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24 June 2022

Clerk to Panel on Financial Affairs
Legislative Council Complex
1 Legislative Council Road
Central, Hong Kong
(Attn: Ms Connie Szeto)

Dear Ms Szeto,

Panel on Financial Affairs
The Latest Development and Way Forward of Hong Kong's Listing Platform

At the meeting on 25 January 2022, members raised enquiries on issues relating to Hong Kong's listing platform. The attached note at the Annex provides an overview of the latest development of Hong Kong's listing platform and way forward, as well as responds to members' questions.

Yours sincerely,

A handwritten signature in blue ink, appearing to be 'Larry Chu', written in a cursive style.

(Larry Chu)
for Secretary for Financial Services
and the Treasury

c.c.
Securities and Futures Commission
Hong Kong Exchanges and Clearing Limited

The latest development and way forward of Hong Kong's listing platform

Hong Kong is a major global listing platform for companies from different jurisdictions. The Government, financial regulators and the Hong Kong Exchanges and Clearing Limited (“HKEX”) have all along strived to develop Hong Kong into a deeper and broader fundraising platform. Notably, HKEX has implemented a series of reforms since April 2018 to expand the existing listing regime in facilitating listings of companies from emerging and innovative sectors in Hong Kong, subject to appropriate safeguards. As at the end of May 2022, a total of 75 companies had been listed through the new regime with over \$580 billion raised, representing over 40% of the total fund raised through initial public offerings (“IPOs”) in the same period. Hong Kong has also become Asia’s largest and the world’s second-largest fundraising hub for biotechnology.

2. Since our last report to the Panel in September 2021 on related issues, we have continued to develop Hong Kong as a global premier fundraising platform on various fronts including enhancing the listing mechanism, deepening mutual access with the Mainland financial market, strengthening the trading infrastructure and improving market quality, with a view to comprehensively enhancing the competitiveness of Hong Kong’s listing platform. The initiatives are summarised below.

Enhancing the Listing Mechanism

3. In view that an increasing number of China Concept Stocks may choose to return from overseas markets and the demand for such listings is expected to continue to grow in future, HKEX consulted the market in March 2021 on a set of proposals to further enhance and streamline the listing of Greater China issuers¹ in Hong Kong. With support from a majority of the respondents, HKEX implemented the measures in January 2022 to further facilitate China Concept Stocks in seeking secondary listing or obtaining primary listing status in Hong Kong. Key measures include relaxing the market capitalisation requirement and removing conditions related to “innovative company” for Greater China issuers without a weighted voting rights (“WVR”) structure to secondary list in Hong Kong, and providing greater flexibility to Grandfathered Greater China issuers with WVR or variable interest entity structures who could meet the relevant requirements for secondary listing for obtaining dual primary listing status in Hong Kong. The measures are conducive to attracting quality China Concept Stocks to return while balancing the risks involved and investor protection. In fact, since HKEX introduced a series of new listing regulations in 2018, China Concept Stocks issuers have made relevant arrangements according

¹ Qualified issuers with a centre of gravity in Greater China.

to their respective circumstances. As of May 2022, 22 China Concept Stocks issuers have returned to Hong Kong through secondary listing or dual primary listing, the total market capitalisation of which accounted for over 70 per cent of all China Concept Stocks listed in the United States.

4. To broaden the channels for enterprises to raise funds in Hong Kong and enhance the attractiveness of Hong Kong's listing platform, HKEX consulted the market on establishing a new listing mechanism for Special Purpose Acquisition Companies ("SPACs") in September 2021. With support of the market, the SPAC listing regime was launched in January 2022. Considering that a SPAC is a cash company without operations prior to mergers and acquisitions with a company with substantive business operations ("De-SPAC transactions"), HKEX has strived to strike a reasonable balance among investor protection, market quality and market attractiveness, and introduced a number of requirements under the new regime. For instance, the subscription and/or purchase of SPAC securities is restricted to professional investors only prior to De-SPAC transaction; the funds raised must be at least \$1 billion; the successor company of the De-SPAC transaction must meet all new listing requirements, etc. In the past five months or so since the implementation of the regime, HKEX has received over ten listing applications while two SPACs have been listed. HKEX will closely monitor the operation of the listing regime, including the market conditions after individual De-SPAC transactions, and review the regime at an appropriate juncture.

5. As announced by the Financial Secretary in the 2022-23 Budget, considering the fact that there are some large-scale advanced technology enterprises which require substantial capital for their research and development work but are not qualified for listing as they fail to meet the profit and trading record requirements, the Securities and Futures Commission ("SFC") and HKEX are reviewing the Main Board Listing Rules and, having due regard to the risks involved, examining the revision of the listing requirements to meet the fundraising needs of such enterprises. HKEX is approaching different stakeholders for views, with a view to putting forward concrete recommendations as soon as practicable and consulting the market publicly.

6. HKEX is aware that some market participants opine that further study should be conducted on enhancing the positioning and functions of GEM as a specific board for listing of small and medium-sized enterprises and innovative companies. To this end, HKEX commenced a review on the functions and positioning of GEM in 2021, and has established a dedicated panel under the Listing Committee to handle the work concerned. The review will be conducted with a view to further strengthening the competitiveness of Hong Kong as a global premier listing hub and enhancing the overall quality of the Hong Kong capital market. In addition to facilitating different types of enterprises to list in Hong Kong, HKEX will take into consideration market attractiveness and liquidity, and

safeguard the interests of the investing public.

