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ENHANCING HONG KONG'S LISTING FRAMEWORK

*Market Consultation on GEM Review
and New Board Concept Paper*

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AGENDA

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Conclusions



HKEX's Listing Reform Proposals

HKEX has today issued two papers seeking feedback on proposed market enhancements:

- 1 Review of the Growth Enterprise Market (GEM) and Changes to the GEM and Main Board Listing Rules Consultation Paper (“GEM Review”)
- 2 New Board Concept Paper



- This is a holistic approach
- New Board and GEM Review proposals are complementary to each other
- Focus on the needs of both issuers and investors

Focus on What Issuers and Investors Need

What do **ISSUERS** look for?

- Access to capital
- Clear initial and ongoing listing obligations
- Low listing costs
- High valuations
- Aftermarket liquidity

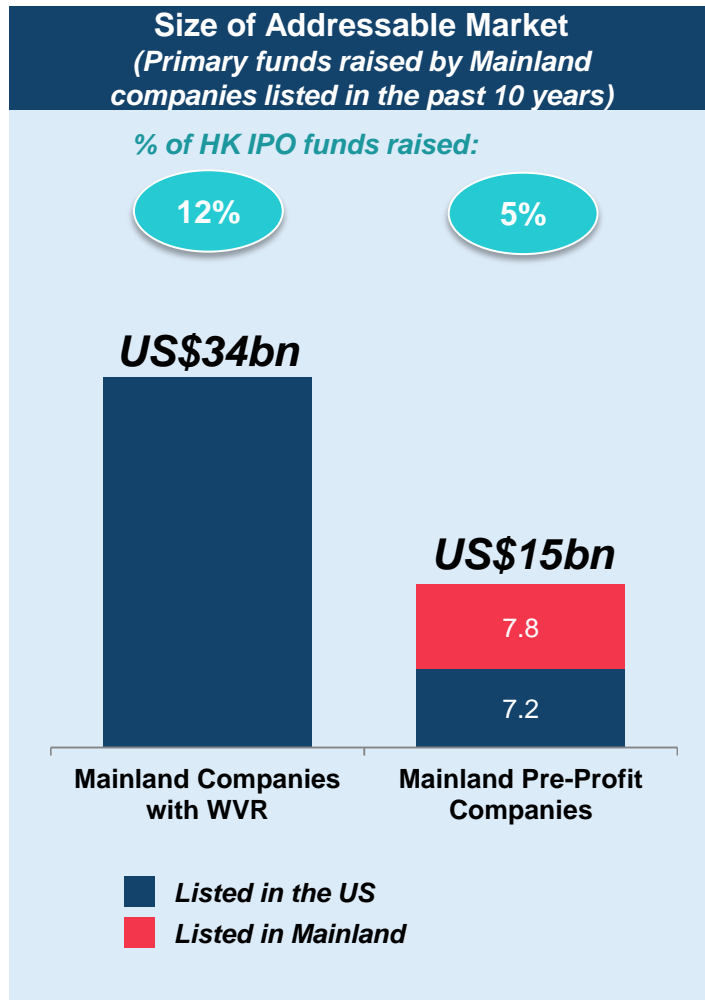
What do **INVESTORS** look for?

- Access to growth sectors
- Diversity of exposure
- Transparent and fair disclosure
- Appropriate investor protection standards
- Liquidity

The starting point for our proposals is to address the needs of the core users of our market



Potential Benefits of New Board



- ✓ Enhance Hong Kong's competitiveness as a global financial centre
- ✓ Attract high growth New Economy issuers
- ✓ Diversify Hong Kong's Market
- ✓ Develop Hong Kong's high tech ecosystem
- ✓ Generate additional tax revenues from trading
- ✓ Create job opportunities

Principles Underlying the Proposals

Market Concerns

MARKET QUALITY

- Post-IPO liquidity / volatility
- “Shell” creation
- Circumvention of Main Board due diligence requirements via GEM “stepping stone”

ACCESS TO LISTINGS

- High concentration of “Old Economy” sectors
- Lack of exposures to growth sectors
- Current listing framework does not cater to needs of “New Economy” issuers:
 - Pre-profit companies
 - Non-standard governance features
 - No secondary listings of Mainland companies

