



Vanguard®

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29 March 2018

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

Re: Emerging and Innovative Companies CP

To be submitted via e-mail to response@hkex.com.hk

**Vanguard's Comments on the Consultation Paper on
A Listing Regime for Companies from Emerging and Innovative Sectors**

Dear Sir/Madam:

Vanguard Investment Hong Kong Limited ("VIHK") and its parent company, The Vanguard Group, Inc. ("Vanguard"), appreciate the opportunity to comment on the Hong Kong Stock Exchange's Consultation Paper on a Listing Regime for Companies from Emerging and Innovative Sectors¹ (the "Consultation Paper"). VIHK and Vanguard support the stated goals of the Consultation Paper to facilitate the listing of companies from emerging and innovative sectors on the Hong Kong Stock Exchange ("HKEx"). That said, we also believe that any such facilitation should respect the rights of all shareholders and should not distort the incentives for investors and companies alike.

Vanguard is headquartered in the United States (in Malvern, Pennsylvania) and it, together with its subsidiaries, manages over US\$5 trillion² in global assets for more than 20 million investors. We offer 388 funds worldwide, with 180 funds domiciled in the United States and 208 funds in other markets around the globe. Vanguard is the world's largest mutual fund provider and the second largest ETF provider in the industry. For more specific information about Vanguard and VIHK, please visit www.vanguard.com and www.vanguard.com.hk respectively.

Vanguard's mission is to take a stand for all investors, to treat them fairly and to give them the best chance for investment success.

Executive Summary

We are pleased to see that the HKEx has taken into account feedback from various stakeholders with respect to the Concept Paper on Weighted Voting Rights ("WVR") issued by HKEx in August 2014. The Consultation Paper has proposed many new requirements and safeguards for listing of WVR companies. While our comments herein will address the safeguards proposed for issuers with weighted voting rights, these comments should not be taken as an endorsement of such structures.

¹ Unless otherwise indicated, the terms used in this letter shall have the same meanings as in the Consultation Paper.

² Data as of 31/01/2018



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Vanguard continues to believe ultimately in the principle of "one share, one vote;" in our view, the alignment of voting influence with economic exposure is a fundamental shareholder right. Likewise, Hong Kong's core values are the rule of law and due process. Currently, the "one share, one vote" principle has been a staple of the HKEx's Listing Rules for decades and should only be amended with great thought and care.

At the same time, we are also mindful of the importance of providing good quality, high growth and "innovative" companies with reasonable access to the public markets. We further acknowledge the importance of maintaining Hong Kong as an international financial center and continuing to attract companies seeking listing on the HKEx in the face of intense competition from other markets. We caution, however, that such developments must not be at the expense of upholding and protecting investors' interests. Given this, the HKEx should ensure any final rules in this space protect the interests of all investors and are in line with the best standards of other international markets.

Despite our concerns with WVR structures generally, if the HKEx were to conclude that they are appropriate under certain circumstances, we believe that they should require a time-defined "sunset provision." Under such a provision, the WVR structure would revert to one share/one vote upon, among the things, the passage of a certain amount of time. This would balance the founder/entrepreneurs' interests in retaining control over the company's early strategy while transitioning influence in proportion with the capital contributions of public owners over time.

We appreciate the opportunity to comment on the HKEx's Consultation Paper and welcome further engagement on the thoughts shared herein.

Specific Comments

Our specific comments on WVR Structures follow:

(a) Sunset Protections

As mentioned above, we believe that the introduction of a time-defined sunset provision will be an important supplement to other safeguards that the HKEx has proposed, including restrictions on transfers, minimum thresholds, and requirements that a beneficiary's WVR fall away if he / she ceases to be a director. Vanguard believes that each of these safeguards plays an important role in balancing and protecting the role of all investors.

(b) Proposed Qualification Requirements

Vanguard commends the HKEx for proposing to retain absolute discretion with respect to the listing of WVR Structures on the Exchange. Such discretion will ensure that only "bona fide" candidates meeting the target profile would be listed. This is an important safeguard the HKEx has put forward as the HKEx serves as a gatekeeper for all the new listing applicants.

(c) Limiting WVR Beneficiaries to Individuals

In terms of the WVR beneficiaries, Vanguard notes that, under the proposal, each WVR beneficiary must have been materially responsible for the company's growth by way of skills, knowledge or strategic directions in circumstances where the value of the company is largely attributable or attached to intangible human capital and the WVR beneficiary must be an individual who has an active executive role and has contributed to a material extent to the ongoing growth of the business and each WVR beneficiary must assume the role of directors at the time of listing. We note that the HKEx is prepared to launch a separate consultation within three months of the implementation of the new Listing Rules to explore the option of allowing corporate entities to benefit from WVR Structures. Vanguard is of the view that WVR beneficiaries should be limited to individuals who could satisfy the above criteria so as not to proliferate the number of individuals and entities that benefit from this uneven structure.



(d) Key Matters to be Decided on a One-share One-vote Basis

While Vanguard believes that one share, one vote should apply to all matters put to shareholder vote, in the absence of such a standard, we support the HKEx's recommendation that certain matters must be decided on a one share, one vote basis and that WVR beneficiaries not be able to exercise WVRs with respect to these matters. Vanguard encourages the HKEx to consider whether any additional transactions, such as a merger or sale of the company, should be expressly included in the list of "fundamental" matters requiring a vote on a one-share one-vote basis.

Conclusion

As noted above, Vanguard believes that HKEx and other exchanges have an important role in ensuring that emerging growth companies have an appropriate environments in which to list publicly. This gives investors of all types appropriate opportunities to both contribute capital to the markets and share in the long-term financial growth of these entities. In doing so however, exchanges must also ensure an appropriate balance between the rights of public shareholders contributing capital to these companies and the visionary founders and entrepreneurs that bring these strategies to the market. We look forward to continuing to engage with both issuers and exchanges to ensure that the long-term financial interests of the millions of clients who entrust their assets to Vanguard are afforded the best chance for long-term investment success.