

The AIMA logo consists of the letters "AIMA" in a white, sans-serif font, centered within a dark grey square.

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AIMA Response on Proposed Enhancements to the Exchange's Decision-Making and Governance Structure for Listing Regulation

Dear Sirs

The Alternative Investment Management Association ("AIMA")¹ welcomes the invitation to comment on the joint consultation by the Securities and Futures Commission (the "SFC") and the Stock Exchange of Hong Kong Limited ("HKEX") entitled "Joint Consultation Paper: Proposed Enhancements to the Stock Exchange of Hong Kong Limited's Decision-making and Governance Structure for Listing Regulation" (the "Consultation") dated June 2016. As the truly global representative of the alternative investment industry, AIMA Hong Kong represents the vast majority of the leading hedge fund managers in Hong Kong, and on behalf of AIMA, we have set forth below our observations and comments on certain of the proposals ("Proposals") included in the Consultation.²

¹AIMA is the global representative of the alternative investment industry, with more than 1,700 corporate members in over 50 countries. AIMA has an active influence in policy development and provides leadership in industry initiatives such as educational programmes and areas of sound practices. AIMA has developed long-term relationships with regulators worldwide and has built a close collaboration with many investors in alternative funds. AIMA provides a vibrant global network for its members. Its primary membership is drawn from the alternative funds industry whose managers pursue a wide range of modern asset management strategies. AIMA's manager members collectively manage more than \$1.5 trillion in assets. AIMA is committed to developing industry skills and education standards and is a co-founder of the Chartered Alternative Investment Analyst designation (CAIA) – the industry's first and only specialised educational standard for alternative investment specialists. For further information, please visit AIMA's website, www.aima.org.

² Unless otherwise defined, terms used in this response have the same meaning given to them in the Consultation.

The issues raised by the Proposals are important ones, and in particular we applaud the significant efforts of the SFC Corporate Finance team in designing and leading the Consultation. There has been a wide range of constructive views expressed publicly on the Proposals by market participants and stakeholders over the last several months, as well as formal responses submitted; AIMA has sought to review and consider carefully many of these views.

We have reviewed numerous responses and comments by market participants and stakeholders including, *inter alia*, by Mr. David Webb dated 6 September 2016; by the Financial Services Development Council ("FSDC") dated 9 September 2016; by the Law Society of Hong Kong dated 13 September 2016; and by the law firm Charltons dated 18 November 2016. We have also reviewed the response to the Consultation submitted by the Asia Securities Industry and Financial Markets Association ("ASIFMA") dated 19 October 2016 which ASIFMA has kindly shared with us.

Mr. Webb, the FSDC, the Law Society, Charltons and ASIFMA all make smart, valid points and suggestions that should be carefully considered.

We wish to highlight a few points:

- We agree generally with the stated objectives of the Proposals as set out in the Consultation, namely, to streamline and enhance efficiency, transparency, and accountability for decision making with respect to listings in Hong Kong; that the SFC and the HKEX should work together to improve the overall quality and transparency of the listing process and of the listings themselves, and to strengthen investor protection; that a robust regulatory regime is fundamental to the development and growth of an international asset management centre and welcome the SFC's commitment to strengthening Hong Kong's position in this space; and that greater involvement of the SFC in the process of initial public offerings, if done appropriately, can lead to a further improved quality of listings in Hong Kong.
- We agree with ASIFMA that the existing regulatory regime for new listings in Hong Kong has generally served the market well in providing an efficient platform for deciding listing applications and listed issuer matters, while simultaneously maintaining the quality and reputation of the market. The overall history of listings in Hong Kong has generally been positive, and Hong Kong's positive international reputation is a testament to the strength of the regulatory regime in place as overseen and carried out by the HKEX and the SFC.
- We echo the point made by the FSDC and others that any reforms of the current listing regime must take into consideration competitiveness concerns recognising the global nature of capital markets today. AIMA believes that the new listing regulatory framework must get the balance right between maintaining Hong Kong's attractiveness as an international capital raising centre while upholding the high regulatory standards that Hong Kong is known for.
- We believe that credit should be given to the HKEX and to the Listing Committee ("LC") for their performance to date. The LC is independent of the HKEX, and each LC member must be approved by the SFC. The LC committee members, who represents a wide range of market participants (including fund managers) and have deep market expertise, put in substantial time and efforts in performing their duties, and do so professionally, diligently, and intelligently. We believe the new listing regulatory framework should aim to retain and transform for the better, the best elements from the present decision-making and governance structure under which the LC has a central role, in a manner that gives due and proper recognition to the front-line market experience of members of the LC.
- However, to the extent that there is any remaining perception of conflict of interest in approving listing applications, then it should be addressed. Even though the risk of actual conflict may be low because the SFC is involved in all steps in the Listing process and can veto any listing application, removing any risk of conflict is welcomed by AIMA, and to the extent that the proposal to remove the HKEX CEO from the LC may reduce that appearance of conflict, then it would seem reasonable to do so.

- Moreover, as ASIFMA and others have suggested, if the Consultation's broad objectives could be better achieved by a simpler solution, then that alternative should be evaluated and considered. For example, if adding SFC representatives to the existing LC -- as either observers, who could articulate the views of the SFC during LC deliberations, or as regular LC members, who could participate in the LC decision making process - then AIMA would be in favour of that more streamlined approach. In any case, the SFC would retain its existing statutory veto power.
- Finally, we agree with other commentators such as Charltons that it is imperative that enhanced resources are allocated for active surveillance and monitoring of issuer, promoter, and sponsor post-listing activities and conduct including suspected price rigging of "shell companies" and reverse takeovers. Recent comments by senior SFC officers and directors have made clear that the SFC intends to commit more resources to such surveillance, monitoring and enforcement efforts, which AIMA welcomes and applauds.
- We also believe that efforts should continue to be spent on post-listing enforcement and delisting long suspended companies, both of which the SFC and the HKEX have focused efforts on over the past year.

We are optimistic that the Consultation will be a fruitful exercise that will allow Hong Kong to continue to maintain its prominent global capital markets status.

We are grateful for the opportunity to comment on the Proposals and would be pleased to discuss our comments in further detail in person. Thank you.

Yours faithfully,

Kher Sheng Lee
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 Co-Head of APAC
 Deputy Global Head of Government Affairs