Deloitte.

德勤

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

Tel: +852 2852 1600
Fax: +852 2541 1911
Email: enquiry@deloitte.com.hk
www.deloitte.com/cn

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Corporate and Investor Communications Department
Hong Kong Exchanges and Clearing Limited
8th Floor, Two Exchange Square
8 Connaught Place
Central
Hong Kong

Re: Listing Regime for Overseas Issuers Consultation Paper

Subject: Response to Hong Kong Stock Exchange Consultation Paper, *Listing Regime for Overseas Issuers*

Dear Sir/ Madam,

Deloitte Touche Tohmatsu welcomes the proposed regime outlined in the *Listing Regime for Overseas Issuers* Consultation Paper of the Hong Kong Stock Exchange ("the Exchange"), believing it will help elevate Hong Kong's status as an international financial center and fundraising hub for global, regional and Chinese companies. The main proposed amendments will provide a more level playing field for Grandfathered Greater China Issuers and Non-Greater China Issuers in both the near and longer term.

Following April 2018's Listing Reform, which included a new concessionary secondary listing route, the momentum of secondary listings by US-listed China concept stocks has increased, in particular during 2020 and Q1 2021. This already robust demand continues to grow, driven in part by the de-listings and secondary listings of overseas-listed China concept stocks and the enactment of the *Holding Foreign Companies Accountable Act* in the US. The Exchange's observations on the issues concerning the existing listing regimes for overseas issuers are valid. As such, we agree that there is a pressing need to reduce the differences in listing requirements among such issuers, in particular Issuers that operate in traditional (Non-Innovative) industries, which are prevented from secondary listings. We also agree that guidance on the Trading Migration Requirement and de-listings from overseas exchanges for secondary listed issuers is crucial. These measures will help make Hong Kong a more attractive and competitive listing venue, especially to high-quality issuers from traditional sectors.

As part of the Exchange's *Strategic Plan 2019-2021*, we also recognize that opening up the dual-primary listing path to Grandfathered Greater China Issuers and Non-Greater China Issuers with Non-compliant weighted voting right ("WVR") and/or variable interest equity ("VIE") structures in the proposed regime will be essential to enhancing the structure of our new listing regime and developing Hong Kong as a listing and capital-raising hub for major global and regional companies on either a primary or secondary basis. This might encourage listings from some potential quality Greater China and overseas issuers, thereby attracting global investors seeking exposure to Asia Pacific companies and Mainland investors seeking international exposure.

Furthermore, the codification of the conditional Common Waivers and Automatic Waivers for dual-primary listed issuers, and codification and consolidation of requirements of the *Joint Policy Statement Regarding the Listing of Overseas Companies* ("JPS") and Chapter 19C of the Listing Rules to the provisions into Chapter 19C of the Listing Rules facilitates Non-WVR and Non-Innovative Greater China issuers to seek a dual primary listings and a secondary listing, respectively. By opening up the route under the new guidance of allowing issuers to apply directly for dual primary listings with non-compliant structures through meeting the eligibility and suitability requirements of Chapter 19C, Grandfathered Greater China issuers or Non-Greater China issuers can retain their non-compliant WVR and/or VIE Structures if they de-list from the Qualifying Exchange on which they are primary listed.

All these developments will help to facilitate more dual-primary listings and secondary listings in Hong Kong. At the same time, it is important for market participants to understand, ideally through guidance from the Exchange, the circumstances in which applicants might be considered to be seeking regulatory arbitrage.

We agree with the Exchange's plan to codify the JPS requirement that the suitability of a body of alternative financial reporting standards depends on whether there is any significant difference between that body of standards and International Financial Reporting Standards ("IFRS"), and whether there is any concrete proposal to converge the standards with IFRS, where a dual primary or secondary listed issuer that adopts a body of alternative financial reporting standards for its financial statements must adopt Hong Kong Financial Reporting Standards ("HKFRS") or IFRS if it de-lists from the jurisdiction of the alternative standards. In respect of the alternative auditing standards, we also support to retain as guidance the seven sets of alternative standards comparable to that required by the Hong Kong Institute of Certified Public Accountants or the International Auditing and Assurance Standards Board that can be used to audit the financial statements of overseas issuers.

For issuers that can demonstrate a reason for adopting US GAAP for the preparation of their annual financial statements, it is also reasonable for the Exchange to continue with the practice of presenting a reconciliation statement showing the financial effect of any material differences between their financial statements and financial statements prepared using HKFRS or IFRS, and adopting IFRS or HKFRS if the circumstances underpinning those reasons change (e.g. delisting from a US exchange).

Today, more than 160 jurisdictions have adopted the IFRS. All of these practices for financial reporting are critical to sustaining Hong Kong's reputation and status as an international financial center.

From our perspective as a professional services firm that has been the auditors or reporting accountants of issuers listed on the Exchange for a long period of time in Hong Kong, we agree with the proposal to amend the Listing Rules to codify the JPS requirement, wherein non-Hong Kong audit firms must normally fulfil the characteristics described in paragraph 271, in relation to Public Interest Entity Engagements and notifiable transactions. These characteristics will help bolster confidence among investors in the quality of the audit or assurance works performed by these firms in relation to the relevant audited financial statements or the financial information reported in the accountants' reports, help maintain a high standard of financial reporting work for overseas issuers in Hong Kong, and ultimately safeguard the reputation of and confidence in Hong Kong's capital market.

We are thankful for having such a valuable opportunity to express our views on this proposed regime. We look forward to seeing the new regime come into effect soon.

Yours faithfully,

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