

Think Ahead

ACCA

Corporate Communications Department
c/o Hong Kong Exchanges and Clearing Limited
12/F, One International Finance Centre
1 Harbour View Street
Central, Hong Kong

18 November 2016

Dear Sir \ Madam

Re: Consultation Paper on Proposed Enhancements to The Stock Exchange of Hong Kong Limited (Exchange)'s Decision-Making and Governance Structure for Listing Regulation

On behalf of ACCA (the Association of Chartered Certified Accountants) Hong Kong, we are writing to submit our comments regarding the above consultation paper for your consideration.

We agree in principle that there should be structural and procedural enhancements to achieve closer coordination and cooperation between the Securities and Futures Commission (SFC) and the Hong Kong Stock Exchange (HKEx) and to provide the SFC with earlier and more direct input on policy matters and listing regulation. We support regulatory changes that bring Hong Kong in line with international practice and further consolidate Hong Kong as a global financial centre.

The existing Listing Committee (LC) includes representatives of investors, listed companies and market practitioners. Members of the LC enable the HKEx to draw on the commercial and business knowledge and experience of market users for policy formulation and regulatory decision-making.

The composition of the LC ensures that balanced views, interests and concerns of different stakeholders would be taken into account when formulating policies and making listing decisions. The proposals will have the effect of significantly reducing the power of the LC. The SFC and the HKEx should carefully consider the implications of the proposals on retaining and attracting talents to serve on the LC in future.

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Set out below are our comments on the proposals.

(a) Policy development

We agree to the setting up of the Listing Policy Committee (LPC) to steer the Exchange's work on Listing Rule amendments and overall listing policy, and its role as the "one-stop shop" to respond to policy issues. We also agree that it would be more efficient to involve the SFC upfront in the policy setting and development process.

(b) Listing applications by new applicants

ACCA Hong Kong welcomes any proposed changes that will simplify the listing approval process to increase the competitiveness of the Hong Kong market.

The mechanism involving the new Listing Regulatory Committee (LRC) should be well thought through to ensure that this will in reality simplify the decision-making process and make it more straightforward and efficient from the market's perspective.

It is proposed that the LRC will vet IPOs that have suitability concerns or broader policy implications (LRC IPO cases) and that the Listing Department will decide whether an IPO application is an LRC IPO case. HKEx has issued guidance letters and listing decisions to provide guidance to the market on suitability for listing of an IPO applicant. We note that the guidance is still subject to subjective interpretation by the Listing Department. With its performance appraisal at stake, there may be a tendency for the Listing Department to refer many more cases to the LRC than the regulators envisage.

We suggest HKEx and SFC to issue more detailed guidance with clear and precise definitions of "suitability concerns or broader policy implications" and specifying the assessment criteria of the type of cases that would be referred to and assessed by the LRC. This would allow proper allocation of LRC IPO cases by the Listing Department (see alternative below). The enhanced transparency will also allow market practitioners and new IPO applicants to estimate the time and effort to be involved in the listing process and be prepared for it.

Under the proposals, the Listing Department will have the responsibility to decide whether the IPO applications are LRC IPO cases and refer them to the LRC directly, though the LC is still required to give non-binding view on the LRC IPO cases. Entrusting the Listing Department with the responsibility to decide on such referrals does not improve efficiency as it has to present LRC IPO cases to the LC anyway, before presenting the same to the LRC. We suggest that the Listing Department should segregate all IPO applications into two batches, potential LRC IPO cases and potential non-LRC IPO cases and refer all of them

to the LC. The final decision on whether any IPO cases should be referred to the LRC would rest with the LC. This would avoid undue pressure on the Listing Department, and an excessive number of cases being referred to the LRC. This would also serve to retain certain powers of the LC with a view to attracting existing and future talents to serve on the LC.

(c) Matters involving listed issuers

It is proposed that the Listing Department would refer Post-IPO LRC Matters to the LRC for decision.

Since the LC would put forward non-binding views on these Post-IPO LRC Matters to the LRC, similar to (b) above, we suggest that the Listing Department refers all post-IPO matters to the LC which would then decide what matters should be referred to the LRC.

To give clarity to the market, detailed guidelines should be issued, laying down what type of matters would be considered as Post-IPO LRC Matter, the time line of reaching decisions and the possible solutions when the LRC runs into a deadlock.

