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## CSRC eyes 'backdoor listings'

Source: Global Times [02:44 May 16 2011]

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By Chen Xiaoduan in Shanghai

China Securities Regulatory Commission plans to increase supervision over mergers and asset restructuring of listed companies to ensure that so-called "backdoor listings" on China's stock exchanges meet a level of scrutiny similar to an initial public offering, according to a draft of the new regulation released Friday.

The draft regulation, which is open for public hearing until May 28, aims to boost supervision over poorly performing companies with the goal of preventing insider trading and accounting fraud, Chen Cheng, a hedge fund consultant at Greenwoods Asset Management, told the Global Times.

Backdoor listing is a method that private companies can use to get their shares listed on the public stock exchanges without undergoing the regulatory and investor scrutiny of an IPO. For example, a privately held company can acquire a poorly performing listed company to act as a shell company for its assets. Once the asset restructuring is complete, the privately held company becomes listed under the shell company's name, which gives it access to stock market capital.

Under the draft regulation, a company must have been operating for three years and have recorded an accumulated gross profit of 20 million yuan (\$3.07 million) for its last two fiscal years to serve as a shell company for a private company's backdoor listing.

The draft regulation is supposed to support a national policy document that the State Council, China's cabinet, issued last August to encourage mergers and acquisitions and industry consolidation, CSRC spokesman Hu Ji told the Global Times Sunday.

Chen said the regulation would primarily impact small firms with little capital. "Twenty million yuan in revenue in two years is a fairly low barrier to entry. Any company already listed can clear it," he said.

Chen sees the draft as a gesture by the CSRC to protect small and mid-range investors.

The draft was put on the agenda at China's 3rd Conference on Listed Companies' Merger and Acquisition, which the CSRC hosted last October. Hu said an official document may be released soon after the comment period ends.

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