香港董事學會
The Hong Kong Institute of Directors
FOUNDED 1997

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The Exchange's Consultation Paper on
Listing Framework Competitiveness Review (March 2026)

In relation to the captioned consultation paper, The Hong Kong Institute of Directors has the following views and comments.

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General comments

The present consultation forms the initial phase of the Exchange's competitiveness review of Hong Kong's listing framework.

Listing reform since 2018 has resulted in a sharp increase in percentage of high growth new economy companies on the Hong Kong Exchange compared to earlier years when the market composition was concentrated in traditional industries. Despite the reform, the Hong Kong market continues to see much competition from other markets, particularly the US market.

While the Exchange would see Hong Kong as the natural home for many Greater China Issuers, a good number of these issuers continue to opt for listing in the US. A considerable number of Southeast Asian companies in the new economy, issuers that Hong Kong would want to attract, had also opted for the US market. Part of the reasons can be attributed to the more stringent requirements under the Hong Kong Listing Rules.

The present consultation seeks to make regulatory requirements less of a factor in the consideration for companies when choosing a listing venue. Consultation Paper para 64. In particular, there is a clear aim to make the Hong Kong market more attractive, more competitive as listing venue for high quality, high growth companies intending to retain their WVR structure. Consultation Paper para 92.

WVR structures often draw scepticism
, but good performing boards is a credible governance safeguard

The often-heard worry about companies with WVR structures are that they are more susceptible to weaker board oversight.

HKIoD has supported a regime for listing by issuers with WVR structures from the time the concept was floated for consultation. Board governance can be one safeguard to mitigate the potential of market abuse or misbehaviour. HKIoD has always believed that with proper initial training and continuing development, directors will come to an understanding of their role and duties in safeguarding the interest of all shareholders as a whole. Good performing boards with independent minded directors can provide robust oversight.

The Consultation Paper (para 36-38) mentioned in passing certain corporate governance reforms (e,g., board diversity related requirements, board effectiveness and independence improvements, strengthened risk management and internal controls) that are said to have paved the way for the Exchange to accept the listings of a more diverse array of companies.

There is well-founded postulation that requiring a majority independent board could make the INEDs collectively better able to play their director roles. We have brought it up before, and we again ask whether we should require, as testing ground, a majority of INEDs for issuers with WVR structures.

Directors are responsible for financial information disclosure
, but auditor review and assurance can help investors

We are generally in agreement with the proposals, but there are some areas where we would take a different view.

One of the proposals is to remove the requirement for a Reconciliation Statement produced for the purpose of unaudited financial results to be reviewed by auditors (see paragraph 215 of the Consultation Paper).

An issuer's board will ultimately be responsible for financial information it discloses. HKIoD will steadfastly advise directors involved to be vigilant in this regard, even when the preparation of the financial information is usually done with the assistance of accounting and auditing professionals.

The context of this set of proposals is most relevant to the permitted use of US GAAP by applicants and existing issuers. US GAAP is a well-recognised and credible financial reporting framework and should also be familiar to a large part of the global investment community. We nonetheless believe a reconciliation statement forms an important part of financial information disclosure when different accounting frameworks are involved. To require auditor review of unaudited financial results can add a layer of assurance to help with investor confidence.

Confidential filing should remain confidential

Another area where we have issues with is on confidential filing.

One of the proposals is to make confidential filing available to all applicants. In the event of a failed application, even if that was initially filed confidentially, the Exchange proposes to expose the names and roles of professional parties involved, together with that of applicant and sponsor. Consultation Paper para 280.

We take the view that applications filed confidentially should remain confidential. If successful and the issuer proceeds with listing, obviously the fact will become known. No harm there. If not successful, the Exchange's proposal will operate as a name and shame scheme along with the revealing of a failed attempt to list by a certain company, going against the very basis and spirit of a confidential filing option. The Exchange has found no material differences in the quality of documents submitted confidentially under the exemptions and waivers currently available. Consultation Paper para 259. There may be no need to use public exposure to ensure better quality application documents even when more confidential filings are anticipated when the option becomes available to all applicants.

