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

We refer to captioned and would like to provide comments based on our past experience in dealing with International institutional investors with an interest to invest in Chinese listed companies in both domestic China A and Hong Kong H shares markets.

Harvest Global Investments was established and licensed by the HK SFC in 2009 and has been working with investors based in Europe, US and across Asia.

In our dealings with these investors, many of them have significant interests to invest in the growth of China's economy and development, nonetheless, there are certain restrictions which limit these investors participation and they can only have access to the domestic China equity market via QFII and RQFII quotas, mandates and funds. In any case, the attractiveness of the emerging China economy vs the developed economies gave rise to a strong bull rally in 2014 ending mid 2015. Throughout this rally, most foreign investors' primary concern in investing in China has been the corporate governance of listed companies. Given the speedy development of the China equity market, international investors are also worried if the Chinese regulatory environment is developing in step with opening up of the market. One unfortunate outcome of the break neck bull market development in 2014 to 2015 was the significant number of listed companies on the China exchanges being suspended for trading when the market experienced a major correction in the third quarter of 2015. As much as 50% of the listed companies were suspended for an extended period of time causing disruptions to the orderly management of offshore funds and listed vehicles like ETFs that invest in the China stock exchanges.

On the other hand, many global investors have recognized that the Hong Kong equity market, for both Hong Kong and foreign companies listed on the Stock Exchange of Hong Kong, is more developed and robust having not only experienced a number of past global shocks including the Asian financial crisis of the 90s and the global financial crisis in 2008 and dealt with them efficiently. Much credit is due to the effectiveness of the control mechanisms in place at the Exchange and the regulatory regime of the Hong Kong SFC as the market regulatory body.

Given that a sizable percentage of the market capitalization of the listed companies on the Hong Kong Exchange are Chinese listed companies referred to H shares, global investors have a higher level of confidence when accessing the growth of China via these H shares, albeit limited in number of stocks and sector diversification.

International investors appreciate the effective governance structure of the Hong Kong Exchange, nonetheless, they also understand that the Exchange is not a statutory regulator and the Listing Rules have no statutory effect. In addition, the Hong Kong Exchange does not have standing to enter into any formal arrangements with any overseas regulators including the Chinese regulator. Only the SFC has the authority to enforce supervisory cooperation with overseas counterparts. This becomes even more critical given the recent closed cooperation with Mainland China in terms of the Shanghai Exchange connect and the coming Shenzhen connect for the cross trading of listed shares on both exchanges and the Hong Kong Exchange.

As such, any enhancement to the balance of market developments and efficient controls of both the Exchange and the SFC would create further increase in confidence for International investors to tap into the Hong Kong market in order to participate in the growth of China.

The proposal, in its entirety, highlights the need for a speedy combined response of the Exchange and SFC to a global market that continues to evolve, develop and at times with complicated consequences. Such transparency and collaborative efforts with the interests of investors as the primary goal do set the Hong Kong market apart from other less developed financial centers and is in line with Hong Kong reputation as a premier financial center.

Choy Peng Wah
Vice Chairman, Board of Directors
Harvest Global Investments Limited