

Part B Consultation Questions

Please reply to the questions below that are raised in the Concept Paper downloadable from the HKEX website at:

<http://www.hkex.com.hk/eng/newsconsul/mktconsul/Documents/cp2017061.pdf>

Please indicate your preference by checking the appropriate boxes.

Where there is insufficient space provided for your comments, please attach additional pages.

1. What are your views on the need for Hong Kong to seek to attract a more diverse range of companies and, in particular, those from New Economy industries to list here? Do you agree that the New Board would have a positive impact on Hong Kong's ability to attract additional New Economy issuers to our market?

Please give reasons for your views.

We are a fully owned subsidiary of Huatai Securities, which via its investment banking arm conducts fund raising and M&A transactions for numerous new economy companies both in the PRC and in the offshore markets. Through various dialogues with new economy companies and investors that focus on new economy sector, we understand there is a general consensus that Hong Kong equity capital markets lacks a robust new economy sector both from fund raising perspective and from available investment universe perspective. We believe the New Board proposal, if implemented, will have a very positive impact on Hong Kong's ability to attract additional new economy issuers. Market interests from prospective issuers and investors in such New Board will be strong.

2. What are your views on whether the targeted companies should be segregated onto a New Board, rather than being included on the Main Board or GEM?

Please give reasons for your views.

We are of the view that if WVR structure is permitted for the targeted issuers, they are preferably segregated onto a New Board, for: a) there will be limited rules / regulatory changes for the existing board which is well understood by the market; b) any negative valuation impact (though we do not believe there will necessarily be such negative impact) due to the WVR structure / perceived weakness in corporate governance will be contained in the New Board; c) if any deficiencies are identified after the initial implementation, a separate board will make it easier for both regulators and market participants to adopt further changes.

3. If a New Board is adopted, what are your views on segmenting the New Board into different segments according to the characteristics described in this paper (e.g. restriction to certain types of investor, financial eligibility etc.)? Should the New Board be specifically restricted to particular industries?

Please give reasons for your views.

Compared to the implementation of a New Board, we are of the view that a further segmentation of the New Board is a relatively technical, albeit still important, concern. We do not recommend to over-complicate the board segmentation or listing regime. Market demands are always evolving, and the regulators' anticipation of segmentation may not always be where true market demand it. As such, if further segmentation is adopted, no more than two segments (one with retail participation, and one without for example) shall be sufficient, with segmentation structure further reviewed after the an initial period. However, the implementation of either New Board first (with or without retail participation) would be highly welcomed.

4. What are your views on the proposed roles of GEM and the Main Board in the context of the proposed overall listing framework?

Please give reasons for your views.

We generally agree with the proposed roles of GEM and the Main Board. In fact, we are of the view that the Main Board can potentially be a more "premium" board, as many HK\$500 million range market cap companies are "shell" companies with no real equity financing capability.

5. What are your views on the proposed criteria for moving from New Board PRO to the other boards? Should a public offer requirement be imposed for companies moving from New Board PRO to one of the other boards?

Please give reasons for your views.

We are of the view that for companies listed on a board with no retail participation (as currently proposed for the New Board Pro) to move to a board with retail participation, a public offer should be required, so that there is an instant additional pool of liquidity to enable smooth secondary market trading.

6. What are your views on the proposed financial and track record requirements that would apply to issuers on New Board PRO and New Board PREMIUM? Do you agree that the proposed admission criteria are appropriate in light of the targeted investors for each segment?

Please give reasons for your views.

We generally agreed with the proposed listing requirement. We further hope that if there is regulatory or legal hurdle to implement one of the Boards, this should not prevent the other Board from being implemented first. The implementation of either one board will be highly welcomed.

7. What are your views on whether the Exchange should reserve the right to refuse an application for listing on New Board PRO if it believes the applicant could meet the eligibility requirements of New Board PREMIUM, GEM or the Main Board?

Please give reasons for your views.

Yes, the Exchange should always have certain discretionary power to refuse a listing application, as it does under the current listing regime.

