

Summary: HKSE Guidance Letter For Trading Halts (HKEx-GL-83-15, Dec 15)

The Guidance Letter sets out the criteria and principles of trading halts. It also reminds issuers that the determination of trading halts is separate from listed issuers' legal obligation to disclose "inside information" under the Securities and Futures Ordinance ("SFO").

I. Criteria and principles of trading halts

The Guidance Letter sets out the criteria and principles of trading halts:

- (1) SEHK has a statutory obligation under the SFO to ensure, as far as reasonably practicable, an orderly, informed and fair market in the trading of securities.
- (2) SEHK may, for this purpose or the protection of investors, suspend trading in any securities. Trading halts are tools that serve to protect investors by allowing trading on a fully informed basis.
- (3) However, trading halt should be kept to a period that is absolutely necessary to ensure investors are not denied reasonable access to the market.

II. Guidance on good practices about trading halts pending disclosure of material information

(1) Where a trading halt is necessary

Under Main Board Rule 13.10A and GEM Rule 17.11A, an issuer must, as soon as reasonably practicable, apply for a trading halt (where an announcement cannot be made promptly) in the following circumstances:

- (a) it has information which must be disclosed to avoid, in the opinion of SEHK, a false market; or
- (b) it reasonably believes that there is inside information which must be disclosed under the SFO; or
- (c) circumstances exist where it reasonably believes or it is reasonably likely that confidentiality may have been lost in respect of certain inside information.

(2) Avoiding and minimizing halt

- (a) principle -- listed issuers are expected to manage their affairs so that a trading halt can be avoided/or any trading halt can be kept as short as is reasonably possible. Listed issuers are obliged to ensure that trading of their securities resume as soon as practicable following the publication of an announcement or when the reasons for the trading halt no longer apply.

