

Manulife Asset Management (Hong Kong) Limited

Comments on:

Joint Consultation Paper

Proposed Enhancements to the Stock Exchange of Hong Kong Limited's Decision-Making and Governance Structure for Listing Regulation

(a) Policy Development

We believe and agree that the Proposals are timely suggestions to solidify Hong Kong's position as global capital market.

SFC and HKEx have been adopting Dual Filing system since April 2003 under which the prospectuses are authorized for registration by the SEHK but the power to grant exemptions rests with the SFC.

If the Stock Exchange of Hong Kong (under HKEX) remained as a monopoly stock market, there will always be inevitable concern over "conflict of interests". Without competition, it would not be easy to ensure both local and international investors that SEHK will continue to strive for being a "better" exchange instead of simply trying to become a "bigger" exchange. The Singapore Exchange (SGX) announced in July this year that it was spinning off its regulatory functions into an independently governed subsidiary.

Take a look at the US stock market where there are NYSE, NYSE Amex and NASDAQ, one will realize that the gate-keeper role should not be held by individual exchange but rather a regulatory body with statutory power, i.e. the Securities and Exchange Commission (SEC), in accordance with the Securities Act of 1933 and Securities Exchange Act of 1934. In the UK, listing matters are also handled by the Financial Conduct Authority (FCA), based on the Financial Services Act 2012.

While in Japan the Tokyo Stock Exchange remains as the sole organization to approve public equity offering, we believe the Proposals included in the Joint Consultation Paper are in alignment with global best practices that aim at the highest possible standards.

While rejecting Alibaba to list shares of unequal rights in Hong Kong in 2014 was not welcomed by some local market participants, SFC's decision gained much support from institutional investors according to the survey done by the Asian Corporate Governance Association (ACGA)*. A total of 51 respondents out of 54 global portfolio managers/corporate governance officers with US\$14 trillion in assets in general supported SFC's decision to dismiss Alibaba's requests on changing listing rules.

* http://www.acga-asia.org/loadfile.cfm?SITE_FILE_ID=680

(b) Listing applications by new applicants

The basic listing requirements under the Hong Kong Exchange as well as the updated HKEx Guidance Letter GL68-13 have provided adequate information to applicants in our view. Due to the complexity of capital markets and growing cross border business activities, continuous efforts are encouraged to provide timely updates of guidance on suitability for listing.

As a large majority of IPO cases would not be involved with suitability concerns and thus be approved by the Listing Department of SEHK, we agree with the proposals that the recommended changes should bring enhancement to the current listing regime.

The Listing Committee may consider an official review and inform the public regarding the impact, if any, of such changes after 12 months of implementation.

(c) Matters involving listed issuers

With the new Listing Regulatory Committee, the Listing Department and Listing Committee will have the obligation to refer Post-IPO LRC cases. We have heard of opinion that regulator SFC should share some responsibility to refer problematic cases to LRC, which sounds a fairly sensible suggestion.

(d) Reviews of listing decisions

The Listing Regulatory Committee which includes both market representatives from the Listing Committee and full time executives from the SFC should be fully capable of handling LRC IPO cases without concerns of conflicts of interests. Meanwhile, some argue that the Listing Regulatory Review Committee, by having a representative of investors, may make decision more favorable to investors. We think otherwise as the whole proposals from the very beginning are purposed to enhance the administration of listing rules so as to facilitate the sustainable long term development of Hong Kong as one of the global leading capital markets.

(e) Disciplinary matters

We believe that the proposals have got the right people (Listing Disciplinary Chairperson Group) and right process (i.e. Listing (Disciplinary) Committee and Listing (Disciplinary) Review Committee) in place. We have no additional comments.

(f) Oversight of the listing function

With the Listing Policy Committee taking over the appraising Listing Department performance, which is a 50:50 representation of HKEx and SFC, it perfectly fits the objective to draw a balance between market development and maintaining robust regulatory regime.

(g) Publication of decisions

Communication via routine publication of decisions on HKEx website is always welcomed to enhance transparency and accountability for regulatory decision-making, similar to the public access to court cases. That will also serve as effective investor education via disclosure of actual cases on no-name basis.

(h) Composition and Procedures of the Listing Policy Committee

The proposed Listing Policy Committee is responsible for making timely and effective changes in Listing Rules in order to deal with longer term development issues, such as opportunities and threats to Hong Kong as an international capital market. As per the composition of the LPC, the 8-member committee secured an equal representation from HKEx and SFC. The presence of investor representative also ensures that final decisions, in the event of disputes, will not undermine investors' interests.

As per the procedures of the LPC, we have no additional comments.

(i) Composition and Procedures of the Listing Regulatory Committee

The proposed Listing Regulatory Committee is responsible for dealing with applicants' pre-listing as well as listed companies' post-listing issues. Main focuses are on IPO application or a post-IPO matter that has "suitability concerns or broader policy implications". As per the composition of the LRC, it is smaller committee than LPC but still a 50:50 representation by 3 members from each of HKEx and SFC.

As per the procedures of the LRC, in general we agree that "suitability" concerns over new applicants and regulating on-going listed companies would represent only a minority of the day-to-day administrative cases. We do believe however that handling listing applications would be less complex/abundant than that of listed companies' on-going issues related to corporate governance. The SFC / HKEx may want to commit and ensure there are adequate resources in terms of hiring and retaining experienced and qualified LRC members.

(j) Composition and Procedures of the Listing Regulatory (Review) Committee

The proposed Listing Regulatory (Review) Committee is to replace the Listing Appeals Committee as the final review body within the Exchange for certain types of listing decisions. As per the composition of the LRRC, it is similar to the LRC with 3 members from each of SFC and HKEx. Once again, the presence of investor representative also ensures that final decisions, in the event of disputes, will not undermine investors' interests.

As per the procedures of the LRRC, we have no additional comments.

(k) Composition and Procedures of the Listing (Disciplinary) Committee, the Listing (Disciplinary Review)

Committee and the Listing Disciplinary Chairperson Group

The proposed Listing (Disciplinary) Committee is enhanced by inclusion of a chairperson who needs to be practicing/retired senior counsel and publishing the reasoned decision following each disciplinary hearing. The Listing (Disciplinary Review) Committee will be formed in the same manner as LDC but with 5 different members coming from the Disciplinary Chairperson Group, which is composed of at least 5 practising/retired senior counsels appointed by the Exchange Board in accordance with the nomination of the Listing Nominating Committee.

As per the composition of the LDC and LDRC, a chairperson from Listing Disciplinary Chairperson Group and 4 members from the Listing Committee should be able to conduct disciplinary proceedings well. With minimum 5 practising/retired senior counsels on board the Listing Disciplinary Chairperson Group undoubtedly would earn tremendous credibility from the public.

As per the procedures of the LDC and LDRC, we have no additional comments.

(l) Other matters

The continuous success of the Stock Exchange of Hong Kong depends largely on the depth of capital pool available for issuers as well as at how high valuation (e.g. price earnings multiples) the issuers could list their equities. For the latter, the common rule of thumb is that valuation premium of a stock market is in proportion to the average corporate governance standards and vibrant market regulations. Among various regulations, those related to listing application (pre-listing) as well as issues of listed companies undermining shareholders' interests (post-listing) are especially important.

We believe the proposals are crucial and instrumental in achieving the long term goal of "pursuing a balance between market development and a trusted regulatory regime".

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