



香港女律師協會有限公司
HONG KONG FEDERATION OF WOMEN LAWYERS LIMITED

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Date: 19 March 2025

Submission to the Hong Kong Stock Exchange on the Consultation Paper: Proposals to Optimise IPO Price Discovery and Open Market Requirements

Introduction

The Hong Kong Federation of Women Lawyers (the “**Federation**”) appreciates the opportunity to provide feedback on the Hong Kong Stock Exchange's (“**HKEx**”) consultation paper titled “Proposals to Optimise IPO Price Discovery and Open Market Requirements.” We commend the HKEx for its efforts to enhance market liquidity and improve the overall efficiency of the IPO process. Our submission outlines our support for the proposed changes and highlights specific areas where we believe the proposals will have a significant positive impact and align better with international standards.

General Support for Proposed Changes

The Federation is generally supportive of the proposed changes outlined in the consultation paper. We believe that most of the proposals will contribute to improving market liquidity and ensuring a more robust and transparent IPO process and issuers will have an appropriate level of shares in public hands. In particular, we appreciate the efforts to address issues related to cornerstone investors, share pledging, and the allocation of shares in the placing tranche.

Public float

We support the proposals to allow a reduction of the public float of an issuer at IPO with reference to the size of market capitalisation. We also support the changes to the calculation of public float by only considering the shares which are traded in Hong Kong for the numerator, and that the denominator should only include shares of the same class.

As for ongoing public float requirements, in the light of the number of issues arising out of the current requirement to maintain the same percentage of public float as for its IPO, we welcome the opportunity for the Stock Exchange to consider adjusting the public float requirement by reference to a minimum market capitalisation of the shares in public hands, rather than a percentage of the issued share capital. This would help set a balance between providing flexibility to issuers while preserving market liquidity.



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Cornerstone Investors and Lock-Up Periods

We acknowledge that cornerstone investors can take up to 80% of the issued shares in some circumstances, and these shares are currently locked up for at least six months. While this lock-up period helps to stabilize the market initially, it can also limit liquidity. We support the proposal to relax the current regulatory lock-up period to allow part of the shares held by cornerstone investors to be sold off after three months to reduce the share price volatility upon the expiry of the lock-up period. This staggered lock-up release will help maintain an active market after listing while still providing some stability during the initial period, as well as mitigating the potential share price volatility upon lock-up expiry.

We are aware that in some major markets, such as the United States, cornerstone investors are not subject to any lock-up period. However, we believe that the proposed three-month lock-up period strikes a reasonable balance between market stability and liquidity.

Share Pledging

The ability of shareholders to pledge their shares from the first day of listing can affect market liquidity. We support the introduction of mechanisms to maintain an active market after listing, as proposed in the consultation paper. These mechanisms will help ensure that the market remains liquid and that shares are available for trading, which is crucial for the overall health of the market.

IPO Price Discovery

We find the proposed price range for IPO price discovery to be appropriate. The approach aligns with practices in other markets, such as Korea and the United States, and will help ensure that the final offer price reflects actual market demand. This will contribute to a more efficient and transparent pricing process and ensure that the final offer price will more accurately reflect market conditions and investor sentiment which will then benefit both issuers and investors.

We also welcome the proposal to allow upward pricing flexibility and to adopt an offer price adjustment limit of 10% in both directions to allow more effective price discovery and enhance market efficiency by removing the significant delay in listing timetable in the event of pricing an IPO above the initial offer price range. However, we are also aware that certain institutional investors may take a different view towards the proposed upward pricing adjustment mechanism. From the perspective of institutional investors, the ability to adjust pricing upwards following book building allows opportunistic pricing by taking advantage of the information asymmetry between the issuer and investors. A robust investor engagement and price



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discovery process following A1 filing and prior to book building should be sufficient to determine a price that is based on fundamentals. We believe this is the majority buy-side view that has emerged. Therefore, we hope the HKEx will take a balanced approach and take into consideration interests of investors or shareholders of different fields.

Allocation to the Placing Tranche

The proposal to ensure a minimum 50% allocation of shares initially on offer to the bookbuilding placing tranche is a positive step. This will help ensure that a significant portion of shares is allocated to investors who participate in the price discovery process, leading to a more accurate determination of the final offer price and mitigating the chances of mispricing.

However, we note that while this proposal carries good intent, it may restrict the listing of some companies and could be challenging to implement. We recommend that the HKEx consider providing additional guidance or flexibility to address potential implementation challenges.

Conclusion

In conclusion, the Federation supports the proposed changes outlined in the consultation paper. We believe that these changes represent a holistic reform of HKEx's regulatory framework and will enhance market liquidity, improve the IPO process, contribute to the overall health of the Hong Kong securities market and enhance the competitiveness of Hong Kong as a listing venue for existing and prospective issuers. We appreciate the opportunity to provide our feedback and look forward to the successful implementation of these proposals.

Yours sincerely,

