

Illuminating the blackout debate

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at

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The old rule, 2008

- No insider dealing one month before results
- Insiders decide when to announce results, up to 4 months after the year end or 3 months after the half-year end
- Announcement date is disclosed at least 7 clear business days in advance
- The later the results, the more time insiders have to deal on the information advantage

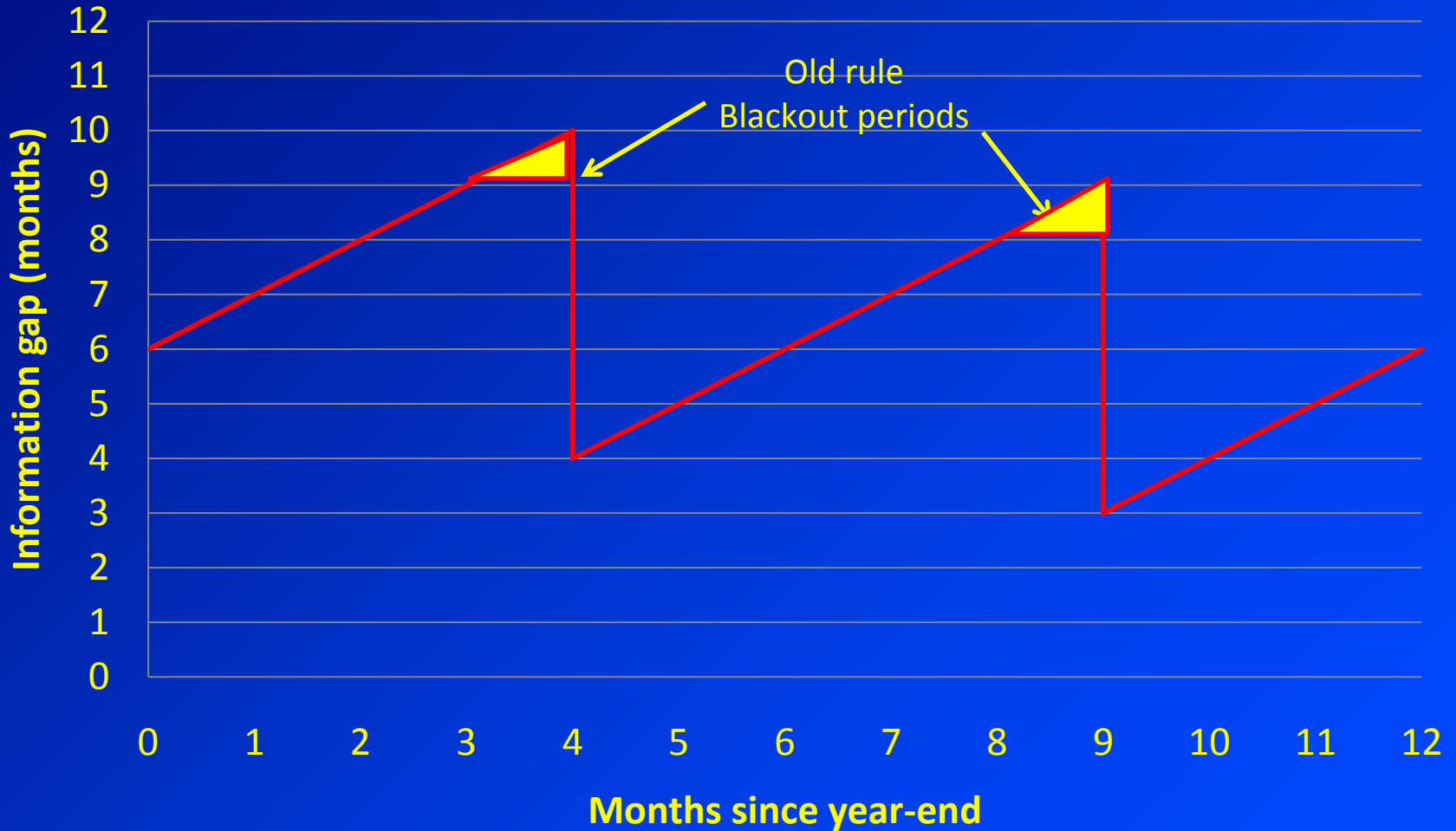
The revoked new rule, 1-Jan-09

- No dealing from the year-end or half-year end until you announce your results
- Insiders still choose when to announce results
- The faster results are published, the more time insiders have to deal each year

