



中華人民共和國香港特別行政區立法會  
LEGISLATIVE COUNCIL  
OF THE HONG KONG SPECIAL ADMINISTRATIVE REGION  
OF THE PEOPLE'S REPUBLIC OF CHINA

**梁繼昌議員 Hon Kenneth Leung**

Corporate Finance Division  
Securities and Futures Commission  
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Hong Kong

11 October 2016

**Re: Consultation Paper on Proposed Enhancements to The Stock Exchange of Hong Kong Limited's Decision-making and Governance Structure for Listing Regulation**

**Introduction**

The Securities and Futures Commission (the "SFC") and The Stock Exchange of Hong Kong Limited (the "Exchange") have proposed structural and procedural enhancements to the way in which listing regulation is carried out.

The consultation paper (the "Proposal") suggests setting up two new committees with equal representation from both sides. The Listing Regulatory Committee (the "LRC") would approve complicated new listing applications while the Listing Policy Committee (the "LPC") would set listing policies.

The proposal claims this will allow the SFC to be involved in the decision-making process at a much earlier stage, and also streamline the the process for IPO applications, making the listing regulatory regime as efficient as possible whilst maintaining standards and quality.

I welcome the efforts between the SFC and the Exchange to improve the efficiency and effectiveness of the listing process and listing policy formulation. The proposals are in the right direction and will be a step towards building a more transparent listing process and ultimately increase investors' confidence in the market.

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## **Streamlining the vetting and approval process for IPO applications**

The proposal suggests that, the power to set listing policies or approve complicated listing applications will be shifted from the existing Listing Committee (the "LC") to the LRC and LPC, and the Listing Department will be responsible for deciding whether an IPO application or a Post-IPO matter has suitability concerns or broader policy implications and, if so, will refer it to the Listing Regulatory Committee for decision.

As a result, the LC will continue its role as the decision-maker for IPO applications and matters involving listed issuers that do not involve suitability concerns. The SFC will no longer as a matter of routine issue a separate set of comments on the statutory filings made by new applicants.

I am of the opinion that this will allow for more efficient decision-making given the majority of cases are expected to not involve suitability concerns.

## **Removal of the Chief Executive of the Exchange from the Listing Committee**

Given the Exchange's status as a profit-making listed corporation, the current composition of the LC which allows the Chief Executive of the Exchange to act as an ex-officio member has been perceived as a potential conflict of interest.

Any move to give investors confidence that our markets are both transparent and independent should be necessary.

## **Concerns of too much power residing with the SFC**

There have been concerns that the proposed reforms will give the SFC too much power over listing regulations as the power to approve complicated listing applications and set listing policies will be shifted to the LRC and LPC.

I do not believe such enhancements will vest excessive power with the SFC. The existing LC will continue to be the decision-maker for the majority of IPO applications, approving listing applications and rejecting unsuitable candidates. Also, under the current arrangement, the SFC

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already has a veto over new listings. The SFC and the Exchange will continue to retain their separate powers and functions as provided by the SFO and the listing rules.

By giving the SFC and the Exchange equal representation at the new committees, this allows the former to scrutinize companies at an earlier stage than now, without taking away the daily functions of the LC and the Listing Department.

### **Questions and concerns**

As mentioned, the proposal suggests the Listing Department will decide whether an application has suitability concerns or broader policy implications. It is important for the SFC and the Exchange to clarify the mechanism under which a suitability concern is flagged and under what circumstances will the issue be referred to the LRC.

I would also like the SFC and the Exchange to clarify whether the SFC will retain a veto, *de jure* or *de facto*, over the LC's decisions on applications not under the LRC's prerogative. It would benefit myself and the public if the authorities can provide a detailed flowchart of depicting the proposed decision-making process.

Finally, the proposal states that the LRC and the LPC are expected to make decisions on a consensus basis, and if no such consensus can be reached, a majority vote shall be held where the chairperson will not have a casting vote. Since the committees are meant to have equal representation from the SFC and the Exchange, and the chairperson of the LC will be the chairperson of the LRC and the LPC, it appears that the SFC will have the *de facto* authority to make final decisions. I would appreciate it if the SFC and the Exchange could comment on whether this arrangement is justified and favourable for the development of Hong Kong's listing policy.

### **Conclusion**

The proposed reform would be a positive step to allow the SFC to work closely with the Exchange to handle listing regulations. The involvement of the SFC at an earlier stage of scrutiny against listing applications will enhance the reputation and quality of Hong Kong's markets and

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achieve the transparency and accountability that will give global investors the confidence to bring their capital to Hong Kong.

Yours sincerely,

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