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**BY HAND AND BY EMAIL**

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

Dear Sirs,

**New Board Concept Paper**

Ernst & Young is pleased to respond in this letter to the request of Hong Kong Exchanges and Clearing Limited ("HKEx") for feedback on the proposed establishment of a New Board.

As stated in the concept paper, in its paper *Positioning Hong Kong as an IPO Centre of Choice* issued in June 2014, the Financial Services Development Council advocated that, through a segmented approach, Hong Kong should seek to better accommodate the needs of different types of issuers: "Appropriate segmentation should be considered as one possible way to open up the market to investors with different risk appetites and issuers with different profiles. In particular, differentiation of the market according to the level of investors' experience and risk appetite will allow reputable large-cap companies to list with more compliance flexibility, as well as offering an opportunity to companies with small capitalisations which do not fulfill the general listing requirements to consider Hong Kong as a listing venue."

We welcome the HKEx's initiative to review its market structure periodically and revise it when necessary. We are supportive of the HKEx's objectives to widen access to capital markets by opening up to a more diverse range of companies, so as to better serve investors as well as potential issuers, and to enhance Hong Kong's competitiveness as a global financial centre.

The HKEx has also issued the Consultation Paper on Review of the Growth Enterprise Market (GEM) and Changes to the GEM and Main Board Listing Rules ("GEM Consultation Paper") which, together with the captioned concept paper, forms a holistic review of the Hong Kong listing framework. We have also responded to the GEM Consultation Paper and would like the HKEx to consider our responses to both papers holistically.

We would like to share with you the following observations and comments:

**Action needs to be taken to attract quality high-growth companies**

We note that the intention of the New Board proposal is to attract more high-growth companies from innovative sectors, in particular New Economy companies. We agree that HKEx should diversify the Hong Kong markets by attracting more quality high-growth companies, including pre-profit companies, to list in Hong Kong. We observe that it is hard to define New Economy and New Economy companies may become "old economy" companies soon after their listing in this fast changing world.

We do not have a strong view on whether the companies targeted by New Board PRO and New Board PREMIUM should be segregated onto a New Board, or be included on the Main Board or GEM as a separate segment. The proposal to restrict New Board PRO to professional investors may or may not achieve the HKEx's objectives because of the practical difficulties to restrict secondary trading among professional investors only. Liquidity is another key issue contributing to the success of any market. We note that the HKEx consulted the market in 2006 on the introduction of market making during the discussions about repositioning GEM. The regulators may consider adopting the practice governing market makers/liquidity providers in some of the other established markets like AIM.

**Companies with non-standard governance structures**

We agree that the HKEx should ensure that its listing regulations are competitive amongst its international peers by allowing the listing of companies with non-standard governance structures, including weighted voting rights ("WVR") structures. In the event that HKEx permits WVR structures, appropriate safeguards should be put in place to ensure that the principle of sufficient investor protection is not compromised, and such permission should be restricted to new listing applicants only.

The proposed concession for companies listed on the New York Stock Exchange or NASDAQ Stock Market require careful consideration. Whilst this proposal may attract certain target companies listed in the United States to dual list in Hong Kong, the HKEx should address issues arising from the proposed special treatment: for example, whether the proposed concession will fall away in situations where such companies subsequently delist in the US; and whether a level-playing field should be put in place for companies listed in other recognised overseas exchanges.

**Investor protection and corporate governance standards**

We agree that any proposal must be considered in the context of effective investor protection and robust corporate governance standards.

Apart from putting in place safeguards for companies with WVR structures, any "lighter touch" suitability assessment to new applicants to New Board PRO should not compromise corporate governance standards or increase regulatory burden post-listing. In particular, suitability factors such as suitability of directors/controlling shareholders and non-compliances should not be relaxed.

From a macro perspective, we are of the view that the Hong Kong market will benefit in the long term from striking the right balance between the hurdles of initial listing and the effectiveness of investor recourse against corporate wrongdoing.

Should you have any questions on the above comments, please do not hesitate to contact our Professional Practice Partner in Hong Kong, Mr. Paul Hebditch, on [redacted]

Yours faithfully,

[redacted]

*Certified Public Accountants*
Hong Kong