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<u>Responses to specific consultation questions</u>

Subject to the general comments above, we state below our response to specific proposals as set out in the consultation paper.

WEIGHTED VOTING RIGHTS
Financial Eligibility Requirements
Question 1
Do you agree with the WVR Financial Eligibility Test thresholds should be lowered?

HKIoD Response:

- AGREE
  - Most of the Exchange's peer markets have less stringent WVR requirements. Consultation Paper para 76-81. Peer markets on the Mainland are the only ones that have financial eligibility requirements for issuers with WVR structures, and their thresholds are lower. Consultation Paper para 90.

Question 2
If your answer to Question 1 is "yes", do you agree with the proposed WVR Financial Eligibility Test thresholds (as set out in paragraph 91 of the Consultation Paper)?

HKIoD Response:

- AGREE
  - If financial eligibility requirements are to be retained, the lowered thresholds are more in line with requirements of those in peer markets on the Mainland.

Voting Power and Economic Interest
Question 3
Do you agree with the proposal to accept a 20:1 WVR Ratio Cap if an applicant has a market capitalisation of at least HK$40 billion at the time of listing (see paragraph 103 of the Consultation Paper)?

HKIoD Response:

- NO STRONG VIEWS
  - Once disparate voting right exists, there may not be too much practical difference whether it is 10:1, 20:1 or no WVR ratio cap (like in UK since 2024 or the US where there has not been any ratio cap ever since WVR structure had been permitted).
  - We note that the proposal does not intend to allow existing listed issuers with a WVR structure to increase the number of votes their WVR shares carry. Consultation Paper para 104.

Question 4
Do you agree with the proposal that the Exchange may be prepared to accept the listing of an applicant whose WVR beneficiaries collectively hold a lower minimum economic interest at listing only if such lower underlying economic interest, at the time of the applicant's initial listing: (a) represents at least 5% of the applicant's total issued share capital; and (b) has an amount of at least HK$4 billion (see paragraph 105 of the Consultation Paper)?

HKIoD Response:

- NO STRONG VIEWS

- The current regime already enables the Exchange to permit such on a case-by-case determination, if the lower underlying economic interest still represents a very large amount in absolute dollar terms. Consultation Paper para 99. The proposal does introduce bright-line thresholds to add certainty.
- The 5% holding requirement in conjunction with the capitalisation requirement of HK$4 billion should translate into a substantial enough holding that serves to align the interest of the WVR beneficiaries with the interests of minority shareholders. Consultation Paper para 109, 115-116.
- We note that the Exchange will retain absolute discretion to refuse a listing if the lower underlying economic interest (or other aspects of the WVR structure) represents an extreme case of non-conformance with governance norms. Consultation Paper par 106.

Innovative Company Requirements, Success of the Company, and External Validation
Question 5
Do you agree with the proposal to provide a choice of Route A and Route B that applicants can use to meet the Innovative Company Requirements (as set out in paragraph 126 of the Consultation Paper)?

HKIoD Response:

- AGREE
  - We believe there is particularly good reason to separate the business model route (Route B) from the technologies route (Route A).

Question 6
If your answer to Question 5 is "yes", in respect of Route A, do you agree with:
(a) the proposed retention of the current Specialist Company Presumptions (as set out in paragraph 127(a) of the Consultation Paper?
(b) the proposed "innovative" presumption for Qualified Biotech Applicants and Qualified Specialist Technology Applicants (as set out in paragraphs 127(b), 132 and 133 of the Consultation Paper)?
(c) the proposed refinements to the Innovative Characteristics that are applicable to Route A (as set out in paragraphs 127(c), 129 and 130 of the Consultation Paper)?

HKIoD Response:

- As to (a), AGREE
  - The Specialist Company Presumptions for Biotech Companies and Specialist Technology Companies predicate on existing Specialist Chapters under the Listing Rules that provide a regulatory and disclosure framework for companies with those types of characteristics and risk profiles.
- As to (b), AGREE
  - The proposal will extend innovative presumptions to Route A applicants that meet certain criteria (i.e., Qualified Biotech Applicants and Qualified Specialist Technology Applicants). Those presumptions predicate on an applicant having been engaging in R&D leading up to the commercialisation of at least one major product, and that the applicant has ownership of intellectual property relating to that major product. For Qualified Specialist Technology Applicants, they will also be expected to have committed substantial R&D expenditures as percentage of their total expenditures. Consultation Paper para 132 and Footnote 120.