Deepening Mutual Access

7. The National 14th Five-Year Plan expresses staunch support for enhancing Hong Kong's function as a global offshore Renminbi ("RMB") business hub, as well as deepening and widening the mutual access between financial markets of the Mainland and Hong Kong. The Government has expanded the mutual market access programmes in a gradual manner and kept exploring with Mainland authorities further expansion of the scope of eligible products.

8. Following the agreement on the overall Stock Connect inclusion arrangements for Exchange-traded Funds ("ETFs") reached by the stock exchanges in Shanghai, Shenzhen and Hong Kong and the China Securities Depository and Clearing Corporation Limited in December 2021, the China Securities Regulatory Commission and SFC issued a joint announcement in May 2022 on the in-principle agreement to include eligible ETFs in Stock Connect. The parties are working closely on completing the preparations for the trading launch. ETF Connect will further deepen the interaction and integration of the two capital markets, offer more diverse asset allocation choices to Mainland and overseas investors, and promote liquidity as well as sustainable development of ETF markets in the two places.

9. To further develop offshore RMB financial products and enhance the demand for the issuance and trading of RMB securities in Hong Kong, a working group, formed by SFC, HKEX and the Hong Kong Monetary Authority last year, completed the feasibility study on allowing stocks traded via the Southbound Trading of Stock Connect to be denominated in RMB. The working group is liaising with the regulatory authorities and relevant organisations in the Mainland in this regard. The Government will roll out supporting measures to increase the liquidity of RMB denominated stocks alongside the launch of the initiative and is undertaking preparatory work on the necessary legislative amendments.

Strengthening the Trading Infrastructure

10. HKEX has in recent years continuously expanded the suite of non-Hong Kong Dollar ("HKD") denominated derivatives products, which covers global and regional markets across different asset classes, with a view to internationalising the products available to market participants and further building Hong Kong as the leading derivatives trading centre in the region. To attract more Mainland and international investors to trade in Hong Kong, HKEX consulted the market on the proposal of derivatives holiday trading in November 2021, which would allow investors to trade non-HKD denominated derivatives products in HKEX during Hong Kong public holidays, facilitating them to more

effectively manage and reduce overall investment risks.

11. Taking into account market feedback and readiness, derivatives holiday trading commenced in May 2022, with the first suite of products being MSCI futures and options contracts. Other non-HKD denominated derivatives products would be added in phases. The measures are conducive to enhancing market structure and building the ecosystem for derivatives products, meeting the demand of different investors while keeping in line with the practices of other global exchanges in providing trading and clearing services to market participants on local public holidays.

Improving Market Quality

12. The Government has all along strived to balance market development and maintaining high level of investor protection. To address the difference in shareholder protection standards under the laws of different jurisdictions, HKEX examined relevant provisions and consulted the market in 2021 on the issue, with a view to formulating a set of core standards applicable to listed companies from different places to establish baseline protection for investors. After consulting the market, HKEX implemented a series of revisions in January 2022 to ensure that the same set of core shareholder protection standards are adopted for all issuers, thus providing the same level of protection to investors. These protection requirements cover arrangements of general meetings, shareholders' rights, etc.

13. HKEX consulted the market on proposals to revise the Corporate Governance Code and related Listing Rules in April 2021, so as to enhance corporate governance standards among listed issuers in Hong Kong. HKEX released the final revisions in December 2021, which cover areas such as corporate culture, board independence and refreshment, board diversity, shareholder communication policy, and timely disclosure of Environmental, Social and Governance Reports. Specific revisions include requiring issuers to put in place anti-corruption and whistleblowing policies, introducing requirements on board refreshment and succession planning, etc. The revised Corporate Government Code and Listing Rules came into effect in January 2022.

HKEX's Vision for the Future and the Three Strategic Pillars

14. HKEX unveiled in March 2022 its vision to build the "Marketplace of the Future". Building on Hong Kong's unique advantages in leveraging the strengths of our country and engaging the world, HKEX put forward three strategic pillars, namely "Connecting China and the World", "Connecting Capital with Opportunities", and "Connecting Today with Tomorrow". HKEX has devised concrete measures in the short, medium and long term under each of the three strategic pillars. With the continuous growth of the Mainland economy and the opportunities brought by Hong Kong's position in connecting the financial

markets in the Mainland and the rest of the world, HKEX will enhance Hong Kong's overall competitiveness relative to other overseas markets².

15. On the listing platform, HKEX is committed to enhancing the depth, vibrancy and diversity of its market, thus strengthening Hong Kong's position as a premier fundraising, risk management and trading hub by improving the primary market attractiveness and enabling more efficient trading, clearing and settlement. Apart from the initiatives mentioned above, HKEX will also strive to optimise the efficiency of IPO price discovery, as well as to enhance the trading hours of derivatives products and trading calendar of mutual access programmes, thereby enhancing market structure. Over the next few years, HKEX will take forward various business reforms following relevant plans, facilitating the two-way capital flows between East and West. It will also, in collaboration with the Government, drive the development of the local financial services sector with a view to supporting the development of the financial market for the future of Hong Kong.

16. The Government, HKEX and financial regulators will continue to strive to build a vibrant and sustainable fundraising platform. We will make good use of the national policies and our own advantages and continuously enhance our listing platform following the new development pattern of the 14th Five-Year Plan, thereby consolidating Hong Kong's status as an international financial centre.

Financial Services and the Treasury Bureau
June 2022

² The concrete details and measures on HKEX's vision have been uploaded to its dedicated webpage www.hkexgroup.com/about-hkex/about-hkex/our-strategy.