for shareholders to understand their companies is by studying the annual report!

- ◆ Annual reports contain a great deal of information, e.g.
 - Outline of the company's activities, overview of business climate, future strategies, etc
 - Major customers and suppliers, connected transactions
 - Key financial figures
 - Auditors' report
- ◆ More frequent reporting for riskier companies: quarterly reports for GEM (*Growth Enterprise Market*) companies



Offering Documents

Regulatory Principle:

If an investment product (e.g. funds, bonds) is offered to the public, it must provide an offering document containing details of its features and risks.



Contents of a Fund's Prospectus

- ◆ **Investment objectives**
- ◆ **Investment strategies, investment and borrowing restrictions**
- ◆ **Risks involved**
- ◆ **Fees and charges payable by the investor and the fund**
- ◆ **Characteristics of the units, e.g. minimum investment sum, currency denomination, frequency of valuation and dealing**

Contents of a Fund's Prospectus (Cont'd)

- ◆ **Application and redemption procedures including circumstances leading to dealing suspension**
- ◆ **Reporting and dividend policy**
- ◆ **Circumstances leading to termination**

- **More facts in a fund's annual reports, e.g. performance record, portfolio holdings, transactions with related parties**

Information about Intermediaries from Regulators

Finding the right investment expert is not an easy job, how can the regulator help?

◆ SFC's Public Register of Licensed Persons:

- Types of activities an intermediary can carry out
- Names of responsible officers and accredited representatives
- Licence condition
- Contact details and website address (if available)
- Channel for clients to file complaints
- 5-year disciplinary record

Information for Clients of Intermediaries

How can investors monitor their accounts?

- **Contract notes provide all transaction details**
- **Account statements set out movements on the account and balances on the statement date**
- **Independent auditors' circularisation to double check positions**

Plain Language

Financial jargons are difficult. Most of us have not learnt them in school!

- ◆ Spirit of good disclosure: not disclosing just for the sake of disclosure
- ◆ Information presented must be readable and easy-to-understand!

Project on the Use of Plain Language – Phase 1

In July 1997, we announced proposals to improve the way listed companies present information in public announcements:

- Introduce a summary box for the transaction, its effect & its impact on shareholders**
 - Arrange the information in a more meaningful order, giving the most important information first**
 - Use frequent and meaningful headings to break up the text**
 - Highlight risk warnings**
 - Use shorter sentences & simple English**
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- ◆ Created samples to illustrate plain language announcements**
 - ◆ Not vetting announcements not submitted in the suggested format**



SFC

證監會

Project on the Use of Plain Language – Phase 2

In January 1998, we suggested various ways to organise a prospectus:

- **Simplify the first page to contain only essential and important information**
- **Draft a useful summary**
- **Arrange the content in a logical order**
- **Group like information together under descriptive headings**
- **Where like information cannot easily be grouped together, use cross-references to guide readers**
- **Eliminate unnecessary repetition**
- **Avoid tedious & legalistic style of writing**

We also provided a plain language sample prospectus.