    - Qualified Biotech Applicants and Qualified Specialist Technology Applicants would still be required to meet the "success of the company" and "external validation" requirements (see Consultation Paper para 123) as part of the Exchange's assessment of their suitability for listing with a WVR structure. Consultation Paper para 133.
- As to (c), AGREE
    - Route A applicants would be expected to possess the Novelty Characteristic and more than one of several Innovative Characteristics which include R&D Characteristic, IP Characteristic and Outsized Market Cap Characteristic. The refinements are as follows.
        - <u>On the "first mover" requirement under Novelty Characteristic</u>: The current regime would strictly require an applicant be the "first mover" under the Novelty Characteristic assessment. The Exchange however has deemed applicants innovative still, even when they were not the first to have adopted innovative technology or new business model. The proposal will codify the Exchange's practice in this regard. Consultation Paper para 144(a).
        - <u>On IP Characteristic:</u> The current regime would require applicants to demonstrate its success to be attributable to its *unique features* or intellectual property. The notion of "unique features" is deemed too vague. Consultation Paper para 144(b). The proposal will put focus on "intellectual property". We can agree that an applicant's success is often attributable to some not-to-be-revealed trade secret, but such would have been described from an intellectual property perspective. The larger disclosure framework does not prevent an applicant to describe in the prospects other "unique features" that represent its strength and competitiveness.

Question 7
If your answer to Question 5 is "yes", do you agree with:
(a) the proposed refinements to the Innovative Characteristics that are applicable to Route B (as set out in paragraphs 129 and 131 of the Consultation Paper)?
(b) the proposed guidance on the meaning of a "sophisticated investor" for the purpose of "external validation" (as set out in paragraph 134 of the Consultation Paper)?
(c) the proposed guidance on what constitutes "meaningful third-party investment" for Route B applicants for the purpose of the "external validation" requirement (as set out in paragraph 135 of the Consultation Paper)?

HKIoD Response:
- As to (a), AGREE
    - Route B applicants would be expected to possess the Novelty Characteristic and each of the CAGR Growth Characteristic and Industry Position Characteristic. The refinements are as follows.
        - <u>On the "first mover" requirement under Novelty Characteristic</u>: The current regime would strictly require an applicant be the "first mover" under the Novelty Characteristic assessment. The Exchange however has deemed applicants innovative still, even when they were not the first to have adopted innovative technology or new business model. The proposal will codify the Exchange's practice in this regard. See also our response to Question 6(c)

  - <u>On CAGR Growth Characteristic</u>: Route B applicants will be required to demonstrate CAGR growth in revenue of at least 30% over the Track Record Period should mean an objective threshold for Roure B applicants. We note that the Exchange will accept other forms of operational metrics if the applicant can demonstrate that such other metrics are more relevant.
  - <u>On Industry Position Characteristic</u>: Route B applicants will be required to demonstrate and substantiate a prominent industry position. These applicants will not be applying for listing on the strength of technology-based criteria. Industry position is a suitable proximate measure of innovativeness.

- As to (b), AGREE
  - To add clarity to the meaning of "sophisticated investor" should help with consistency in applying the external validation requirement. The proposed guidance in Consultation Paper para 134 is reasonable.
- As to (c), AGREE
  - To add clarity to the meaning of "meaningful third-party investment" should help with consistency in applying the external validation requirement. The proposed guidance in Consultation Paper para 135 is reasonable.

ISSUERS LISTED OVERSEAS
Qualification Requirements for Secondary Listings
- **Issuers with WVR Structures**

Question 8
If your answer to Question 2 is "yes", do you agree with the proposal to lower the financial eligibility thresholds for a secondary listing of an overseas issuer with a WVR structure to align them with those proposed for WVR issuers with a primary listing (see paragraph 173 of the Consultation Paper)?

