11 May 2026

Hong Kong Exchanges and Clearing Limited
8th Floor, Two Exchange Square
Central, Hong Kong

[redacted]

Subject: Response to Consultation Paper on Listing Framework Competitiveness Review

Dear Sir/Madam,

The Asian Corporate Governance Association (ACGA) is a non-profit membership organisation chartered under the laws of Hong Kong and founded in 1999. We conduct research on corporate governance and ESG in 12 markets in Asia-Pacific and advocate at the regulatory and corporate levels across the region to improve standards and practices. Our operations are supported by a network of 105 organisations, 80% of which are institutional investors with aggregate assets under management exceeding US$40 trillion.

We welcome the opportunity to respond to the consultation paper *Listing Framework Competitiveness Review* (hereafter 'the Paper') published on 13 March 2025. Our response focuses on the proposed changes to the weighted voting rights (WVR) framework which are of material concern to investors. ACGA has written extensively about WVR structures over the past decade and has consistently expressed strong opposition to their introduction and expansion in Asian markets, including Hong Kong. We have repeatedly highlighted that multiple voting rights structures are fundamentally incompatible with the principle of fair and equal treatment of shareholders.

High-level Comments

Hong Kong has recently achieved strong global rankings for new listings and continues to enjoy a robust reported pipeline of initial public offerings (IPOs). We therefore question the fundamental necessity of further easing WVR eligibility thresholds. Such relaxations would allow many smaller and less established companies to list with WVR structures, thereby risking the overall quality of issuers listed on the Hong Kong Exchange and Clearing Limited (the Exchange) and increasing the potential for misuse of disproportionate voting rights to the detriment of minority shareholders. We remain steadfast in the belief that multiple voting rights are fundamentally incompatible with the principle of fair and equal treatment of all shareholders and represent a structural danger to minority investors (see our submissions of March 2018 and April 2020).[1] Key risks of WVR structures, including private benefits extraction, tunnelling and value shifting, and managerial entrenchment, are acknowledged in the Paper (Paragraph 70). Eligibility conditions and safeguards may help mitigate these risks, but they do not eliminate them. ACGA is therefore opposed in principle to any form of WVR.

Key investor concerns with expanded WVR structures remain significant. WVR inherently separates voting control from economic ownership, allowing founders and/or controlling shareholders to retain disproportionate influence even with minority stakes. This reduces accountability to public investors, and heightens agency risks including the pursuit of personal agendas over value creation. Public investors, who typically provide the bulk of capital, receive limited or no meaningful say in major transactions or oversight, undermining the principle of shareholder democracy. Relaxing thresholds and increasing voting disparities (such as to the proposed level of

[1] ACGA's response to the consultation on the listing regime for companies from emerging and innovative sectors, March 2018: https://www.acga-asia.org/advocacy-list.php?date=2018&cid=1&country=5&id=144; ACGA's response to the consultation on corporate WVR beneficiaries, May 2020: https://www.acga-asia.org/advocacy-list.php?date=2020&cid=1&country=5&id=377

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20:1) risks admitting more companies where these imbalances are pronounced, potentially eroding overall market confidence and liquidity for public shares.

The proposals as currently drafted represent a multi-directional expansion of WVR eligibility: the financial thresholds are reduced, the weighted voting ratio cap is raised, the minimum economic interest is lowered, and the suitability criteria are broadened. Taken together, these changes lower the bar for WVR listings *without* a commensurate strengthening of safeguards, thereby eroding the confidence of global investors in Hong Kong's corporate governance standards.

ACGA is further concerned about the unintended effect of these proposals on the development of investor stewardship in Hong Kong. Where voting power is structurally concentrated in the hands of WVR beneficiaries, the ability of institutional investors to influence corporate behaviour through engagement and voting is materially diminished. If stewardship is perceived as futile for WVR issuers, local asset managers have little incentive to vote and engage. This concern is particularly acute in Hong Kong, where the Securities and Futures Commission (SFC) *Principles of Responsible Ownership* remain voluntary and stewardship practices, particularly among local institutional investors, are still developing, as documented in our recent thematic report *Stewardship in Asia: Framework, Codes and Practices*.[2]

Specific Comments

Question 1: WVR Financial eligibility test thresholds
ACGA does not agree with the proposed lowering of financial eligibility thresholds. The proposed halving of the Test A market capitalisation threshold from HK$40 billion to HK$20 billion represents a dramatic lowering of the bar, which would substantially expand the universe of companies eligible to list with a WVR structure. Meanwhile, the proposed reduction of the Test B market capitalisation threshold from HK$10 billion to HK$6 billion (approximately US$766 million) would bring eligible companies below US$1 billion.