How We Address Them

GEM REVIEW

Raise listing criteria

Mandatory public offer to broaden shareholder base and reduce price volatility

Remove Main Board “stepping stone” mechanism

Limit impact on existing issuers and investors

NEW BOARD CONCEPT

Targeted measures to attract New Economy issuers

Widen access to listings

Maintain protection standards appropriate for eligible investors

Remove obstacles to secondary listings by Mainland issuers

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Proposals for GEM

GEM issuers moving to the Main Board

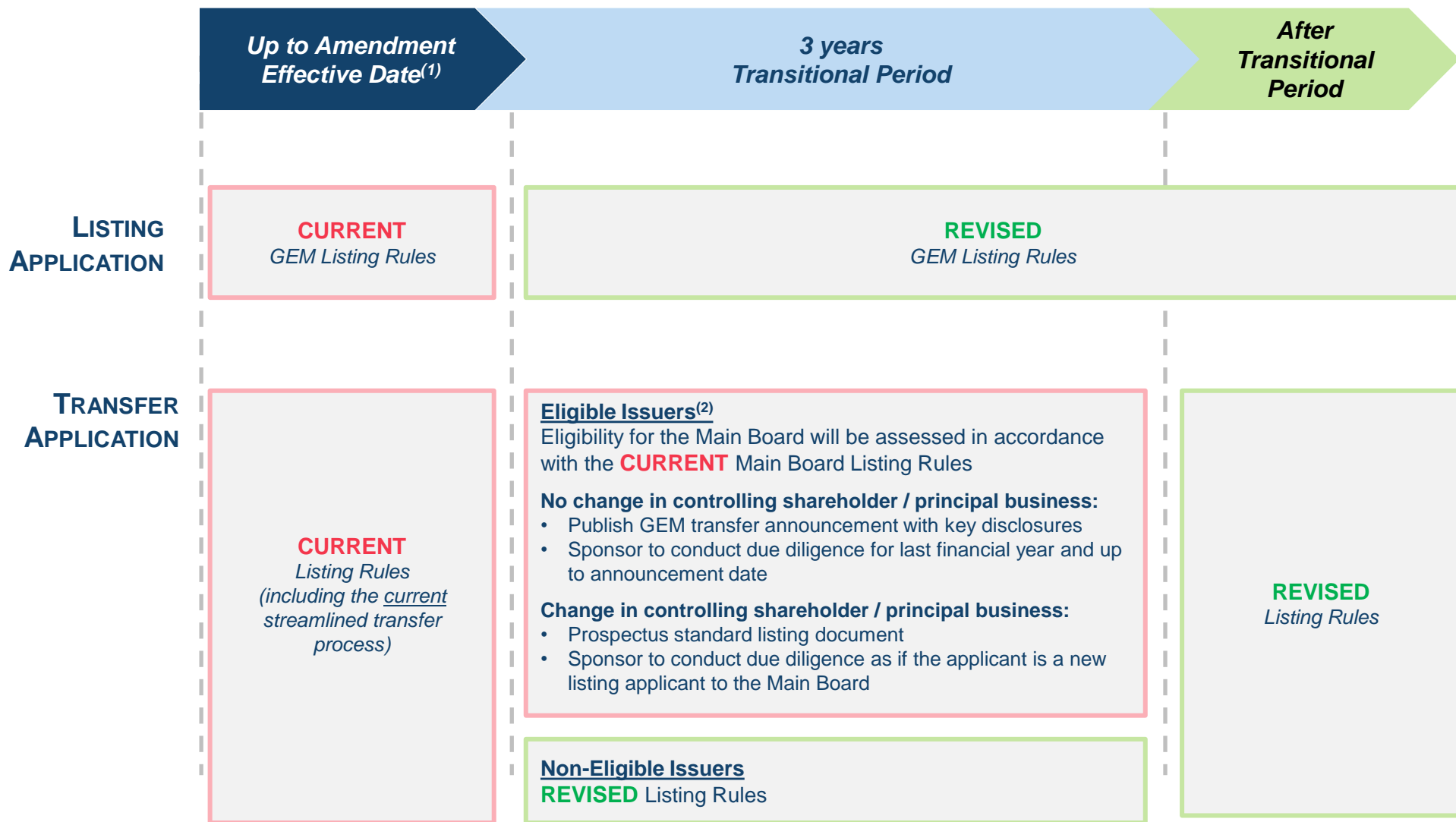
	Current Regime	Proposed Changes
POSITIONING	Stepping stone to Main Board Streamlined transfer process No sponsor required Transfer announcement only	Stand-alone SME board No streamlined transfer process Sponsor must be appointed “Prospectus-standard” listing document
ADMISSION REQUIREMENTS	Published one full year’s accounts since listing + no investigations for serious breaches <u>12 months</u> before transfer	Published two full year’s accounts since listing + no investigations for serious breaches <u>24 months</u> before transfer
Listing Requirements		
CASHFLOW REQUIREMENT	HK\$20mil	HK\$30mil
MIN. MARKET CAPITALISATION	HK\$100mil	HK\$150mil
MIN. PUBLIC FLOAT VALUE	HK\$30mil	HK\$45mil
POST-IPO LOCK-UP PERIOD ON CONTROLLING SHAREHOLDER	1 Year	2 Years
OFFERING MECHANISM	100% placing allowed	Mandatory public offering of at least 10% of the total offer size ⁽¹⁾
PLACING TO CONNECTED PERSONS/CONNECTED CLIENTS	No restriction provided full disclosure is made in the listing document	Align with Main Board where waiver/ consent of the Exchange is required