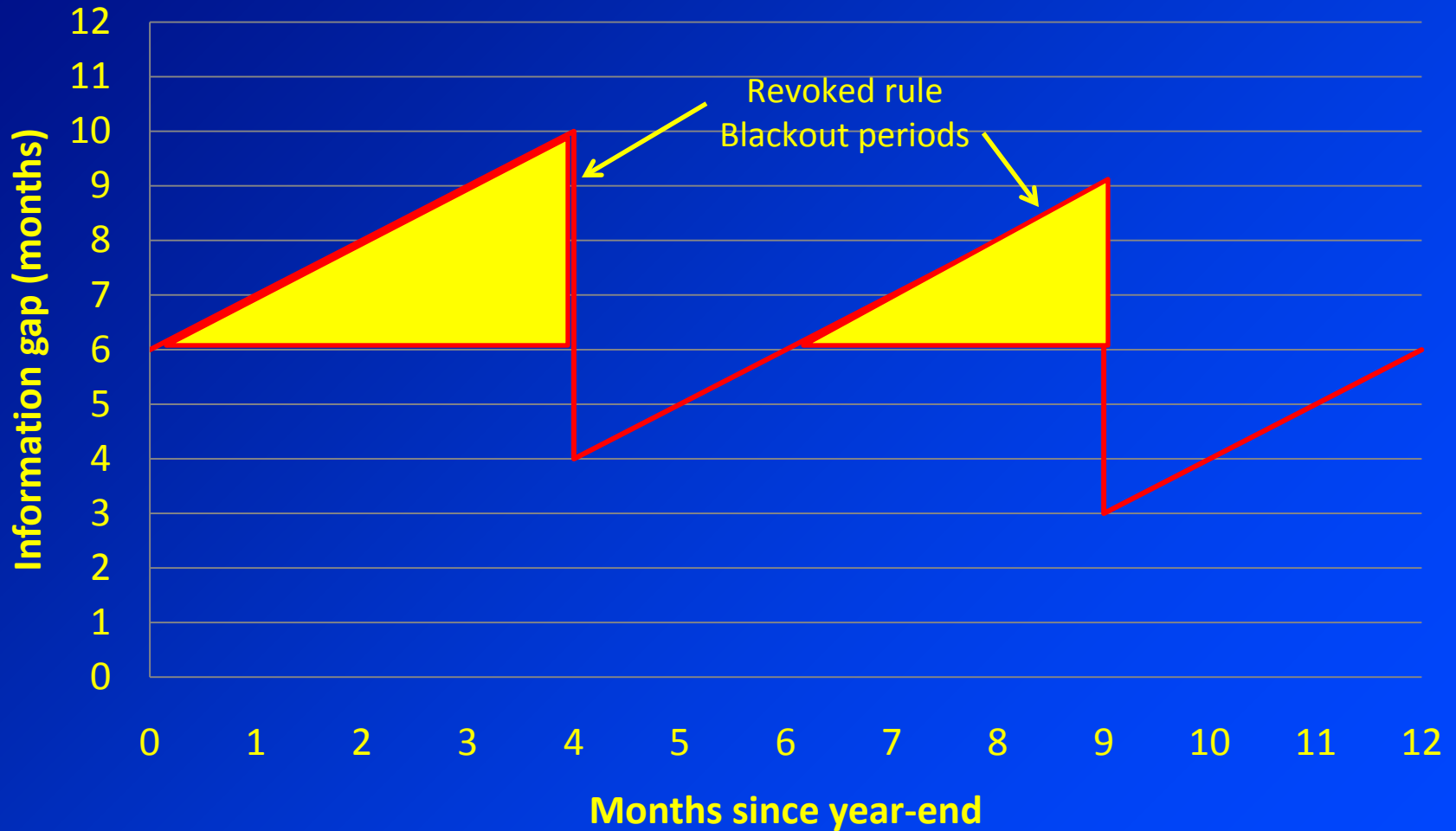
The new rule, 1-Apr-09 (this is not a joke)

