

Executive Summary

Please find set out below a summary of the key issues raised in our response to the Concept Paper. Please note however that this summary should not be read in isolation, but in the context of our full responses set out in the following sections of this submission.

We favour the introduction of a structure to provide a more predictable framework for allowing companies using WVR structures to list in Hong Kong

- It is considered that the current ban will be detrimental to the interests of Hong Kong investors, since it is considerably more difficult for local investors to acquire IPO shares of Mainland Chinese companies with WVR structures which list in the United States, where listing of these companies is allowed, than would be the case if they listed in Hong Kong. Hong Kong investors received hardly any Alibaba IPO share.
- The ban on WVRs may then deprive Hong Kong investors of easy access to some of China's most successful and popular companies.

Hong Kong is facing fierce competition for the listing of the new wave of Mainland Chinese companies and needs to innovate to allow the listing of companies with WVR structures

- At stake is the Exchange's position as the international listing venue of choice for Mainland Chinese companies and the gateway to Mainland China for international capital. The absence of IT/social media company listings will see the Exchange lose its ranking as the world's top IPO fund-raising exchange to the NYSE for the third year in a row in 2014.
- Hong Kong needs to act promptly to adopt an appropriate structure to list companies with WVR structures if it is to remain relevant and competitive.
- The CSRC is considering the introduction of a new third board in Shenzhen for listing internet and innovative companies which have yet to make a profit. If the Exchange fails to innovate to list companies with WVR structures, it may find itself side-lined not only by the US exchanges, but also the Mainland exchanges, as China's transition continues.

Too much emphasis is given to the one-share one-vote ("OSOV") principle and the absence of a class action regime in Hong Kong

- Investors do not appear to require OSOV and will adjust their investment appetite to take into account different capital structures. In appropriate circumstances, investors in companies with WVR structures may extract a price discount for the associated risks.
- Hong Kong investors are active and well able to understand the nature of risks associated with WVR structures provided there is proper disclosure.
- The listing of companies with WVR structures does not need to wait until a US-style class action regime is introduced. US class actions are brought almost exclusively (97%

in 2013) to seek compensation for shareholders' direct losses due to disclosure of misleading financial information.

- Class action suits are not brought (and it seems cannot be brought) in the US to obtain redress for the type of investor protection issues likely in the context of WVR structures (i.e. abuse of controllers' position e.g. through breach of their fiduciary duties as directors). Here, the harm to shareholders is incidental to the injury to the company: the appropriate action is therefore a derivative action whereby the shareholder brings an action in the name of the company against the wrongdoer (e.g. the directors). Hong Kong legislation already allows derivative actions.
- The introduction of a class action regime would not therefore seem to offer minority shareholders any advantage in terms of obtaining redress for losses resulting from company controllers breaching their fiduciary duties to the company. The fact that Hong Kong does not have a class action regime should not therefore be allowed to delay allowing WVR structures to list.
- Minority shareholders are best protected under Hong Kong's already stringent requirements for proper disclosure and its comprehensive regulation of connected or related party transactions under Chapter 14A of the Listing Rules which should provide adequate protection for minority shareholders. In the commonly adopted A and B shares structure, they are additionally protected under the Takeovers Code, whose provisions apply to the gaining of control through the acquisition of voting rights.

Consultation Questions

1. Should the Exchange in no circumstances allow companies to use WVR structures?

No

Please give reasons for your views below.

We welcome the serious consideration of this important matter in the interests of the equity market in Hong Kong. It is in favour of the introduction of regulation which will provide a more predictable framework for permitting companies using WVR structures to list on the Hong Kong Stock Exchange (the "Exchange").

We are concerned that not allowing companies using WVR structures to list in Hong Kong will be detrimental to the Hong Kong market and contrary to the interests of investors, both institutional and retail. There was huge local interest in the Alibaba Group IPO, yet Hong Kong investors received few, if any, shares. The Listing Rules' ban on WVR structures, meant to protect investors, served instead to exclude local investors. This exclusion was unfortunate given the Exchange's long-held position as the international listing venue of choice for Mainland Chinese companies and the gateway to Mainland China for international investors. Furthermore the listing of Alibaba on the Exchange would have had a beneficial effect on the balance of the IT sector in the market, which is currently dominated by the property and financial sectors.

