

Re: Joint Consultation Paper on Proposed Enhancements to The Stock Exchange of Hong Kong Limited's Decision-Making and Governance Structure for Listing Regulation – Submission in support of the proposals

1. Reference is made to the Joint Consultation Paper of June 2016 on the above topic. Words and expressions used herein shall have the meanings set out therein.
2. In my submission, there are issues with the quality of Hong Kong's IPOs. While I could understand why regulators, namely the SFC and HKEX, would not want to talk down the Hong Kong market by highlighting these problems, nevertheless, we should do so. Otherwise, the need for the proposals becomes unconvincing. It could also easily lend to the approach that 'why fix something when nothing is broken', when in fact there is something breaking and we should avoid it becoming broken.
3. As industry practitioner, I submit that there are definitely quality problems with Hong Kong's IPOs that need fixing. At a recent regulatory forum, an SFC regulator suggested that on frauds and misfeasance alone related to listed companies, some HK\$200 billion has recently been wiped off Hong Kong's market capitalisation. I leave it to the regulators to identify and articulate these under further consultations. I could only add that the challenges would become more acute with cross border deal flows with China, where there are differences in governance standards and the ways of doing things. I submit that Hong Kong cannot afford to sit on its laurels but needs to face up to the challenges, and the reforms under the proposals are in the right direction.
4. That is, the choices now are to keep things as they are, or to take on an incremental approach to make the market more regulated under the proposals. I submit that in line with global trends that there is need to move towards a more regulated market which is also conducive of good governance. I submit that for Hong Kong to prevail in the long term, it must not adopt a short term business focus, but rather to seek to develop and reinvent itself as a world leading and properly regulated market to attract the right sorts of IPOs. As such, I support the proposals, and believe that it will attract the right quality of IPO for the Hong Kong market.
5. In addition to the proposals, I would submit that we need innovation. For example, in Alibaba's case, the essential issue was investor protection. The context is that we do not have class actions in Hong Kong. If so, why not require Alibaba to claw back part of its IPO proceeds to set up a fund, for say a panel of retired judges to decide whether minority shareholders could call upon it to bring actions against the listed company under defined circumstances. The risk exposure to Alibaba could be dealt with by requiring it to buy insurances as it would have done under a US listing. If these were done, they would have allowed for the Hong Kong market to get as close as possible to a voluntary class action regime. This for example is a thought relating to innovation and by no means a proposal. The point is that we need to continually innovate or face decline. In this regard, the Listing Policy Committee (LPC) under the proposals could lead the efforts for the long term policy developments of Hong Kong.
6. In terms of the details of the proposals, to focus on the 'big picture', I have only one high level comment. That is, we must respect the Listing Committee members as they are industry experts and have contributions to make. Therefore, if we are taking an

incremental approach to enhancing governance as proposed under the proposals, we must clearly define the crux of the issue, that is, what are problem IPOs in terms of suitability and/or policy related requirements. In this connection, the processes under the proposals are not detailed enough and need further considerations.

7. I would submit that in this regard we should primarily let the Listing Committee decide what IPOs have what suitability and/or policy considerations, and for the SFC only to intervene in the last resort to reject an IPO in accordance with its statutory powers under the current regime. If this approach is adopted, we offer the Listing Committee members utmost trust and respect, and yet allow the SFC to effectively discharge its functions as regulator of HKEX.
8. In summary, I support the proposals, including the formation of the Listing Regulatory Committee (LRC) subject to the observations in paragraph 7 above, as well as the LPC. I further hope that the LPC would contribute to the development of long term policy perspectives to make Hong Kong a world class and quality and regulated market. Additionally, I would like to see the LPC become a driver of innovation. The LPC must become more active than reactive as is presently the case where Listing Committee members cannot be expected to provide the time commitment to delve into long term policy perspectives but only react to proposals presented to them.

In summary, I support the proposals for the long term good of Hong Kong's IPO market. I would like to highlight that the proposals were jointly made by both the SFC and HKEX, meaning that in their collective wisdom, that the reforms under the proposals are required. I defer to that wisdom for Hong Kong to become a quality and regulated market to attract the right sorts of IPOs. This is necessary for Hong Kong's long term and sustainable development of the IPO market.