29.08.2016

We are writing to express our support for the proposed enhancements to the SFC & Stock Exchange of Hong Kong Limited ('Hong Kong Exchange/the Exchange/HKEx') 's decision making and governance structure for listing regulation. We believe that the proposed changes will be beneficial for the reputation and health of the Hong Kong stock market, for the following reasons: We believe the changes will allow for a more defined role for the SFC in setting up listing policies and dealing with IPOs with broader concerns, rather than just availing the Commission of a veto power. The SFC's ability to contribute earlier to listing discussions may thus reduce the risk of unsuitable listings and potentially lead to fewer conflicts over the application and understanding of listing policies. The new structure will also reduce Hong Kong Exchange's inherent conflict of interest between its being both a profit seeking entity and a quasi-regulator. However, the proposed changes will still allow the Exchange to have a voice in the new Listing Policy Committee, to convey the business interests of the Exchange and potentially prevent over-regulation of the market. We understand that there are fears the new structure will lead to over-regulation, but we believe these fears are exaggerated. The proposed changes do not egregiously increase the powers of the SFC at the expense of HKEx, but instead transform the way the existing powers are exercised. The proposals should enhance unity and create a more streamlined process. The new structure should mean that those applications that are straightforward, the majority of applications, are dealt with by the Listing Committee and these may benefit from a smoother and more efficient process; whereas it should also mean that those applications considered to be complicated are dealt with by the Listing Regulatory committee and are subjected, rightly, to greater scrutiny. So long as the definition for what constitutes a 'complicated' case is sufficiently constructed, then the greater scrutiny should be healthy for the market, preventing the listing of unsuitable businesses which would otherwise be unacceptable risks for investors. The Joint Consultation Paper falls short by not providing a precise definition- it must be a definition that manages to be neither too narrow nor too broad, and sufficiently clear, but also flexible enough to allow for any innovative businesses. If too narrow, too few applications will be put to scrutiny, thus too many unsuitable applications may be approved. If too broad, the Exchange may become less desirable for IPO applications, thus reducing the number of both suitable and unsuitable applicants. Over the past five years there has been a number of cases of accounting fraud, market manipulation and reverse listings through shells which have together negatively affected Hong Kong's stock market reputation. We hope that the proposed changes will help to reduce such cases to allow a more mature and healthy market. In particular, better regulation over post-IPO matters would be welcome, especially considering the demand for listings from businesses which do not want to go through the formal listing process. Overall, we support these proposals, which are a good step in the right direction towards developing a mature market. Although more is still needed to make the Hong Kong market healthy (it would be especially impactful to strengthen ongoing suitability tests post-IPO), we welcome a clearer and defined role for the SFC, which should lead to reduced conflict of interest, and potentially fewer cases of fraud and unsuitability.

Tree Line Advisors (Hong Kong) Ltd.