

Opening Remarks by HKEX Chief Executive Charles Li at Legislative Council Panel on Financial Affairs

Regulatory

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HKEX Chief Executive Charles Li made the following opening statement when he attended a meeting of the Legislative Council's Panel on Financial Affairs in relation to the "Report on Consultation on a Listing Regime for Companies from Emerging and Innovative Sectors" today (3 April 2018).

1. Honourable Chairman and members, we have submitted a paper and presentation to this Panel for your information. We appreciate this opportunity and we are prepared to answer any questions that you may have with respect to this important reform.
2. With your permission, instead of presenting the PowerPoint slide-by-slide, I would like to spend the next few minutes answering three key questions:
 - i) Why are we undertaking this important reform?
 - ii) Have we struck the right balance between enhancing the Hong Kong market's competitiveness and investor protection?
 - iii) Are we confident that our reform will succeed, in light of the recent reform of the domestic A share market?
3. **First question – why are we undertaking this reform?** Hong Kong is a small market, so we need to punch way beyond our weight to stay competitive. Our ambition is to connect the Mainland Chinese market and the international market. Our mission is to help the Mainland market become more international, and help the international market to better understand and collaborate with the Mainland, facilitating flows of capital and investment opportunities.
4. In order to play that role effectively, we need to stay relevant, agile, competitive and always ahead of the curve. We need to stay laser-focused on what is going on in both the Mainland and international markets, particularly the US market.

5. We need to help China achieve what it cannot achieve alone in the domestic market, and we need to help the international market achieve what it otherwise could not achieve on its own. Hong Kong needs to connect these two sides and bring people together – either in Hong Kong or through Hong Kong. Stock Connect is a great example of how we can do this successfully.
6. However, we have been left behind in one very important area. We failed to properly embrace the new economy, particularly with respect to important areas such as weighted voting rights, pre-revenue, and secondary listings. These are important factors that have substantially differentiated the US market from the rest of the world and they have allowed New York to enjoy strong competitive advantages over Hong Kong and the Mainland.
7. This reform has not been an easy process. We started four years ago in a very different environment, and have since overcome many challenges. We are now at the finishing line. With this reform, we are hopeful that we will be able to stay ahead. This is an area in which we cannot afford to lose out again, because the new economy will likely become the engine driving global growth, particularly in the Chinese economy. Hong Kong will become a huge beneficiary of that development, and therefore we must stay on top of our game in order to stay relevant amidst this major transformation.
8. **Regarding the second question - Have we struck the right balance in enhancing the Hong Kong market's competitiveness and protecting investors?** Our answer is a resounding yes.
9. From day one, protecting minority investors has been a key principle of this reform. We all know what needs to be done to be competitive, but it is not always easy to reconcile that important objective with our continuous focus on ensuring that minority investors in our market are properly protected against potential abuses by controlling shareholders.
10. In fact, this reform has not diminished the protection that our current regime provides for minority shareholders in any way. None of the protections of the current regime have been changed at all -- what has changed is the way we look at how controlling shareholders can obtain their controlling position.
11. Traditionally, we only recognise a controlling shareholder's position by looking at the financial capital he or she has contributed into the company. The

shareholder's control is then commensurate with his or her capital contributions. What this reform proposes is to also allow human capital, such as intellectual property, new business models, the vision of the founder(s), etc, to also be recognised and accepted as a means of acquiring control. In other words, we are not changing how minority shareholders are being protected; we are simply opening the door to allow different ways for controlling shareholders to establish control.

