The Hong Kong Chartered Governance Institute

Submission

The Stock Exchange of Hong Kong Limited (Exchange)

Further Consultation on Proposals to Optimise IPO Price Discovery and Open Market Requirements

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By Email: response@hkex.com.hk

Dear Sirs,

Submission on the Further Consultation on Proposals to Optimise IPO Price Discovery and Open Market Requirements
[Words and expressions used herein shall have the meanings set out under the Consultation Paper.]

About HKCGI

The Hong Kong Chartered Governance Institute (HKCGI) is the sole accrediting body in Hong Kong and the Chinese mainland for the globally recognised Chartered Secretary and Chartered Governance Professional qualifications. Formerly known as The Hong Kong Institute of Chartered Secretaries (HKICS), HKCGI is the Hong Kong/China Division of The Chartered Governance Institute (CGI).

With a legacy of over 75 years, HKCGI has established itself as a trusted and reputable professional body in the region. Its influence extends to CGI's global network of around 40,000 members and students, making it one of its fastest-growing divisions. HKCGI's community comprises about 10,000 members, graduates, and students, with significant representation in listed companies and diverse governance roles across various industries.

Guided by the belief that governance leads to better decision-making and a better world, HKCGI is committed to advancing governance in commerce, industry, and public affairs. It achieves this through education, thought leadership, advocacy, and active engagement with its members and the broader community. As a recognised thought leader, HKCGI promotes the highest standards of governance while advocating for an inclusive approach that considers the interests of all stakeholders and ensures that every voice is heard and valued.

Overall Support

HKCGI supports the Exchange's proposals under the Further Consultation from the applied governance perspective, as they provide an appropriate balance between market development and investor protection through disclosures and other mechanisms.

Response to Consultation Questions

Question 1.1: Do you agree with the proposal to implement the Alternative Threshold, which will provide an alternative ongoing public float threshold for issuers in addition to the Initial Prescribed Threshold (as set out in paragraphs 310 to 312)?

Yes. We support the implementation of the Alternative Threshold. It provides flexibility for issuers with large market capitalisations to manage capital efficiently while ensuring that a meaningful pool of shares remains in public hands. This approach aligns with international practices, allowing issuers to conduct legitimate corporate actions, such as share repurchases, without being unduly constrained by percentage-based thresholds.

From a governance perspective, the Alternative Threshold should be accompanied by clear disclosure, enabling investors to understand how compliance is maintained. We also have members who view that the market value threshold could be set slightly lower (e.g., HK$750 million), which could be phased in.

Question 1.2: If your answer to Question 1.1 is "yes", do you agree with the proposed threshold figures (i.e. HK$1 billion and 10%) for the Alternative Threshold?

Yes. The HK$1 billion and 10% thresholds are reasonable. They strike a balance between flexibility for issuers and maintaining adequate liquidity for investors. The HK$1 billion market value ensures a critical mass of tradable shares, while the 10% threshold allows for a representative shareholder base.

We also have member views that for very large-cap issuers, a tiered approach could be considered, and in exceptional cases (e.g., high-growth industries), the percentage threshold might be set slightly lower (such as 8%) if paired with governance safeguards.

Question 1.3: If your answer to Question 1.1 is "yes", do you agree that for the purpose of determining whether the market value of shares held by the public meets the market value limb of the Alternative Threshold, the market value will be determined on a rolling basis by multiplying (a) the number of shares held by the public as of the date of determination by (b) the volume weighted average price of the shares listed on the Exchange over 125 trading days immediately prior to the date of determination (as set out in paragraph 316)?

Yes. The rolling 125-trading-day VWAP is an appropriate method as it smooths out short-term volatility and reflects sustained market value, in line with global best practice. It provides issuers with certainty while giving investors confidence that compliance is based on a robust methodology.

From a governance perspective, issuers relying on this calculation should clearly disclose the VWAP and resulting market value in their filings, enabling investors to see how compliance is achieved.

We also have member views that a shorter period (e.g., 90 days) could be considered for

issuers with shorter trading histories, or that flexibility should be allowed in exceptional cases, subject to Exchange approval.

Question 1.4: If your answer to Question 1.1 is "yes", do you agree that a listed issuer would not be able to rely on the Alternative Threshold if the issuer's shares have traded for fewer than 125 trading days since listing on the Exchange?

