EY 安永
Building a better working world

Ernst & Young
27/F, One Taikoo Place
979 King's Road
Quarry Bay, Hong Kong

安永會計師事務所
香港鰂魚涌英皇道 979 號
太古坊一座 27 樓

Tel 電話: +852 2846 9888
Fax 傳真: +852 2868 4432
ey.com

19 March 2025

BY HAND AND BY EMAIL

Corporate and Investor Communications Department
Hong Kong Exchanges and Clearing Limited
8th Floor, Two Exchange Square
8 Connaught Place
Central
Hong Kong

Dear Sirs,

Consultation Paper on Proposals to Optimise IPO Price Discovery and Open Market Requirements

Ernst & Young is pleased to respond in this letter to the request of The Stock Exchange of Hong Kong Limited for feedback on the Consultation Paper. Terms used in this letter shall have the same meanings as in the Consultation Paper.

We welcome the Exchange's holistic reform of its regulatory framework relating to the IPO price discovery process and open market requirements to enhance market liquidity and to strengthen the competitiveness of the Hong Kong stock market.

Set out below are our comments on the key proposals:

Open market requirements

Calculation of public float

We agree with the proposal to adopt a "class-based approach" by counting only shares listed on the Exchange held by the public. The numerator should only include shares that contribute to an open market in trading on the Exchange.

Initial public float

We agree with the proposal to make Hong Kong more competitive whilst maintaining sufficient public float. The proposal would increase certainty for mega cap listing applicants. The use of a more progressive approach and a "floor" market value in the proposed thresholds would also remove unfairness for new applicants on either side of the existing HK$10 billion market capitalisation threshold for a lower initial public float.

Initial free float

Having a free float requirement will ensure sufficient liquidity upon listing. According to the Consultation Paper, some international stock exchanges also adopt 10% as the initial free float threshold. It also makes sense to set the proposed alternative threshold at HK$600 million which represents 10% of HK$6 billion, the proposed Tier A market value threshold used to determine the initial public float thresholds in the initial public float proposal.

A+H issuers

We are supportive of the proposals relating to A+H issuers which aim to make Hong Kong a more attractive listing venue, in line with the Hong Kong Government's initiative to encourage large scale Mainland enterprises to list in Hong Kong. We note that the proposal seeks to ensure that a smaller offer size, that better suits A+H issuers' commercial requirements, still represents a meaningful amount to attract a "critical mass" of investor interest in Hong Kong. The proposal may also provide regulatory certainty to mega cap A+H issuers instead of relying on case-by-case waivers.

Ongoing public float

Having considered the issues identified in the Consultation Paper, we agree that it makes sense to lower the ongoing public float requirements and to require annual report disclosure to provide more transparency. As the market value of the listed issuer's shares changes every day for a variety of reasons, it is not as straight forward as setting percentages and "floor" market values in the proposed initial public float thresholds. Any multi-factor criteria for determining the minimum ongoing public float may have to be assessed over a period of time, and this may have an impact on the detailed requirements of the proposed annual report disclosure - i.e., the public float percentage disclosed may also have to cover the aforesaid period (not just the position as at the end of the financial year). As for the proposed disclosure of shareholder composition, we consider that it would be sufficient to disclose the composition as at the financial year end.

OTC market

The OTC market concept is worth exploring. An OTC market (or "pink sheet" market) may provide venue for shareholders to offload delisted shares but, in light of the light-touch regulation, retail investors may be allowed to sell only. The Exchange should conduct thorough soft consultations with the relevant market participants to gauge the anticipated functions and liquidity of such a market. Any additional function such as an on-ramp board for start-ups should be considered as part of a holistic structure of the market along with GEM.

IPO offering mechanism

Regulatory lock-up on cornerstone investment

First of all, we agree to the need for a regulatory lock-up because the purpose of cornerstone investment is to demonstrate the confidence of the cornerstone investor in the success of an IPO and the long-term prospects of the IPO issuer, and because of the view by many stakeholders as a fair "quid pro quo" for the guaranteed allocation of IPO securities received by cornerstone investors.

We note the rationale and views set out in the Consultation Paper to support either retaining the existing six-month lock-up (Option A) or allowing a staggered release of the six-month lock-up (Option B: all subject to a three-month lock-up and 50% subject to another three-month lock-up). Option B allows more flexibility from a regulatory point of view and cornerstone investors would continue to be allowed to enter into voluntary lock-up arrangements (staggered or unstaggered) that are longer than that required by the Exchange. According to the Consultation Paper, some stakeholders considered that a staggered lock-up release arrangement would alleviate the impact of sharp share price volatility on the release of the lock-up and improve post-listing liquidity; whilst other stakeholders considered that multiple releases of lock-up shares would result in an increased risk of volatility caused by more frequent triggers of an "overhang" of shares. We also note the arguments on both sides as to whether relaxing the regulatory lock-up requirement is instrumental in attracting more cornerstone investments from independent institutional investors. We consider that both options have their merits and either one may be adopted.

Bookbuilding placing tranche

We agree with the proposal that at least 50% of the total number of shares initially offered in an IPO be allocated to investors in the bookbuilding placing tranche. A meaningful allocation to the bookbuilding placing tranche would help optimise IPO price discovery as bookbuilding placees are key "price setters" in an IPO.

We also agree to remove the guideline that there should not be less than three holders for each HK$1 million of the placing, with a minimum of 100 holders in an IPO placing tranche. We share the Exchange's belief that the existing minimum shareholder spread requirement (i.e., 300 shareholders for Main Board and 100 shareholders for GEM) is sufficient to ensure an adequate spread of holders of the securities as at listing, and that it is unnecessary to impose a separate and additional minimum spread for an IPO placing tranche. The Exchange also notes that, in practice, an issuer may meet the requirement by placing a small number of shares with many holders without meaningfully increasing the spread of shareholding.

Public subscription tranche

We agree with the proposal to reduce the mandatory portion allocated to the public (the "price takers") and to provide flexibility to choose between two mechanisms (with or without clawback).

The clawback mechanism rules were introduced 27 years ago, and retail participation in IPOs has been decreasing considerably since then. Most other international stock exchanges do not prescribe any such minimum allocation requirement or impose any mandatory clawback mechanism requirement.

Pricing Flexibility Mechanism

We agree with the proposal to allow upward pricing flexibility without additional costs and time delays, provided that appropriate disclosures are made in the listing document.

We also agree with the proposed adoption of an offer price adjustment limit of 10% in both directions (as opposed to a 10% downward adjustment only in the Existing Pricing Flexibility Mechanism) to help ensure that the initial offer price range can give a meaningful indication of the final offer price. As for the proposed initial offer price range, we find it equally acceptable to either adopt Option A (i.e., to keep the maximum top-end price at 30% above the low-end offer price as in the Existing Pricing Flexibility Mechanism) or Option B (i.e., not more than 20%, resulting in narrower initial offer price ranges that provide more certainty as to the final offer price).

Should you have any questions on our comments, please do not hesitate to contact our Professional Practice Partner in Hong Kong, [redacted]

Yours faithfully,

[redacted]

Certified Public Accountants
Hong Kong