The Hong Kong market ranked first among world exchanges in terms of IPO funds raised between 2009 and 2011, but lost the top spot to the NYSE in 2012 and 2013, and is set to do so again in 2014. The top exchanges in the first three quarters of 2014 were Nasdaq by deal volume and NYSE by deal value: Hong Kong ranked second on both measures. The technology sector accounted for the most IPOs in this period: globally 107 deals raised US\$42.9 billion. The United States ("US") exchanges profited most from the technology boom. US\$35.2 billion was raised in 39 technology company IPOs on the NYSE and Nasdaq in the first three quarters.¹ Chinese IPOs which did list in Hong Kong in 2014 recorded "lower average returns and a higher chance of losses than those in Shanghai and New York".² According to the Financial Times, only 18 of this year's 35 Chinese IPOs have registered share price gains since debuting on the Exchange. In contrast, average share prices of Chinese IPOs on the US exchanges have risen by a third, with only one of twelve mostly tech company IPOs not recording a gain.³ Hong Kong's underperformance is clearly linked to the absence of IT/social media companies' listings.

Mainland Chinese companies with WVR structures now account for 86% of the market capitalisation of all Mainland Chinese companies listed in the US. Alibaba Group was the largest, but not the first major Chinese IPO to be lost to the US this year. JD.com Inc. raised US\$1.78 billion on the Nasdaq in May, while Weibo Corp. raised US\$285.6 million on its April debut on the Nasdaq.⁴ These companies all use WVR structures and are thus denied access to the Hong Kong equity market. In the first three quarters of 2014, 10 of the 13 Chinese IPOs on US exchanges were IPOs of

technology or internet companies. Had the Exchange been willing to accept WVR structures, those companies may have listed in Hong Kong. Technology companies typify the new economic model China is seeking to adopt and are likely to play an increasingly important role during China's transition. They are also the type of company which will help our market diversify away from reliance on banking, property and utilities. Innovative companies with WVR structures are among the most actively traded stocks on the US exchanges: Facebook Inc. and Groupon Inc. both have dual class share structures and are among the ten most actively traded stocks on Nasdaq.⁵ The financial services industry and related industries (accountants, lawyers, property valuers, printers, hotels and other meeting venues etc.) all stand to lose from Chinese companies preferring to list on US and other exchanges. The Exchange also risks being sidelined by its competitor exchanges if it is unwilling to accommodate the innovative companies of the future. The Chinese Securities Regulatory Commission ("CSRC") has recently raised the possibility of creating a specific "tier" for internet-based companies and companies with innovative technologies which meet certain criteria but are not yet profitable on the Growth Enterprise Board of the Shenzhen Stock Exchange (ChiNext).⁶ According to a recent press release, the CSRC is considering allowing companies listing on the new third board to graduate to the Growth Enterprise Board after being listed on the new third board for a year. This may then create a further fund-raising option for Chinese technology companies which could potentially lead to these companies by-passing both the Hong Kong and US exchanges.

We acknowledge the importance of investor protection and the potential for abuse of minority shareholders in WVR structures. Yet the risk is broadly similar for minority shareholders in family-controlled companies and companies using pyramid structures, which face no restriction on listing in Hong Kong. As acknowledged in the Concept Paper, Hong Kong's regulators seek to control abuse through regulation, corporate governance provisions and enforcement. The Exchange's Listing Rules seek to prevent abuse by controlling shareholders (e.g. through the connected transaction Rules) and when it does occur, redress for shareholders is normally obtained by the Securities and Futures Commission ("SFC") bringing proceedings on shareholders' behalf under sections 212 to 214 of the Securities and Futures Ordinance ("SFO") (see paragraphs 70 to 71 of the Concept Paper).

We do not believe that there is an overriding principle that all equity shares should carry equal voting rights, the OSOV principle. On the contrary, it is apparent that investors do not require OSOV and will adjust their investment appetite to take into account different capital structures. The NYSE and Nasdaq permit WVR structures; these are highly sophisticated markets with high levels of investor protection, which recognise that the rights conferred on the shares are a matter between the issuer and its potential shareholders as set out in the articles or other constitutional documents. Investors who dislike WVR structures are under no obligation to subscribe.

