

Dear Sir/Madam,

I am writing to oppose the joint consultation paper as it will harm Hong Kong's position as an international financial centre.

Proposed Structures Destroy the Proven Three-tier Regulatory System

The proposed structures are a drastic change to the existing listing regulatory regime of Hong Kong and will shake the foundation of our system upon which our market success has relied. It is not a fine-tuning of the existing structure.

The proposed structures give SFC the front- and back-line regulatory authority without check-and-balance of its all-encompassing power.

Compositions of the Listing Policy Committee (LPC) and Listing Regulatory Committee (LRC) Tilted to Give SFC Dominant Control

At the core of the proposals is the creation of two new committees: The Listing Policy Committee ("LPC") and Listing Regulatory Committee ("LRC"). On the surface, SFC and HKEx have equal representation in these committees, but in effect SFC has a dominant control. Of the eight members of LPC, four are from SFC (Chief Executive Officer, Executive Director and one Senior Director of the Corporate Finance Division and Chairperson of the Takeovers Panel – appointed by the Chairman of the SFC) and four from HKEx (Chief Executive and Chairperson and two Deputy Chairpersons of the Listing Committee ("LC")). The LRC is composed of 6 members with three from the SFC (Executive Director and two Senior Directors of Corporate Finance Division) and three from the Exchange (Chairperson and two Deputy Chairpersons of the LC).

While nominally there is equal participation, SFC has great influence on who can become members of these committees. It should be noted that all appointments to the LC are made by the Listing Nominating Committee ("LNC"), composed of three non-executive directors of the Board of the Exchange and the Chairman and two Executive Directors of the SFC. The LNC also nominates the Chairperson and the two Deputy Chairpersons of the LC. As such, the SFC has effective veto power over who can become the LC Chairperson and Deputy Chairpersons. Through this veto power, the SFC can control who will eventually enter the LPC and LRC, thus ensuring it will have a dominant influence in these committees.

Slowing Down of Market Development

The primary role of the SFC is to regulate and not to lead market development. The disadvantage of SFC playing frontline gatekeeper (in a SFC-led set-up) is that the regulator mindset will dominate and shut out companies and innovations based on subjective and conjectural beliefs. This was clearly warned against in the Ian Hay Davison Report (1988) when the SFC was set up. This is not beneficial for overall market progress and international competitiveness of our market as an international financial centre.

The proposed structures will concentrate power in a few hands under control of SFC which is regulator-minded. This mindset will tend to be risk-averse and protect the regulator by shutting off the door to many companies, or raising the threshold to such high level that less and less listings will be attracted to Hong Kong. This would compromise Hong Kong's position as an international financial centre. The same goes for new types of investment products.

The regulator mindset that would take center stage in the proposed structure would lessen the focus on market development for Hong Kong. This is the future of Hong Kong as an international financial centre. We are getting severe competition from the mainland's and other exchanges, and we must open the market more, instead of shutting it.

Without counter-balance and being lopsided towards the SFC, the proposed structures would only accentuate the regulator mindset which is not conducive in developing the market and products. Eventually, Hong Kong would slowly diminish its significance as an international financial centre.

Conclusion

I object to the proposals in that they give SFC all-encompassing control over regulatory and listing matters, with power concentrated in a few hands without proper checks and balances; they are detrimental to market development, where decisions are made in a small-circle without valuable market input. I worry that the regulator-mindset would stifle the market if the proposal is enacted.

Collectively, these will harm Hong Kong's position as an international financial centre. Therefore, I propose that the current three-tier regulatory structure be continued and that the current proposals are not necessary, will not enhance the regulatory regime and will move our market backward and not forward. The current regime has worked well for the past and there is no reason to change it in particular, to a new regime that may harm the position of Hong Kong as an international financial centre.

Yours faithfully,