

(1) Response is the view of the company

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(2) We **do** wish to disclose our identity to members of the public.

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Greetings:

Bitquant Research Laboratories (Asia) Limited is an angel investor and research consultancy for blockchain and token based investment. We are extremely optimistic about the future of the Hong Kong Special Administrative Region of the People's Republic of China and are excited about the opportunities provided by these new technologies in funding early stage companies. We are seeing that Hong Kong is becoming the world leader in this area, and we are pleased that the Hong Kong Exchange has solicited opinions on the role of the SEHK in funding early stage companies.

Unfortunately, we believe that the New Board as currently proposed will simply be unable to compete with alternative methods of raising capital for new companies such as token based investment, cryptocurrencies, and crowdfunding. Alternative investment mechanisms are providing early stage companies with more capital with less time and expense than a listing on the proposed new board. We are seeing that world of seed-stage capital raising is moving extremely rapidly, and we believe that **the New Board PRO, as currently conceived will be obsolete before it opens**. We believe that instead of creating a conventional board, any New Board will be successful only if structured as an "experimental sandbox" for interfacing new forms of raising capital with traditional forms of raising capital.

We further believe that **the distinction is not between heavy and light regulation, and between effective and ineffective regulation**. We note that token based investments are rapidly evolving new forms of investor participation that create transparency, and that a well-structured chat group in which token issuers are subject to questioning by the entire internet can provide more transparency at lower cost than a preparing a massive prospectus that no one reads.

Given our experience with the world in token based investment, we believe that **it would be a serious mistake for the SEHK to modify its rules to allow for weighted voting rights**. We note that having special shares for founders and insiders is something that is highly frowned upon in token based investing, and that allowing for weighted voting rights is intended to have SEHK accommodate traditional forms of raising venture capital which are fast becoming obsolete. We note that one of the major issues in token based investment is the protection of small outside investors, and that a single class of tokens is something that is something that has become a de-facto standard in this area.

With respect to professional investors, we believe that **the pool of Hong Kong professional investors is not large enough to support a New Board PRO and that to be successful Hong Kong must have Hong Kong professional investor be a global qualification akin to an "investors drivers license"**, and believe that it would be beneficial for Hong Kong provide mechanisms by which any investor worldwide can become a Hong Kong professional investor by demonstrating that they are knowledgeable enough to invest in high risk assets and are willing to take the responsibility of investing in ultra-high risk assets. We believe that this can be done within the existing regulatory structure.

The rise of new forms of capital raising create new opportunities for Hong Kong, and we fully believe that Hong Kong will become the world leader in raising SME-fund raising and the world leader in cryptocurrencies and token based investment. Unlike other jurisdictions, **innovation in the Hong Kong economy is not led by the government or large institutions but rather by small companies or or small groups of individuals**. The role of the Hong Kong government and large institutions such as SEHK is to provide a stable and supportive environment while leaving innovation for small companies and individuals. We note

that Hong Kong has a small but vibrant community of bitcoin and blockchain enthusiasts and it is this community that is leading and will continue to lead financial innovation in Hong Kong.

However, large institutions such as the SEHK are important for taking the innovations and scaling them into the mainstream, and we are happy that SEHK is thinking very carefully about its future role. We believe that Hong Kong has a bright future as the SEHK, the Hong Kong government, and the large banks and major financial institutions will follow the leadership of the bitcoin, blockchain, and cryptocurrency community in Hong Kong in creating financial innovation.

Faithfully yours,

Joseph Wang
Chief Science Officer
Bitquant Research Laboratories (Asia) Limited

Q1. 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?

It is absolutely critical for Hong Kong to attract a diverse set and range of companies here. Hong Kong currently risks becoming a "rust belt" economy as old industries wither and die and the economy stagnates because of the lack of new industries.

While the Hong Kong Exchange is one of the leading exchanges in the world when it comes to large established companies, when it comes to listing newly created companies, the Exchange is a complete disaster. The dysfunctions of the Hong Kong Exchange when it comes to the listing of early stage companies are well known and need not be repeated here.

Thus far the Hong Kong Exchange has survived because it remains a premier center for the listing of established companies seeking global exposure. The successful IPO's on the Hong Kong Exchange have invariably been either established companies in Mainland China seeking to raise capital globally or established Western companies seeking capital from Asia. However, it is clear that the number of such IPO's have reached a limit, and for continued growth, the Hong Kong Exchange and Hong Kong itself must find a way of financing early stage companies.

