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New Disclosure Standards for PRC Listed Companies

By Grant Chen and Zhengyi Zhang

On 30 January 2007, the China Securities Regulatory Commission (**CSRC**) published the *Measures for Administrating the Information Disclosure of Listed Companies* (**Measures**), implementing the new Company Law and Securities Law's stricter new requirements on information disclosure. The Measures replaced the *Detailed Rules for Complementing the Information Disclosure by Companies Offering Stocks Publicly*, which had been in use for almost 14 years, and are regarded as a significant step forward in improving the quality of information disclosures by PRC listed companies.

Who is Responsible for Disclosures?

In practice, the listed companies need the cooperation of other parties to complete information disclosure acts. The Measures require disclosure of information by personnel at all levels of listed companies. Firstly, issuers, listed companies, directors, supervisors and senior managers are responsible for ensuring the authenticity, accuracy, completeness, and timeliness of the information disclosed. Shareholders, actual controllers and purchasers of listed companies are responsible for giving companies timely and accurate notice regarding any changes in the information subject to disclosure, and they are also responsible for assisting companies with making appropriate disclosures.

The Measures also define the information disclosure responsibilities of other market participants. For example, sponsors of security issues and securities service institutions are required to make special disclosure, including disclosure of their professional opinions. The individuals of such institutions are further required to guarantee the authenticity, accuracy and completeness of their disclosures, according to the market's operating rules and industry norms. The Measures further prohibit illegal acquisition, provision or transmission of listed companies' inside information by any institution or individual, and set forth rules for media reporting of information on listed companies.

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What Information Must be Disclosed?

Under the Measures, listed companies must make timely disclosures of specified information, such as their prospectus and periodic reports, both of which must contain all information that might materially affect investors' decisions, and listing announcements. The Measures also set forth a timetable for these disclosures, based upon relevant laws and regulations.

In addition to the above disclosures, listed companies are also required to report any major event that may significantly impact the company's share price and is not yet known to investors. Companies must explain causes of such events, current status, and possible legal consequences. The Measures enumerate 20 types of events and the circumstances which would trigger such disclosure obligations.

In the Measures, the CSRC emphasized the obligations of listed companies and related parties to focus on abnormal dealings and media reports affecting their own securities and their derivatives. This emphasis is intended to solve the problems caused by directors failing to exercise due diligence in investigating their own companies. According to the Measures, in the case of any abnormal dealings, or if media reports on securities or securities derivatives may significantly impact trading, listed companies must make timely inquiries to learn all relevant facts. Shareholders and actual controllers are also obligated to file timely and accurate written reports with listed companies, and to help companies make timely and accurate announcements.

The *Rules for the Administration of Company Shares Held by Directors, Supervisors and Senior Managers of Listed Companies, and Shares' Changes* (**Rules**) issued by the CSRC on 5 April 2007, also affect the companies' information disclosure obligations. Under these rules, the directors, supervisors, and senior managers of a listed company must give the company notice of any change in their shareholdings and assist the company in making disclosures within two business days after such changes.

Management of Information Disclosure

The Measures also contain a new chapter on Management of Information Disclosure Affairs, a topic that was not mentioned in any prior information disclosure regulations. This new chapter requires listed companies to develop rules on managing information disclosure affairs, including rules defining in detail the information disclosure responsibilities of directors, supervisors, senior managers, and various departments of listed companies. The Measures require each listed company's board of directors to adopt specific rules for managing information disclosures. These rules will then be filed with the stock exchange and the local CSRC office at the company's place of registration.

On 4 April 2007, the Shanghai Stock Exchange (**SSE**) issued the *Guidelines for Management System of SSE Listed Companies' Information Disclosure* (**Guidelines**) to implement the Measures, and particularly the new chapter on management of information disclosures.

The *Measures for Administrating the Information Disclosure of Listed Companies*, together with the Rules for the *Administration of Company Shares Held by Directors, Supervisors and Senior Managers of Listed Companies, and Shares' Changes*, are a good start to establishing new standards of information disclosure for PRC listed companies. According to officials, CSRC plans to further improve supervision of information disclosures by listed companies, and to issue more detailed implementing regulations to make the Measures more operational and practical.

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