International institutional investors generally classify companies with a market cap of HK$8 billion (approximately US$1 billion) as small-cap. Companies of this size typically find it challenging to secure meaningful capital allocations from global institutional investors. At this level, issuers commonly experience reduced analyst coverage, heightened volatility, lower liquidity and increased perceptions of governance risk. These factors are likely to materially constrain demand from diversified international shareholders.

This would leave retail investors disproportionately exposed to the risk that WVR beneficiaries may abuse their superior voting rights. Notably, Hong Kong does not have a statutory class action regime. Nor does it have a dedicated organisation for the protection of retail shareholders' rights, unlike certain other jurisdictions such as the Securities and Futures Investors Protection Center in Taiwan or the China Securities Investor Services Center in Mainland China. For the reasons set out above, we do not support the proposed lowering of the WVR financial thresholds, as these changes would expose minority and retail shareholders to greater risks without any additional safeguards or commensurate improvement in the overall quality of listings in Hong Kong.

Questions 3 and 4: WVR ratio cap and minimum economic interest
ACGA does not agree with the increase to the weighted voting ratio cap, and the reduction of the minimum economic interest at listing. The combined effect of the proposed increase in the WVR Ratio Cap to 20:1 and the reduced minimum economic interest threshold for WVR beneficiaries merits particularly close scrutiny. Under the proposals, a WVR beneficiary holding as little as 5% of the economic interest in a qualifying issuer could, in theory, command just over 50% of the total voting power at general meetings.

[2] Online available at: https://www.acga-asia.org//pdf/acga-stewardship-report

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Put differently, a founder with a minimal economic stake would effectively retain majority control of a large listed company. This represents a departure from the principle of proportionality, under which voting power should bear a reasonable relationship to economic interest, and would raise serious governance concerns among international institutional investors.

Furthermore, enshrining a 20:1 voting ratio in the Listing Rules risks making it the de facto standard for qualifying issuers. Such a development would lead to a clear degradation of governance standards across Hong Kong's equity market by embedding even greater disparities between ownership and voting power as the accepted practice.

Question 5: Innovation company requirements
ACGA acknowledges the Exchange's stated objectives of providing greater clarity and certainty to applicants, and we recognise that certain proposed amendments, such as codifying the "one of the first few" flexibility under the Novelty Characteristic and replacing the vague "unique features" language with a clearer intellectual property (IP) reference are consistent with this objective.

However, we do not agree with the proposed Route A/B structure as currently formulated. Our concern is that the proposal goes beyond codifying existing vetting practice and substantively broadens the gateway to WVR listings. In particular, we are cautious about the creation of a WVR listing path for non-technology applicants using a "new business model". ACGA has no objection to business model innovation, but we would observe that it is inherently more difficult to assess on an objective basis than technological innovation. Researchers at the University of St. Gallen in Switzerland who reviewed several hundred cases of business model innovators found that 90% were "re-combinations of previously existing concepts." [3] This reality supports a pragmatic approach to innovation criteria. However, it also underscores the need for rigorous scrutiny to ensure that only companies with genuinely value-creating and differentiated business models, not merely incremental adaptations, are granted the significant governance privileges that come with a WVR structure.

Question 8: Qualification requirements for secondary listings
For substantially the same reasons set out in our response to Question 1, ACGA does not agree with the proposed lowering of the financial eligibility thresholds for a secondary listing of an overseas issuer with a WVR structure. The proposed reduction of the Test B market capitalisation threshold from HK$10 billion to HK$6 billion would extend secondary-listing eligibility to WVR issuers of a total market capitalisation that institutional investors would typically classify as small-cap and, accordingly, tend to avoid. Companies of this size generally struggle to attract meaningful institutional capital. Retail investors would once again be left to bear a disproportionate share of the governance risks inherent in WVR structures.