Yes. A sufficient trading history is necessary to establish a reliable and stable market value, and this restriction helps prevent reliance on incomplete or potentially distorted data. It also mitigates the risk of market manipulation in the early stages of trading.

We also have member views that newly listed issuers could be permitted to use the Alternative Threshold earlier (e.g., after 90 trading days), provided they meet stricter requirements, such as a higher market valuation (e.g., HK$2 billion).

Question 1.5: If your answer to Question 1.1 is "yes", do you agree that, in the case of an issuer seeking to switch from relying on the Initial Prescribed Threshold to the Alternative Threshold, if its listed shares have been suspended from trading for more than five consecutive business days during the 125-trading-day period for determination of the market value of shares, the Exchange may require the issuer to extend the 125-day period to demonstrate that it can meet the Alternative Threshold over a reasonable period after resumption of trading?

Yes. Allowing the Exchange to extend the reference period is a sensible safeguard, as prolonged suspensions can distort market value calculations. It ensures that compliance is assessed against a representative trading history.

We also have member views that any extension could be capped at a maximum period (e.g., 30 additional trading days) and that issuers should disclose both the reasons for suspension and their plan to restore compliance.

Question 1.6: Do you agree that the same ongoing public float requirements that apply to Main Board issuers should be applied to GEM issuers?

Yes. Applying the same requirements across both boards ensures consistency, avoids confusion, and supports investor confidence in GEM issuers.

We also have member views that, for GEM issuers, a slightly lower market value threshold (e.g., HK$600 million) could be considered to reflect their generally smaller size. Some also

recommend that HKEX review the impact on GEM issuers after implementation to ensure the rules operate effectively in practice.

Question 2.1: Do you agree with the proposed bespoke ongoing public float threshold figures (i.e. HK$1 billion or 5%) for a PRC issuer with other listed shares (such as an A+H issuer)?

Yes. The proposed bespoke thresholds of HK$1 billion or 5% are reasonable and should be adopted. They reflect the unique shareholding structure of A+H issuers, where the majority of shares are listed in the PRC. The dual approach ensures flexibility while safeguarding sufficient liquidity in Hong Kong.

The HK$1 billion market value ensures a meaningful pool of H shares remains available for trading, even if the percentage float is small.

We also have member views that for very large-cap issuers (e.g., those with a market capitalisation of over HK$50 billion), the market value threshold could be raised to HK$1.5 billion to ensure that liquidity in Hong Kong remains meaningful. Conversely, for smaller issuers, a tiered percentage (e.g., 7%) could be considered to provide balance.

Question 2.2: Do you agree that the bespoke ongoing public float thresholds for PRC issuers with other listed shares should also apply (as modified) to non-PRC issuers with shares listed on a PRC stock exchange (e.g. RMB shares), if those shares are in the same class as, but are not fungible with, the shares listed on the Exchange?

Yes. The same bespoke thresholds should apply to non-PRC issuers with PRC-listed shares that are not fungible with those listed in Hong Kong. This ensures parity of treatment, avoids creating a competitive imbalance between issuers, and addresses the liquidity challenge that arises when the Hong Kong tranche cannot be supplemented by trading in PRC-listed shares.

From a governance standpoint, consistent thresholds across PRC and non-PRC issuers enhance fairness and strengthen investor confidence in market rules.

We also have member views that for non-PRC issuers, a transitional arrangement might be useful, for example, setting a slightly lower initial market value threshold (e.g., HK$750 million) during early adoption, with subsequent review. Some members also recommend requiring issuers to disclose the proportion of their PRC-listed shares versus Hong Kong-listed shares in annual reports to improve transparency and help investors assess liquidity.

Question 3.1: Should all issuers confirm, in monthly returns and annual reports, whether they have met their applicable Ongoing Public Float Thresholds?

Yes. We support requiring all issuers to confirm compliance with their Ongoing Public Float Thresholds in both monthly returns and annual reports. This measure enhances transparency, reassures investors that compliance is actively monitored, and strengthens confidence in the integrity of the market. Regular confirmations also provide regulators with a mechanism to identify potential breaches early, reducing the risk of prolonged non-compliance.