However, we believe that the New Board will be largely irrelevant as to whether or not Hong Kong can attract new industry and promote innovation. In the next several years, capital raising for new industries will be performed by new technology such as cryptocurrencies and coin offerings. While legacy trading systems will be to manage trading and capital raising for existing companies, they are rapidly becoming irrelevant for new companies and new industries.

We believe that given the well known difficulties of Hong Kong in adapting to new technology, that what is likely to happen is that the New Board will end up being completely obsolete before it is even established, and that early stage companies will find alternative ways of raising capital through new technology, and that when the New Board is established, there will be no interest in listing on the board.

Furthermore, we are concerned that some of the rule changes being considered would adapt the Hong Kong Exchange toward capital raising models which are rapidly becoming obsolete. For example, weighted voting rights are very strongly tied to the current mechanism of venture capital fundraising. In the new system of token based investment, although founders and early backers of a token based investment may receive extra allocations of shares, having a token based investment with a dual-class structure would render it unsaleable, and so the exchange should carefully consider whether such structures would in fact make a listing less attractive in the new world of shareholding.

Within the new world of fund raising and token based investment's, there are some needs that could be met by a New Board. A listing on a special board of the HK exchange could be used as a seal of approval to indicate that a company meets certain standards of corporate governance. A special board of the HK

Exchange could be used as an “experimental sandbox”. However, the New Board must be structured to take into account the new world of capital fund raising to avoid being obsolete before it opens.

Q2: 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?

With the rise of token based investment and new forms of capital raising, it will be extremely difficult to convince early stage companies to list on any traditional exchange rather than raise capital directly from investors through cryptocurrencies. To give an example, our company is currently working with a seed stage company in the process of raising several hundred million USD through a non-security token sale. Within two weeks of an introduction, the company was able to arrange a listing on a token exchange to raise several tens of millions of USD. This compares to months of paperwork and expense in arranging for a listing on SEHK.

One can correctly argue that a listing on an unregulated token exchange does not provide the level of investor protection and transparency that listing on a regulated exchange such as SEHK would. However, it is well known that among SEHK small cap shares there are many zombie and shell companies which have negative reputational value. A private token exchange has a strong incentive to remove any companies with very little trading volume. While listing is a quick and inexpensive process, delisting a token is quickly quick and inexpensive, and as there is intense competition between private token exchanges to provide high quality listings, and this prevents the problem of “zombie companies” which exists in the small cap market in SEHK.

It is our opinion that as the token market matures that we very quickly reach a situation by which new methods of capital raising will be far more attractive to early stage companies than anything is currently envisioned by the New Board. We believe that as currently envisioned the New Board will be completely obsolete before it opens.

Interfacing old and new forms of capital raising will require extensive experimentation and we believe that this would be too disruptive if done on existing boards. SEHK has a very valuable reputation of high quality with respect to large cap established companies, and we believe that it is necessary to maintain stability in that area. The challenge for SEHK is to adapt to new forms of raising capital without losing the advantages of stability and this is why it makes sense to have separate boards. However, any New Board cannot operate simply as a minimum version of the Main Board, but rather as an “experimental sandbox” to test out how to integrate new technology such as bitcoin and cryptocurrencies with existing systems, especially trying to integrate new methods of capital raising with existing structures for investor protection and dispute resolution.

We believe that given the attractiveness of alternative fund raising that it is likely that new companies would not use the PRO board as their main source of fund raising, but would use a listing on the PRO board as a means of providing secondary liquidity while demonstrating that they are subject to transparency and investor protection safeguards.

Q3: 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?

There is no reason for segmenting a New Board across industries, because old industries can use new technology.

Q4: What are your views on the proposed roles of GEM and the Main Board in the context of the proposed overall listing framework?

The Hong Kong Exchange has been highly successful at attracting established companies seeking global exposure. Although those companies remain limited, there are still good growth prospects for those companies, and the Main Board and GEM should continue to function as a destination for those companies. We see no need to change existing listing structures for GEM and the main board. We believe that it would be incorrect as seeing any New Board as a “stepping stone” to the GEM and Main Boards. Rather the New Board should be seen as a “sandbox” where SEHK can experiment with new products, new regulatory structures, and new technology such as blockchain and cryptocurrency.

Q5: 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?

