



# 港 通 控 股 有 限 公 司

## THE CROSS-HARBOUR (HOLDINGS) LIMITED

Our Ref. No.: CS/CHH/014/16

**BY HAND**

15 November 2016

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

Re: Consultation Paper on Proposed Enhancements to the Exchange's Decision-Making and Governance Structure for Listing Regulation

Dear Sirs,

We refer to the subject consultation paper jointly issued by the Securities and Futures Commission ("SFC") and The Stock Exchange of Hong Kong Limited (the "Exchange") in June 2016 on the proposed structural and procedural enhancements to the way in which listing regulation is carried out (the "Proposals").

Under the Proposals, the listing function will remain within the Exchange which will continue to be the frontline regulator for listing matters. The Listing Committee, together with the Listing Department, will continue to decide a large majority of IPO applications and post-IPO matters. Listing policy and policy-related listing matters will, however, be decided by two new Exchange committees, namely, the Listing Policy Committee and the Listing Regulatory Committee (the "New Committees"), which are to be represented equally from the SFC and the Exchange, with advice from the Listing Committee.

We respectfully object to the Proposals. The Proposals in effect allow the SFC to gain inordinate control over listing regulation. This would not only sabotage our existing three-tiered regulatory framework but also create new problems for our securities market. Under the current structure, each of the Government, the SFC and the Exchange has a clearly defined role. The Listing Committee (an independent committee made up largely of investor representatives and market practitioners) is the frontline regulator of all listing-related matters, including the formulation of listing policy; the SFC, being the backline regulator, supervises and monitors the Exchange in the performance of its listing function; and the Government is ultimately accountable to the public for a properly regulated securities and futures market. The Proposals blur these lines of division and give the SFC both front- and back-line regulatory authorities without checks and balances.

Specifically, the main problems we see with the Proposals are:

1. Power imbalance between the Exchange and the SFC
2. Diminished role of the Listing Committee
3. Shift of approach to regulating the markets

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We note that despite the establishment of the New Committees (and despite equal representation from the SFC and the Exchange), the Proposals allow the SFC to have the power to veto the appointment of the chair of the Listing Committee. This in turn affects the composition of the New Committees, and allows the latter to command regulatory and listing matters, all within a small circle of people who lack the depth of market experience and expertise which the Listing Committee currently has.

The Proposals suggest that the SFC-led Listing Policy Committee be empowered to decide on proposals relating to listing policy and rule amendments, whereas the role of the Listing Committee is reduced to regulating routine IPO activities. Not only is the Listing Committee's function emasculated (and the SFC's augmented), market input in the current regulatory regime is also weakened. An imbalance between market operation and regulation will result should the Proposals be implemented.

The Listing Policy Committee also appraises the staff performance of the Listing Department. This effectively subordinates the Listing Department to the SFC, giving it what is traditionally an Exchange function.

We worry that far from achieving their purported objectives, the Proposals may stoke grave concerns about Hong Kong's reversion from a market-driven, disclosure-based regime to a merit-based regime, which could discourage investors looking to list their companies on the Exchange. Further, given that the proposed structures confer power upon a few hands under the SFC which is regulator-minded, a number of straightforward deals will be under greater scrutiny and may prolong the processing time. This is likely to tarnish the name of Hong Kong as a leading international financial market. One should bear in mind that the primary role of the SFC is to regulate, and protect investors; not to stifle market development.

In conclusion, we object to the Proposals. We do not see how they can provide an answer to the widespread reverse takeovers and excessive growth of shell companies (which we believe to be the aim of the Proposals). On the contrary, the substantial changes in the Proposals inevitably give the SFC an all-encompassing power without a healthy balance, and reel Hong Kong backwards in terms of regulatory regime and impede market development.

Yours faithfully  
For and on behalf of  
The Cross-Harbour (Holdings) Limited

