



泛海酒店集團有限公司

ASIA STANDARD HOTEL GROUP LIMITED

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

17 November 2016

Dear Sir / Madam,

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

Regarding SFC-HKEx Joint Consultation on Listing Regulation, we write to object to the proposed structures because of reasons as stated below:-

**It Destroys the Proven Three-tier Regulatory System ....** the proposed structures destroy the existing three-tier regulatory structure (Government, SFC and Listing Committee) which was first proposed in the Ian Hay Davison Report published in 1988 whereby front-line regulation is handled by the Stock Exchange. IPO approvals and listing rules formulation and amendments are handled by the Listing Committee composed of market participants and professionals. The back-line regulator is SFC which under SFO has veto powers and rule-change powers.

This system has been working well since 1988, and reaffirmed by the government in 2003. Hong Kong has become the home market for Chinese enterprises. Hong Kong was No. 1 in the world in 2015 and 2016 in capital raised. Hong Kong's position as a leading capital formation center has been well respected. However, the proposed structures give SFC the front- and back-line regulatory authority without check-and-balance of its all-encompassing power.

**Proposed Structures Unjustified for its Stated Objectives ....** the stated objectives of introducing the proposed structures are to achieve closer coordination and cooperation between the SFC and the Exchange on policy formulation and to provide the SFC with earlier and more direct input on listing policy matters and listing regulation, and to streamline the processes for making important or difficult listing decisions. But at present, there are various channels and mechanisms under the current three-tier regulatory system for achieving these objectives, such as the Securities and Futures (Stock Market Listing) Rules; rule 2.04 of the Listing Rules; the Memorandum of Understanding Governing Listing Matter, and the Listing Matters Liaison Meetings.

The SFC is being kept fully informed of any listing application, can intervene at an early stage, and has oversight and control of the formulation and administration of the Listing Rules and listing policies. The objectives of the proposals can be achieved under the current arrangements. There is no need to introduce the proposed structures.

**Compositions of the Listing Policy Committee (LPC) and Listing Regulatory Committee (LRC) Tilted to Give SFC Dominant Control ....** the core part of the proposals is the creation of two new committees above the Listing Committee: the Listing Policy Committee (LPC) and Listing Regulatory Committee (LRC). Both committees will be dominated by SFC through its control of who can become members.

**Listing Committee (LC) being Sidelined ....** the LC is sidelined and relegated to a marginal position to preside over only common routine IPO and Post IPO matters. The proposed LRC will oversee, give guidance and decide matters that involve the suitability for listing of a new applicant and its business. But suitability has no clear definition; it is possible that a high percentage of cases would be referred to the LRC, whose decisions would lack market input and perspectives. Although LC can give its views on the IPO cases considered by the LRC via the LC Chairman and the two deputies (who are members of LRC), their views are only non-binding.

The LC members have diverse expertise, experience and market perspectives, which can complement the regulator's perspective. However, under the proposals, the LC's role will be limited and its contribution to the market minimized.

**Listing Policy Committee Dominates the Listing Rule Regime ....** the proposed LPC is to initiate, steer and decide listing policy proposals and proposed Listing Rule Amendments, including market consultations and other matters that have policy implications or general effect. It will have overall control over the Listing Rules regime and that affects all listed companies of Hong Kong. The authority of the SFC will become extensive and far-reaching. Although the LC would be invited to give opinions to matters considered by LPC, their views are non-binding.

LPC will also appraise performance and recommend salary of senior staff of the Listing Department with input from the LC. Giving these powers to a SFC-led committee is like making the Listing Department subordinates of the SFC, effectively giving it full control of what is traditionally an Exchange function.

**SFC Wields Absolute Power in both IPO Approval and Policy Setting ....** the proposals give SFC outright power on top of its veto power. At present, decisions by the LC, be it about IPO applications or Listing Rules, are made after thorough discussion by seasoned market practitioners. Unless there is a compelling reason, the SFC veto power cannot be exercised arbitrarily, and the basis for exercising such power must be well-substantiated. Under the new structures however, the LC is bypassed (at most offering their non-binding views), and the LRC and LPC will make final decisions based on much narrower perspectives, without the valuable and active input by a group of market practitioners of a diverse background.

**Proposed Structures Unnecessary for Combating Current Market Problems ....** it is believed that the proposed structures aim to combat the widespread reverse takeovers and suspected manufacturing of shell companies. However, the aforesaid market problems should be tackled by focused and targeted methods rather than changing the fundamental policy/IPO approvals structures. It is the job of the SFC, to police, monitor, and punish wrong doers. The listing function reorganization has no real jurisdiction over market misconduct.

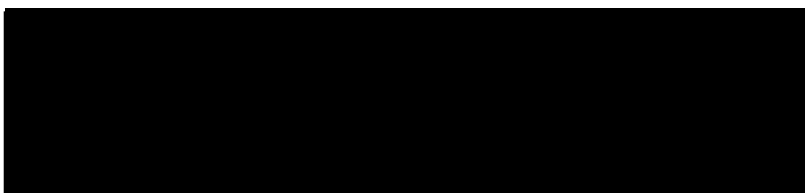
**Slowing Down of Market Development ....** the proposed structures will concentrate power in a few hands under control of SFC which is regulator-minded, which is tend to be risk-averse. It will protect the regulator by shutting off the door to many companies, or raising the threshold to such high level that less and less listings will be attracted to Hong Kong. This would compromise Hong Kong's position as an international financial center. The primary role of the SFC is to regulate and not to lead market development.

**Merit-based Regime to Takeover ....** a Merit- or Regulator-based regime would be promulgated and move Hong Kong backwards in regulation for listing matters.

The Disclosure-based regime allows the market to decide, and educate investors to be responsible for their investment decisions. The Merit- (Regulator) based regime will make the regulator assume the responsibility of investment, which is not ideal since the regulator cannot possess all the knowledge and experience to judge whether a company is suitable for listing (aside from ethical issues like drugs, vice and illegal operations).

**Conclusion ....** the proposals give SFC all-encompassing control over regulatory and listing matters, with power concentrated in a few hands without proper checks and balance; they are detrimental to market development, and would reel Hong Kong back to a merit-based regime where decisions are made in a small-circle without valuable market input. We worry that the regulator-mindset would stifle the market if the proposal is enacted.

Yours faithfully

A large black rectangular box redacting the signature of Joseph Woo.

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Joseph Woo  
Executive Director and Group Financial Controller