Furthermore it is apparent that sophisticated investors do not appear in practice to object to differential voting and other arrangements governing their investments. This is illustrated by the substantial sums of money already raised and continued to be raised by the limited and general partnership structures, where the rights of management and control rest with the general partner. Institutional investors tend to object in principle to allowing listings of companies with WVR structures and indeed,

in 2012, the US Council of Institutional Investors called on the NYSE and Nasdaq to make multi-class stock companies ineligible for listing,⁷ a call which went unheeded. Nevertheless, institutional investors Fidelity Investments, BlackRock Inc. and T. Rowe Price Group Inc. asked for some of the largest allocations of Alibaba's IPO shares, suggesting that WVR structures do not deter these investors from subscribing in practice.⁸

Investment in companies using WVR structures is a transparent arrangement set out in the issuers' constitutional documents. Provided that there is full disclosure before investors' acquisition of shares, we consider there is nothing *a priori* unfair about the use of such structures. Investors will only buy shares with inferior voting rights if the price is right, and may extract a price for the assumption of the associated risk in the form of a discount. Swire Pacific offers an interesting counter-example in that its low voting A shares (which have 1/5th of the participation rights of the B shares) trade at a premium of approximately 8% to the higher voting B shares.⁹ This suggests that the market attaches more value to liquidity than voting rights.

The Listing Rules include comprehensive regulation relating to connected or related party transactions which has arisen out of the large number of controlled listed companies. The Hong Kong market is very familiar with this. We believe that Chapter 14A of the Listing Rules will provide adequate protection against the abuse of WVR in terms of transactions between issuers and their connected persons.

We believe that Hong Kong's regulators should act promptly to adopt an appropriate structure for the listing of companies with WVR structures to ensure that the Exchange remains relevant and competitive, and that Hong Kong investors have access to China's most successful companies. Concerns relating to shareholder protection are arguably best addressed by ensuring that specified matters require the approval of disinterested shareholders.

Please only answer the remaining questions if you believe there are circumstances in which companies should be allowed to use WVR structures.

2. Should the Exchange permit WVR structures:

- (a) for all companies, including existing listed companies; or

Please give reasons for your views below.

Our view is that WVR structures should be allowed for all companies, both new listing applicants and existing listed companies, provided that a sufficiently high threshold is set for shareholders to approve adopting a WVR structure post-listing. If the structure is only permitted for new listing applicants, existing listed issuers will likely find other ways to adopt WVR structures which anti-avoidance provisions may not successfully address, as the Exchange has identified (at paragraphs 151 to 152 of the Concept Paper). Thus provided that the approval of a sufficiently high percentage of non-controlling shareholders is

required to implement the structure post-listing, the rights of minority shareholders should be sufficiently protected. We believe that the matter can be addressed by applying a similar threshold to that which would be required if a controlling shareholder wished to privatise an issuer or to withdraw a listing under Rule 6.12 of the Listing Rules, namely requirements: (i) for approval by 75% of voting rights at a general meeting at which controlling shareholders must abstain from voting in favour; and (ii) that no more than 10% of the votes attaching to disinterested shares are cast against the proposal. Consideration could also be given to providing a suitable cash alternative. Given the already high approval threshold for privatisation, further measures to prevent existing issuers delisting in order to relist with a WVR structure are unnecessary.

(c) only for:

- (i) companies from particular industries (e.g. information technology companies) (see paragraphs 155 to 162 of the Concept Paper), please specify below which industries and how we should define such companies;

No. We favour allowing companies from all industries to list using a WVR structure. Restricting use of the structure to specific industries poses problems both in terms of defining particular industries and catering for future industries which will no doubt emerge. Furthermore, the decision as to whether a particular company is within any permitted category would tend to be subjective and give rise to uncertainty. Conversely, allowing all companies to list with the structure will ensure transparency and enable the Exchange to keep pace with new developments in the types of companies seeking to list, without having constantly to amend its Rules.

- (ii) “innovative” companies (see paragraphs 163 to 164 of the Concept Paper), please specify how we should define such companies below;

No. The problems with allowing WVR structures only for “innovative” companies lie in:

- (i) the difficulty of defining “innovative” since a company which is currently innovative will soon become common place; and
- (ii) that the decision as to whether a particular company qualifies would be subjective.

This would also cause problems when an “innovative” company acquires a more traditional business, or in the case of a reverse takeover.

- (d) only in “exceptional circumstances” as permitted by current Listing Rule 8.11 (see paragraph 81 of the Concept Paper) and, if so, please give examples below.

No. As would be the case for restricting the structure to companies in particular industries or of a particular type, the inherent problem in an "exceptional circumstances" exception to a ban on the listing of such companies is that the decision will necessarily be subjective. The Listing Rules already contain an exceptional circumstances exception permitting the listing of WVR structures, but as has been seen, no circumstances have yet been considered sufficiently exceptional, even for the largest IPO in history, to justify allowing a company with a WVR structure to list.