We also have member views that quarterly confirmations could be considered instead of monthly to reduce the administrative burden, and sufficient implementation time should be provided to allow issuers to adjust their reporting systems.

Question 3.2: Should issuers relying on the Initial Prescribed Threshold disclose the minimum percentage threshold in their monthly returns?

Yes. Issuers relying on the Initial Prescribed Threshold should be required to disclose their applicable minimum percentage in their monthly returns. This disclosure provides clarity to investors and enables greater comparability across issuers, thereby enhancing overall market transparency.

From a governance perspective, this requirement supports informed investor decision-making by ensuring stakeholders understand both the threshold an issuer is subject to and the degree of headroom above it.

We also have member views that issuers could be allowed to disclose this information quarterly rather than monthly, and that issuers should be able to combine disclosure of the Initial Prescribed Threshold and their actual public float percentage in a single line item for simplicity.

Question 3.3: Should issuers relying on the Alternative Threshold or PRC issuers with other listed shares disclose the market value and percentage of public float in monthly returns?

Yes. Issuers relying on the Alternative Threshold or the bespoke thresholds for PRC issuers with other listed shares should disclose both the market value and the percentage of their public float in their monthly returns. This is critical because these thresholds are partly market-value-based, and regular disclosure assures that compliance is being maintained. For PRC issuers with dual listings, this transparency is particularly important given the non-fungibility of A and H shares.

We also have member views that disclosure could be limited to circumstances where the public float is within a set margin above the threshold, for example, 10 per cent, to reduce the reporting frequency. Others suggested that reporting could be simplified by requiring additional disclosure only if significant changes in public float occur.

Question 3.4: Should all issuers disclose the relevant public float information in annual reports?

Yes. All issuers should be required to disclose in their annual reports the same public float information that they provide in their monthly returns. This creates a consolidated and permanent record of compliance during the financial year, complementing the monthly disclosures and reinforcing accountability to investors. The additional burden is minimal since issuers would already prepare this information for monthly reporting.

We also have member views that issuers could be required to include historical data for the past 12 months in their annual reports to provide a clearer picture of compliance trends. Meanwhile, smaller issuers could be allowed to streamline their disclosures if they have maintained consistent compliance throughout the year.

Question 3.5: Should share capital structure information be disclosed in annual reports for all issuers?

Yes. All issuers should disclose share capital structure information in their annual reports. This will enhance transparency by allowing investors to clearly understand the equity composition, voting rights, and distribution of shareholdings. It is particularly important for issuers with complex structures, multiple share classes, or dual-listing arrangements. Such disclosure is also in line with international best practice, strengthening Hong Kong's competitiveness as a listing venue.

We also have member views that disclosure could focus on significant changes in share capital structure during the reporting period rather than duplicating static information, and that for issuers with simple structures, a concise summary table could suffice.

Question 4.1: Should issuers that fall below their applicable Ongoing Public Float Threshold be required to publish an announcement and set out a restoration plan?

Yes. We agree that issuers should be required to publish an announcement promptly when they fall below their applicable Ongoing Public Float Threshold and to set out a clear plan to restore compliance. This strikes the right balance between transparency to the market and

protecting investors, who need timely information to make informed decisions. Regular updates on restoration progress will also strengthen market discipline.

We also have member views that more frequent updates, for example, bi-weekly for issuers with significant shortfalls, could further enhance accountability. Members also suggested that the Exchange publish such information prominently on its website so that the market is alerted and investors can take informed decisions.

Question 4.2: Do you agree with the proposed requirements for an initial announcement within one business day and a restoration plan within 15 business days?

Yes. The proposed requirements are appropriate. An announcement within one business day ensures timely disclosure. The 15-business-day period for publishing a restoration plan provides issuers sufficient time to formulate a credible and workable strategy without unduly prolonging uncertainty.

We also have member views that a shorter period of around 10 business days for the restoration plan could be considered to minimise uncertainty and strengthen investor confidence.

Question 4.3: Do you agree that issuers should be required to publish monthly updates on the status of their public float restoration?

Yes. Monthly updates are an appropriate and proportionate measure to maintain market transparency and allow investors to track progress towards restoration. They also create discipline for issuers to demonstrate continuous efforts to resolve non-compliance.

