

Hong Kong Exchanges and Clearing Limited
12/F, One International Finance Centre
1 Harbour View Street
Central
Hong Kong

Re: New Board Concept Paper

Hong Kong, 16th August 2017

Dear Madam or Sir,

Many thanks for inviting responses to the New Board Concept Paper. The answers reflect my own view as Fund Manager of the Accudo Asian Value Arbitrage Fund.

As a fund manager, I view voting rights as an extremely important tool to safeguard investor interests. Stripping fund managers off this right will impact their ability to act in the best interest of investors. It is important to remember that controlling shareholders often have incentives that are not aligned with that of minority shareholders and awarding WVR exacerbates that problem.

Before answering the questions I would to highlight that I found them to be based on the unjustified assumption that it is desirable to have companies with WVR listed in Hong Kong and to establish a New Board with 2 additional different segments. This goes completely in the wrong direction and the WVR discussion was already addressed by the SFC in 2015 which concluded that WVR were detrimental to the HK market and to the investing public in general. Something I very much agree with.

Kind regards,



Manuel Schlabbers, CFA
Fund Manager, Accudo Asian Value Arbitrage Fund
CEO, Accudo Capital Limited

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.

No, I do not agree that a New Board would have a positive impact. I strongly believe that Weighted Voting Rights structures would hurt the HK market and that they violate core principles of fairness and transparency as pointed out in the past by the board of directors of the SFC.

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.

As per above answer, there should not be a New Board and ideally the Main Board and GEM should be combined into One Board. A single, improved set of Listing Rules administered by the SFC is the best way forward in my view.

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.

Again, I strongly oppose that a New Board should be adopted. Restricting particular industries to certain market segments with different rules only leads to further fragmentation. As per above, a single, improved set of Listing Rules administered by the SFC is the best way forward in my view.

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.

I do not agree with the basic proposal and hence the proposed roles of GEM and the Main Board are not applicable. As per above, a single, improved set of Listing Rules administered by the SFC is the best way forward in my view.

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.

My view is that there should not be a New Board Pro and hence the question of moving companies from that board to other boards is not relevant. One single Board with a single, improved set of Listing Rules administered by a single regulator (SFC) is the best way forward in my view. The overall listing criteria should be enhanced but should certainly include one vote for one share.

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.

One single Board with a single, improved set of Listing Rules administered by a single regulator (SFC) is the best way forward in my view. The overall listing criteria should be enhanced but should certainly include one vote for one share.

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.

As stated previously I strongly believe there should not be a New Board Pro/Premium so the question is not applicable.

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.

As stated previously I strongly believe there should not be a New Board so the question is not applicable. One single Board with a single, improved set of Listing Rules administered by a single regulator (SFC) is the best way forward in my view.

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.

I do not think that outsourcing regulation to the US and therefore circumventing HK rules is the right approach. I believe that if a company wants its shares traded in Hong Kong and hence targets HK investors then it should be treated equally to all other companies listed in Hong Kong and be governed by an identical set of rules.

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.

I do not think there should be any “lighter touch” suitability assessment for any particular group of companies or for listing on any other board. A single, clear set of rules applicable to all companies is best. Certain onerous listing requirements such as the profit requirement should be eliminated.

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.

No, there should not be a New Board Pro in the first place. A single set of rules governing all listings which should be open to all investors is the best way forward in my view.

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.

No, no special measures should be imposed on Exchange Participants for any sub-set of listings. There should not be a New Board Pro in the first place.

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.

The existing sponsor regime should apply to all listings in my view.

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.

As mentioned previously, I am of the opinion that 1) there should not be separate rules for different boards and 2) that the listing rules should be administered by a Listing Committee under the authority of the SFC.

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.

No, I do not agree. The same requirements should apply to all listings, i.e. a Prospectus. Additional disclosures should include full disclosure of the beneficial owners of counterparties of any notifiable transaction. Often these are hidden behind offshore companies.

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.

No, I do not think that different standards should apply to different segments. A combined set of listing rules for all companies would lead to enhanced corporate governance.

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.

I strongly believe in one vote / one share and agree with the conclusion by the board of directors of the SFC which stated in 2015 that “such a development (of WVR structures) would be detrimental to our markets and the interests of the investing public generally.” Therefore no WVR structures should be allowed.

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.

I do not think there should be any listings on a New Board with WVR structures. Therefore no additional safeguards would be needed.

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.

I do not agree that the SEHK should allow companies with WVR structures to be listed in Hong Kong (neither Premium nor Pro). Also, companies listed elsewhere should follow the Hong Kong listing rules as mentioned previously.

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

Please give reasons for your views.

Again, the same set of rules should apply to all companies. I do not think having a pre-defined share price floor should be one of the suspension / delisting rules. Strengthening corporate governance by tightening the general mandate and ensuring genuinely independent directors would go a long way to improve market quality.

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.

I am not in favour of quantitative performance criteria based on either pre-defined revenue or profits (or minimum stock price levels). However, corporate governance could be strengthened significantly by tightening the general mandate and ensuring genuinely independent directors. In addition, I am in favour of the 2016 proposal by Mr David Webb to introduce a cash shell limit which would prevent listed companies from hoarding excess cash or entering into transactions which would make them cash shells.

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.

No, the SFC should have oversight and the same enforcement regime should apply to all companies.

- End -