Proposed changes are intended to ensure that the rules reflect currently acceptable standards in the market and address recent regulatory concerns on GEM listing applicants and issuers.



(1) Main Board requirements on the allocation of offer shares between the public and placing tranches and claw back mechanism would apply

Transitional Arrangements for GEM issuers and applicants



(1) Amendment Effective Date is expected to be approximately **six months** after the date of the GEM consultation paper.

(2) Eligible Issuers are companies listed on GEM on or before the date of the GEM consultation paper and GEM applicants who have submitted a valid listing application on or before the date of the GEM consultation paper

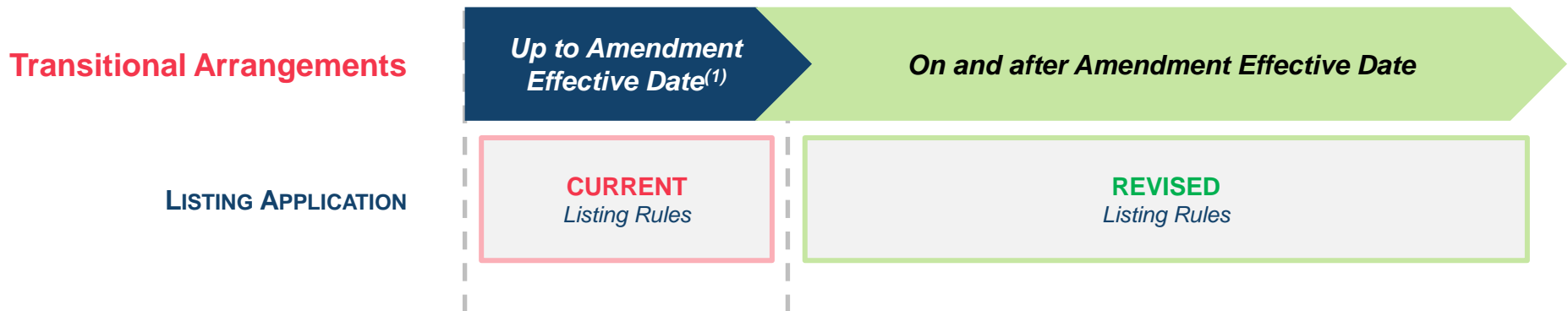
Other Changes relating to GEM

	Current Regime	Proposed Changes
NAME OF GEM	Growth Enterprise Market (acronym: GEM)	Renamed as GEM
TARGET ISSUERS	Companies listed on GEM are of an “emerging nature”	GEM to be a market catering for small to mid-sized companies
APPROVAL AUTHORITY	Delegation of listing approval from the Listing Committee to the Listing Department, with right of appeal to the Listing Committee	Listing Committee <i>(i.e. unwind the Delegated Authority)</i>



Proposals for the Main Board

Listing Requirements	Current Regime	Proposed Changes
MIN. MARKET CAPITALISATION	HK\$200mil	HK\$500mil
MIN. PUBLIC FLOAT VALUE	HK\$50mil (i.e. 25%)	HK\$125mil (i.e. 25%)



Proposed amendments to Main Board Listing Rules are:

- intended to preserve the Main Board's position as a market for larger companies.**
- independent of the outcome of the proposed changes for GEM.**



(1) Amendment Effective Date is expected to be approximately six months after the date of the GEM consultation paper.

