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By Email: response@hkex.com.hk

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

Dear Sir/Madam,

Response to Joint Consultation Paper issued by the Securities and Futures Commission ("SFC") & The Stock Exchange of Hong Kong Limited ("Exchange") on the Proposed Enhancements to The Stock Exchange of Hong Kong Limited's Decision-making and Governance Structure for Listing Regulation issued in June 2016 ("Consultation Paper")

We are writing to give you our comments to the Proposals (as defined in the Consultation Paper). We welcome and appreciate the SFC's and the Exchange's effort in coming-up with the proposed changes to the listing regulation in Hong Kong. Our views in respect of the Proposals are set out below.

Are the Proposals Justified by Issues with the Current Regime?

The regulatory system in Hong Kong applicable to listings involves the Exchange acting as the front-line regulator of listing activities, with certain powers and functions relating to listing matters, including the formulation of listing policy, delegated to the Listing Committee. Alongside this regime, the SFC is an independent statutory body which supervises and monitors the Exchange's performance of its listing-related functions and responsibilities. The SFC also conducts a periodic audit of the performance by the Exchange in its regulation of listing-related matters. It further shares the Exchange's listing-related functions and responsibilities by monitoring announcements and vetting listing application materials under the Dual Filing Regime, while also administering the Codes on Takeovers and Mergers and Share Repurchases.

It was stated in the Consultation Paper that the Proposals aim to, amongst other things, achieve closer coordination and cooperation between the SFC and the Exchange on policy formulation, as well as to provide the SFC with earlier and more direct input on listing policy matters and listing regulation.

As an initial observation, the Proposals seem to entail fundamental changes to the current listing regulatory system rather than simply enhancing the current decision-making and governance structure.

To assess whether the Proposals could achieve the stated objectives, there exist various mechanisms under the current system that provide the SFC power and discretion in relation to listing-related matters. Examples include the Securities and Futures (Stock Market Listing) Rules, Rule 2.04 of the Listing Rules and the Memorandum of Understanding Governing Listing Matters between the SFC and the Exchange dated 28 January 2003 ("2003 MOU").

From the 2003 MOU, we note that a number of safeguards have been implemented in the current system to allow supervision and monitoring by the SFC on listing-related matters, which include: (a) the establishment of a High-Level Group, comprising senior representatives from the SFC and the Exchange, as well as the Chairmen of the Listing Committees, to meet from time to time to review systemic and policy issues concerning listing-related matters; (b) amendments to relevant Hong Kong statutes to ensure that the Listing Rules or their changes are only effective if approved by the SFC; (c) required approvals must be sought by the Exchange from the SFC on any policy decision which will have mandatory effect or be of general application; (d) a requirement for the Exchange to inform the SFC, as soon as is reasonably practicable, of any matter of a novel or potentially controversial or sensitive nature, or which appears to involve public policy implications, whether arising from a listing application, a transaction by a listed issuer, or otherwise; (e) the giving of a de facto veto-right to the SFC in respect of any listing application on the basis that Listing Committee's decision in approving or disapproving a listing application has to be taken into account by the SFC; and (f) a requirement to supply monthly Activity Reports and Case Reports to the SFC, as well as to hold monthly Listing Matters Liaison Meetings with the SFC.

Further, under the current Dual Filing Regime, the SFC is being kept fully informed of any listing application, with the Corporate Finance Division of the SFC issuing a separate set of comments on the statutory filings made by new listing applicants. The Dual Filing arrangements have allowed the SFC to intervene at an early stage of a listing application.

Accordingly, in our view there are adequate regulatory arrangements in place to allow the SFC and the Exchange to maintain sufficient coordination and cooperation on listing policy matters and listing regulation. We therefore are not convinced of the need to introduce the Proposals. In addition, the Consultation Paper fails to provide compelling rationale having regard to the current listing regulatory system which necessitate the introduction of the Proposals.

The role of the Listing Committee

Pursuant to the Proposals, the two new Exchange committees, the Listing Policy Committee (LPC) and the Listing Regulatory Committee (LRC), comprising mainly representatives from the Exchange and the SFC, will take over from the Listing Committee the duties to decide on IPO cases or post-IPO matters which include suitability concerns or broader policy implications.

As rightly pointed out in the Consultation Paper: (1) the Listing Committee represents the diverse views of the market and brings valuable expertise in specialized areas such as industry knowledge, business experience, accounting and law; and (2) members of the Listing Committee enable the Exchange to draw on the commercial and business knowledge and experience of market practitioners for policy formulation and regulatory decision-making.