- Same as the old rule...
- ...except that the blackout for year-end results starts 2 months before you announce
- The later you announce, the more time you have for insider-dealing

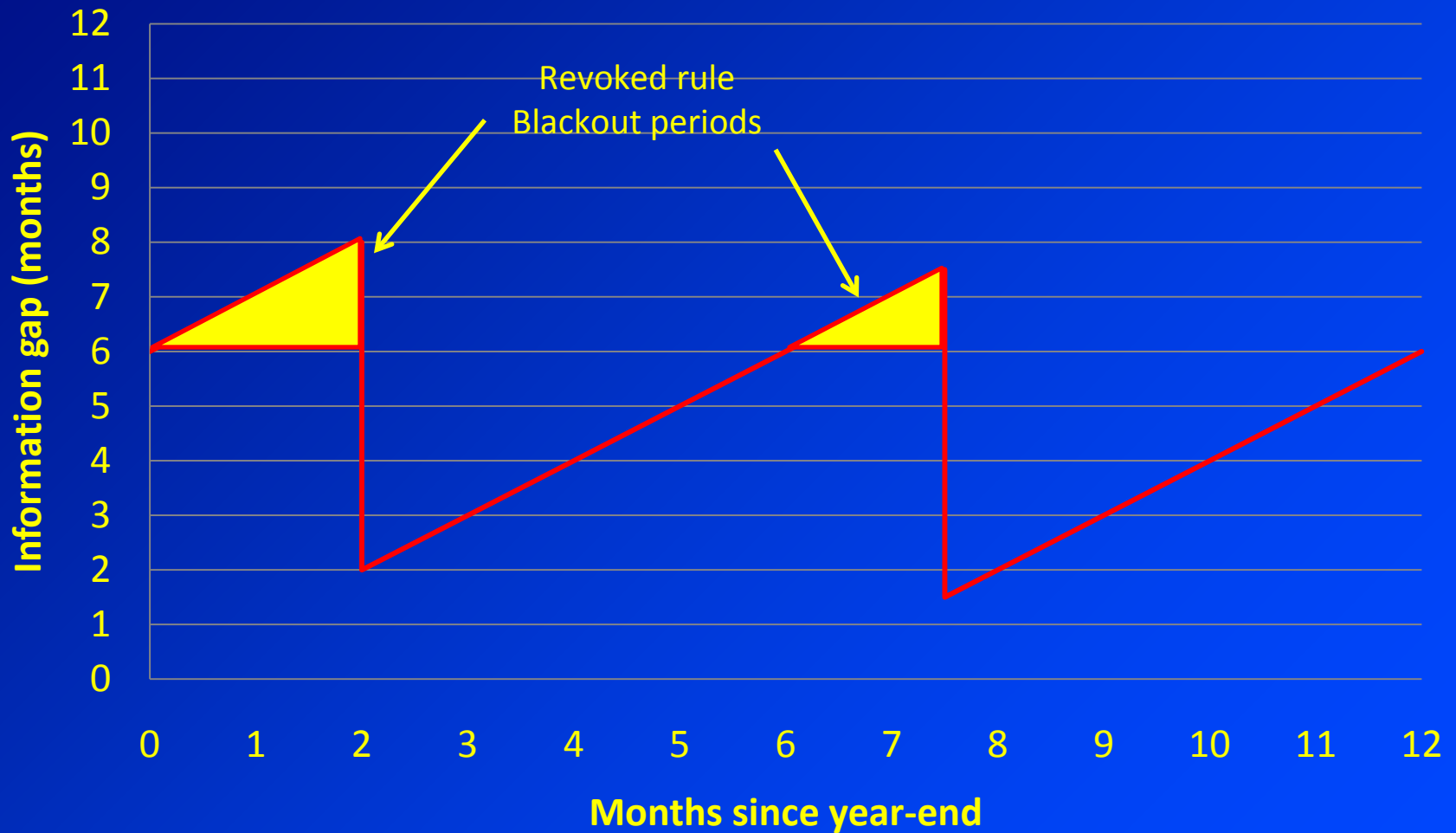
Insider-outsider information gap for a company reporting at the deadlines