HKIoD Response:
- AGREE
  - The proposal will bring consistency to the financial eligibility requirements. We do not see a reason to differentiate between primary or secondary listing for an overseas issuer with a WVR structure.

Qualification Requirements for Secondary Listings
- **Issuers without WVR Structures**

Questions 9
If your answer to Question 8 is "yes", do you agree with the proposal to lower the market capitalisation threshold under Criteria B from HK$10 billion to HK$6 billion (see paragraph 177 of the Consultation Paper)?

HKIoD Response:
- AGREE
  - HK$6 billion is still a substantial market capitalization, and it is the same threshold for issuers with WVR for purpose of a secondary listing. Financial eligibility requirements for secondary listing of a non-WVR issuer should not be more stringent than those for a WVR issuer.

Question 10

Do you agree with the proposal to retain the market capitalisation threshold under Criteria A (see paragraph 178 of the Consultation Paper)?

HKIoD Response:
- AGREE
    - Retaining a HK$3 billion capitalisation threshold at the time of listing should be appropriate for those issuers with good compliance track record of at least five (5) full financial years on a Qualified Exchange or Recognised Stock Exchange. If a yet lower threshold can make the Hong Kong market more competitive, the Exchange may want to consider in light of the good compliance record of these companies.

Conversion to Primary Listing
(no consultation questions)

HKIoD Comment:
- We note that there is no plan to alter the substance of the requirements, but the approach is to redraft the requirements for Migration, Primary Conversion and Overseas Delisting so to give better explanation on the differentiation of the three routes. There will also be more guidance on typical steps to facilitate issuers' smooth transition to primary listing. Consultation Paper para 184-185.

Further Facilitative Measure for Issuers Listed Overseas
Question 11
What measures (if any) do you think the Exchange should implement to further facilitate the listings, in Hong Kong, of issuers listed overseas (see paragraphs 198 and 199 of the Consultation Paper)?

HKIoD Response:
- No comments at this time.

INITIAL LISTING REQUIREMENTS AND LISTING ARRANGEMENTS
Ownership Continuity and Control
Question 12
Do you agree with the proposal to codify the existing guidance into a Rule to state that an applicant will be considered to have satisfied the Ownership Continuity Requirement if it can demonstrate, to the Exchange's satisfaction, that there was no material change in influence on management during the Relevant Period despite the change in controlling stakeholder over that period to address any packaging concerns (see paragraphs 205 and 206 of the Consultation Paper)?

HKIoD Response:
- AGREE
    - The proposal is to codify existing guidance into a Rule.

Question 13
If your answer to Question 12 is "yes", do you agree with the proposed consequential updates to our guidance (as set out in paragraph 207 of the Consultation Paper)?

HKIoD Response:

- AGREE
  - The purpose is to update and align the guidance material to emphasise the applicant's obligation to demonstrate that the listing has no "packaging concern".

Financial Reporting Standards
Question 14
Do you agree with the proposal to expand the permitted use of US GAAP (as set out in paragraph 213 of the Consultation Paper)?

HKIoD Response:
- AGREE
  - US GAAP is a well-recognised framework for financial reporting.

Question 15
Do you agree with the proposal to remove the requirement that a US-listed issuer using US GAAP must revert to preparing financial statements using HKFRS or IFRS if it subsequently delists from the US (see paragraph 214 of the Consultation Paper)?

HKIoD Response:
- AGREE with some reservations
  - Though there are plenty good reasons to require a US-listed issuer to revert to HKFRS/IFRS if it delists from the US, that issuer may have justifiable reasons to keep using US GAAP. For us, the issue is whether those reasons are adequately explained to the shareholders and investors. The US GAAP is highly recognised and should also be familiar to a large part of the global investment community. A reconciliation statement should also give sufficient information for viewers of the financial statements.

Question 16
Do you agree with the proposal to remove the requirement for a Reconciliation Statement produced for the purpose of unaudited financial results to be reviewed by auditors (see paragraph 215 of the Consultation Paper)?

