

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/mkticonsul/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.

It is observed that although GEM targets to attract companies of an "emerging nature" with less stringent listing requirements, the listing of New Economy Companies is relatively little, because (1) issuers with WVR structure are not accepted at the moment; and (2) HK's technology sector investment ecosystem is less mature when comparing with that in the US and UK. We believe that the proposed New Board may provide an attractive choice for New Economy issuers, in particular, issuers with WVR structure and therefore may accelerate the growth of New Economy investment ecosystem that drives Hong Kong to be the No.1 in Asia in terms of Startup Economy.

One of HKBAN's members opines that, on top of the New Board Pro, efforts should be focused on executing the Private Market Board. It is observed that companies remain private for a longer period than before, as a result of (i) increasing private capitals; and (ii) new alternative funding sources such as crowdfunding and initial coin offering. Furthermore, most startups regard M&A as preferred exit because of cost consideration, when it is compared with listing. The Private Market Board should become an innovative platform for startups, in the future. The New Board Pro should simply mirror the GEM Board except for allowing New Economy startups and the New Board Premium should be abandoned.

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.

A carefully designed and implemented New Board can provide New Economy companies with a fundraising platform offering alternative listing rules and regulations from our existing Main Board and GEM. This encourages listing of early-stage/pre-profit companies and WVR structured companies in HK while minimizes the uncertainty that may bring to the existing Main Board and 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 definite New Economy. The definition of New Economy in Concept Paper may not be comprehensive enough as industries under New Economy are likely to evolve over time. We suggest reviewing the definition on a yearly or biyearly basis.

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.

If from the angle of investor/shareholder protection and thus, healthy development of HK's capital market, there should not be fast-track for companies moving from New Board Pro to the Main Board or GEM, or from New Board PRO to New Board PREMIUM. It is necessary for the companies to fulfill all admission criteria and listing requirements of the relevant board if they wish to be listed in another board. However, this would likely weaken the attractiveness of New Board PRO. We believe that the criteria for companies moving between the Boards require further discussion.

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. Avoid complication, 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.

25% minimum public float, which is also the practice of the Main Board, is considered appropriate for the New Board.

As regards to the minimum number of investors at listing, we understand that it aims to ensure adequate liquidity. It is reasonable for New Board PREMIUM to have at least 300 investors as that applies to Main Board. However, it may be too difficult for New Board PRO to have a minimum of 100 investors at the time of listing. We suggest to reduce the minimum investors in New Board PRO, maybe, to 50. To increase liquidity, a market maker mechanism may be brought to public discussion.

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 procedural 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.