As we see the New Board to be useful as a sandbox for experimentation, we believe that the initially there should be no changes in regulation in the other boards, and that changes only be incorporated as needed. We believe that over the next several decades that the startups that have been financed using new financial technology will greatly transform how existing stock exchanges function.

However, at the current time we believe that it is important to maintain stability in current listing processes, and how companies move from the PRO board to the other boards should be determined at the time that occurs.

Q6. 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?

We note that there have already been several successful token based investment fund raises at the levels required for the PRO market, and we do not see the benefit for small companies to enter the PRO market if they can raise capital with fewer restrictions from alternative mechanisms such as crowdfunding and token based investment's.

We also do not believe that the existing pool of Hong Kong professional investors is large enough to justify a PRO market. For the PRO market to be useful the following steps are essential:

- 1) Use the PRO market as a "seal of approval" that a listed company has undertaken basic corporate governance and due diligence mechanisms. Having a "seal of approval" would allow the company to more easily raise capital using alternative mechanisms such as token based investment.
- 2) Allow the PRO market to include financial products other than equities. In particular, having a standardized convertible bond market would be useful for small companies.
- 3) Broaden the definition of "HK professional investor" to include persons outside of Hong Kong. We believe that it would be possible through existing regulation to turn "HK professional investor" into an "investors drivers license" by which any investor in any part of the world can demonstrate that they have the sufficient financial competency to trade high-risk investment products.

Q7. 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?

We believe that this rule would be counterproductive. If a company is refused listing on the PRO market because they would be eligible to list on the GEM and Main Board, then the company would likely respond by not listing in Hong Kong at all.

Q8. 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?

We believe that it is counterproductive to impose a minimum size for small companies. One benefit of the PRO market is that it would allow professional investors to easily aggregate small investments. We also note that high technology companies in Hong Kong are extremely small, and that any minimum size requirement would likely exclude companies based in Hong Kong, which would have negative effects on the development of the HK high technology market.

There is very strong need for capital raising mechanisms at the small end of the scale, and we believe that the cost and expense of following even minimal due diligence and corporate governance requirements would impose a natural lower bound on the size of the companies.

Q9. 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?

We believe that it would be counterproductive to allow companies listed on a US Exchange to automatically be able to list on the new board. US Exchanges currently allow companies with dual classes of shares to be listed on their exchanges. Given that investors in token based investment's and cryptocurrencies very heavily frown on dual-class share structures, we believe that allowing for these structure would have the effect of reducing share holder confidence with respect to new forms of capital raising.

Q10. 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?

The issue is not light versus heavy but effective versus ineffective. Rather than look at specific suitability criterion, it is necessary to maintain a holistic approach of looking at the total cost in time and money for undertaking a measure versus the actual benefits of that measure in maintaining a vibrant stock market.

We believe that a proper framework would begin with a "resource budget" which would begin with a total amount of time and money necessary to begin an listing and to maintain a listing. Beginning with a "total resource budget" is important because if the cost of time and money exceeds the budget, then the benefits of listing will be smaller than the cost, and quality companies will refuse to list.

Once a total resource budget is formed, then the effort will be to create the maximum amount of investor protection within the limits of the budget.

Q11: 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.

We believe that it is essential that participants in the PRO board recognize that they are trading in high-risk securities, and that people that are not suitable for this are not allowed to trade. However, we do not believe that suitability should be based purely or even mainly on financial criterion. We also believe that the designation of Hong Kong professional investor be considered a global qualification and we would like to introduce the concept of an "investor drivers license"

We believe that the HK professional investor criterion can be turned into an "investor drivers license" can be performed without any changes to existing regulations. Under current regulations, a regulated investment company outside of Hong Kong is deemed to be a professional investor. It is possible for a person living in Hong Kong to set up registered investment advisory company for a state of the United States by undergoing some background checks and taking qualifying examinations without leaving Hong Kong.

Using this current regulation would investors who are qualified to invest in high-risk securities, whether they live in Hong Kong or outside of Hong Kong to participate in the PRO market.

The Exchange may consider other criteria for designating professional investors such as passing a qualifying test that has been created by the Hong Kong Exchange or being a member of a recognized professional organization or angel network.

Q12) 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?

In our “investor drivers license” model, there would be a set of well defined qualifications which a person could use to identify themselves as a professional investor. Exchange participants need only then verify the the authenticity of the qualification to allow trading.