HKIoD Response:
- AGREE with some reservations
  - The issuer's board will ultimately be responsible for financial information it discloses. HKIoD will steadfastly advise directors involved to be vigilant in this regard, even when the preparation of the financial information is usually done with the assistance of accounting and auditing professionals.
  - We also believe a reconciliation statement forms an important part of financial information disclosure when different accounting frameworks are involved. To require auditor review of unaudited financial results can add a layer of assurance to help with investor confidence.
  - See also our response to Question 14 and 15.

Commercialised Biotech Companies and Specialist Technology Companies
Question 17
Do you agree with the proposal to allow Eligible Specialist Companies to seek a listing under the applicable Specialist Chapters (see paragraph 232 of the Consultation Paper)?

HKIoD Response:

- AGREE
  - We do not see strong reasons to force specialist companies away from the relevant Specialist Chapters even if they would otherwise meet the eligibility requirements under Rule 8.05. The Specialist Chapters are frameworks suited to the characteristics and associated risk profiles of such companies. On the concern that these otherwise eligible companies may seek the Specialist Chapter frameworks to avoid stricter requirements under the ordinary listing route, we surmise these companies will have desire to highlight their ability to meet Rule 8.05 as part of their strength, but they will also seek to explain business or strategic rationale for going under the Specialist Chapters.

Question 18

If your answer to Question 17 is "yes", do you agree with the proposed modifications to the additional requirements under the Specialist Chapters to be imposed on Eligible Specialist Companies (as set out in paragraph 233 of the Consultation Paper)?

HKIoD Response:

- AGREE
  - The modification to Specialist Chapter requirements tends to be changes to reflect that the companies are at a more mature stage of development and would meet Rule 8.05 financial eligibility requirements. These companies would have investment profiles much closer to that of an ordinary listing applicant. Consultation Paper para 232, 236.
  - In the case of an eligible specialist company seeking a listing as commercialised Biotech Company (under Chapter 18A):
    - Track record period requirement will become 3 years as they would have that length of track record period or better to allow them to go under the ordinary listing route should they choose to.
    - Use of proceeds restriction will disapply, that the company is not restricted to raise funds for R&D but may allocated IPO proceeds to the commercialisation and sale of its products.
    - Reliance on third-party investment as due diligence device will be lessened insofar as the company will have demonstrated the capability and commercial viability of its products.
    - The requirement to have a warning statement will disapply, that the company will not need to prominently disclose a warning that its product may not be successfully developed and marketed.
    - The 12-month remedial period for insufficient operations will disapply, insofar as the company would have commercialised some of its products or services and not exactly in a pre-revenue mode.
    - Certain additional continuing obligations to avoid change in principal business activities and to have a stock marker to the stock name will disapply.
    - Size-based exemptions from “double dipping” will apply, so that the company will be able to place to existing shareholders or their close associates under the ordinary conditions as would be applicable to ordinary Main Board listing applicants.

- In the case of an eligible specialist company seeking a listing as a commercialised Specialist Technology Company (under Chapter 18C):
  - Reliance on third-party investment as due diligence device will be lessened insofar as the company will have demonstrated the capability and commercial viability of its products.
  - The requirement to have a warning statement will disapply, that the company will not need to prominently disclose a warning that its product may not be successfully developed and marketed.
  - Size-based exemptions from "double dipping" will apply, so that the company will be able to place to existing shareholders or their close associates under the ordinary conditions as would be applicable to ordinary Main Board listing applicants.

Confidential Filing

Question 19

Do you agree with the proposal to remove the Publication Requirements for all listing applicants, such that a listing applicant (including a listing applicant associated with an Issuer-related Listing Application) may choose not to publish its AP at the time it submits its listing application, in which case it would only be required to publish an OC Announcement on the same date as it publishes its PHIP (as set out in paragraph 260 of the Consultation Paper)?