8. What are your views on the proposed requirements for minimum public float and minimum number of investors at listing? Should additional measures be introduced to ensure sufficient liquidity in the trading of shares listed on New Board PRO? If so, what measures would you suggest?

Please give reasons for your views.

We generally agree with the proposed requirement. As for liquidity in New Board Pro, we are of the view that the Exchange's potential arrangement (such as reducing market making cost) to improve liquidity will be helpful. However, the Exchange shall also not be too concerned with the liquidity in professional-only markets. In other such markets, i.e. bond market, market participants will form its own tolerance and mechanism to deal with liquidity or illiquidity.

9. What are your views on whether companies listed on a Recognised US Exchange that apply to list on the New Board should be exempted from the requirement to demonstrate that they are subject to shareholder protection standards equivalent to those of Hong Kong? Should companies listed elsewhere be similarly exempted?

Please give reasons for your views.

According to our discussion with market participants, in particular fund managers, enabling U.S. listing companies to be easily listed in Hong Kong is highly preferred. Certain funds have constraints in their investment mandate that they can only invest in equity listed in Asia, so even stocks such as Alibaba, JD, and Baidu are of very strong investors' interests, these stocks often times cannot be added to investment portfolio of certain Asian funds. Regarding companies listed elsewhere, the interests are not as strong as those listed in the U.S. as we understand.

10. What are your views on whether we should apply a "lighter touch" suitability assessment to new applicants to New Board PRO? If you are supportive of a "lighter touch" approach, what relaxations versus the Main Board's current suitability criteria would you recommend?

Please give reasons for your views.

We are of the view that a "lighter touch" approach is appropriate for a professional-only board. Areas for potential relaxations include: a) non-compliance, new economy companies often operate ahead of the existing legal or regulatory framework. Companies such as Uber and Airbnb cannot operate entirely in compliant with Hong Kong law for example, but are clearly superstars in the new economy sector with valuation of multiple billions of USD. Insisting on the compliance standard similar to that of the Main Board may result in missing out a lot of such listing candidates; b) financial resources / working capital sufficiency / financial performance, the regulators should accept that perhaps a vast majority of such new economies companies will fail within a few years post listing. However, if only a handful companies become the next Google or Tencent, the New Board will more than accomplish its mission.

11. What are your views on whether the New Board PRO should be restricted to professional investors only? What criteria should we use to define a professional investor for this purpose?

Please give reasons for your views.

Overall, we think it is appropriate for the New Board Pro to be restricted to professional investors. The reason is not so much about the unsophistication of retail investors. Many overseas stock exchanges do allow retail investors to participate in those markets with pre-profit companies. However, as the overarching regulatory philosophy in Hong Kong seems have always been to protect retail investors not only against unfair dealing or inadequate disclosure, but also against potentially large financial losses in the context of IPOs, restriction of the New Board Pro to professional investors only is in line with this thinking. The definition of professional investors should be the same as in the current or future professional investor regime for consistency.

12. Should special measures be imposed on Exchange Participants to ensure that investors in New Board PRO-listed securities meet the eligibility criteria for both the initial placing and secondary trading?

☐ Yes

☒ No

Please give reasons for your views.

We don't think it necessary to impose additional restrictions other than those in the current / future professional investor regime under the SFO.

13. What are your views on the proposal for a Financial Adviser to be appointed by an applicant to list on New Board PRO, rather than applying the existing sponsor regime? If you would advocate more prescriptive due diligence requirements, what specific requirements would you recommend be imposed?

Please give reasons for your views.

We agree with the proposal for a Financial Adviser regime rather than a sponsor regime for the New Board Pro, considering a) the board will be professional investors only, b) many of the candidates may be pre-profit, and a listing process under sponsor regime is too costly, c) we advocate for a relaxation of compliance standard as mentioned in the response to Q10, d) we think offering document rather than prospectus standard disclosure is sufficient as mentioned in the response to Q15.