Mini-prospectuses

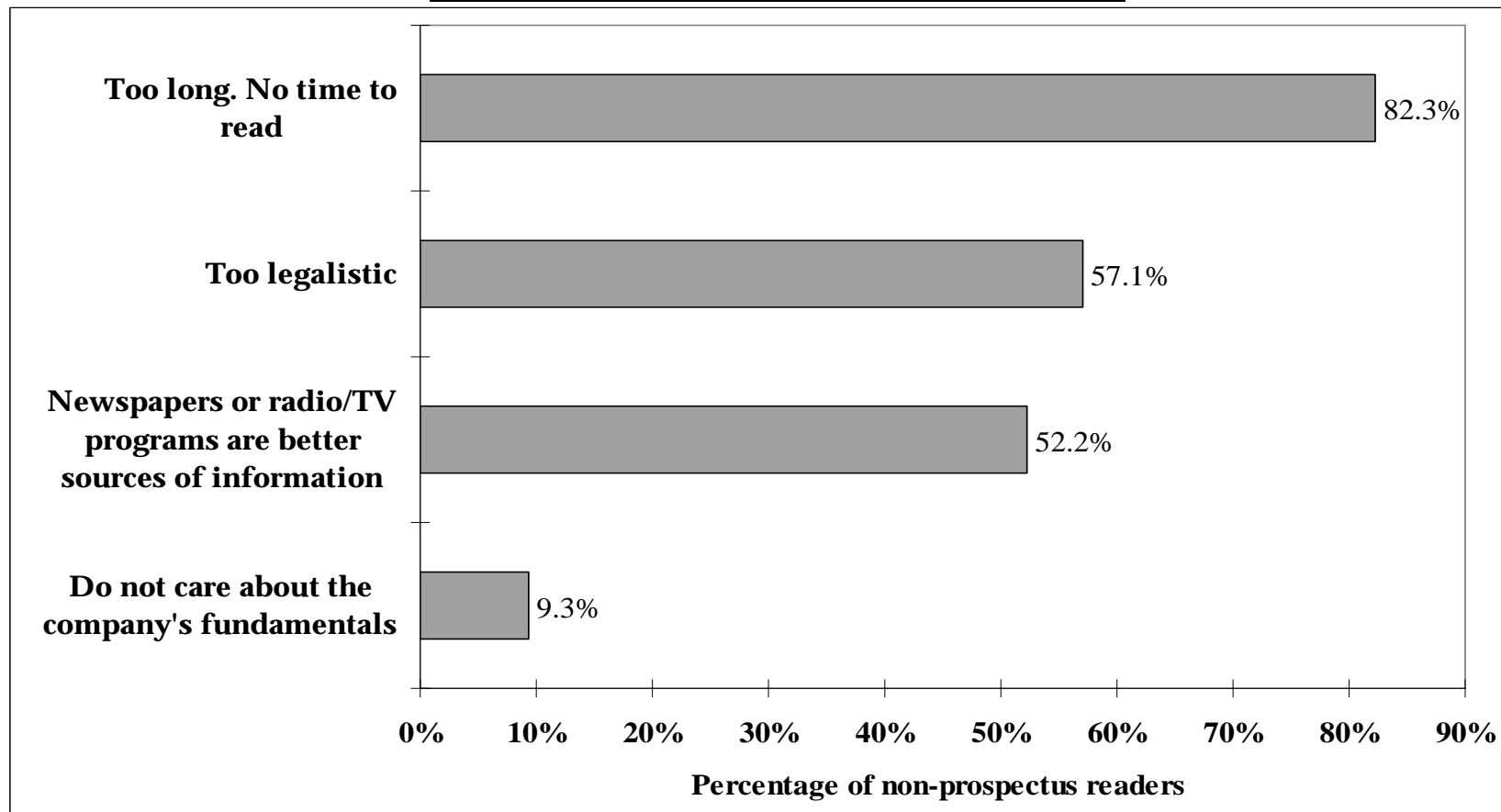
In Feb 2003, we issued guidelines to encourage the use of mini-prospectus that summarizes or highlights key information in an offer.

- ◆ **Mini-prospectuses is likely to facilitate investors to understand the information contained in the full version.**
- ◆ **Unfortunately, due to concerns for cost and potential liability, listed companies are not keen to publish mini-prospectuses.**

