



## U.S. Securities and Exchange Commission

### SEC and CSRC Announce Terms of Reference for Enhanced Dialogue

**FOR IMMEDIATE RELEASE  
2006-63**

*Washington, D.C., May 2, 2006* - The United States Securities and Exchange Commission (SEC) and the China Securities Regulatory Commission (CSRC) announced today a new relationship to increase their co-operation and collaboration through an enhanced bilateral dialogue. Meeting at SEC headquarters in Washington, D.C., SEC Chairman Christopher Cox and CSRC Chairman Shang Fulin presented terms of reference that establish the structure of this enhanced dialogue and discussion subjects for the agenda during 2006.

Chairman Cox noted, "While barely 15 years old, China's equity markets are making significant progress. The CSRC and the SEC have a key role in facilitating this progress, through rules that promote high quality disclosure, fair and orderly markets, and efficient capital formation. We are also mindful that regulatory progress must be coupled with strong, consistent enforcement and channels for international cooperation. I am pleased that today we are memorializing the strengthening of cooperation and collaboration between the SEC and the CSRC through the formalization of a dialogue between our Commissions."

CSRC Chairman Shang noted, "In developing capital markets in China, we attach great importance to co-operation with American markets and American regulators. The US market is an important listing venue for large Chinese enterprises. Private high-tech companies in China have achieved significant growth after going public in the US market. American investment banks have a big market share in underwriting overseas-listed Chinese companies. About one-third of the foreign partners of joint venture securities companies and fund management companies in China come from the United States. American financial institutions account for 35% of the Qualified Foreign Institutional Investors. The CSRC and SEC have very good collaboration and cooperation in cross border enforcement and training. I believe, with the conclusion of the CSRC-SEC TOR, regular dialogues will further enhance our collaborative relations and prove to be mutually beneficial."

Today's announcement fulfils the commitment made during a visit by Chairman Cox to Beijing in October of 2005, when he and Chairman Shang expressed their desire to work together to protect investors in the United

States and China and to establish a framework for dialogue between their respective Commissions. The new dialogue has three primary objectives:

- to identify and discuss securities markets regulatory developments of common interest, particularly those relevant to reporting requirements for public companies listed in one another's markets;
- to improve cooperation and the exchange of information in cross-border securities enforcement matters; and
- to continue and expand upon the existing program of training and technical assistance provided by the SEC to the CSRC.

As set out in the terms of reference, the dialogue will take place through regular contacts among senior staff and between the Chairmen of the SEC and CSRC.

In setting out the areas of dialogue for the agenda in 2006, the following regulatory issues for discussion were identified:

- corporate governance reforms, including requirements for audit committees, auditor independence and internal controls over financial reporting;
- convergence of national accounting standards with International Financial Reporting Standards; and
- the use of information technology, including interactive data tagging systems, to enhance the usefulness of reported of financial information.

Further, both the SEC and the CSRC recognize that as the number of cross-border listings and dually-registered companies grow, so does the likelihood that the perpetrators of securities fraud may seek to defraud both United States and Chinese investors. Accordingly, the SEC and CSRC will work to enhance quick communication and to provide timely and thorough assistance to one another on such enforcement-related matters.

Finally, building on the existing framework, the SEC and CSRC will continue to promote the further development of China's securities market regulatory and oversight structure through a comprehensive technical assistance and training program. As the CSRC continues to work to enhance its enforcement abilities, the SEC will share its experiences and knowledge related to investigation and enforcement of securities law violations, as well as international standards for enforcement cooperation.

Ethiopsis Tafara, Director of the SEC's Office of International Affairs, noted, "This dialogue represents the start of a new relationship between securities regulators in China and the United States, with important implications for both our countries. As China's financial markets grow, US investors are

attracted to Chinese investment opportunities and Chinese investors are looking to our markets as well. This kind of cross-border investment, if guarded by strong laws against fraud and converged regulatory standards that provide investors with the information they need, is a win-win situation for both our markets. The SEC sees this dialogue as a crucial step towards this goal, to the benefit of both US and Chinese investors."

The SEC intends to conduct training programs in China this year on topics ranging from corporate governance and disclosure to market oversight and enforcement. The CSRC has funded all technical assistance programs provided by the SEC, which considers such programs as benefiting investors in both countries. The development of an effective regulatory environment in China benefits domestic and foreign market participants by fostering market integrity and safeguarding cross-border securities activities. The regulatory contacts that grow out of these training and technical assistance programs also contribute to cross-border enforcement efforts.

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Modified: 05/02/2006