

18 August 2017

[REDACTED]

## Views on the Proposed New Board

### BACKGROUND

1. Hong Kong Exchanges and Clearing Limited (HKEx) has issued a Concept Paper to seek public feedback on the proposed New Board, which aims to enhance Hong Kong's ability to attract companies from New Economy sectors, as well as further strengthen Hong Kong's position as international financial centre.
2. [REDACTED] is building a strong and supportive innovation and technology ecosystem in Hong Kong. [REDACTED] jointly announced the launch of the [REDACTED] platform, a move that further strengthens Hong Kong as a technology investment hub, aiming to attract a more diversified range of companies and, in particular, those from local and overseas New Economy sectors to list in Hong Kong.
3. As a key stakeholder in the innovation and technology ecosystem, [REDACTED] has organized a series of consultation roundtables with various investors and potential issuers. Their comments, together with [REDACTED] views, are summarized in the Questionnaire (Annex 1). The key messages are highlighted below.

### NEW BOARD

4. We welcome the establishment of the New Board in view of its positive impact on Hong Kong's ability to add New Economy issuers to our market. The New Board serves the needs of a wider range of companies by attracting and accepting issuers who currently do not meet HKEx's listing requirements, such as early stage/pre-profit companies, issuers with WVR structure, to Mainland companies that are listed on other robustly regulated international exchanges. More importantly, it helps to encourage investment in innovation and technology, and establish a vibrant ecosystem for the New Economy in Hong Kong.
5. The New Board is established to bring the New Economy industries to Hong Kong's capital market. The term "New Economy", however, needs to be defined explicitly, precisely and comprehensively through public consultation. Moreover, as New Economy industries are likely to evolve over time, it is important to set up a mechanism for selecting members of the Listing Committee in order to attain the appropriate composition of expertise and to ensure that each member is knowledgeable in the market under his or her purview.

6. Market liquidity is an important consideration of investors and issuers. In order to increase the liquidity, market maker mechanism may be brought to public discussion. Furthermore, both the profiles of investors and the qualities of issuers could also influence the development of New Board PRO. The success of the New Board depends on (i) the participation of venture capitalists because of their long term involvements, wide spectrum of domain knowledge, investment expertise, etc. as well as (ii) the regulatory framework and its enforcement that assure the qualities of listed companies on an on-going basis.
7. The New Board can provide New Economy companies with a new fundraising platform and encourage listing of early-stage/pre-profit companies and WVR structured companies in Hong Kong. In this connection, carefully designed and implemented listing criteria need to be reviewed to help clearly differentiate the positioning of the GEM Board, New Board PRO and Private Market. For example, market capitalisation requirement of HK\$200 million on New Board PRO versus HK\$150 million (*lower than that of New Board PRO*) on GEM Board may require further consideration, given the New Board PRO and GEM Board target early stage/pre-profit companies and established SMEs respectively.
8. Listing cost is certainly one of the key considerations when issuers decide whether and where to be listed, thereby affecting the attractiveness of the New Board PRO. It is estimated that approximately over 75% of total listing cost is on underwriters' fee and professional fee while the exchange fee takes only below 5% of the total costs. HKEX should consider how to govern the charges from the underwriters and professionals, in order to strengthen the competitiveness of the New Board PRO.

## **PRIVATE MARKET**

9. We welcome the establishment of Private Market. Our understanding is that it is a platform set up for early stage companies and their investors, in two phases. Phase 1 is to provide a share registration and transfer platform based on blockchain technology so they can conduct pre-IPO financing and other activities on an off-exchange venue not under the regulatory remit of the Securities and Futures Ordinance, and in Phase 2, to conduct matching and trading on the Private Market. We understand Phase 1 will be launched in 2018, and urge HKEx to launch Phase 2 in the near future. [REDACTED] plays a key role in providing companies to participate in the Private Market.
10. From our experience, technology companies are usually reluctant to disclose their books and business details to others before meeting potential investors, and investors are reluctant to disclose their investment transaction details to the public. Moreover, as block-chain is inherently resistant to modification of the data, we would recommend the operating rules and mechanism of Private Market be carefully designed and widely consulted to ensure buy in from the key stakeholders.

## **FUTURE DEVELOPEMNT OF INNOVATION AND TECHNOLOGY ECOSYSTEM**

11. Among the many key elements that help to transform technology startups into true global technology giants, investment undoubtedly plays one of the biggest roles in startups' development. The continuous development and thus, success of Hong Kong's innovation and technology ecosystem, however, require the support from all stakeholders, including full interaction and collaboration among the Government, Industry, Academia and the Research sectors. In this regard, [REDACTED] plays a key role in connecting all stakeholders for New Economy development in Hong Kong and looks forward to working more closely with HKEX and to foster the New Board and Private Market development as well as the entire eco-system.
- [REDACTED]

## **Annex 1**

### **Questionnaire on the New Board Proposal**

## 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.

As indicated in the Concept Paper, companies from New Economy industries listed on HK market is incredibly small, which only makes up 3% of our total market capitalisation in the past decade, there is an urgent need for HK to diversify the range of companies to New Economy.

