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October 21, 2016

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

Corporate Communications Department
c/o HK Exchanges and Clearing Ltd
12/F, One International Finance Centre
1 Harbour View Street
Central, Hong Kong

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

Dear Sirs;

On behalf of the Principal Financial Group, I wish to express our support for the proposals as outlined in the Consultation Paper.

As part of the buy-side community with a global focus on pension funds and other long-term investment mandates, Principal feels a responsibility to our clients on whose behalf we invest and manage funds. We believe that the proposals represent a step forward in enhancing the governance structure of the Listing Regime and are consistent with the Principles of Responsible Ownership.

Open and transparent discussions help to ensure and reinforce investor confidence in the markets in which they invest. Maintaining Hong Kong as a premier investment center requires we consider the best interests of investors and provide clarity and certainty about accountability.

The task of vetting an initial public offering (IPO) should be vested with the SFC. This will ensure that investor interests will prevail over commercial or other considerations. In markets such as the US and UK, the gate-keeper role is vested with the regulator, not with the exchanges. The proposals put forward by the Consultation Paper are in line with global best practices.

Hong Kong already has a regime whereby mutual funds are approved by the SFC before they can be marketed to the general public. This arrangement has not reduced the volume of activity; rather Hong Kong has been able to offer a broad range of funds (with over 2,000 authorized funds). It is because of the confidence built into this structure that Hong Kong and Mainland China have been able to successfully launch the Mutual Recognition of Funds regime. Thus, aligning the regulatory approach for stocks with funds is a natural step to ensure a consistent listing approach. If funds, which are generally well diversified and have a range of stringent investor protection mechanisms (oversight of trustees/custodians, segregation of assets, and

fiduciary duties to investors), have to be vetted by the SFC, we do not see why a lighter approach should be adopted for listed securities.

Based on our experience in the fund approval process, we feel the SFC is receptive to market views and is ready to work with the industry to come up with a framework that is practicable and pragmatic. The launch of the streamlined fund approval process last year is an example. We do not see any compelling reason why this pragmatic approach will not be applied to the listing regime.

Regardless of the regulatory structure and approval process it is imperative that the appropriate vetting of IPOs is done upfront. Taking remedial actions afterwards including enforcement actions, does not cure the reputational damage done to the market or the loss of investor faith. We have seen this situation played out repeatedly in the banking industry globally.

Certain practices which have become more rampant (e.g. shells, backdoor listing, reverse-takeover and prolonged suspensions) may provide flexibility in raising capital or restructuring companies. However, to attract pension funds and other long-term investors, it is important that the framework is in place to ensure the quality (rather than the quantity) of IPOs if Hong Kong wishes to remain a respected international financial center.

We hope that SFC and the HKEx have the commitment to implement the proposals outlined in the Consultation Paper in order to ensure investor interests are the first priority.

Yours sincerely

Arthur Bacci
Vice President