In addition, so far as possible, companies need to know what are the criteria for listing, otherwise they risk wasting money, time and effort in applying for a listing which could ultimately be refused on the basis that the circumstances are not sufficiently exceptional. Together with the additional requirement to make a large amount of information about the company public at the listing application stage, the lack of certainty may deter good listing applicants from seeking a Hong Kong listing.

If you wish, you can choose more than one of the options (b), (c) and (d) above to indicate that you prefer a particular combination of options.

3. If a listed company has a dual class share structure with unequal voting rights at general meetings, should the Exchange require any or all of the restrictions on such structures applied in the US (see the examples at paragraph 153 of the Concept Paper), or others in addition or in substitution?

Please identify the restrictions and give reasons for your views below.

We consider that there needs to be clear regulation of changes in control. It considers that there is merit in many of the measures voluntarily adopted by US listed companies to limit the rights attaching to multiple voting shares. Questions as to which are the most appropriate, and whether they should be mandatory or optional, should be explored via a further consultation once the decision has been made to allow WVR structure companies to list in principle.

4. Should other WVR structures be permissible (see Chapter 5 of the Concept Paper for examples), and, if so, which ones and under what circumstances?

Please give reasons for your views below. In particular, how would you answer Question 2 and Question 3 in relation to such restructures?

Our view is that other structures which achieve substantially the same outcome as WVR structures should be allowed to list provided that safeguards are in place (in the form of

the Listing Rules and corporate governance requirements) to ensure proper disclosure of the structure and its associated risks, and to ensure that minority shareholders are not disadvantaged to a greater extent than minority shareholders in other companies with a controlling stake.

5. Do you believe changes to the corporate governance and regulatory framework in Hong Kong are necessary to allow companies to use WVR structures (see paragraphs 67 to 74 and Appendix V of the Concept Paper)?

No.

If so, please specify these changes with reasons below.

We consider WVR through the commonly adopted A and B shares structure can be accommodated under most of Hong Kong's existing laws and regulations. The Takeovers Code, for example, is very clear that its provisions apply to the gaining of control through the acquisition of voting rights. Likewise, the Listing Rules define connected persons and controlling shareholders in terms of their percentage holdings of companies' voting rights which would ensure that the Listing Rules' regulation of such persons' activities would apply to holders of multiple vote shares under a dual-class share structure. Holders of such shares would also be subject to the disclosure of interests regime in Part XV of the Securities and Futures Ordinance which imposes obligations in relation to specified percentage holdings of voting rights.

Other embedded rights of founders to appoint a majority of the board will require consideration in respect of the Takeovers Code, but we are confident that the implications can be addressed. Depending on the scope of founders' rights, they may already fall within the Listing Rules' definition of "controlling shareholder" under the alternative limb of persons who are in a position to control the composition of a majority of the board of directors. This would ensure that founders entitled to superior director appointment rights would be precluded from voting in the same situations as holders of 30% of voting rights under the Listing Rules.

Provisions which may require amendment are sections 693 to 695 and 700 of the Companies Ordinance (Cap. 622) which contain an offeror's right to buy out minority shareholders and minority shareholders' right to be bought out following a takeover. The current provisions apply where an offeror has acquired 90% in number of the shares to which the offer relates. In the case of multiple voting shares, consideration will need to be given to extending the provision to a specified percentage of voting rights (rather than number of shares).

Where management is entrenched via a company's articles or other constitutional documents, consideration might be given to requiring the relevant provision in the articles or their equivalent to be approved by a super majority of non-controlling shareholders on a change in control. A particular concern is that if company controllers have superior rights to appoint a majority of directors, they may be impossible to remove, even when they fail to act in the best interests of the company. One possible

answer to this would be to ensure that founders are only allowed director nomination rights, so that election is always subject to shareholder approval. Even where founders have superior voting rights, they should be precluded from voting by virtue of their material interest in the appointment.

The above matters can be dealt with in a further consultation on detailed proposals once the decision to allow the listing of companies with WVR structures has been made.

6. Do you have any comments or suggestions regarding the additional matters discussed in paragraphs 33 to 47 of the Concept Paper:

- (a) Using GEM, a separate board, or a professional board to list companies with WVR structures (paragraphs 33 to 41 of the Concept Paper); and

We favour allowing such companies to list either on the Main Board or on GEM, provided that it is clearly apparent which companies have a WVR structure, and there is clear disclosure that inferior voting rights attach to the publicly offered shares.

There is concern that if companies with WVR structures are only allowed to list on a new separate board, it could take some considerable time for this new board to be established. In any event, any new board should be open to investment by both retail and professional investors. Careful consideration also needs to be given to whether a listing on the new board would be sufficiently attractive to the new wave of technology and other innovative companies to make them prefer it to a US listing.