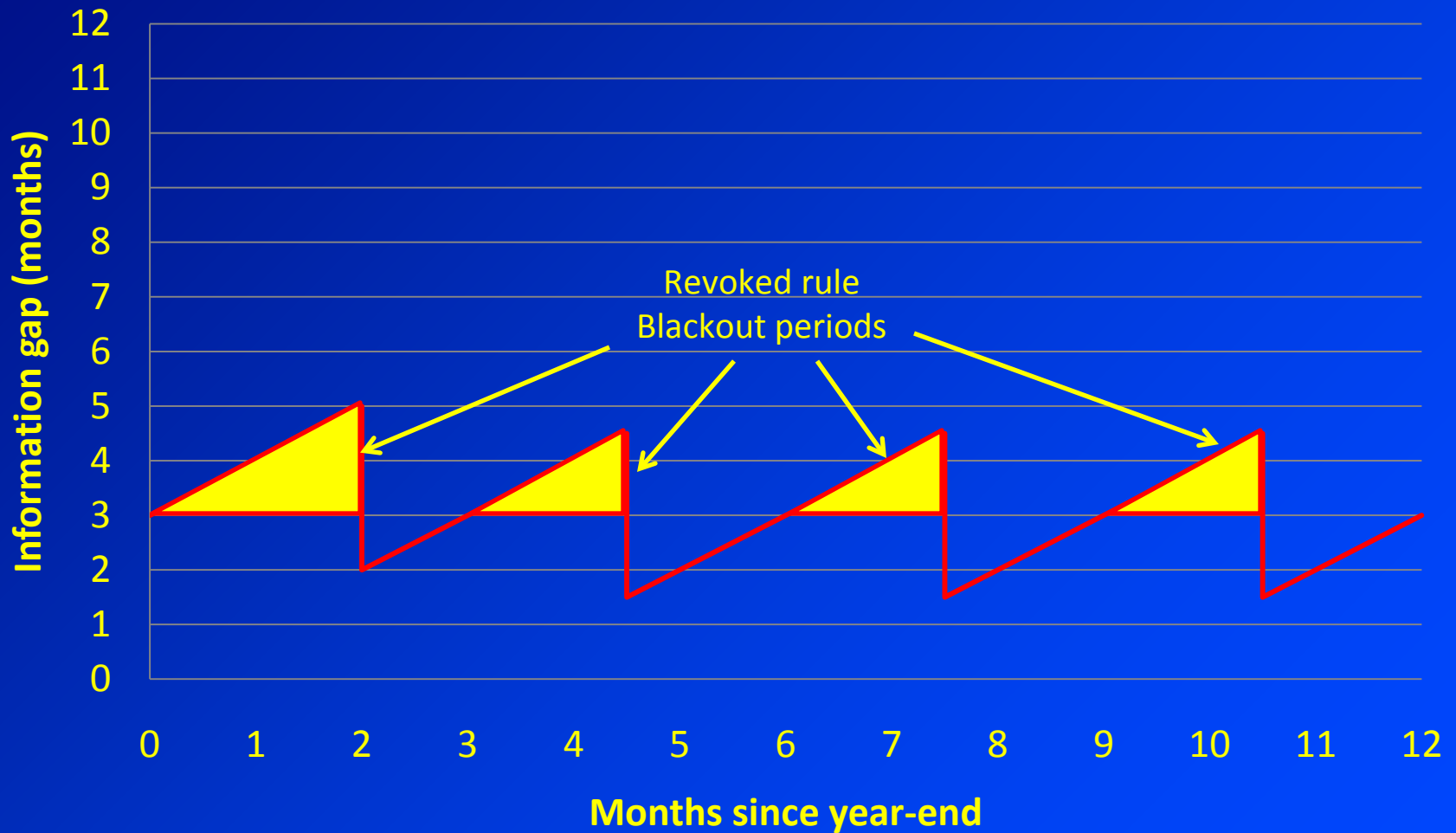
Maximum information gap under revoked new rule



