

Allianz Global Investors Asia Pacific Limited

Hong Kong Exchanges and Clearing Limited  
8<sup>th</sup> Floor, Two Exchange Square  
8 Connaught Place  
Central  
Hong Kong

26 May 2020

By email to [response@hkex.com.hk](mailto:response@hkex.com.hk)

**Re: Corporate WVR CP**

To Hong Kong Exchanges and Clearing Limited:

We are writing to respond to the Consultation Paper on Corporate WVR<sup>1</sup> Beneficiaries (CP/the Consultation Paper).

Allianz Global Investors (AllianzGI) is a diversified active investment manager, managing EUR 510 billion<sup>2</sup> in assets for individuals, families and institutions around the world. We invest for the long term across a range of different investment strategies, and pay close attention to growth prospects, return on capital, good governance, market positioning and quality of franchises of companies we invest in. Furthermore, we believe that material environmental and social considerations are critical to the success of a company looking for long-term outperformance. Consistent with our investment philosophy, we engage in dialogue with investee companies. Our investment views are influenced by the outcomes of these engagements and are linked organically to the proxy voting process, forming a consistent stewardship approach.

AllianzGI opposes the introduction of corporate WVRs because we believe that WVRs, whether held by individuals or corporate entities, lead to unfair and unequal treatment of shareholders and represent a significant infringement of minority shareholder rights.

We do not find the rationale for allowing corporate WVR beneficiaries outlined in the Consultation Paper to be convincing, and do not believe that the material risks associated with

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<sup>1</sup> Weighted Voting Right

<sup>2</sup> As at 31 March 2020

Allianz Global Investors Asia Pacific Limited

27th Floor, ICBC Tower

3 Garden Road, Central

Hong Kong

Phone: +852 2238 8888

Fax: +852 2877 2533

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the introduction of corporate WVR structures have been properly addressed in the proposal. We set out our views and concerns associated with the proposal below:

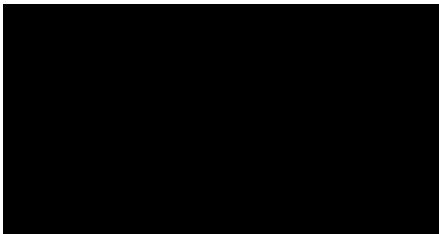
1. Granting WVRs is neither the only nor the most effective way of reinforcing innovative issuers' position in their business ecosystem or of ensuring their access to the benefits provided by the participation of corporate entities in the share capital of these companies.
2. The argument that corporate WVRs would allow HK market to be more diversified and more competitive compared to the US market is based on the assumption that access to corporate WVRs is the only difference between the two markets, which is not the case. Our concern is that the introduction of corporate WVRs will lead to further deterioration of governance standards and practices, thus weakening investor trust in the HK market and making it less attractive for both investors and issuers.
3. We agree that the risks of WVR system outlined in the Consultation Paper are material, and we are particularly concerned about the potential misalignment of interests between WVR holders and minority shareholders, as well the absence of fiduciary duty considerations associated with the former. Unfortunately, we do not believe that the Consultation Paper offers effective solutions to mitigate these risks and address our concerns.
4. We believe that granting corporate WVRs only to "innovative companies" will challenge and threaten the fairness of Hong Kong market; however, broadening the application of WVRs to a larger scope of companies would aggravate institutional investors' concerns. This is another reason for our strong preference of no WVRs for any sector or any company.
5. There is a considerable ambiguity in the proposal as regards how qualitative decisions such as, for example, the determination of the existence of an "ecosystem", would be taken in practice, which we believe will lead to difficulties/challenges in implementation.
6. We would like to see a better design of minority shareholder protections, especially targeting cases where the controlling shareholder also has WVRs and there are concerns over the alignment of the controlling shareholder's interests with those of minority shareholders.
7. As regards the proposed sunset clause, we prefer a shorter period of no more than 5 years and we support a 'hard-stop' for any sunset provision.

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We would also like to voice our support for responses to this consultation submitted by the ACGA<sup>3</sup> and ICGN<sup>4</sup> (AllianzGI is a member for both organisations).

We hope our comments are helpful. Should you have any questions or need further information, please do not hesitate to contact us.

Your sincerely,



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<sup>3</sup> Asian Corporate Governance Association

<sup>4</sup> International Corporate Governance Network

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