

18 November 2016

BY HAND AND BY EMAIL

Hong Kong Exchanges and Clearing Limited
12/F, One International Finance Centre
1 Harbour View Street
Central, Hong Kong

Attn: Corporate Communications Department

Dear Sirs,

Joint Consultation Paper on Proposed Enhancement to The Stock Exchange of Hong Kong Limited's Decision-Making and Governance Structure for Listing Regulation

Ernst & Young is pleased to respond in this letter to the request of the Securities and Futures Commission ("SFC") and The Stock Exchange of Hong Kong Limited ("Exchange") for comments regarding the proposals set out in the captioned Consultation Paper.


We welcome the regulators' efforts in reviewing the current regulatory structure to address emerging market developments, with a view to maintaining the quality of the market. We fully support the goal of the regulators to ensure that all market participants can have confidence in a regulatory system which is fair, efficient, orderly, transparent and competitive.

The Listing Committee, being a body independent from the Exchange and comprising representatives of investors, listed companies and market practitioners, enables the Exchange to draw on the commercial and business knowledge and experience of market users for policy formation and regulatory decision-making. The structure involving the Listing Committee has served the market well. Its wide representation and independence from the Exchange helps maintain a fair and competitive regulatory system. As such, the regulators should give careful consideration in devising a regulatory structure that will continue to attract market elites to serve on the Listing Committee.

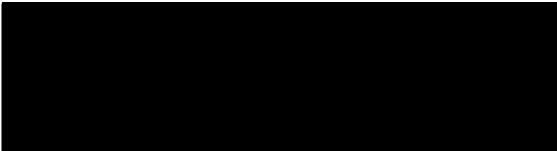
The approach set out in the proposals involves the establishment of two additional committees with representatives from the SFC, so as to enable the SFC to have earlier and more direct input in policy matters and other listing matters. We share the belief that closer coordination and cooperation between the SFC and the Exchange, whether by establishing additional committees or by alternative means (such as the SFC attending LC meetings), should focus on streamlining the processes for policy formulation and making important or difficult listing decisions. Any approach that might be taken eventually should be a rule-based approach which market participants have confidence in, incorporating appropriate and sufficient checks and balances to ensure transparency, especially for decisions taken in respect of IPOs and transactions. Market scepticism of fairness often stems from the lack of knowledge of the decision-making process.

In the event that the proposals regarding the Listing Regulatory Committee (“LRC”) are implemented, we suggest that the regulators should put in place mechanisms to prevent an excessive amount of matters being referred to the LRC. With the small number of members sitting on the LRC, excessive LRC matters may dampen, instead of improving, efficiency. Mechanisms may involve drawing up more objective guidelines in differentiating LRC matters from non-LRC matters, the possible re-assignment of the responsibility for allocating LRC matters and non-LRC matters, re-considering the proposed reporting line of the Listing Department, devising procedures to deal with potential deadlocks etc. If the proposals go ahead, any mechanisms eventually adopted should ensure that only exceptional cases are referred to the LRC, whilst the LC continues to approve the vast majority of the cases, and that the appropriate body determines what cases are to be considered exceptional.

Hong Kong has developed into a major international financial centre and premier capital formation centre for Mainland and overseas companies. Like other markets, there are many regulatory issues that the SFC and the Exchange have been working together to resolve, such as stock price manipulation, corporate governance shortfalls, disclosure problems and misconduct which prejudice investors. We would like to commend the efforts of the Exchange in its operation of the Listing Rules, and the SFC in its regulation of listed companies under the Securities and Futures Ordinance, intermediaries’ conduct regulation, application of the Codes on Takeovers and Mergers and Share Buy-backs and enforcement actions. The maintenance of an orderly market is of utmost importance for upholding the prestige of Hong Kong.

Should you have any questions on the above comments, please do not hesitate to contact our Professional Practice Partner in Hong Kong, Mr. Paul Hebditch, on 

Yours faithfully,



Certified Public Accountants
Hong Kong