We agree that the New Board would have a positive impact on Hong Kong's ability to add New Economy issuers to our market. New Board serves the needs of a wider range of issuers by accepting and attracting some issuers who currently does not qualify to list in Hong Kong regime, from Pre-profit companies, issuers with WVR structures to Mainland companies that are listed on the international exchanges. More importantly, it is a good opportunity to establish an ecosystem for New Economy, and to encourage investment in R&D, innovation and technology.

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.

It is important for targeted companies to be segregated onto a New Board PREMIUM, rather than being included on the Main Board . It can attract more Mainland or Overseas New Economy companies listed in Hong Kong without affecting the quality of Main Board. New Board PREMIUM can offer New Economy companies a venue that provides an alternative to the rules and regulations of our existing Main Board.

We think the positioning of Private Market, GEM and New Board PRO could be confusing in the future. In this connection, carefully designed and implemented listing criteria can help issuers to differentiate the positioning of GEM Board, New Board Pro and Private Market. For example, market capitalisation requirement of HK\$200 million on New Board Pro versus HK\$150 million (lower than that of New Board Pro) on GEM Board may require further consideration, given the New Board Pro and GEM Board target early stage/pre-profit companies and established SMEs respectively.

In addition, some investors may have reservation on the necessity to create the New Board PRO, and have the view that it might be simpler to enhance quality and competitiveness of Hong Kong capital market by expanding Private Market and revamping GEM.

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.

To cater New Economy companies at different stages and with different equity governance structures, segmenting the New Board is considered reasonable, i.e. New Board PRO targets at earlier stage New Economy companies that do not meet the financial or track record criteria for Main Board. New Board PREMIUM targets at well-developed New Economy companies from mainland or overseas that have non-standard governance structures.

Echoing with the need to attract New Economy industries to our capital market, the New Board is better positioning itself as a board for specific industries. It is crucial to clearly define New Economy. The definition of New Economy in Concept Paper may not be precise and comprehensive enough. As industries under New Economy are likely to evolve over time, it is important to set up a mechanism for selecting members of the Listing Committee in order to attain the appropriate composition of expertise and to ensure that each member is knowledgeable in the market under his or her purview.

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.

It is proposed that GEM becomes a stand-alone SME board with no streamlined transfer process. In other words, it might no longer be the stepping stone to Main Board. Given the proposed tightening in GEM's listing requirements and the potential competition between GEM and New Board Pro, the attractiveness of GEM is likely to be further weakened.

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.

There should be no fast-track migration mechanism for companies moving between the New Board and the Main Board or GEM, or from New Board PRO to New Board PREMIUM. It is necessary for companies to meet all the admission criteria and other listing requirements of the relevant board if they want to raise more capital in other boards.

However, we suggest that HKEX should introduce an effective mechanism for moving board. Once the listed company has fulfilled the requirements, it can move into another board without doing IPO. One of the obstacles for New Economy companies in moving from the New Board PRO to New Board Premium is the high cost involved in listing.

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.

The proposed requirements for New Board PRO (no financial and track record requirements, except for market capitalisation) is in line with LSE's AIM and Singapore's Catalist and considered reasonable. An expected minimum market capitalisation of HK\$200 million is achievable for pre-profit / early stage companies. From the investors' angle, they might not wish to invest in companies smaller than the said market capitalisation due to liquidity and risk considerations. HK\$200 million market capitalisation requirement is, therefore, considered appropriate.

If New Board PREMIUM and Main Board are both positioned as the "Premier" boards but for companies in different industries and/or with different equity governance structure, they are expected to have the highest financial requirements. To avoid confusion, they may adopt the same financial and track record requirements.

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.

The Exchange should reserve such right as different boards have different positions and targeted issuers. That being said, there should be little incentive for well-developed issuers to list on New Board PRO which is not opened to retail investors.

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 have no comment on the minimum public float as it is the general practice of the Main Board. We understand it aims to help ensure adequate liquidity by regulating minimum number of investors at listing. It is reasonable for New Board PREMIUM to have at least 300 investors at the time of listing as it is same as the Main Board. However, it may be too difficult for New Board PRO to have a minimum of 100 investors at the time of listing. As an example, for 100 investors to take up HKD50million (25% of minimum market capitalization of the minimum market capitalization of HKD200m for New Board PRO), each investor invests only HKD500,000, an amount considered to be "small" for professional investors. We suggest decreasing the minimum number of investors in New Board PRO.

In order to increase the liquidity, market maker mechanism may be brought to public discussion. Furthermore, both the profiles of investors and the qualities of issuers could also influence the development of New Board PRO. The success of the New Board depends on (i) the participation of venture capitalists because of their long term involvements, wide spectrum of domain knowledge, investment expertise, etc. as well as (ii) the regulatory framework and its enforcement that assure the qualities of listed companies on an on-going basis.

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.