HKIoD Response:

- AGREE
  - Some company submitting an application for a listing is not an occurrence that must warrant early disclosure for purpose of market integrity or transparency. That a company has been granted in principle permission to list may be the more crucial or pertinent milestone. Timely and accurate disclosure of the Post Hearing Information Pack is more important.
  - Early-stage companies or more matured business alike, premature disclosure in the form of an Application Proof will attract unnecessary external attention which can bring adverse effect on their business prospects. See Consultation Paper para 252-253.
  - Where confidential filing has been utilised, the Exchange has not received any concerns from market participants regarding lack of transparency or lack of time available to conduct investment analysis prior to listing. Consultation Paper para 259.

Question 20

If your answer to Question 19 is "yes", do you agree with:

(a) the proposal that, in addition to existing Return Application Details, the identities of other professional parties responsible for the Application Materials also be displayed on the designated webpage of the Exchange (as set out in paragraphs 264 and 265 of the Consultation Paper)?

(b) the list of professional parties proposed to be considered as responsible for the Application Materials for the above purpose (as set out in Box 1 under paragraph 265 of the Consultation Paper)?

HKIoD Response:

- DISAGREE

- The current regime is such that if the Exchange decides the information in Application Materials is not substantially complete, the Exchange will return the application and will display certain Returned Application Details on a designated webpage of the Exchange when all review procedures have been completed or the time for seeking a review has lapsed. The reason for the Returned Application will be published as Listing Decisions.
- Under the proposal, the Exchange will want to display the names and roles of professional parties, in addition to that of the applicant and sponsor, if the Exchange has to return an application. Consultation Paper para 280.
- If an applicant has sought to make a confidential filing, that the application is being returned and eventually fail should remain confidential. The proposal will go against the very spirit of confidential filing option that will become available to all applicants.
- The Exchange has found no material differences in the quality of documents submitted confidentially under the exemptions and waivers currently available. Consultation Paper para 259. There may be no need to use public exposure, name and shame if you will, to ensure better quality application documents even when more confidential filings are anticipated when the option becomes available to all applicants.

Question 21
Do you agree with the proposal to amend the starting point of the 8-week moratorium to either: (a) the date on which all applicable review procedures in respect of the Listing Division's decision to return the listing application have been completed; or (b) the date on which the time period for invoking any such review procedures has lapsed (as set out in paragraph 266 of the Consultation Paper)?

HKIoD Response:

- AGREE
  - Without the change, there may be the oddity that the moratorium period could run concurrently with the review process should the applicant seek review of a returned decision.
  - With the change, a failed applicant can only make a new application 8 weeks from some date of procedural finality (either at the end of review process, or the lapse of time period for invoking review). The stated rationale is to enhance the deterrent effect of the Return Mechanism, to incentivise the working group in preparation for a listing to ensure a good quality set of listing documents. Consultation Paper para 279.

Question 22
If your answer to Question 19 is "yes", do you agree with the consequential changes to issuers' disclosure obligations in relation to Issuer-related Listing Applications (as set out in paragraph 267 of the Consultation Paper)?

HKIoD Response:

- AGREE
  - The consequential changes are relevant to spin-offs and GEM Transfer situations. Consultation Paper para 246-247. The changes are consistent with the proposals to permit confidentiality treatment for all applicants.

- Spin-offs: The current regime would require the Hong Kong listed parent in a spin-off to announce the relevant listing application at the time it is submitted. With the change, the Hong Kong listed parent would only be required to announce the spin-off upon the applicant's publishing a Post Hearing Information Pack. Consultation Paper para 267(a).
- GEM Transfer: The current regime would require a GEM listed issuer to announce the fact when submitting an application to the Exchange to transfer listing to the Main Board. With the change, an applicant for GEM Transfer under Chapter 9A of the Main Board Listing Rules would only be required to announce its application for a transfer when publishing a Post Hearing Information Pack. For a streamlined transfer applicant under Chapter 9B, it will only be required to make an announcement after it has received from the Exchange the formal in-principle approval. Consultation Paper para 267(b).

HOUSE KEEPING AMENDMENTS
(no consultation questions)

HKIoD Comments:

- ➢ We have no issues with the house keeping amendments that do not involve a change in policy direction.

Ends