KPMG
8th Floor, Prince's Building
Central, Hong Kong
G P O Box 50, Hong Kong
Telephone +852 2522 6022
Fax +852 2845 2588
Internet kpmg.com/cn

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

Our Ref [redacted]

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Dear Sirs

Re: Consultation Paper on Delisting and Other Rule Amendments

KPMG welcomes the opportunity to respond to the Consultation Paper on Delisting and Other Rule Amendments. Unless otherwise noted, terms used in our responses herein shall have the same meanings as those defined in the Consultation Paper.

We have considered the Exchange's proposals and we are in support of proposals to improve the effectiveness of the delisting framework applicable to Main Board issuers and GEM issuers.

Currently, some issuers may be suspended after triggering specific suspension requirements under the Rules. Due to certain practical difficulties in implementing the current delisting framework, such suspensions could last for a prolonged period, which undermines the proper functioning of the market and deprives shareholders of reasonable access to securities trading.

In order to improve the market quality and maintain its reputation as a leading global financial hub, Hong Kong needs a more robust and practical delisting policy to provide better clarity over the delisting procedures and facilitate efficient and orderly exits of poor quality issuers.

Under this premise, we have set out the following comments and suggestions to facilitate further development or consideration of the proposals.

Adding a fixed period delisting criterion

With an intention to protect the interests of minority shareholders, the current delisting framework focuses on requiring issuers to take remediate steps to resume trading. This, however, often leads to prolonged trading suspensions.

Setting a fixed period, of an appropriate length, as a delisting criterion could be one feasible way to avoid prolonged suspensions and maintain the quality and proper functioning of the market. In addition, this would provide reasonable time for issuers to remediate issues that are causing the suspension and resume trading as soon as practicable. As such, we are in favour of adding a fixed period delisting criterion.

Fixed period delisting criterion for Main Board Issuers

In order for the new delisting framework to be effective, the duration should incentivise issuers to take timely actions to remediate the issues. This includes allowing them sufficient time to come up with a viable resumption plan.

Taking the Exchange's statistics in paragraph 34 of the Consultation Paper as a reference, if the period is set at 12 months, this may exclude about half of the suspended issuers from a trading resumption assuming no behavioural change as a result of imposing the fixed period delisting criterion.

If the fixed period is set at 24 months, it is longer than the current 18-month period allowed under PN 17 and this may not align with the Exchange's intention to speed up the delisting process.

We are therefore of the view that 18 months is an appropriate duration considering that this aligns with the Exchange's intention to allow a 18-month period for the three stage delisting procedures under PN 17. This also strikes a balance between providing suspended issuers with the necessary time to remediate issues causing the suspensions, while, at the same time, incentivise long suspended issuers to take actions to resume trading.

In paragraph 45 of the Consultation Paper, it is indicated that an extension of time will only be given in exceptional circumstances, for example, where an A1 application has been approved. It would be helpful if the Exchange can clarify what constitutes "exceptional circumstances". One example may not be sufficient for market practitioners to understand the basis. To enhance transparency, it would also be helpful if the Exchange can provide clarity on the factors they will take into consideration when considering an extension.

Fixed period delisting criterion for GEM Issuers

According to the Exchange's statistics in paragraph 57, only 23% of the suspended GEM issuers are able to resume trading within 6 months. A duration of 6 months may be considered as too short for issuers to come up with a viable resumption plan and this may potentially deprive them of a reasonable opportunity to resume trading.

A fixed period of 12 months may appear to be more reasonable and commensurate with the size and complexity of GEM issuers' operations.

Announcement of quarterly updates by suspended issuers

A quarterly update would serve the purpose of keeping shareholders informed of the issuers' latest developments in a timely manner and the progress of the trading resumption. We believe that the quarterly update should disclose not only qualitative information (e.g. the latest progress of resumption) but also quantitative information (e.g. operating data) under certain circumstances.

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Transitional arrangements

We agree with the Exchange's transition plan to the extent that PN 17 will continue to apply to issuers subject to this Practice Note as presumably these issuers should have had a trading resumption plan in place and appointed professional advisers based on the current guidance. Applying a new transition plan may potentially disrupt their resumption progress.

However, we set forth below some observations on the transitional arrangements for other issuers for the Exchange to consider:

Scenario A: The issuer has suspended its trading for *just under 12 months* before the Effective Date.
Scenario B: The issuer has suspended its trading for *just over 12 months* before the Effective Date.

	Transition Period##	
	Scenario A	**Scenario B**
Fixed period = 12 months	12 months	6 months
Fixed period = 18 months	18 months	12 months
Fixed period = 24 months	24 months	12 months

Transition Period represents the maximum period of time under which the issuer would be allowed a trading suspension from the Effective Date before a delisting under the transitional arrangements proposed in paragraph 52 of the Consultation Paper.

As illustrated above, by adopting a bright-line rule (i.e. whether the issuer has suspended for 12 months or more) the remaining periods allowed for the issuers to resume trading could vary to a large extent which may not be justified. In particular, if the fixed period delisting criterion is set at 12 months, issuers who have suspended their trading for 12 months or more may be left with too little time (only 6 months) to remediate their issues. In this regard, we are in favour of providing a minimum transition period of 12 months regardless of the final fixed period to be adopted.

Conclusion

To maintain Hong Kong's position as one of the world's leading equity fundraising destinations, we support the Exchange's proposal to adopt a more robust delisting framework. The Exchange should consider working out a fixed period, of an appropriate length, and provide better clarity on the delisting procedures.

We look forward to seeing the conclusions in relation to the Consultation Paper on Delisting and Other Rule Amendments.

Yours faithfully

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