



Hong Kong Law

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RUSSIA TO SIGN IOSCO MMoU CLEARING THE WAY FOR RUSSIAN COMPANIES TO LIST ON THE STOCK EXCHANGE OF HONG KONG

The Bank of Russia will sign the IOSCO Multilateral Memorandum of Understanding (**IOSCO MMoU**) in what represents a major step forward for the listing of Russian companies on the Stock Exchange of Hong Kong Limited (**Exchange**).

IOSCO approves application by Bank of Russia

On 11 February 2015, the Decision Making Group of the International Organisation of Securities Commissions (**IOSCO**) resolved to approve the application of The Bank of Russia to become a signatory to the IOSCO MMoU a development which clears the way for the listing of Russian companies on the Exchange. The Bank of Russia will shortly be added to Appendix A of the IOSCO MMoU, which lists all the IOSCO MMoU's current signatories.

Background to IOSCO MMoU

Introduced in 2002, the IOSCO MMoU provides a global framework for enforcement co-operation between securities regulators, thereby helping to ensure effective regulation and to preserve the strength of securities markets. Signatories represent approximately 95% of global securities markets, and the IOSCO MMoU is the leading instrument for multi-lateral co-operation in the enforcement of securities regulation.

Prior to signing the IOSCO MMoU, applicant regulators must demonstrate their ability to provide assistance to other regulators in enforcement investigations, including being

able to obtain specific forms of information and disclose that information to overseas regulators. Applicants are required to undergo a rigorous screening process, during which their capacity for co-operation is examined in detail by a group of experts. Often initial applications prove unsuccessful, and applicants are required to enhance their powers by effecting legislative or other changes. Russia, through The Federal Financial Markets Service of Russia (**FFMS**), formally expressed its commitment to achieving IOSCO MMoU compliance in 2008. As part of the application process the FFMS provided IOSCO with draft legislation meeting IOSCO MMoU requirements. This legislation has subsequently been approved by Russia's domestic legislatures.

The Bank of Russia has stated that "Joining the IOSCO MMoU will improve the effectiveness of the Bank of Russia in carrying out its oversight functions and will enable the full engagement of the Bank of Russia in IOSCO activities, namely in developing the principles for and standards of financial market regulation. Moreover in its capacity of an IOSCO MMoU signatory the Bank of Russia will benefit from enhanced cooperation with financial market regulative authorities, which are members of the IOSCO."¹

¹ "The Bank of Russia will join the IOSCO Multilateral Memorandum of Understanding (IOSCO MMoU)" Information Notice http://www.cbr.ru/eng/press/pr.aspx?file=12022015_162824eng_sbrfr2015-02-12T16_24_49.htm

The IOSCO MMoU and listing on the Hong Kong Stock Exchange

On 27 September 2013 the Exchange and the Hong Kong Securities and Futures Commission (SFC) updated their joint policy statement (JPS) regarding the listing of overseas companies²

The JPS was issued to assist overseas companies not incorporated in one of the four 'Recognised Jurisdictions'³ by setting out the shareholder protection standards that an overseas company's home jurisdiction must meet in order for the company to be acceptable for listing on the Exchange (as is required by the Exchange's Listing Rules).

When a company from an overseas jurisdiction demonstrates that the standard of shareholder protection in its home jurisdiction are at least equivalent to those provided under Hong Kong law the Exchange may proceed to formally recognise that jurisdiction as an 'Acceptable Jurisdiction' (**Acceptable Jurisdictions**). To date, the Exchange has approved twenty-one jurisdictions as acceptable places of incorporation

Section 1 – 4 of the JPS - *Shareholder protection standards; Regulatory cooperation; Accounting and auditing related and other disclosure requirements; Practical and operational matters* - set out the revised criteria overseas companies incorporated outside a Recognised Jurisdiction are required to meet.

Section 2 of the JPS 'Regulatory cooperation' arrangements requires the statutory securities regulator in both an overseas company's jurisdiction of incorporation **and** place of central management and control (if different) to either:

- i) be a full signatory of the IOSCO MMoU; or
- ii) to have entered an appropriate bi-lateral agreement with the SFC for mutual assistance and exchange of information

Following the JPS, prior to Russia signing the IOSCO MMoU Russia had not been considered an Acceptable Jurisdiction for incorporation of listing applicants because it was not a signatory to the IOSCO MMoU and there was no bi-lateral arrangement on regulatory cooperation between Hong Kong and Russia.

The signing of the IOSCO MMoU whilst not the only prerequisite to listing on the Exchange represents a major step forward in the listing of Russian companies on the Exchange.

Hong Kong has a long-standing reputation as one of the most popular destinations for capital-raising among major financial markets. As at the end of March 2014, Hong Kong ranked sixth worldwide and second in Asia in terms of total market capitalisation of all listed companies.⁴

² The JPS was first published on 7 March 2007.

³ Hong Kong, the People's Republic of China, the Cayman Islands or Bermuda

⁴ The HK Financial Services Development Council "Positioning Hong Kong as an International IPO Centre of Choice" FSDC Paper No. 69, page 4.

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