We also have member views that where restoration is significantly delayed, issuers should be required to provide additional justification for the lack of progress and outline concrete remedial actions.

Question 4.4: Do you agree that issuers and their directors should be restricted from taking any actions that would further reduce public float during a shortfall, unless exceptional circumstances apply?

Yes. This restriction is sensible and necessary to prevent actions that would worsen non-compliance, such as share buy-backs or director acquisitions. It also ensures that issuers prioritise restoration efforts once a shortfall has occurred.

We also have member views that reasonable penalties should be introduced for directors or close associates who knowingly take actions that further reduce public float without justification, thereby reinforcing deterrence.

Question 4.5: Do you agree that trading should not be suspended solely due to a minor public float shortfall, and that no special stock marker should apply in such cases?

Yes. We agree that minor shortfalls should not automatically lead to suspension or the imposition of a stock marker, as this could create unnecessary disruption and harm liquidity. Allowing continued trading gives investors an opportunity to make their own decisions in the market.

From a governance perspective, this approach balances regulatory oversight with the need to avoid disproportionate consequences.

We also have member views that a lighter identifier, such as a "watchlist" marker published on HKEX's website, could be considered to alert investors where issuers are close to a significant shortfall.

Question 4.6: Do you agree with the proposal to impose a special stock marker on issuers with a Significant Public Float Shortfall, and to delist them if compliance is not restored within 18 months (12 months for GEM issuers)?

Yes. The use of a special stock marker is appropriate as it provides clear visibility to the market about the risks associated with low public float levels while still allowing trading. The delisting mechanism ensures that issuers cannot remain in prolonged non-compliance and protects investors from ongoing risk.

We also have member views that the delisting period could be extended from 18 to 24 months in exceptional circumstances, given that delisting has significant implications for both issuers and investors.

Question 4.7: Do you agree with the specific proposals on Significant Public Float Shortfalls, including the thresholds, disclosure obligations, delisting mechanism, and conditions for removing the stock marker?

Yes. We agree with the proposals in all respects. The combination of percentage and market value thresholds ensures flexibility for issuers of different sizes, while the disclosure obligations and delisting mechanism provide clarity and discipline. Requiring full restoration before removing the marker is also appropriate to ensure compliance has been achieved.

We also have member views that a phased approach to removing the stock marker could be considered, where substantial progress towards compliance (for example, achieving 90 per cent of the threshold) would allow partial relaxation of restrictions, while still incentivising full compliance.

Question 5: Do you agree that the proposed ongoing public float requirements should be applied to all existing listed issuers?

Yes. The proposed requirements should apply to all issuers to ensure consistency and fairness across the market. This will prevent a two-tier system where different issuers are subject to different rules, thereby improving overall liquidity and price discovery. It also strengthens investor confidence by ensuring transparency and sufficient shares in public hands.

We also have member views that a transitional period of 12 to 24 months should be provided for existing issuers to adjust, and tailored thresholds could be introduced for small-cap issuers to prevent undue burden. Also, guidelines on case-by-case exemptions should be developed and published by the Exchange to provide certainty.

Question 6.1: Do you agree that the timing-relief waiver for public float restoration following a general offer should be retained?

Yes. The timing-relief waiver should be retained. It provides issuers with reasonable flexibility to restore public float after a general offer without forcing immediate action that could destabilise the market. Allowing time for structured restoration enhances stability and is consistent with practices in other international markets.

We also have member views that a tiered waiver period could be adopted depending on the severity of the shortfall, and that issuers should be required to provide regular progress updates during the waiver period to maintain transparency.

Question 6.2: Do you agree that the timing-relief waiver should not be available where an issuer has a Significant Public Float Shortfall?

Yes. We agree that waivers should not apply in cases of Significant Public Float Shortfalls, as these pose greater risks to market integrity and investor confidence. Denying waivers in such situations sends a clear message to issuers that maintaining adequate public float is a critical and ongoing obligation.

We also have member views that a very limited waiver period of three to six months could be considered in exceptional cases, provided the issuer demonstrates a credible and detailed restoration plan. In such cases, additional disclosure obligations should be in place to keep investors fully informed of progress.

If there are any questions, please feel free to reach out to [redacted]

Yours sincerely,

For and on behalf of
The Hong Kong Chartered Governance Institute

[redacted]