

Via E-Mail: response@hkex.com.hk

August 4, 2017

Hong Kong Exchanges and Clearing Limited
12/F, One International Finance Centre
1 Harbour View Street
Central
Hong Kong

Re: New Board Concept Paper

Dear Sir or Madam:

I am writing in response to the solicitation for feedback requested by the New Board Concept Paper.¹ The Council of Institutional Investors (CII) welcomes the opportunity to offer its views on the Concept Paper. CII is a nonprofit, nonpartisan association of public, corporate and union employee benefit funds, and other employee benefit plans, foundations and endowments with combined assets under management exceeding \$3 trillion. Our member funds include major long-term shareowners with a duty to protect the retirement savings of millions of workers and their families. Our associate members include a range of asset managers with more than \$20 trillion in assets under management.²

Summary of the proposal

As we understand, HKEX is considering the merits of a broadly outlined, “straw man” Stock Exchange of Hong Kong Limited (SEHK) concept to introduce a new listing venue to accommodate a wider range of companies that do not currently qualify for listing with HKEX. These companies include companies with “non-standard” governance features, non-profitable companies and Mainland Chinese companies that wish to secondarily list in Hong Kong. The purpose of the new venue, called the New Board, would be to segregate newly eligible listings from Hong Kong’s two existing boards: the Main Board and Growth Enterprise Market (GEM), created during the tech boom of the 1990s.

Under the proposal, the New Board would be divided into two segments. New Board PRO would be open only to professional investors and listings would be targeted to early-stage companies that do not meet financial or track record criteria for GEM or the Main Board. New Board PREMIUM would be open to both professional and non-professional investors. It would target companies for listing that that would qualify for listing on a traditional HKEX board, with the exception of having non-standard governance practices.

¹ See HKEX New Board Concept Paper at <https://www.hkex.com.hk/eng/newsconsul/mktconsul/Documents/cp2017061.pdf>.

² For more information about the Council of Institutional Investors (“CII”), including its members, please visit the CII’s website at <http://www.cii.org/members>.

As a separate but related matter, the HKEX Listing Committee proposed in June to amend certain listing requirements for the GEM and Main Board.³ That more formal proposal would elevate some GEM and Main Board listing requirements, including market capitalization and free float minimums, opening the possibility of a more pronounced line of demarcation between those boards and the potential New Board. Of note, the consultation does not contemplate improving governance requirements for GEM or Main Board companies.

CII Comment

We have significant concerns on the creation of a New Board that would create a path for companies that do not meet robust Main Board and GEM standards to list with HKEX. We believe that in the long-term, this will undermine, not support, the basis on which HKEX has become “highly successful” as a “leading IPO venue,” as the Concept Paper describes the current situation. We believe it is a mistake for HKEX to follow other exchanges, including those based in the United States, in a competition to offer reduced standards around public listings, whether through dilution of Main Board and GEM standards or through creation of a new, low-standard board.

In particular, we believe that reduced listing qualifications related to corporate governance and voting rights, including the allowance of “equity” with unequal (or “weighted”) voting rights, would have long-term negative consequences for HGEX, and more importantly for the performance of listed companies and for investment returns. The proposal would foster creation of classic principal/agent problems. The new board may be appealing to managers who wish to access public markets while creating mechanisms to insulate themselves from accountability to public shareholders. As such, the proposal may succeed in attracting additional listings in the near-term. But fallout from lack of accountability in our view is likely in the longer-term to harm investors, as well as the reputation of HGEX as an IPO listing venue, notwithstanding the attempt to “ring-fence” low standards through use of a third board.

We believe the “straw man” proposal put forward in this concept paper is narrowly focused on attracting listings in the near-term, and it appears to us that insignificant consideration has been given to the impact that the proposal could have on company performance and investors in the longer-term. Our preference is for HKEX to maintain high standards on corporate governance and voting rights.

Thank you for consideration of our views. If we can answer any questions or provide additional information on this important matter, please do not hesitate to contact me at 202.822.0800 or ken@cii.org.

Sincerely,



Kenneth A. Bertsch
Executive Director
Council of Institutional Investors

³ See HKEX Listing Committee Consultation at <https://www.hkex.com.hk/eng/newsconsul/mktconsul/Documents/cp2017062.pdf>.