(d) Reviews of listing decisions

(e) Disciplinary matters

We agree with the proposed reviews of listing decisions by the Listing Regulatory (Review) Committee and the proposed handling of disciplinary matters by the Listing (Disciplinary) Committee and the Listing (Disciplinary Review) Committee.

(f) Oversight of the listing function

Listing Department is the first gateway of the vetting process, and is assigned with the responsibility of screening IPO applications that are LRC IPO cases versus non-LRC IPO cases. The objectivity of their role becomes increasingly important.

Since the Listing Department will serve three committees, namely the LC, the LPC and the LRC, we suggest that all three committees regularly evaluate and appraise the Listing Department in the performance of their regulatory responsibilities. This will ensure that comprehensive evaluation, balanced and fair views would be included in the appraisal that would be taken into account by HKEx's Remuneration Committee when determining the overall compensation of the Listing Department and its senior executives. This would avoid the Listing Department being overly tuned to the view of the LPC, or any one particular party.

To achieve this, clear KPIs of the Listing Department should be set that measure how effective the Listing Department is in delivering their objectives. Their performances are evaluated against these KPIs by the three committees.

(g) Publication of decisions

We agree with the proposals regarding the publication of decisions.

(h) Composition and Procedures of the Listing Policy Committee

(i) Composition and Procedures of the Listing Regulatory Committee

The current proposed LPC would have eight members, comprising the Chairperson and two Deputy Chairpersons of the LC, the CEO of the HKEx, the Chairperson of the Takeovers Panel, the CEO of the SFC and two senior executives from the SFC Corporate Finance Division. Whereas the LRC would be a six-member committee, comprising three SFC executives as well as the Chairperson and two Deputy Chairpersons of the LC.

These small groups of individuals may not have wide representation of different groups of stakeholders. The power of steering the listing matters seems to be concentrated in the hands of a small number of individuals. This may not be beneficial to the development of Hong Kong's financial market. For example, we note that the Chairperson and the Deputy Chairpersons of the LC must at all times include at least one individual appointed by the Listing Nominating Committee to represent the interests of investors in the LC; but there is no requirement to have anyone representing the interests of market practitioners and listed companies in the LPC and the LRC. To ensure that the proposals are well received by the market in general, we consider balanced views and input from different stakeholders are important.

We recommend the composition of both LPC and LRC should be expanded to include members from a wider array of stakeholders. Clear guidelines on the skills, background and selection criteria of members should be developed, with priority to identify capable candidates from listed companies, senior executives and thought leaders in their respective professions. This would add confidence and weight to the two committees in terms of their representation of different stakeholders.

Moreover, the chairperson and deputy chairpersons of the LC would play an enhanced role through their participation in the LPC and LRC. Yet there is no guideline in the consultation paper regarding the procedures for their selection and election, and their rotation, if any. The proposal did not set out how the chairperson and deputy chairpersons of the LC and the chairperson of the Takeovers Panel are currently elected and whether there should be any

proposed change to such election procedures, given the important roles to be played by them under the proposals.

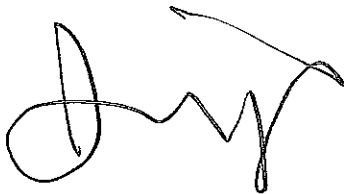
As there are only eight members in the LPC and six members in the LRC, decisions may reach deadlock. To avoid possibility of reaching deadlock, we suggest expanding the number of members to an odd number.

- (j) Composition and Procedures of the Listing Regulatory (Review) Committee**
- (k) Composition and Procedures of the Listing (Disciplinary) Committee, the Listing (Disciplinary Review) Committee and the Listing Disciplinary Chairperson Group**

We agree with the proposed composition and procedures of the Listing Regulatory (Review) Committee and the proposed composition and procedures of the Listing (Disciplinary) Committee, the Listing (Disciplinary Review) Committee and the Listing Disciplinary Chairperson Group.

Should you wish to clarify any of the above issues, please do not hesitate to contact myself or Eunice Chu, Head of Policy of ACCA Hong Kong at 2973-1108.

Yours faithfully

A handwritten signature in black ink, appearing to be 'Alice Yip', with a large loop at the start and a long horizontal stroke.

Alice Yip
Chairman
ACCA Hong Kong

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