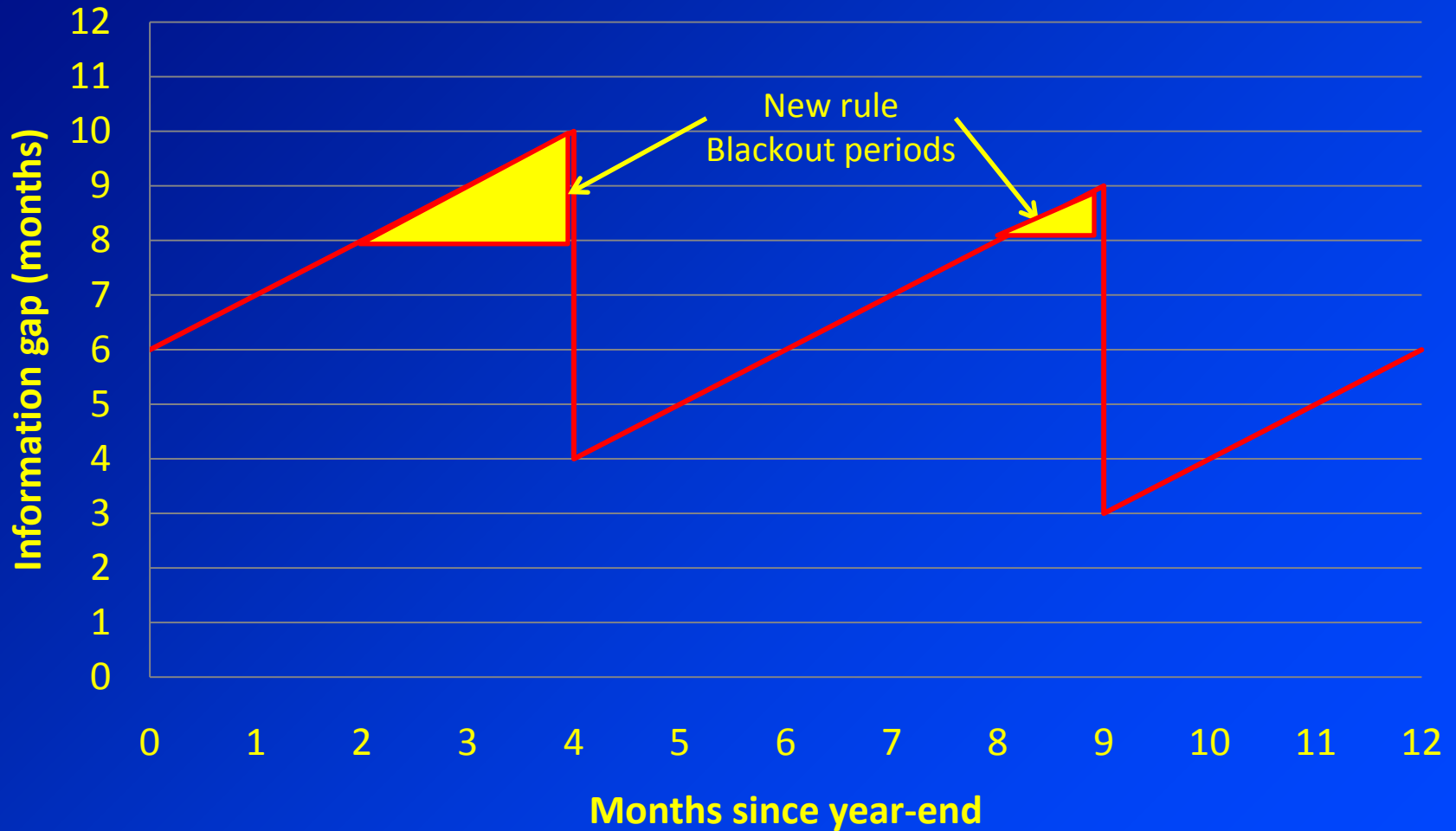
Information gap reporting 60 days after year-end, 45 days after half-year end



