

Issued on: 22 March 2018

The Exchange's Consultation Paper

A Listing Regime for Companies from Emerging and Innovative Sectors (February 2018)

In relation to the captioned Consultation Paper, The Hong Kong Institute of Directors (“HKIoD”) wishes to present the following views and comments.

* * *

The present consultation is on proposals to expand the existing listing regime to facilitate the listing of companies from emerging and innovative sectors, some of which may feature WVR structures. The proposals would require or otherwise impose “safeguards” to address or vitiate associated risks, but they also offer concessions to issuers in some situations.

Generally, the proposals seek to provide new or otherwise concessionary routes for companies in “innovative” sectors to list in Hong Kong. What is considered “innovative” may continue to draw some debate, but we believe the proposals are a practicable first step towards having more issuers from the “new economy” (however defined) to choose Hong Kong as the listing venue.

HKIoD holds the view that there are circumstances in which companies should be allowed to use WVR structures. Such adoption of WVR structures should not result in undue risks or disenfranchisement to shareholders and investors, and the WVR structures should not be permanent fixtures in the issuer’s corporate governance.

One can make the rational argument that issuers from an even wider spectrum of the economy (old or new) should be permitted to list with WVR structures, but we believe the proposals are ones having sought a reasonable practical balance between the desire for a more flexible listing regime and the need for shareholder protection.

Enhanced corporate governance requirement is an integral part of the safeguards to be put in place in the expanded listing regime. For instance, issuers with WVR structures will be required (mandatory) to have a Corporate Governance Committee comprised of a majority of INEDs and chaired by an INED. In addition, certain provisions of the CG Code will be elevated to Rule status for such issuers, viz:

- the role of INEDs
- the establishment of a nomination committee comprised of a majority of INEDs and chaired by an INED, and
- the retirement (but eligible for re-appointment) of INEDs once every three years

Indeed, the proper role and function of the board of directors cannot be ignored. We believe with proper training and continuing development, directors serving issuers – all issuers, not just those targeted under the expanded listing regime – will come to a proper understanding of their responsibilities and the fuller appreciation of their role in good corporate governance.

-END-