7. Do you have any other comments or suggestions regarding WVR structures?

We believe that the decision to allow the listing of companies with WVR structures is separate from the issue of availability of class action suits and legal contingency fees. In describing the availability of class action suits and plaintiffs' ability to pay legal fees on a contingency basis in the US, the Concept Paper might be interpreted as suggesting that WVR structures are not appropriate in Hong Kong, because class action suits and contingency fees are not allowed here. We believe that to draw such a conclusion would be incorrect. In the US, Stanford University's annual reviews of shareholder class action suits show consistently that such suits are primarily brought to recover damages for a fall in a company's share price due to false or misleading disclosure in financial statements. In 2013, for example, virtually all (97%) of shareholder class action suits involved allegations of misrepresentation in financial documents; 84% were claims of securities fraud under section 10(b) of the Exchange Act of 1934 and Rule 10b-5.¹⁰

Hong Kong already has ample legislative provisions allowing shareholder redress in cases of false or misleading disclosure by listed companies including under the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32)¹¹ and the Securities and Futures Ordinance.¹² As highlighted in the Concept Paper,¹³ the SFC has

been more than willing to obtain redress on shareholders' behalf in reliance on its powers under sections 212 to 214 SFO.

The more important point, however, is that class action suits cannot be used in the United States to obtain redress for the type of shareholder protection issues which are most likely to arise from WVR structures, namely the abuse of power by company controllers. A class action in the US is a direct action brought by a shareholder for harm done to an individual shareholder or a group of shareholders and is based upon individual rights belonging to each member of the class.¹⁴ The judgment in *re. Worldcom, Inc.*¹⁵ gave the following examples of class direct actions: "suits to compel the payment of a dividend, to protest the issuance of shares impermissibly diluting a shareholder's interest, to protect voting rights or to obtain inspection of corporate books".

Where a director or controlling shareholder of a company breaches a fiduciary duty owed to the company, a shareholder cannot bring a civil action against the wrongdoer because the company, not the shareholder, suffers the injury. In the US, as in Hong Kong, a shareholder can however bring a derivative action on behalf of the company to obtain redress for the harm done to the company. The distinction between derivative actions and direct actions (which may be brought as class actions) turns on the existence of direct injury to the plaintiff. A derivative action will be appropriate where injury to a shareholder plaintiff is incidental to an injury to the company. Otherwise, an individual cause of action will exist and a direct action may be brought.¹⁶ The difference is illustrated in the following example: "[When a] board of directors authorizes the issuance of stock for no or grossly inadequate consideration, the corporation is directly injured and shareholders are injured derivatively . . . [and] mere claims of dilution, without more, cannot convert a claim traditionally understood as derivative, into a direct one."¹⁷ Hong Kong's Companies Ordinance already contains statutory rights to bring derivative actions.

The Law Reform Commission's May 2012 Report on Class Actions recommended the incremental implementation of a class action regime. However, a class action regime would primarily serve to make it easier for company shareholders to bring direct actions against a company, for example to bring a class action against a company for false or misleading disclosure under the investor protection provisions in the SFO.¹⁸

The introduction of a class action regime in Hong Kong would not however make it any easier for shareholders to bring a derivative action on behalf of a company to prevent company controllers from abusing their powers. There seems therefore to be no reason why the listing of companies with WVR structures in Hong Kong should be delayed until the introduction of a class action regime in Hong Kong.

Secondary listings of US-listed Mainland Chinese companies with WVR structures are unlikely to be the solution to allowing local investors easier access to companies like Alibaba which list in the US, while not making concessions on the ban on dual-class share structures. The relatively few secondary listed companies on the Exchange have failed to trade actively in Hong Kong and would not therefore provide a liquid market for the shares of companies like Alibaba and JD.com. Trading of secondary listed shares on the primary listing exchange typically remains strong, while trading in Hong Kong is generally weak.

We also note the conclusions reached by the OECD's report "Lack of Proportionality between Ownership and Control: Overview and Issues for Discussion".¹⁹ In particular, we note its conclusions that "The case for limiting the use of [proportionality limiting mechanisms] in the individual interest of non-controlling shareholders is generally not strong", and that "Investors are mostly sophisticated enough to assess the risks and expected losses that may arise from unconventional securities-voting structures."²⁰ While there is strong retail interest in Hong Kong's equity market which differentiates it from many other developed markets, Hong Kong retail investors are active and well able to understand the risks attaching to WVR structures provided full disclosure is made. The OECD report also concluded that a prohibition on differential voting rights may cause companies to adopt alternative structures to achieve control, for example pyramid and cascading holdings, cross-holdings and shareholders' agreements.