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Overview of the New Board

- The New Board would comprise two distinct segments
- Each is targeted at different types of issuers and investors
- Both segments would allow WVR companies to list

New Board *PRO*

TARGET ISSUERS

- Early-stage / pre-profit New Economy companies

INVESTOR ELIGIBILITY

- Professionals⁽¹⁾ only

ADMISSION FINANCIAL REQUIREMENTS

- No financial or track record requirements
- Minimum expected market cap of HK\$200mil

VETTING PROCESS

- Light touch

New Board *PREMIUM*

- New Economy companies meeting Main Board financial and other key requirements, but unable to meet certain criteria

- Non-standard equity governance structures
- US-listed companies with standards differing from HK

- Same as Main Board

- Same as Main Board

- Same as Main Board



(1) As defined in the SFO or by the SFC (e.g. the \$8 million minimum portfolio threshold for individuals)

Admission Criteria and Listing Process

New Board *PRO*

New Board *PREMIUM*

	Listing Committee and SFC	
SUPERVISION	Listing Committee and SFC	
LISTING APPROVAL	Listing Department <i>Under delegation from Listing Committee</i>	Listing Committee
LISTING ADVISOR	Financial Advisers <i>Type 6 Licence Holders⁽¹⁾</i>	Sponsor
LISTING DOCUMENT	Listing Document⁽²⁾	Prospectus⁽³⁾
OFFER MECHANISM	Placement	Public Offer
MIN. FREE FLOAT / INVESTORS	25%, subject to 100 investor minimum	25%, subject to 300 investor minimum
OVERSEAS ISSUERS	<ul style="list-style-type: none"> ▪ Must have IOSCO MMOU / SFC bilateral agreement ▪ No requirement for HK equivalent shareholder protection as required by the 2013 JPS ▪ Permits secondary listing of Mainland companies 	<ul style="list-style-type: none"> ▪ Must have IOSCO MMOU / SFC bilateral agreement ▪ Waivers for issuers already listed on a Recognised US Exchange from HK “equivalent” shareholder protection standards ▪ Permits secondary listing of Mainland companies

Issuers qualifying for New Board PREMIUM, GEM or the Main Board may not list on New Board PRO. The Listing Committee would also retain discretion to require issuers on the New Board to demonstrate that they have the characteristics of a New Economy company