What is achievable: quarterly reports in 45 days and annual in 60 days



What we got: information gap under new rule



They spin

- The blackout “creates a window of opportunities for corporate snipers to destroy value for both major and small shareholders”
- The blackout “discourages talented individuals of the right caliber from becoming directors”
- There are laws against insider dealing on inside information. So we don’t need the blackout rule. Catch us if you can.

We say

- Most companies have controllers, with no risk of hostile takeover. Value is created or destroyed by management, not by shareholders.
- Dealing on inside information is not meant to be a perk of the job. Directors should invest for the long term and will have ample opportunities to do so.
- There are laws against death caused by dangerous driving. We still need laws against speeding. Information advantage is hard to prove beyond reasonable doubt. Dealing in the blackout period is a clear test.

What they have said

- “Someone really is not using their brains. [They are] really stupid”
 - David Li Kwok-po (*Standard*, 30-Dec-08), referring to the regulators and the Listing Committee
- Mr Li, former executive councillor, paid US\$8.1m in February 2008 to settle SEC charges of insider tipping on the Dow Jones takeover.
- “They only listen to parties they think have new ideas, like David Webb, and set aside all the remaining suggestions”
 - Abraham Razack/Shek Lai-him, legislator for real estate and construction, referring to the Listing Committee in LegCo (*SCMP*, 31-Dec-08)
- “Is he working for David Webb?”
 - Mr Shek again, referring to Richard Williams, then HKEx Head of Listing
- Mr Shek is a director of 15 HK-listed companies and REITs which paid him over HK\$5m in their last financial year
- “Just turn in your financial reports early”
 - Ronnie Chan, Hang Lung chairman, speaking in support of the revoked new rule after his interim results, produced in 41 days. His annual results were produced in 44 days.
- “Overall we do not think the proposal to lengthen the blackout is unreasonable. While we recognise that there will be some strong opposition, we have no qualms in being associated with the proposal”.
 - Letter from Brian Ho, Executive Director of SFC, to Richard Williams, SEHK Head of Listing, 10-Jul-07

Names from the newspaper advertisement

- Easyknit Enterprises Holdings Ltd & Easyknit International Holdings Ltd
 - controlled by Koon Wing Yee, insider dealer
- Chinese Estates Holdings Ltd, Lifestyle International Holdings Ltd
 - former Chairman Thomas Lau Luen-hung, insider dealer
- New World Development Co Ltd & 5 group companies
 - NWD was censured by SEHK for tipping off analysts on the 2001 interim results
- Emperor International Holdings Ltd and 4 group companies
 - controlled by Albert Yeung Sau-shing – need we say more? Not being a director, the Blackout period doesn't affect him
- Far East Consortium Intl Ltd & 2 subsidiaries
 - still chaired by Deacon Chiu Te-ken, who in 1993 was excused from trial on false accounting and fraud charges on the grounds of dementia
- Cheung Kong (Holdings) Ltd & 7 group companies
 - controlled by Li Ka-shing, who in 1986 was found culpable of insider dealing in shares of International City Holdings Ltd