Examples of qualifications include but should not be limited to:

- 1) possession of a qualification such as a brokerage license
- 2) membership in a recognized investment network

We believe that the HK regulators should issue “safe harbour” guidance that would provide clear standards for identifying a professional investor. However, it should be made clear that these criterion are merely “safe harbour” and that additional investors could be considered “professional investors” if given reasonable vetting by Exchange Participants.

Q13. 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?

Whether a financial adviser should be appointed by an applicant will be determined by the cost and time expended in seeking a financial adviser. We believe that the Exchange should set up a target cost and time budget which a prospective company would have to expend to be listed on the PRO exchange, and see that the cost and time expended in setting a Financial Adviser falls within those limits.

We note the specific mechanism for vetting are not important for the success of the PRO board. What is important is the total time and expense of a listing. We note that if a company finds listing on the PRO board to be too expensive both in time and money, that they will simply not do so.

Q14. What are your views on the proposed role of the Listing Committee in respect of each segment of the New Board?

We believe that minimal changes should be made to the procedures in the PRE, GEM, and Main Boards.

With respect to the PRO board, as we have stated, the issue is not specific listing requirements, but the total cost in time and money to undertake a listing. We believe that the Exchange should set a target total time and cost budget and then rigourously monitor these KPI's as well as monitoring effectiveness of the measures. If the extensive review by Listing Committee is required, then the time and money required for the review should be taken from the “listing budget” and some other aspect of the listing process should be streamlined.

We also believe that the PRO board should seek to experiment with combining legacy methods of governance with new forms of token based investment fund raising that would include social media and chat rooms.

Q15) 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?

We believe that the process for providing information to the investor should be streamlined and that there be a set of standard documents provided. We further believe that the amount of time and money necessary to prepare any listing documents be included in the “resources budget.”

We note that in order to conduct a successful token based investment, an early stage company must present a set of documentation to potential investors, and that investors in token based investment's can be highly vocal and critical in reviewing companies.

Q16) 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?

We believe that the continuous listing obligations are reasonable as they do not require large administrative burdens on the company.

Q17) 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?

We do not believe that it is in the interests of the New Board to allow for a WVR structure.

Q18) 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?

We do not believe that it is in the interests of the New Board to allow for a WVR structure.

Q19) 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?

We do not believe that it is in the interests of the New Board to allow for a WVR structure.

Q20) What are your views on the suspension and delisting proposals put forward for the New Board?

The current listing rules have had the unfortunate effect of encouraging the formation of shell companies or zombie companies, and that the main changes in suspension or delisting should be to discourage the formation of these companies. We believe that rather than being seen as extreme disciplinary measures that on the PRO board, delisting be seen as a routine measure that can be taken by companies as a matter of course.

We believe that the PRO board should have automatic sunset provisions, and if a company does not file the necessary documentation that they automatically be removed from the PRO board. We also believe that companies should be **encouraged** to remove themselves from the PRO board in cases where they believe that it was in the interest of the company, and that the HK Exchange should provide a mechanism by which a company that has removed itself from the PRO board can receive a letter from the HK Exchange which would serve as an “honourable discharge.”

The reason that we believe that delisting from the PRO board should be a routine process to be taking without stigma is that difficulties in delisting encourages the creation of “shell companies” whose only economic function is to gain access to the HK Exchange. We therefore believe that by creating an “honourable exit” companies that find a listing to be no longer useful can remove themselves thereby preventing the formation of “zombie companies.”

Q21) 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?

Within the context of the PRO board.

We do not believe that there should be fixed quantitative performance criterion. Rather we believe that the exchange should set up continuous reporting and disclosure requirements within a framework of a “total time and expense budget.” Companies that do not see the total cost of compliance to beneficial to them should be allowed or even encouraged to seek an “honourable exit.”

Q22) Do you consider that an even “lighter touch” enforcement regime should apply to the New Board (e.g. an exchange-regulated platform)?

We believe that the issue is not “light” versus “heavy” but “effective” versus “ineffective.”

Small companies have extremely limited resources, and an enforcement structure that creates excessive regulatory cost makes a listing impractical. We believe that in dealing with early stage companies, the exchange should set target cost objectives for setting up a listing and maintaining a listing, and then seek to have the most effective enforcement mechanism within that budget.

We believe that the current enforcement mechanism for early stage companies is extremely ineffective because it does not create a vibrant equity market while imposing large costs. We note that small companies are looking deeply at token based investment's and cryptocurrency fund raising, because the costs are lower, while mechanism to prevent fraud and increase investor transparency are currently being developed.