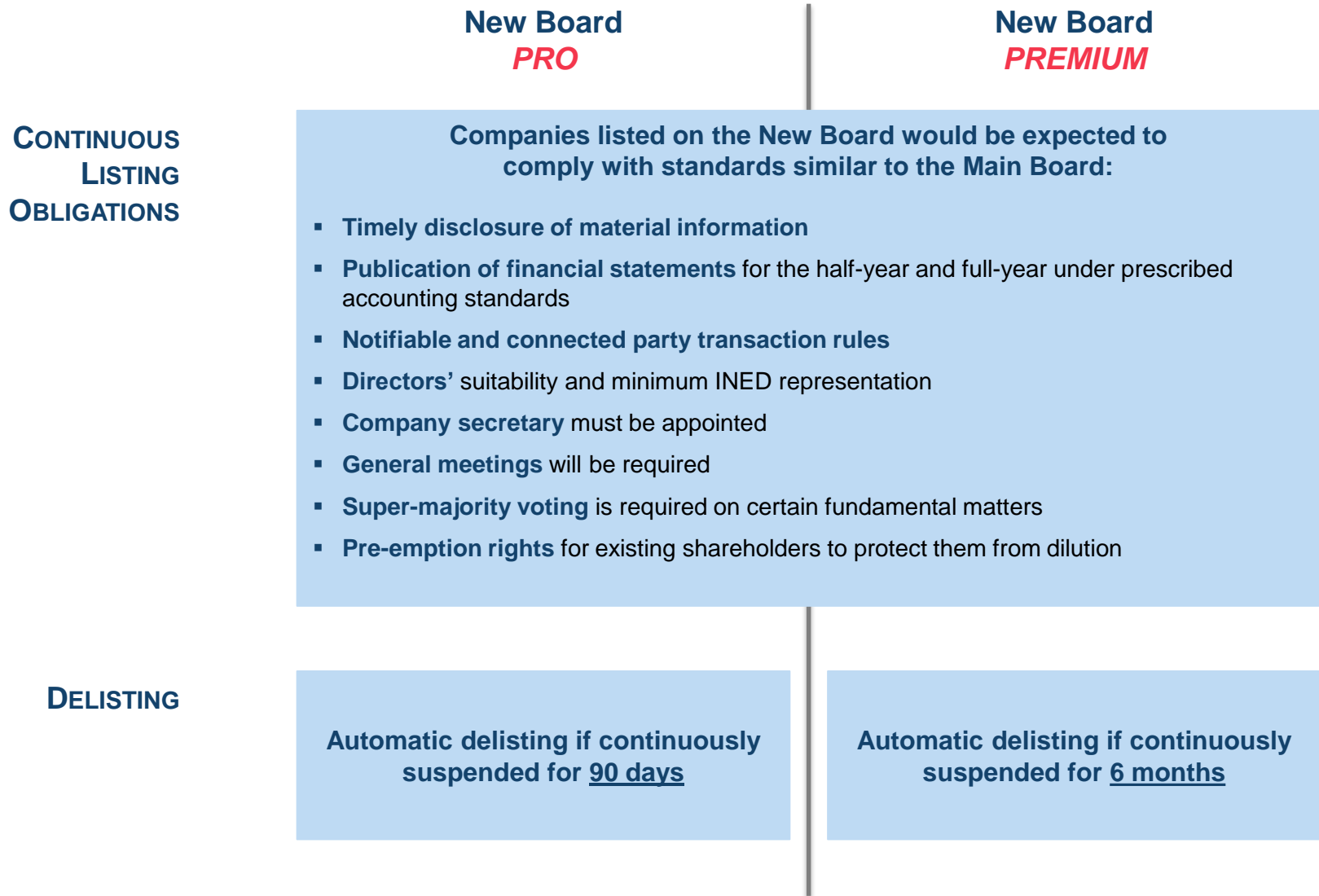


(1) Subject to market feedback and further consideration by the SFC

(2) Contains all material information that would be required by a professional investor in order to make an investment decision

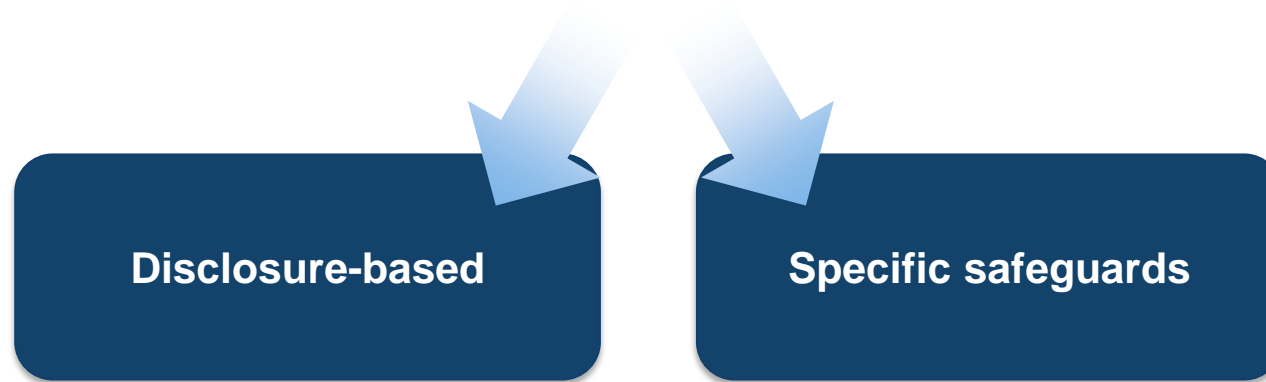
(3) A prospectus refers to a listing document that is required to be registered under Companies Ordinance because it involves an offer to the public

Continuous Listing Obligations and Delisting



Special Considerations for WVR Companies

Two potential approaches :



*We are seeking market views as to preferred approach.
If specific safeguards are preferred, market views are sought on appropriate safeguards*

Concession for companies listed on a Recognised US Exchange:

- “Disclosure-only” approach for companies with good compliance track record
- Allows listings of WVR companies already listed in the US, without requiring extensive changes to Articles of Association