Under the Proposals, the Listing Committee is only required to preside over routine listing applications and post-IPO matters. For IPO cases or post-IPO matters which have suitability concerns or broader policy implications, they will be considered and decided by the LRC, with the Listing Committee's views being non-binding on the LRC. Further, the LPC will decide on listing policy proposals and proposed Listing Rules amendments.

We believe that the Proposals will, in this respect, be likely to create regulatory uncertainties both in respect of potential listing applications as well as in respect of corporate actions or transactions. In the latter case, actions by corporate issuers are likely to raise material questions as to the extent to which they are likely to raise "suitability" or "policy" related concerns, allowing for broad subjectivity as to the scope of application of jurisdiction for the two new committees.

As we know, the Listing Committee is designed to have broad representation from the market in the form of members that have been vetted and approved by the SFC and the Exchange. Pursuant to the Proposals, it would appear that Committee members will no longer be able to provide market insight to policy formulation or non-routine regulatory issues. In our view, the views of Committee members are regarded as important complement, and in some cases a counterbalance to the regulator's perspectives. Accordingly, moving away from this dynamic is something that would be considered a material change and should be very carefully considered given the profound impact it would have on existing practice. We believe that there is genuine risk for unintended (and potential undesirable outcomes) if the LPC and LRC do not have the benefit of (and are seen by the market as not considering) market insights and legitimate commercial considerations. As a result, we believe that the proposed changes carry with them the potential to reflect adversely on the desirability of Hong Kong as a listing jurisdiction and thereby its competitiveness as an international financial centre.

Concentration of regulatory powers at the SFC through the LPC and LRC

Although it was stated in the Consultation Paper that both the LPC and LRC will have equal representation from the SFC and the Exchange, paragraphs 65 and 77 of the Consultation Paper set out that representatives from the SFC will make up half of the members of both committees, with the remainder to be drawn from the Listing Committee as well as the Exchange. Such composition would create the perception that the SFC will heavily influence or indeed control these new committees.

Given that the Listing Committee's views are not binding on the LPC and LRC (which based on the composition of the Listing Committee include the opinions of those with business knowledge and direct market experience), there is therefore substantial risk that decisions made in closed-door meetings of the LPC and LRC will not therefore provide the same assurance of transparency and accountability to the market as under the current structure.

Put another way, we have substantial concern that the proposed structure has the potential to radically alter the landscape in Hong Kong from a practitioner-based or disclosure-based regulatory system into a rules-based regime with less transparency as to the application of regulation. The potential for overly restrictive regulation as a result of the proposed regulatory structure carries with it the potential to

adversely impact upon the reputation of Hong Kong as a listing jurisdiction and with that hamper the development of the market.

Conflicts of interest due to LPC's proposed duty to appraise performance of the Listing Department


Under the Proposals, the LPC will have primary responsibility for appraising senior executives of the Listing Department in the performance of their regulatory responsibilities. This will create substantial influence on the part of the SFC over the day to day performance of the senior executives of the Listing Department, and thereby the day-to-day operation of the Listing Department. This represents a substantial change in the relative roles and powers of the SFC and the Listing Department. Under the current regime, the SFC is intended to play a supervisory role as an independent statutory body. The proposed structure therefore radically alters the interactions of these two bodies and in our considered view, this is not warranted based on the performance of the parties to date and the public perception of the functioning of the Hong Kong market.

Conclusion

We share the view that the current decision-making structure for listing regulation has served the market well and that Hong Kong has a unique model that reflects an appropriate balance between market development and a trusted regulatory regime. The Consultation Paper in our view does not provide adequate explanation or support for the Proposals which in our view have the potential to radically alter the regulatory landscape for listings and ongoing supervision of listed entities in Hong Kong. In this regard, the Consultation Paper fails to make a compelling case that the functioning of the current listing regulatory system necessitate the introduction of the Proposals. On the contrary, experience suggests that the current regulatory system has adequate safeguards to ensure that the SFC coordinates closely and appropriately with the Exchange on listing regulation.

As set out above, in our view the Proposals have the potential for adverse outcomes that are disproportionate to the perceived shortcomings in the current system and ought not to be adopted.

Yours faithfully,
For and on behalf of
AIA GROUP LIMITED



Mitchell David New
Group General Counsel and Company Secretary