



HONG KONG INVESTOR RELATIONS ASSOCIATION  
香港投資者關係協會

14 September 2016

Corporate Communication Department  
c/o Hong Kong Exchanges and Clearing Limited  
12/F, One International Finance Centre  
1 Harbour View Street  
Central, Hong Kong

Dear Sirs,

**HKIRA's Responses to the SFC and HKEX's Joint Consultation Paper on Proposed Enhancements to the Stock Exchange of Hong Kong Limited's Decision-Making and Governance Structure For Listing Regulation (June 2016) ("the Joint Consultation Paper")**

The Hong Kong Investor Relations Association ("HKIRA") is pleased to forward our response to the captioned Joint Consultation Paper.

HKIRA is a professional association comprising investor relations practitioners and corporate officers responsible for communications between corporate management and the investment community. HKIRA advocates the setting of international standards in IR education, advances the best IR practices and meet the professional development needs of those interested in pursuing the investor relations profession.

As of today, we have over 500 members in total, approximately 72% of them come from listed companies of diverse industry sectors, including banking & finance, conglomerate, industrial, retail, telecommunications, technology and more, totally over HK\$15 trillion market capitalization in aggregate.

We welcome the SFC and HKEX in seeking views from the public. In developing our response, we had held meetings with a focused group comprising of our members to discuss the Joint Consultation Paper.

HKIRA is pleased to present our comments and suggestions as follows:

**1) Policy development – How the new layer of committee would result better efficiency is not sufficiently communicated to the public**

HKIRA appreciates the continuing effort of the SFC and HKEX to strengthen the confidence on the Hong Kong capital market. HKIRA is the frontrunner to promote the importance of investor communication of Hong Kong listed companies, and fully support the SFC and HKEX on strengthening listing policy matters and listing regulation.

Since the Joint Consultation Paper has been issued, many negative voices and comments were raised in public by high profile market participants, including an organization which represent listed companies, practitioners of intermediaries, current legislative council member and potential candidates which represents brokers, business leaders and individuals from professional firms. Their main concerns mostly focus on whether the proposed amendment may possibly lead to over-regulation of the Hong Kong IPO approval process. Some of them warned that over-regulation would turn Hong Kong into a market like Singapore, where there were only 13 IPOs in 2015, and many local Singapore companies chose to list in other overseas exchanges instead.

Whether the proposed amendment might lead to over-regulation is debatable. But traditional business intelligence has inevitably led many to think that adding layer of committee on top of the IPO approval process would likely generate bureaucratic inefficiency, potentially causing more time to approve IPO applications with possibility of less IPOs to get approved. Such mode of thinking might derail potential listed companies to choose other markets which would not base the suitability of listing nor would their listing be approved by multi-layer of committee.

One heading of the Joint Consultation Paper states that the proposed amendment is to provide a more efficient decision-making structure. HKIRA suggests that more detail explanations to the public are needed on why the current structure is not efficient, and why the proposed amendment would bring more efficiency, to avoid the impression of over-regulation.

**2) Composition and Procedures of the Listing Regulatory Committee – Suitability of listings should be communicated to potential listing candidates in early stage by the Listing Regulatory Committee given the high initial costs of Hong Kong IPO.**

The total costs to prepare a prospectus up to the point of listing approval by the Listing Committee for a small cap company from mainland China could range from HKD 20 million to 40 million, on top of indirect expenses such as corporate reorganization, and internal hiring to handle the listing process, etc., and other non-financial complications. Such IPO related initial costs are among the highest in the world for new listing.

Whether a company is suitable for listing, while governed by the Listing Rules and related guidance letters, may not appear to very clean cut. In the eyes of many potential listing candidates, decision on suitability of listing could be highly subjective in nature. Most might tend to believe that the newly proposed Listing Regulatory Committee (“the LRC”) comprised of members from the SFC, may not be too keen to take a "holistic and commercial" approach to approve IPO cases. Many still remembered that, within days after HKEX published the consultation conclusions of weighted voting rights (“WVR”), SFC publicly exemplified its rejection on the draft proposal of listing with WVR, and therefore even the internet giant Alibaba was viewed by the SFC as not suitable for Hong Kong listing. So in the eyes of smaller IPO candidates, suitability would become a key risk of their investments in the high IPO costs, and consider other markets with lower costs and less uncertainty.

HKIRA suggested that the newly proposed structure of approving the IPO should incorporate a mechanism to seek for initial consultation not only from Listing Division, but also from Listing Committee and the LRC to help potential IPO candidate to clear their doubt while weighting on the high IPO initial costs to list in Hong Kong.

### **3) Policy development – Why not observe longer after GL68-13A?**

In June 2016, HKEX issued a new guidance letter GL68-13A “Guidance on IPO vetting and suitability for listing” noting its concerns over certain listing applicants with questionable commercial rationale for listing. Many market participants are of the view that the regulations related to “creating shell” have already been strengthened by requiring the Listing Division and Listing Committee to take a more focus review on imposing additional requirements or conditions, or reject the applicant's listing on the grounds of suitability.

The Joint Consultation Paper on revamping the listing approval was released within days after GL68-13A was published. How the effectiveness of the proposed enhancements would bring more focus on listing policies and decisions however are not explained in detail in the Joint Consultation Paper. Many started to wonder why not observing longer on the effectiveness of GL68-13A? What are the urgency and foremost reasons to alter the existing IPO approval process when many market participants see the change as negative? Why the Listing Committee is now seen as unable to address potential conflicts between commercial objectives and regulatory responsibilities of HKEX on the suitability of listing, but the newly proposed LRC could?

HKIRA believes that the public would be more acceptable to the proposed changes described in the Joint Consultation Paper once the above questions are well addressed. A longer observation period to see whether GL68-13A could address the issues on suitability may perhaps be a good ground to conclude on the Joint Consultation Paper. If GL68-13A could serve as an effective mean to stop “the business of creating shell”, there may be no need to alter the existing IPO approval process which is seen very negatively by many market participants and intermediaries.

### **4) Other matters – Competition from exchanges in China should not be overlooked**

In 2015, Hong Kong has reclaimed its position as the world’s top IPO market because many mainland companies are still in favor of listing in Hong Kong as the regulatory environment is among the most transparent. In contrast, the mainland IPO market is suspended from time to time, prompting mainland firms to opt for Hong Kong.

In late 2015, the Standing Committee of the National People's Congress passed a special authorization on IPO registration system reform, in an attempt to migrate from the current administrative approval system to a new registration-based system. Market participants in Hong Kong fear that more mainland companies may turn to the A-share market for IPOs from the H-share market once the new system is streamlined. For smaller companies, the mainland’s National Equities Exchange and Quotations known as the “new third board” might also become their preferred choice, where suitability of listing is not an uncertainty as described above.

As mainland companies represent the largest source of IPO for the Hong Kong, the potential impact on the negative views from the mainland companies should not be under-estimated. Many of them would be afraid that the criteria on listing suitability would become more rigid and the approval process would become more cumbersome. Without a clear understanding on the issues concerning suitability of listing, together with the impression generated from those negative views and comments so far, mainland companies would consider to apply for their IPOs in China and other overseas markets instead.

HKIRA humbly suggests that more clarification should be made by the SFC and HKEX to dispel the many negative voices and criticism from the public, now leading to an impression by potential IPO candidates that listing in Hong Kong has become much more bureaucratic and difficult.

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We hope you find our suggestions in this letter useful, and please feel free to contact me at (852) [REDACTED] if you have any questions.

Yours faithfully,

For and on behalf of HKIRA

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Dr. Eva Chan  
Chairman