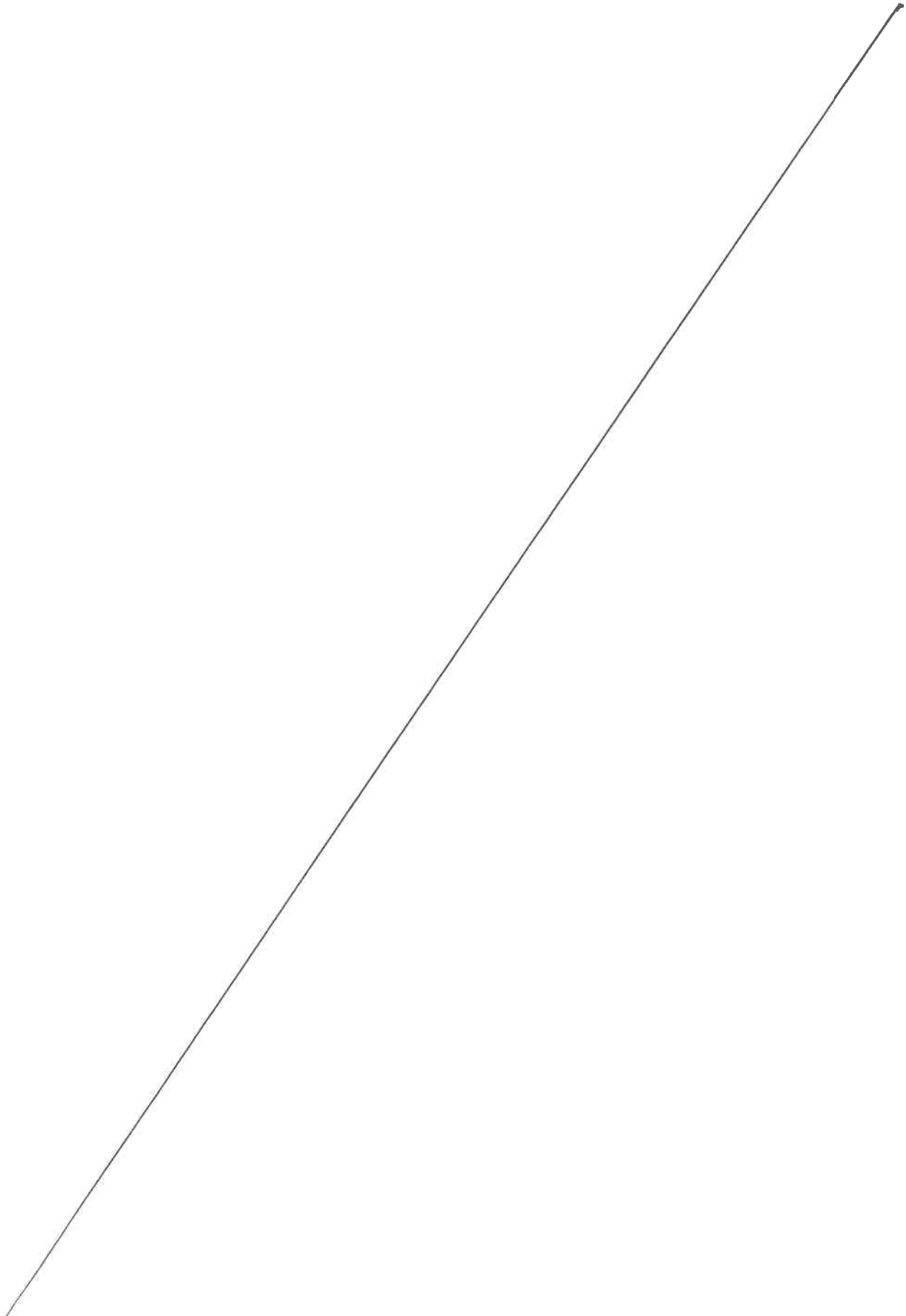
The “lighter touch” approach is supported in the view that assessing early stage / pre – profit companies on criteria such as the sustainability of business model and major customer(s) may not be appropriate. Unlike established companies, the business model and customer base of these fast growing New 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?