Having considered the robust regulatory environment in place in the US, the proposed exemption is reasonable. This exemption simplifies the listing procedure and saves listing costs for reputable US companies if they wish to list on New Board while maintains an appropriate level of investor protection.

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.

The “lighter touch” approach is supported in the view that assessing early stage / pre – profit companies on criteria such as the sustainability of business model and major customer(s) may not be appropriate. Unlike established companies, the business model and customer base of these fast growing New Economy companies could change dramatically. The suitability assessment to these companies should also be flexible enough to cater for different situation.

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.

Professional investors should be better placed than the retail investors to carry out fundamental analysis on securities listed on New Board PRO. In view of the extra risk associated with the early stage / pre-profit New Economy companies, New Board ,PRO should target at professional investors.

We consider that it is appropriate to adopt the definition of professional investors in the existing rules, i.e. Cap 571D - Securities and Futures (Professional Investor) Rules.



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.

Gatekeeper is needed for ensuring the investor eligibility meets the standard of professional investor under the SFO. Exchange Participants are in a good position to understand their investor profile along with their KYC procedure. Special measures should, therefore, be imposed on Exchange Participants.

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.

Due to the high standard of care expected from sponsors, the sponsor's due diligence process can increase significantly to the time and costs involved in listing. For New Board PRO, Financial Adviser licensed for Type 6 is considered sufficient. Financial Adviser can exercise their professional judgement as to what due diligence is appropriate, in particular, for ensuring that the Listing Document provides accurate and sufficient information to enable professional investors to make a sensible investment decision. It is equally important for Financial Advisers to equip themselves with understanding in New Economy.

Listing cost is certainly one of the key considerations when issuers decide whether and where to be listed, thereby affecting the attractiveness of the New Board Pro. It is estimated that approximately over 75% of total listing cost is on underwriters' fee and professional fee while the exchange fee takes only below 5% of the total costs. HKEX should consider how to govern the charges from the underwriters and professionals, in order to strengthen the competitiveness of the New Board PRO.

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.

It is important to clarify and understand the term of reference of the Listing Committee and Listing Department. The Listing Committee plays a significant role in the New Board as it handles the approval for listing application as well as to make decisions on cancellation of listings, disciplinary matters and be responsible for hearing appeals for both segments. Moreover, Listing Department is equally important to New Board PRO because it can handle the New Board listing applications and approvals in a faster way through reporting to the Listing Committee. The members of the Listing Committee should be knowledgeable about the New Economy markets and trends.

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.

I do 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. Owing to the prescriptive nature of the contents of a Prospectus and high standards of disclosure, the time and cost of preparation can be significant. An issuer is only required to prepare a less prescriptive Listing Document that contains all material information that would be required by a professional investor in order to make a sensible investment decision.

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.

For New Board PRO, it should follow most of the proposed continuous listing obligations except for independent non-executive director representation as it may be difficult and costly. This continuous listing obligation also imposes restrictions on listed companies, to some extent, at the expenses of management flexibility.

For New Board PREMIUM, the proposed continuous listing obligations, which is in line with Main Board, are considered reasonable.

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.

Companies with WVR structure should prominently disclose details of their equity structure and the risks associated with the structure. Reference could be taken from the Mainland Exchange such as ChiNext and NEEQ, which have greater emphasis on post-listing information disclosure. In addition, other matters, such as the identities of WVR holders, their voting activities and the details of any transfers of WVR are recommended to be disclosed for better investor protection and corporate transparency. Same approach should apply to both New Economy Pro and Premium.

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.

In view of the risk associated with WVR structure, it is believed that mandatory safeguards should be imposed on companies with WVR structure, e.g. (1) minimum equity holding requirement; (2) restrictions on the transfer of WVR to other persons and (3) "sunset clause". Same approach should apply to both New Board PRO or PREMIUM.

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.

The regulatory framework protecting large institutional investors in the US capital market also follows a "disclosure-led" approach, whereby so long as investors are given full information, there is a high degree of flexibility in the governance that a listed company can choose to adopt. It would be more flexible and easier for reputable overseas issuers to list on New Board.

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

the New Board?

Please give reasons for your views.

As a continuous monitoring of listed companies, the suspension and delisting proposals are considered necessary and appropriate. More importantly, we agree that the suspension and delisting requirements for New Board Premium should be in line with that of the Main Board to avoid public confusion, given that both of them are positioned as the “Premier” board of HKEX.

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.

Requiring New Board-listed companies to meet certain quantitative performance criteria, such as share price, transaction volume, free flow, market capitalization, etc., can not only maintain a healthy capital market, but also drive the growth of these companies continuously. With the same rationale, we agree that companies failing to meet such criteria should be placed on a “watchlist” and be delisted in case they are not able to rectify the situation over a specified period of time. Continuing quantitative listing criteria would help to improve market quality by decreasing the possibility of such companies becoming “shells” and facilitating the removal of poorly performing companies.

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.

Under Q.10, the “lighter touch” approach in suitability assessment to new listing applicants is supported. We, however, have reservation on an even “lighter touch” enforcement regime depending on how relaxing it will be.

- End -