

CONFIDENTIAL



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Corporate Finance Division
Securities and Futures Commission
35/F, Cheung Kong Center
2 Queen's Road Central
Hong Kong

**Response to the Joint Consultation Paper ("Consultation") on
Proposed Enhancements to The Stock Exchange of Hong Kong Limited's
Decision-Making and Governance Structure for Listing Regulation**

Dear Sir/Madam,

We appreciate the opportunity to provide our responses to the Consultation.

About Vanguard

Vanguard Investments Hong Kong Limited's parent company, The Vanguard Group, Inc. ("**Vanguard**"), is the world's largest mutual fund provider and the second largest exchange-traded funds provider. Vanguard, based in Valley Forge, Pennsylvania in the United States, is owned by the US-domiciled Vanguard mutual funds, which in turn are owned by the investors in those funds. This unique US mutual structure aligns Vanguard's interests with those of its investors and drives the culture, philosophy and policies throughout the Vanguard organization worldwide, including Vanguard Investments Hong Kong, Singapore and Japan. As a result, Asian investors benefit from Vanguard's stability and experience, low-cost investing and client-focused strategies. Globally, Vanguard, together with its wholly-owned affiliated investment advisers/management companies, manages approximately US\$3.8 trillion¹ in mutual funds, separately managed accounts and ETF assets. For more specific information about Vanguard Investments Hong Kong Limited, please visit www.vanguard.com.hk.

Vanguard believes that the proposed structural and procedural enhancements to the way in which listing regulation is carried out (the "**Proposals**") will enhance the approval process for initial public offerings ("**IPOs**") and facilitate policy formulation by the Securities and Futures Commission (the "**SFC**") and The Stock Exchange of Hong Kong Limited (the "**Exchange**").

¹ Data as of 31 August 2016



General comments

We believe that the Proposals will enable closer coordination, cooperation and communication between the SFC and the Exchange and are supportive of them. We provide some more detailed comments in respect of the headings as shown below.

Policy development

Under the current regime, the Exchange is solely responsible for making new Listing Rules and listing regulation amendments, subject to the prior approval of the SFC. Under the Proposals, the SFC would be able to provide earlier and prompt input on listing policy matters and listing regulation amendments. It is of increasing significance as more collaboration in terms of market access and connectivity e.g. Stock Connect programs are being negotiated between Mainland China and Hong Kong. With the Listing Policy Committee ("LPC"), we applaud to see more coordinated effort by the SFC and the Exchange on policy formulation.

Listing applications by new applicants

We support the Proposals that IPO applications that do not present suitability concerns or give rise to broader policy implications should be vetted and approved by the Listing Department ("LD") and the Listing Committee ("LC"). In addition, the SFC would no longer issue separate comments on the statutory filings by the new applicants. This should streamline the process for a majority of the IPO applications without jeopardizing the standards and quality of companies to be listed on the Exchange.

Under the Proposals, the Listing Regulatory Committee ("LRC") will only decide IPO applications involving suitability concerns or broader policy implications. In the composition of the LRC, we welcome to see that the Chief Executive of the Exchange will not be sitting at the LRC and will cease to be a member of the LC. With the Exchange playing the role as a frontline regulator for listing matters, it is difficult to justify that there is no inherent conflict of interest. With the introduction of the LRC, it will enable the SFC to participate in the decision-making process for more complex listing applications earlier on in the process. Also, as the LRC comprises of representatives from the SFC and the Exchange, it enables a good "check and balance" in approving listing applications.

Oversight of the listing function

Under the Proposals, the LPC would be responsible for the oversight of listing function and the LD's performance within the Exchange, it would demonstrate clearer accountability as the day-to-day administration of the Listing Rules done by the LD would be assessed by the LPC which will not be involved in the decision making for listing matters. In addition, this governance structure would help the LD to take into account LPC's considerations when vetting and approving IPO applications.

We are also happy to provide the SFC and the Exchange with our further thoughts if needed, so please do not hesitate to contact should you have any follow-up questions.

Yours faithfully,

Lora Yip
Head of Legal and Compliance, Asia
Vanguard Investments Hong Kong Limited