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August 18, 2017

Via E-Mail: response@hkex.com.hk

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

Re: New Board Concept Paper

Dear Sir or Madam:

The State Board of Administration (SBA) of Florida is pleased to provide comments in response to Hong Kong Exchanges and Clearing Ltd.'s (HKEX) New Board Concept Paper setting forth proposals for the establishment of a new listing board. While we strongly support HKEX's desire to encourage public debate about the future of Hong Kong's markets, we disagree with the approach taken on the core analysis used to support the New Board recommendations. There is currently increased pressure on global index providers to address investor stewardship priorities and concerns about risk concentration in broad market indices, as witnessed in the recent decision of S&P Dow Jones to exclude companies with multiple share classes from joining the S&P 500 Index. In particular, SBA staff believe unequal voting rights diminish accountability and can be detrimental to public markets over the long-term.

The SBA manages the assets of the Florida Retirement System (FRS), one of the largest public pension plans in the United States with 1.1 million beneficiaries and retirees. The SBA's investment and corporate governance activities focus on enhancing share value and ensuring that public companies are accountable to their shareowners with independent boards of directors, transparent disclosures, accurate financial reporting, and ethical business practices. The SBA takes steps on behalf of its participants, beneficiaries, retirees, and other clients to strengthen shareowner rights and promote leading corporate governance practices among its equity investments in both U.S. and international capital markets.

As detailed in the New Board Concept Paper, the HKEX is evaluating the introduction of a new listing venue to accommodate a wider range of companies that do not currently qualify for listing with HKEX. These companies include companies with "non-standard" governance features, such as non-profitable companies and Mainland Chinese companies that wish to secondarily list in Hong Kong. The purpose of the new venue, called the New Board, would be to segregate newly eligible listings from Hong Kong's two existing boards: the Main Board and Growth Enterprise Market (GEM), created during the tech boom of the 1990s. As proposed, the New Board proposal is divided into two segments. New Board PRO would be open only to professional investors and listings would be targeted to early-stage companies that do not meet financial or experience criteria for GEM or the Main Board. New Board PREMIUM would be open to both professional and non-professional investors. It would target companies for listing that would otherwise have qualified for listing on a traditional HKEX board, except for having non-standard governance practices.

SBA staff is opposed to the New Board proposal. Over the long-term, such proposals for weakened governance practices and investor protections are likely to undermine the basis on which HKEX has become “highly successful” as a “leading IPO venue,” as the Concept Paper describes. SBA staff believes that reduced listing qualifications related to corporate governance and voting rights, including the allowance of “equity” with unequal (or “weighted”) voting rights, would have long-term negative consequences for HGEX, and more importantly for the performance of listed companies and for investment returns. The new board may be appealing to managers who wish to access public markets while creating mechanisms to insulate themselves from accountability to public shareholders. The Concept Paper correctly draws attention to the role that more pro-active and efficient delisting practices could have in safeguarding the Hong Kong market. We believe this is an important and productive mechanism to address if the goal is to enhance the vitality of Hong Kong’s markets. SBA staff recommends HKEX work to strengthen listing standards for public companies.

We suggest evaluating the New Board proposals against broader investor, strategic, and regulatory trends that will likely shape how the proposed boards might perform over the long-term. This would seem prudent as HKEX’s experience with the underperforming GEM market, which was specifically designed to cater to higher risk companies, highlights how over-reliance on narrow listing considerations can miss powerful market realities. Indeed, the long-term valuation dynamics of the Main Board and the trajectory of China’s market development, including the suitability for weighted voting rights for Chinese enterprises, arguably play a more material role in defining Hong Kong’s competitiveness as a listing venue than the specific structure of the listing regime.

As such, the proposal may succeed in attracting additional listings in the near-term. Fallout from lack of accountability is likely in the longer-term to harm investors, as well as the reputation of HGEX as an IPO listing venue, notwithstanding the attempt to compartmentalize low standards through use of a third board. We believe the proposal put forward in this concept paper is narrowly focused on attracting listings in the near-term, and it appears to us that insignificant consideration has been given to the impact that the proposal could have on company performance and investors in the longer-term. Our strong preference is for HKEX to maintain high standards on corporate governance and voting rights.

The SBA appreciates the opportunity to provide input on these substantive issues. Thank you for your consideration, and if you have any questions, please feel free to contact me at [REDACTED]

Sincerely,

[REDACTED]
Michael P. McCauley
Senior Officer, Investment Programs and Governance

cc: SBA Corporate Governance & Proxy Voting Oversight Group