12. Once that position is achieved, the controlling shareholders will be regulated in the same way as we currently regulate controlling state-owned enterprise/family shareholders. On top of that, we have put in place additional safeguards to protect investors against potential misuse of power, such as restrictions on post-listing transfers, as well as sunset after death, incapacitation or departures from directorship/management.
13. In summary, we believe we have struck the proper balance, and we will continue to monitor the market in that spirit.
14. **The last question - whether we feel confident that our reform will allow us to stay competitive and relevant, especially considering the developments in the Mainland over the weekend.**
15. We began our efforts to reform four years ago when we had our first major setback. Throughout the process, we have always anticipated that the Mainland will continue to reform and liberalise along the same lines. With such a strong new economy sector, it was only a matter of time before China took action to welcome these companies.
16. The opening, growth and success of China, including its new economy sector, creates a larger pie for everyone. Hong Kong will benefit from the fact that Chinese new economy firms will finally be able to take off in our own time zone, instead of in the US.
17. The Mainland has taken a bold step, which isn't easy. Together – the Mainland's reform coupled with our own listing regime changes – we will substantially accelerate the development of the new economy in China, particularly in terms of unicorns gaining access to capital through Hong Kong and the Mainland markets.

18. We can expect a greater number of companies considering a listing in Hong Kong and the Mainland, a much faster pace of fundraising activities, a much higher level of investor interest in this sector, and a stronger push by financial intermediaries to maintain their competitiveness in the capital market.
19. In terms of Hong Kong, we remain well positioned with inherent advantages for companies seeking to raise funds. We are a more open, more international, and more connected economy. Our proposed biotech chapter will offer a unique opportunity for both China and international biotech, pharmaceutical and life science companies to list in Hong Kong.
20. It is important to note that most unicorns have substantial international exposure and involvement in terms of business aspirations and investments by international private equity/venture capital, on top of Chinese investors. As such, a Hong Kong listing is their most natural choice, even if they may also decide to list a CDR onshore. Furthermore, even with its latest reforms, the Mainland market will need to continue evolving in order to provide new economy companies with the same level of market flexibility, as well as open and continued access to capital that these companies will need in order to maintain their competitiveness both in China and internationally.
21. There is no doubt that many firms will actively consider listing in the Mainland, but we expect a strong pipeline of firms interested in Hong Kong as well. For major US listed companies that will issue CDRs in the Mainland, Hong Kong can also play a role by providing certain pricing fungibility and interaction between onshore and offshore investors. For foreign incorporated unicorns seeking a CDR listing, by definition they will need to list their ordinary shares in an international market such as Hong Kong.
22. In summary, the reform in China is an important catalyst for this sector to enter the next phase of explosive growth which will ultimately benefit all of us, and is also an indication that our own reform is on the right track.
23. In the final analysis, we believe that Hong Kong under “One Country, Two Systems” will continue to be the most important platform that connects a fast-growing but not fully open Mainland economy with the rest of the world, which is eager to interact with the Mainland market in an efficient and convenient way.

24. Competition is always a factor, but the Mainland and Hong Kong capital markets have some fundamental differences that do not make us direct competitors. Our relationships with the Mainland and United States, along with our international standards and long history as an open market, truly differentiate Hong Kong from the rest of world. We complement, collaborate, and connect. We have demonstrated this time and time again over the past 25 years.
25. Twenty-five years ago we introduced the H-share regime. At the time, we were the Mainland's primary "home market" and the US was the primary "international market", with many examples of dual-listings in Hong Kong and the US. Later on, when the Mainland market became more developed, we became the primary international market for Mainland companies and US was no longer relevant. In the last five to ten years, given the existing barriers in both the Mainland and Hong Kong markets, many new economy issuers elected to list in the US market instead.
26. With the proposed reform to Hong Kong's regime, I have no doubt that we will become the primary international market for new economy companies from China. With the Mainland's reform, it will also become the most important "home market" for the Chinese new economy to the extent possible. With the successful execution of these reforms, Chinese companies will no longer have to go to the US, as they will have support from both the domestic and Hong Kong markets.
27. We have great confidence that in the new economy era, we will achieve the great success that we inherited from the breakthrough listings of H-shares and red-chips in the past. Our market will enjoy an even brighter and prosperous future.
28. With that, I'm happy to take questions from members. Thank you Chairman.

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