



Alternative Investment Management Association

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

Submission via email: response@hkex.com.hk

28 November 2014

Dear Sirs,

Re: Concept Paper on Weighted Voting Rights

The Alternative Investment Management Association (AIMA) welcomes the opportunity to provide comments on the Hong Kong Exchanges and Clearing Limited (Exchange) concept paper (the “Concept Paper”) on weighted voting rights.

About the Alternative Investment Management Association

The Alternative Investment Management Association (AIMA) is a global hedge fund association with over 1,400 corporate members (with over 7,000 individual contacts) worldwide, based in over 50 countries. Members include hedge fund managers, fund of hedge funds managers, prime brokers, legal and accounting firms, investors, fund administrators and independent fund directors. AIMA's members manage a combined US\$1.5 trillion in global assets (as of March 2014).

Background

In the Concept Paper, the Exchange seeks views on whether, in concept, governance structures that give certain persons voting power or other related rights disproportionate to their shareholding (weighted voting rights structures or WVR structures) should be permissible for companies currently listed or seeking to list on the Exchange.

AIMA Submission

From discussions with a cross-section of our members, there are a wide range of views on the appropriateness or otherwise of WVR structures for the Hong Kong market and the specific issues raised in the Concept Paper. As a result, this submission highlights general principles rather than responds to each of the questions in the Concept Paper. We would be pleased to provide further comments if / when more detailed proposals are published.

AIMA supports the continued development of the Hong Kong market. As guiding principles AIMA believes that liquidity, transparency and sound corporate governance are important elements of healthy capital markets.

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Transparency

The value investors place on their ability to exercise voting rights and exercise control over the listed company will vary depending on the investment objectives of the investors themselves. For example, investors have been happy to invest in listed companies (such as companies with variable interest entity (VIE) structures) despite potential risks relating to control over the business of the listed company which are disclosed in offering documents. Where investors perceive the risks to be significant, it will be a factor which influences their valuation of the company. Without expressing a view on the appropriateness or otherwise of WVR structures for the Hong Kong market, we note that, if and to the extent WVR structures are permitted, such permission should, at a minimum, be accompanied by obligations of clear and prominent disclosure to prospective investors on the nature and operation of the structures and the risks associated with such structures.

Corporate governance

A report commissioned by AIMA and published in March 2014, 'Capital Markets and Economic Growth – Long-term trends and policy challenges', provides evidence that institutional investors are more reluctant to invest in firms that are based in countries with weak shareholder protection. This is especially true for independent institutional investors. These investors play an important role in corporate governance, complementing the positive contribution of capital markets to the economy at large. In particular, active shareholders, including some hedge funds, are able to effect positive governance changes in the firms in which they invest, by virtue of their expertise and willingness to engage with a firm's management.

Sound corporate governance is a combination of a number of factors. Shareholder voting rights is one of those factors. WVR structures should not be considered in isolation; rather the decision whether to introduce WVR structures should be considered in the broader context of the legal and regulatory framework in Hong Kong and other jurisdictions, and the protections those jurisdictions provide for shareholders.

We note that the legal and regulatory framework in the United States (being the primary jurisdiction that permits WVR structures) has a number of features that contribute to corporate governance and that are not present in Hong Kong and cannot easily be legislated into existence. These include a more litigious society, lower barriers to bringing legal actions, the ability to bring class action lawsuits and the ability to do so on a contingency fee basis. Additionally, unlike Hong Kong, there are also a number of professional investors in the United States markets that have shown a willingness over the years to bring class actions and other claims against listed companies.

AIMA is grateful for the opportunity to provide our thoughts on the Concept Paper and would be pleased to discuss these comments in further detail.

Yours faithfully,



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