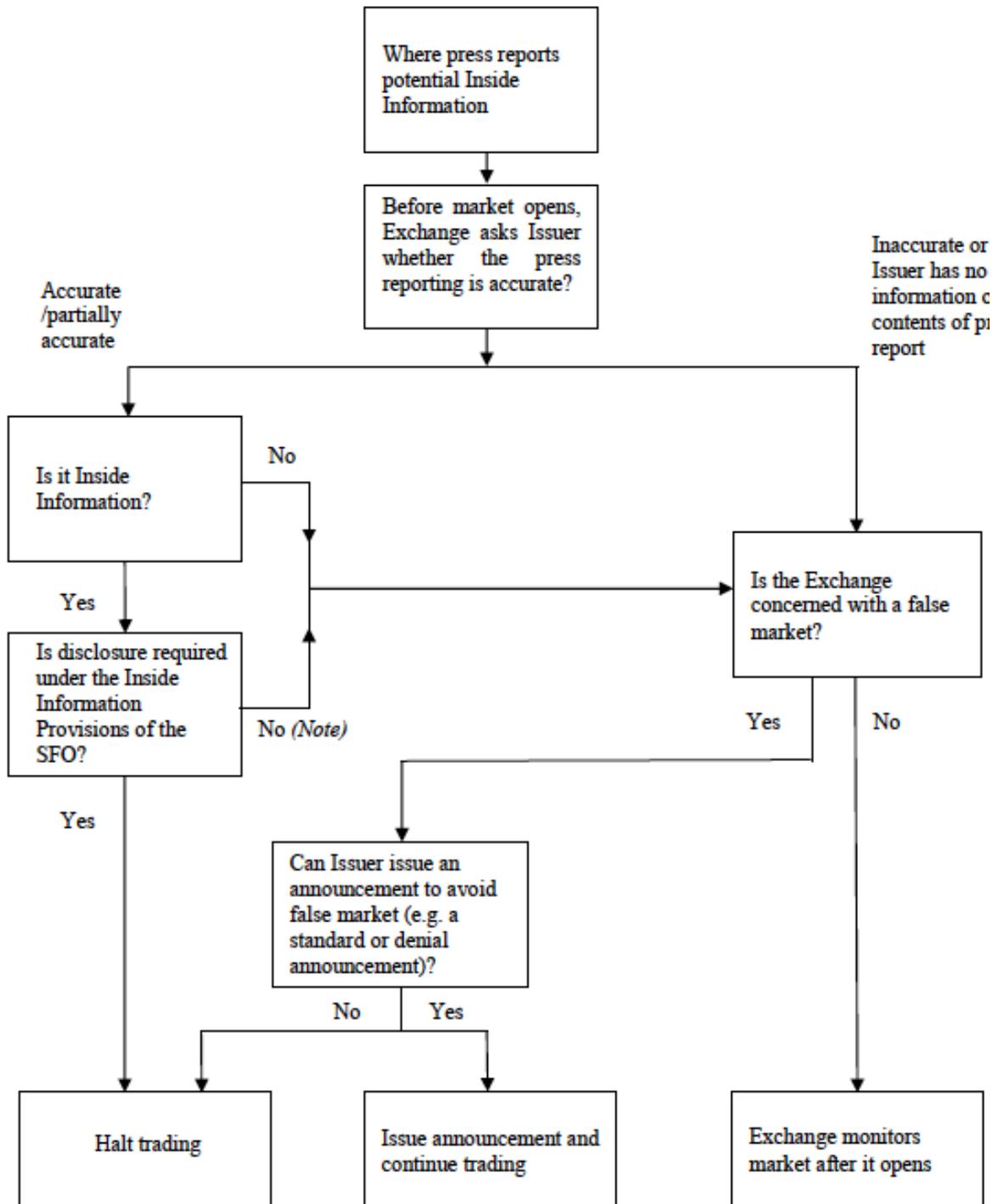
- (b) good practices referred:
- e.g. under the Listing Rules, issuer announcements containing inside information can only be published outside trading hours. Significant agreements should only be signed outside trading hours. Announcements should be prepared ahead of the signing of agreements such that they can be released immediately after agreements are signed
 - e.g. issuers should early consult SEHK where the transactions are complex/controversial or where pre-vetting is needed
- (3) Incomplete proposals and business negotiations
- (a) principle- issuers are expected to preserve confidentiality concerning incomplete proposals. SEHK will only agree on a trading halt where there appears to be a reasonable concern on the leakage of inside information and /or practical difficulty in maintaining confidentiality.
- (b) good practices referred: use of confidentiality undertaking; code names for transactions.
- (4) Response to SEHK enquiries; handling of market speculations and negative publicity
- (a) Where SEHK detects that there are unusual share price/volume movements and/or press reporting potential inside information, it will ask the issuer to confirm any:
- inside information
 - reasons for share price/volume movements and/or position about rumours in media report
 - information to avoid false market
- (b) While issuers are not generally expected to respond to market rumours/speculations, their directors must assess whether a disclosure obligation under the SFO and the Listing Rules have arisen. If such speculation has, or is likely to have, an effect on the issuer's share price/volume such that there may potentially be a false market, SEHK may require the issuer to make a clarification announcement.
- (c) Where the issuer is unable to make an announcement promptly, SEHK may require it to request a trading halt pending the clarification to address potential or actual false market

- (d) Two useful decision trees were given (extracted: see P.4-5), to show how SEHK determines whether a trading halt is necessary
- (e) Good practices referred:
- e.g. where issuers are engaged in confidential negotiations, they should monitor their share price and volume movements and media coverage to ensure their measures to preserve confidentiality are effective
 - e.g. (in general) issuers should establish procedures to actively monitor their share price, and any news, comments or reports relating to them circulated in the market
 - e.g. have effective delegation in place, to enable timely release of information to HKSE and the public
 - e.g. issuer directors should ensure they have a proper understanding of the issuer's business, financial position and prospects and there is an effective system for them to continuously monitor developments, so that they can promptly and accurately respond the SEHK enquiries and publish the necessary announcements

(III) Keeping the market well informed during a trading halt

- (1) Listed issuers must release an announcement promptly after a trading halt is effected to inform the market of a reason for the halt. Details should be disclosed.
- (2) Where a trading halt cannot be avoided but significant time is needed to prepare and release the relevant material information, listed issuers should publish periodic updates (“holding announcements”) on their progress towards such preparation of information disclosure and trading resumption.

Decision tree about whether a trading halt is appropriate where the Exchange detects possible leakage of Inside Information before market opens



Note: for example, with safe harbour under section 307D(1) of the SFO

Decision tree about whether a trading halt is appropriate where the Exchange detects a possible leakage of Inside Information during trading hours