14. What are your views on the proposed role of the Listing Committee in respect of each segment of the New Board?

Please give reasons for your views.

We agree with the proposal.

15. Do you agree that applicants to listing on New Board PRO should only have to produce a Listing Document that provided accurate information sufficient to enable professional investors to make an informed investment decision, rather than a Prospectus? If you would advocate a more prescriptive approach to disclosure, what specific disclosures would you recommend be required?

☒ Yes

☐ No

Please give reasons for your views.

We agree with the proposal, in line with our thinking that a financial advisor rather than a sponsor shall be required for the New Board Pro listing.

16. What are your views on the proposed continuous listing obligations for the New Board? Do you believe that different standards should apply to the different segments?

Please give reasons for your views.

We are of the view that a lower level of continuous listing obligations may be appropriate for New Board Pro listed companies, a level that somewhat between the Listing Rules Chapter 37 requirements for debt securities and the Listing Rules Chapter 13,14 and 14A requirements for Main Board equity securities.

17. For companies that list on the New Board with a WVR structure, should the Exchange take a disclosure-based approach as described in paragraph 153 of this Concept Paper? Should this approach apply to both segments of the New Board?

Please give reasons for your views.

We are of the view that a disclosure based approach is appropriate and sufficient for WVR structure. In fact, valuation of equity involve consideration and evaluation of tens or hundreds of factors with regard to the issuer's business, financial and legal structure, along with the industry and the macro-economic factors, etc. WVR is just one of (and not even the most prominent) the factors that investors need to take into account when valuing a stock. Real-world examples of companies with two classes of equity attached by different voting rights (such as GOOG and GOOG, and BRK.A and BRK.B) traded with slight price differentiation demonstrated that investors are perfectly capable of understanding and valuing voting rights in equity securities.

18. If, in addition, you believe that the Exchange should impose mandatory safeguards for companies that list on the New Board with a WVR structure, what safeguards should we apply? Should the same safeguards apply to both

segments of the New Board?

Please give reasons for your views.

On WVR structure, we do not think additional mandatory safeguard is necessary. Some of the companies with WVR structure, such as Berkshire Hathaway, are of the highest corporate governance standard in the world and have generated phenomenal return to investors. As mentioned in response to Q17, market is perfectly capable of valuing the difference in voting rights.

19. Do you agree that the SEHK should allow companies with unconventional governance features (including those with a WVR structure) to list on PREMIUM or PRO under the “disclosure only” regime described in paragraph 153 of the Concept Paper, if they have a good compliance record as listed companies on NYSE and NASDAQ? Should companies listed elsewhere be similarly exempted?

Please give reasons for your views.

We agree. The exemption of NYSE and NASDAQ shall be sufficient for this stage.

20. What are your views on the suspension and delisting proposals put forward for the New Board?

Please give reasons for your views.

We agree there be continuous quantitative criteria, such as minimum market capitalisation. The rules of suspension and listing shall be clearly set with less discretionary judgement in this regard, to ensure market confidence and transparency.

21. Should New Board-listed companies have to meet quantitative performance criteria to maintain a listing? If so, what criteria should we apply? Do you agree that companies that fail to meet these criteria should be placed on a “watchlist” and delisted if they fail to meet the criteria within a set period of time?

Please give reasons for your views.

We advise care be taken in setting quantitative performance criteria. Amazon has been one of the best performing new economy companies in the U.S. in the past decade, but it has hardly been profitable during most of its operating period. If any performance criteria is set, they should be on market valuation (to take advantage of the market’s power in assessing business viability) rather than performance in the accounting sense. Otherwise, there may be undue incentive for those companies to meet with artificial performance criteria rather than to take a truly long term view to create new economies.

22. Do you consider that an even “lighter touch” enforcement regime should apply to the New Board (e.g. an exchange-regulated platform)?

☐ Yes

☒ No

Please give reasons for your views.

We do not see strong argument for the SFC to refrain from using its enforcement power in the case of New Board.

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