

## **ER2 Holdings Limited**

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Corporate Communications Department  
c/o Hong Kong Exchanges and Clearing Limited  
12/F, One International Finance Centre  
1 Harbour View Street,  
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Date: 19 September 2016

Dear Sirs,

### **Re: Consultation Paper on Proposed enhancements to the Stock Exchange's Decision-Making and Governance Structure for Listing Regulation**

We are an investor and would like to express our strong objection to all the proposals in the above consultation paper (the "**Consultation Paper**").

We take this opportunity to elaborate the rationale behind my strong objection below.

#### **1. Revamp the existing regime fundamentally**

The proposals in the Consultation Paper ("**the Proposals**") undoubtedly involve fundamental change (instead of minor fine tuning) to the existing regime for listing regulation in Hong Kong, as (a) the formulation of listing rules and listing policy and the vetting of complicated IPOs will be handled by 2 new committees (viz. (i) a 6 member-Listing Regulatory Committee ("**LRC**"); and (ii) a 8 member-Listing Policy Committee ("**LPC**") (instead of the existing widely represented 28 member-Listing Committee which has been working efficiently and effectively); and (b) the performance of the senior executive of the Listing Division of the Stock Exchange will be appraised by the LPC, which renders the Listing Division of the Stock Exchange of following the direction of the LPC blindly.

#### **2. Impede market development**

The Proposals will impede the market development of Hong Kong as the leading financial centre for IPOs, as the LPC will be regulator-led, given its composition. The listing policy and related marketing development formulated by LPC will be regulatory oriented.

On the other hand, regulators generally are risk adverse and not good at market development activities and the future outcome of such market development activities can be predicted to be a failure even without a crystal ball.

Besides, the Proposals will create tremendous uncertainty for applicants of IPOs as to whether their applications can go through the hearings of Listing Committee and the LRC, this will likely deter potential applicants from launching applications for IPO in Hong Kong.

Above all, the Proposals fail to address how to enhance the market development of Hong Kong stock market effectively and which institution is responsible to identify the strategic direction of such market development.

### 3. Lack check and balance

The Proposals lack check and balance inherent in the existing regime, as the Proposals gives too much power to SFC indirectly through the nomination of persons to these two new committees and the composition of members of these committees (with majority of which being SFC executives and pro-SFC camp).

On the other hand, there is no entity overseeing the SFC in relation to the listing regulation in Hong Kong after implementation of the Proposals and obviously, the existing check and balance will disappear.

As old Chinese saying goes, "power leads to corruption", this is very true especially the power of listing regulation will be concentrated in a few persons under the Proposals, which is highly undesirable and the LPC and LRC with a few memberships in their compositions structurally create avenue which can be exploited by those with bad motive easily.

### 4. Lead to merits-based regulatory regime

The Proposals will lead to merits-based regulatory regime rather than disclosure-based regulatory regime, as the listing policy and listing rules will be controlled in the hands of SFC and there will be strong propensity to move towards the merits-based regulatory regime. This inevitably weakens the competitiveness of Hong Kong as a leading financial centre, as our competitors move in opposite direction at the same time, as they fully appreciate the downsides of the merits-based regulatory regime, especially the regulators at global setting do not have full understanding of the revolving structure, practice and product in the market.

Finally, we urge the Consultation Paper to be put on the shelf without delay, as the implementation of the Proposals will no doubt do harm to Hong Kong in the future.

Yours faithfully,

For and on behalf of  
**ER2 HOLDINGS LIMITED**  
青田集團有限公司



..... Authorized Signature(s)