Question 12: Ownership continuity and control
ACGA does not agree with the proposal to allow an applicant to satisfy the Ownership Continuity Requirement by demonstrating no material change in influence over management, despite a change in controlling shareholder during the Relevant Period (being at least the most recent audited financial year up until the time immediately prior to listing). A new controlling shareholder could acquire a stake, maintain the appearance of management continuity during the pre-listing period, and exit via the IPO. The more significant concern for investors is that material changes in management may only come after listing. We therefore recommend that the Exchange retain a stricter ownership continuity test, with any exceptions granted only on a case-by-case basis with full disclosure and compelling justification. Codification in the current form would represent a retrograde step in corporate governance standards.

[3] Gassmann, Frankenberger, and Csik, *The St. Gallen Business Model Navigator*, online available at: chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/https://wackwork.de/wp-content/uploads/2017/11/St-Gallen-Business-Model-Innovation-Paper.pdf

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Question 16: Reconciliation statement for unaudited financial results
ACGA does not agree with the proposal to replace auditor review of the Reconciliation Statement for unaudited financial results with audit committee review alone. Audit committees may lack members with sufficient accounting expertise to review such a technically complex document with members appointed on the basis of broader financial experience with little or no formal accounting background.

While we acknowledge the Exchange's intention to reduce compliance costs and administrative burden for issuers, we are concerned that shifting responsibility entirely to the audit committee is insufficient. An independent auditor review provides an important external safeguard and enhances the credibility of these unaudited disclosures. Removing this layer of external oversight could reduce the reliability of information provided to the market. Our position is that the current requirement for auditor review should be maintained to ensure the credibility of the Statement.

Question 17: Commercialised biotech companies and specialist tech companies
ACGA does not agree with the proposal to allow biotech companies and specialist technology companies that satisfy Main Board Eligibility Tests (defined as "Eligible Specialist Companies") to qualify for listing under the applicable Specialist Chapter (i.e., Chapter 18A and 18C). These companies should list under Chapter 8 and, where a WVR structure is sought, be subject to the full suitability assessment under Chapter 8A. Admitting Eligible Specialist Companies into Chapters 18A and 18C would open an expedited pathway to WVR listings; it would also repurpose those chapters in a manner inconsistent with their original design.

We would nevertheless support providing tailored procedural support to Eligible Specialist Companies and recommend expanding the Technology Enterprise Channel (TECH) to cover them as a dedicated advisory resource.

A focus on market quality
We note the Paper represents the initial phase of the Exchange's review of its listing framework competitiveness, with a focus on attracting a greater *quantity* of listings. Going forward, we would urge an equally rigorous focus on the *quality* of Hong Kong's secondary market and a concerted effort to address systemic issues therein, which will better align with the expectations of long-term institutional investors.

While ACGA maintains its strong opposition to WVR, we would be happy to work with the Exchange to ensure a stronger safeguards regime. In this regard, we make the following recommendations, including certain points reiterated in our earlier responses:

- **Time-based sunset clause:** The single most meaningful safeguard the Exchange could offer the investor community is a time-based sunset clause of approximately seven years. While formal sunset clauses are not required in the US, they are becoming best practice for WVR issuers there. Seven years is increasingly being seen as the fairest possible compromise between issuers—who typically seek 10 years or more—and investors, who prefer no more than five.
- **Enhanced board independence:** ACGA believes a robust independent non-executive director (INED) function is an essential counterweight to the inherently disproportionate nature of WVR structures. For this reason, we recommend that:
  - Each INED of a WVR issuer should be appointed and removed solely on the basis of votes by non-WVR, independent shareholders.
  - A lead INED, currently a recommended best practice under the Corporate Governance Code, should be a firm requirement for WVR issuers, with responsibility for promoting ongoing dialogue with non-WVR shareholders.

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We appreciate the opportunity to respond to the consultation and would be pleased to discuss any of the points above in more detail. Thank you.

Yours faithfully,

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