With increased competition for Chinese listings from the US, it is important that the Exchange evaluates possible changes to Hong Kong's regulatory environment to ensure the Exchange's continued relevance and competitiveness. While Hong Kong investors can invest in Chinese companies which list in the US, it would be far more convenient for them to invest if those companies list in Hong Kong. At stake is Hong Kong's positioning as the gateway to international capital for Chinese companies in the light of the continuing and apparently increasing popularity of the NYSE and Nasdaq for listing technology company stocks. Likewise Hong Kong is likely to face increased competition for the listing of other foreign companies seeking access to Chinese capital when they are eventually allowed to list on the Mainland exchanges. We would therefore stress the urgency of implementing a structure to permit companies with WVR structures to list as soon as is reasonably practicable. It would very much like to see the publication of a consultation paper setting out specific proposals within the next six months.

Singapore has recently amended its Companies Act to permit the issue of shares with multiple voting rights. The next step might be the Singapore Exchange allowing companies with dual share structures to list. As mentioned above, China is currently considering a new third board on the Shenzhen stock exchange for the listing of internet-based companies and companies with innovative technology. There is a very real possibility that in future, Chinese companies with a dual share structure will be able to consider not only the US, but also Singapore, and possibly Shenzhen, for their fund-raising requirements.

¹ Ernst & Young, "*EY Global Trends 2014 Q3*".

² Noble, Josh. "*China IPOs in Hong Kong Disappoint.*" Financial Times. 10 Nov. 2014. Web. 20 Nov. 2014.

³ Ibid.

⁴ Bloomberg, "*China Tops US IPO Return Ranking Amid Web Shopping Boom*". 9 June 2014.

⁵ Nasdaq.com, "*Nasdaq – Most Active Stocks*", 30 October, 2014.

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- ⁶ China Securities Regulatory Commission. "Press Conference on 17 October, 2014." *China Securities Regulatory Commission*. N.p. 17 Oct. 2014. Web. 25 Nov. 2014.
- ⁷ Scaggs, Alexandra. "Investor Group to Exchanges: Stop Dual-Class Listings." *The Wall Street Journal*. Dow Jones & Company, 11 Oct. 2012. Web. 20 Nov. 2014.
- ⁸ Picker, Leslie, Wu, Zijing and M. Jeffrey. "Alibaba IPO Said to Draw Orders from Largest Mutual Funds". *Bloomberg.com*. 19 September, 2014. Web. 20 Nov. 2014.
- ⁹ On 3 November 2014, the A share traded at HK\$102.30 while the B share traded at HK\$18.86.
- ¹⁰ Cornerstone Research and the Stanford Law School Securities Class Action Clearinghouse, "Securities Class Acting Filings 2013 Year in Review", at page 7.
- ¹¹ Sections 40 and 40A and sections 342(1) and 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) which impose civil and criminal liability in respect of materially false or misleading prospectus disclosure.
- ¹² Potential liability (civil and criminal) for false or misleading company disclosure exists under Sections 107, 108, 277, 298, 307B, 384 and 391 of the Securities and Futures Ordinance.
- ¹³ Hong Kong Exchanges and Clearing Limited, "Concept Paper on Weighted Voting Rights", at paragraph 71. August 2014.
- ¹⁴ See *Kahn v. Kaskel*, 367 F. Supp. 784 (S.D.N.Y. 1973) (a class action by shareholders is based upon individual rights belonging to each member of the class) and *Behrens v. Aerial Comm., Inc.* Del. Ch., No. 17436 (May 18, 2001) ("The distinction between a direct and derivative claim . . . turns on the existence of direct or 'special' injury to the plaintiff stockholder.").
- ¹⁵ *In re Worldcom, Inc.*, 323 B.R. 844, 850 (Bankr. S.D.N.Y. 2005).
- ¹⁶ *Behrens*, Del. Ch., No. 17436.
- ¹⁷ *Re J.P. Morgan Chase & Co. S'holders Litig.*, 2005 WL 1076069, at *6 (Del. Ch. Apr. 29, 2005).
- ¹⁸ Sections 108, 281, 305 and 391.
- ¹⁹ Issued by the OECD Steering Group on Corporate Governance, December 2007.
- ²⁰ *Ibid.* at paragraph 7.1.2.