



**STATE BOARD OF ADMINISTRATION
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March 23, 2018

Via E-Mail: response@hkex.com.hk

Corporate and Investor 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

Dear Sir or Madam:

The State Board of Administration (SBA) of Florida is pleased to provide comments in response to Hong Kong Exchanges and Clearing Ltd.'s (HKEX) Consultation Paper concerning proposed changes to the listing regime. While we strongly support HKEX's desire to encourage public debate about the future of Hong Kong's markets, we disagree with the approach taken on the core analysis. There is currently increased pressure on global index providers to address investor stewardship priorities and concerns about risk concentration in broad market indices, as witnessed in the recent decision of S&P Dow Jones to exclude companies with multiple share classes from joining the S&P 500 Index. In particular, SBA staff believe unequal voting rights diminish accountability and can be detrimental to public markets over the long-term. The industries proposed to receive differential treatment in the consultation are not immune from, and in actuality may be more sensitive to, the increase in risk to investors from altering the ratio of ownership levels and voting rights inherent in "weighted voting right" structures, known also as dual-class (or multi-class) shares. To be clear, the SBA joins with other investors comprising over \$20 trillion in market value in advocating for one share, one vote structures at all of our portfolio companies.¹

The SBA manages the assets of the Florida Retirement System (FRS), one of the largest public pension plans in the United States with 1.1 million beneficiaries and retirees. The SBA's investment and corporate governance activities focus on enhancing share value and ensuring that public companies are accountable to their shareowners with independent boards of directors, transparent disclosures, accurate financial reporting, and ethical business practices. The SBA takes steps on behalf of its participants, beneficiaries, retirees, and other clients to strengthen shareowner rights and promote leading corporate governance practices among its equity investments in both U.S. and international capital markets.

As detailed in the consultation, the HKEX is evaluating the use of WVR for certain new listings. We echo the letters and sentiments from the Council of Institutional Investors (CII) and the International Corporate Governance Network (ICGN), both of which we are members, in asking the HKEX to either refrain from allowing this disconnect between voting rights and ownership, or at the very least require a reasonable sunset provision

¹ See the Investor Stewardship Group principles at www.isgframework.org.

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(of no longer than seven years) for the differential voting rights. If a sunset provision is required, we also strongly urge the adoption of one share, one vote provisions for voting on key matters.

SBA staff believes that reduced listing qualifications related to corporate governance and voting rights, including the allowance of unequal voting rights, would have long-term negative consequences for HGEX, and more importantly for the performance of listed companies and for investment returns. We believe the proposal put forward in this concept paper is narrowly focused on attracting listings in the near-term, and it appears to us that insignificant consideration has been given to the impact that the proposal could have on company performance and investors in the longer-term. Our strong preference is for HKEX to maintain high standards on corporate governance and voting rights.

The SBA appreciates the opportunity to provide input on these substantive issues. Thank you for your consideration, and if you have any questions, please feel free to contact me at [REDACTED] or at [REDACTED]

Sincerely,

[REDACTED]
Michael P. McCauley
Senior Officer, Investment Programs and Governance

cc: SBA Corporate Governance & Proxy Voting Oversight Group