



The Lion Rock Institute

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**Submission on Proposed Enhancements To The Stock Exchange Of Hong
Kong Limited's Decision-Making And Governance Structure For Listing
Regulation**

On (A) Policy Development

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Hong Kong does not need increasingly complex regulations

The joint consultation paper published by the SFC and HKEx outlines a proposed plan to reorganize the roles of the exchange and that of the SFC in regards to the listing functions. Throughout the proposal, there is an explicit assumption that even though the current rules and regulations have served Hong Kong's market well, with Hong Kong being the world's top market for initial public offerings in terms of funds raised and number of listings, there is nevertheless a need to introduce changes that are more complex. The Lion Rock Institute disagrees, and upholds our view that whether the markets are indeed becoming more complex or not, the success of the Hong Kong financial markets rest of the principle of positive non-interventionism.

If the SFC and the HKEx believes that the market should develop to suit an increasing variety of participants, whether for the entities seeking funding through listing or for the investors and shareholders, we believe that the best solution is to adopt a policy that allows the markets to be able to provide solutions that can cater to the differences of needs.

The current proposal increases risk of moral hazard

The current proposed changes to the Listing Committee introduces the involvement of the SFC at an earlier stage of the decision to grant listing approval for cases where there are suitability concerns or broader policy implications. It is questionable whether this will introduce a conflict of interest. However, we especially worry that investors may view this new proposed regulation as a heightened seal of approval for the quality of the issuers. The Lion Rock Institute is of the view that this could potentially introduce an increased risk of moral hazard, especially from the perspective of a retail investor.

If the new listing committee that is equipped with backward looking regulations is in some way ineffective in judging suitability concerns or broader policy implications, but investors make decisions on the back of these recommendations, and have to face losses, there could potentially be strong pressures to the government to provide compensation, whether these would be legally justified. Therefore we believe that the new proposed changes could produce an unfunded liability for the government.

Solution: Independent competing stock exchanges

As with any other industries, the Lion Rock Institute strongly believes that an open competition in the financial markets will be the best catalyst for developing policies that will best suit the differing needs of all participants, whether it is financial mediaries or stock and futures exchanges.

Various stock exchanges can have different disclosure requirements, or trading methods. The two main US stock exchanges NYSE and NASDAQ mirrors this approach. Companies seeking to list on these stock exchanges can choose the one that suits their requirements the most, and investors can similar find an exchange that best fit their preferences.

The Lion Rock Institute proposes a change of the current regulations so that one or more stock exchanges can be set up, each with the freedom to develop their own rules regarding listing, trading methods and rules on corporate governance.

Increasing the choice of market participants

The Lion Rock Institute firmly believes that the best way for Hong Kong's financial markets to develop to become more competitive globally and more suitable to the needs of all participants is by inviting open competition between more than one stock exchange. Indeed for most of Hong Kong's history we have had more than one stock exchange, and the same approach can be seen in many other financial centres around the world. Therefore, The Lion Rock Institute strongly urges the government to improve its current regulations to allow for the existence of more than one stock exchange in Hong Kong.