FINANCIAL SERVICES DEVELOPMENT COUNCIL
香港金融發展局

FSDC's Response to HKEX's Consultation Paper on Corporate WVR Beneficiaries

Background

The Financial Services Development Council ("FSDC") welcomes the Stock Exchange of Hong Kong ("SEHK")'s publication of the *Consultation Paper on Corporate WVR Beneficiaries* ("2020 Consultation") in January. In principle, the FSDC considers this overdue consultation a positive move, as the proposal can enhance the competitiveness of Hong Kong as a listing venue of choice for emerging and innovative companies, while reemphasising that investor protection has always been of paramount importance.

In February 2018, the SEHK consulted the market on the proposed new rules to expand Hong Kong's listing regime to facilitate listings of companies from emerging and innovative sectors ("2018 Consultation"). In response to the 2018 Consultation, the FSDC expressed support for the direction, while flagging that, instead of confining beneficiaries of weighted voting rights ("WVR") to individuals, the scope of WVR beneficiaries should be more inclusive so as to reap the full benefits of updating the Listing Rules.

Comments on the SEHK's 2020 Consultation

The FSDC believes now is an opportune time for the SEHK to review and further improve the effectiveness of the listing regime amidst the fierce global competition for good quality and high growth company listings.

The review process has rightfully begun with an evaluation of whether different parties – especially eligible candidates as well as issuers who have chosen to be listed on other exchanges – would consider or reconsider the listing venues of choice based on the eligibility of granting WVR benefits to corporate entities. As reflected in Chapter 2 of the 2020 Consultation, these parties would desire the availability and applicability of a corporate WVR beneficiary structure, and therefore such proposed arrangements could broaden the variety of listed companies in Hong Kong's capital market.

Notwithstanding the benefits, permitting listings with corporate WVR structures would require a balancing mechanism between broadening investors' capital market access and protecting their interest. To this end, the FSDC believes the proposal should warrant support, as a comprehensive set of safeguards with a view to mitigating such risks as entrenchment has been deliberated.

Giving consideration to the eligibility requirements set out in the 2020 Consultation, the SEHK has shown its determination to continue with its efforts to not make WVR structures a commonplace.[1] The market capitalisation requirement for corporate WVR beneficiaries (i.e. HK$200 billion), for instance, would effectively limit the potential eligible companies to no more than 300 as at December 2019 globally.[2] Together with the other safeguards, such as the proposed economic interest requirement and the maximum voting multiple, the proposal should be able to confine the corporate WVR beneficiaries to a limited number of entities that are both contributing materially to the ecosystem and having significant economic stake in the listed companies concerned.

In this context, the FSDC is of the view that the 2020 Consultation has proposed adequate safeguards to mitigate potential risks arising from voting power disproportionate to the economic interests in relevant companies.

Conclusion

The FSDC welcomes the SEHK's effort in preparing a balanced consultation paper as well as its continuous endeavour in enhancing the competitiveness of Hong Kong's listing regime.

Financial Services Development Council
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1 Two companies with WVR structures have been listed under Chapter 8A (see here) of the SEHK's Listing Rules, among some 280 IPOs, since the expanded listing regime came into effect in April 2018. Separately but relatedly, Chapter 19C of the Listing Rules (see here) has made secondary listings of companies with WVR structures in Hong Kong possible; so far, one company has been listed on the SEHK.

2 See paragraph 167 of the 2020 Consultation.