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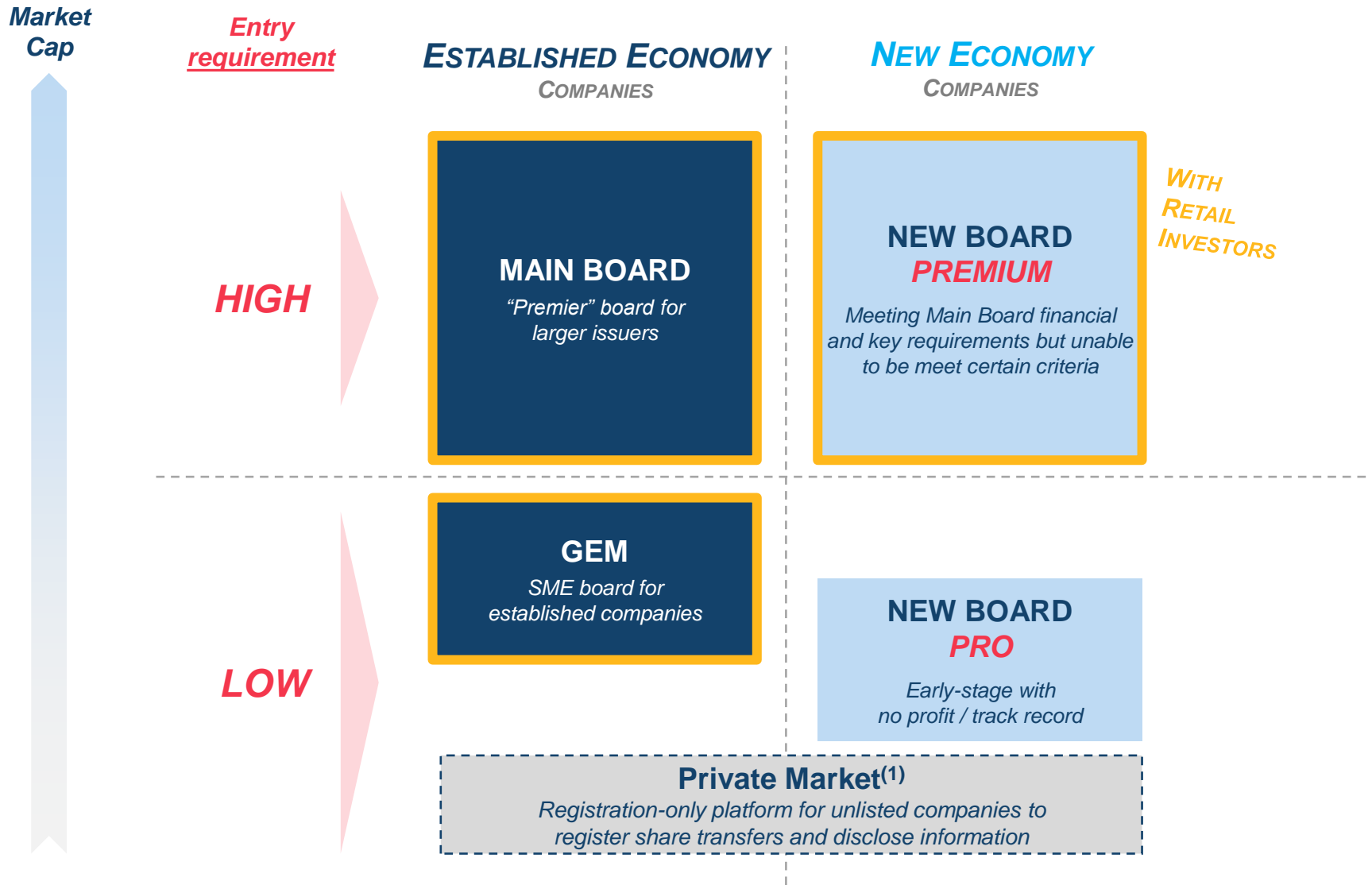
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Overview of Proposed Future Listing Structure / Framework



(1) Currently in planning stage

Market Feedback Process

KEY DATES



HKEX invites market views on the two proposals

Subject to responses, we will finalise detailed rules by early 2018

Our Strategic Goal

Stay
COMPETITIVE

Stay
RELEVANT

Enhance
MARKET QUALITY