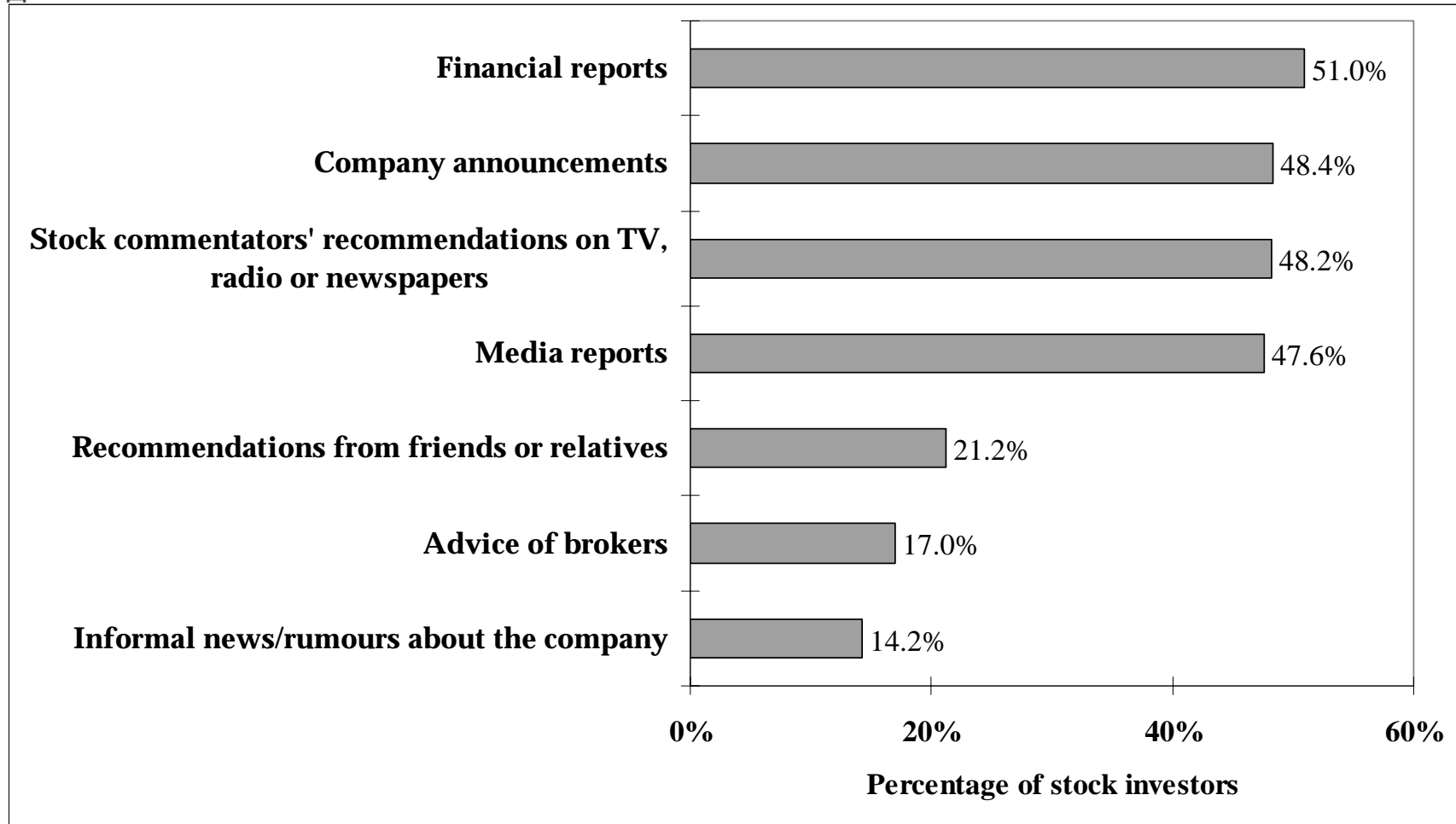
Are Investors Receptive to Information?

- ◆ SFC's Investor Survey in 2006 reveals that:
 - 44.9% of IPO share subscribers in HK read the prospectus before subscription

Reasons for not reading the prospectus



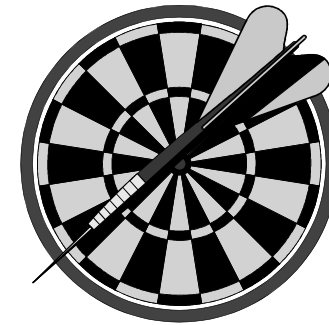
How Do Investors Make Trading Decisions?



Source: SFC's Stock Investor Survey, June 2006

Investor Education: The Other Side of The Coin

Disclosure of information is useless if no one reads it!



◆ Our education focus:

- **Do your homework before making investment decisions**
- **Don't follow the crowd and chase rumours**
- **Ask the right questions to assess product suitability**
- **Stay vigilant and watch out for danger signals (e.g. warning signs in an annual report, dishonest tactics)**

How We Educate

Investor education for adults is not conducted in classrooms, we need innovative approaches to attract interests and make learning fun!

◆ **For instance:**

- **Online interactive games (e.g. facts finding quiz on a sample corporate announcement)**
 - **Flash animation videos as an alternative to text information**
 - **Case studies**
 - **Investor story competition**
- ◆ **Conduct investor surveys to find out investment behaviour and prioritise education work**

Sheep Do Not Always Follow the Crowd!