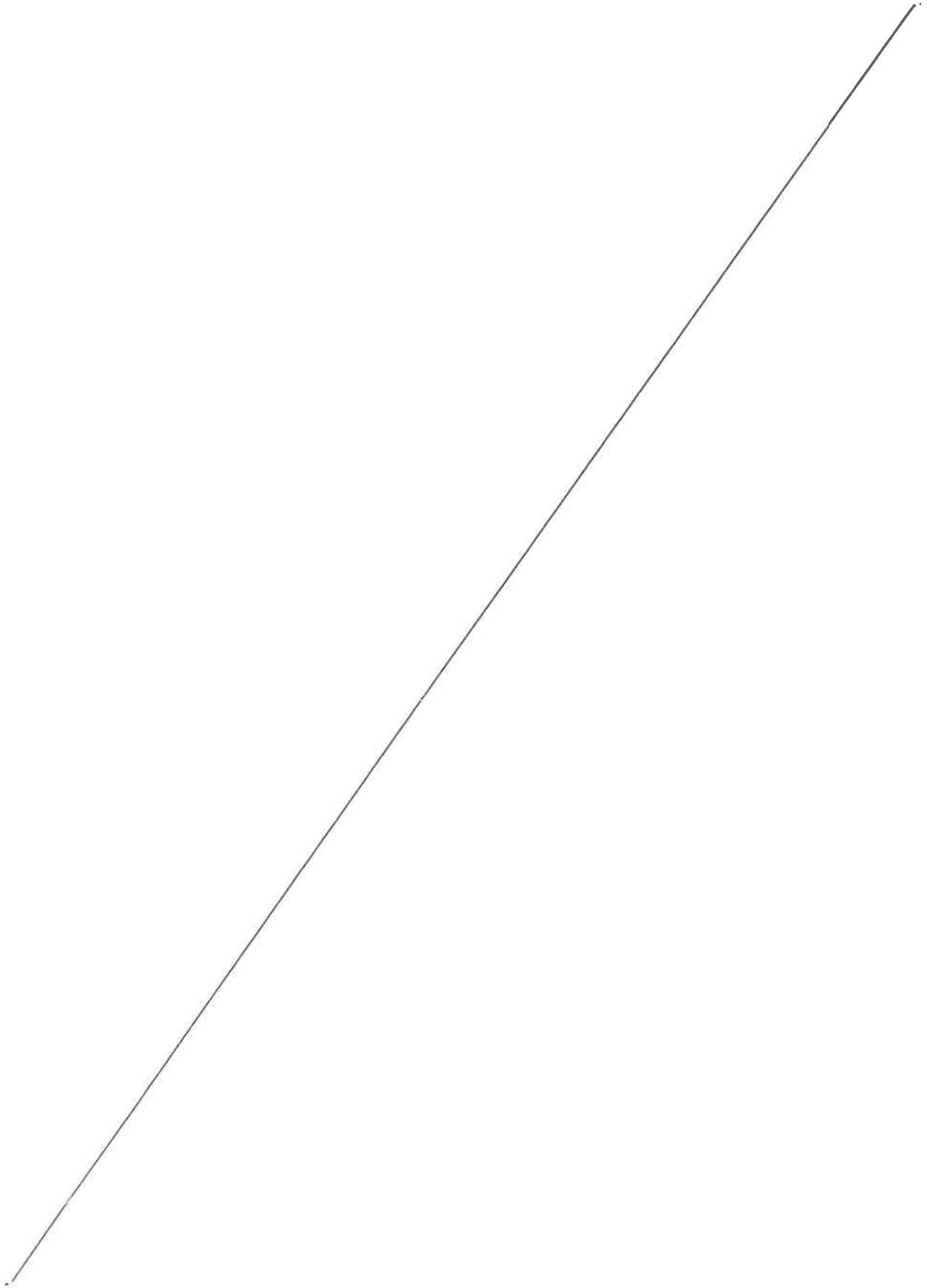
Please give reasons for your views.

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 an informed investment decision. It is equally important for Financial Advisers to equip themselves with understanding in New Economy.

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.

The listing committee plays an important role in the New Board as it is responsible for the approval of listing applications, the cancellation of listings, disciplinary matters and hearing appeals for both segments. The Listing Department, which is delegated from the Listing Committee can expedite the New Board listing applications and approval procedures under the supervision of Listing Committee.



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.

Owing to the prescriptive nature of the contents of a Prospectus and high standard of disclosure, the time and cost for preparing a Prospectus can be significant. Requirements for applicants to New Board PRO may be relaxed, applicants only need to produce Listing Document consisting of accurate information which is sufficient to enable professional investors to make an informed investment decision, rather than a Prospectus.

One of HKBAN's member expressed the opinion that a Prospectus is important but it might be subject to more relaxed disclosure requirements.

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; (3) "sunset clause" and (4) other relevant guidelines in the US market. Same approach should apply to both New Economy Pro and Premium Board.

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. We also agree that the proposed automatic delisting rules for New Board Pro should be stricter than that for New Board Premium due to their risk levels (i.e. continuously suspension for 90 days under New Board Pro vs 6 months under New Board Premium). More importantly, 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.

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 would it be.

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