



Speech at 7th Pan Asian Regulatory Summit

Mr Ashley Alder
Chief Executive Officer

8 November 2016

Thank you for asking me to speak today. What I want to do is to pick up on a theme I touched on at this event last year, and then move on to some thoughts prompted by reactions to the joint Securities and Futures Commission (SFC) and The Stock Exchange of Hong Kong Limited (Exchange) consultation on listing regulation we issued in June.

Last year I spoke about some key SFC projects then in train, most of which had a large cross-border dimension. I tried to make clear that the way in which we think about regulation operating across borders is of central importance to Hong Kong as an international financial centre. That's because Hong Kong is a true international financial centre, rather than one in name only.

Hong Kong is of course a major location for international companies to list, and for the last 20 years or so most of these listings have been from mainland China.

Hong Kong is also a place where European and US financial services firms have a major presence. They have now been joined by a growing number of firms and investors originating from the Mainland who are without doubt altering the competitive landscape.

A more connected market

From a regulatory point of view, all of this has major implications for how the SFC works, and part of this is to do with the importance of our supervision and enforcement relationship with the



This new pathway meant that the CSRC became more focused on the activities of overseas investors in Mainland markets, in much the same way that we have been focused on the activities of overseas and Mainland investors in our own market.

This was very different to the position beforehand when most requests for investigation assistance made to the CSRC were about problems with Mainland businesses listed abroad – to do with suspected accounting fraud and the like. But for obvious reasons, the CSRC had no need to make similar requests of overseas regulators. But with the launch of the Connect programme, this one-way street of cross-border information requests changed into a two-way street of reciprocal assistance.

Not long ago, southbound flows from the Mainland into Hong Kong through the first phase of the Connect programme represented as much as 10% of total turnover, and of course cross-border investor interest in both directions is likely to increase substantially as the scope of the programme widens to include far more stocks in Hong Kong and a new market in Shenzhen.

So cross-border supervision and investigation will become even more essential to contain risks to our respective markets as they experience even larger cross-border flows.

Now the nature of the Stock Connect programme means that the focus of regulatory cooperation has mainly been about market misconduct in the secondary markets. This is because the programme is a gateway for cross-border trading and settlement, and does not concern the listing of companies.

But the fact that Mainland investors now have an increasing exposure to Hong Kong listed companies has meant that many of those investors, as well as the CSRC, are taking a far greater interest in the quality of these companies.

Specifically, we have seen an increasingly vocal cross-section of investors expressing concerns about some features of our listed market – ranging from governance issues to the behaviour of some intermediaries who seem determined to undermine the spirit of some of our market rules. And of course the degree to which the SFC is able to deal effectively with corporate misconduct – whether perpetrated by management alone or aided and abetted by intermediaries – is also dependent on cross border regulatory cooperation when it comes to



In 1988 our markets were overwhelmingly domestic, a far cry from the international flows which now define Hong Kong as an international financial centre, and which mean, as I have pointed out, that the way in which the SFC works alongside the CSRC is now an indispensable part of the regulatory toolbox.

Responses to the joint consultation proposals range from the supportive, to those who are vehemently opposed to change and those who believe the proposals don't go far enough. Some of those opposed have even claimed that the SFC's role in a new structure will in some way kill off the initial public offering (IPO) market.



contrary our driving purpose is to accelerate Hong Kong's position as an international financial centre while ensuring appropriate investor protection.

Enhancing Hong Kong as a listing venue

And in my view, we should pursue the same philosophy for listing regulation as we have in the asset ma



making, all under a framework whereby, as I have described, listing regulation is shared between the SFC and the Exchange. And this brings me back to the first question about the sort of problems which a better decision-making process could help solve.

Now, by many indications, the Hong Kong listing market is thriving. Hong Kong was the leading centre for IPO equity funds raised in 2015 and most estimates give it the lead once more in 2016. However, although this is a great achievement, it's clear that the sheer number of IPOs or the size of proceeds raised are not definitive measures of a quality market for institutional and other investors.

The fact is that over the past few years there has been a significant rise in complaints against listed companies exhibiting patterns of problematic behaviour. There are enough of these companies for our sometimes colourful local media to coin a nickname for them. We have





the company's explanations are inadequate. The



In fact, after a lengthy process, the Exchange published consultation conclusions which included a draft proposal for a second stage consultation on this issue. This was in June 2015. But in light of the widespread market interest at the time and the fact that deliberations had already extended over many months, the SFC issued a statement to the effect that it could not support this particular proposal.

And we gave detailed reasons for our stance in order to be absolutely transparent with the public. These included our view that it would be inappropriate for the Exchange to pursue its idea of employing subjective ‘enhanced suitability criteria’ to pick and choose between listed applicants wanting to use weighted voting rights.

But we did not call on the Exchange to stop any further work on this issue, although we understand that in fact little more was done thereafter.

Now this is not to say that weighted voting rights don’t involve very difficult policy issues. They certainly do, not least because of the challenges associated with the scope and content of any specific changes to the rule book. In the US, there aren’t any specific rules about weighted voting rights and in any event, local market dynamics have resulted in only a small proportion of companies actually adopting differential voting structures. And even then they are usually subject to limitations such as sunset clauses, minimum shareholding limits and the like. But as President Kennedy remarked when kicking off the race to the moon in the early 60s, we sometimes choose to do things not because they are easy, but because they are hard.

Although it is impossible to predict what the final result would have been for such a difficult topic as weighted voting rights, I am absolutely sure that the protracted and ultimately inconclusive process which ended in 2015 would have been handled far more satisfactorily through a better decision-making structure. The joint proposals envisage that representatives of all decision makers, including the SFC, would be expected to discuss the hard issues in real time in the same room, would be expected to try to achieve consensus, would be expected to follow through to a proper conclusion and, importantly, be accountable and fully transparent when finally deciding on a way forward.

And I think you can appreciate why a better decision-making structure would also help us address the sort of issues we see in the GEM as well as problems around long trading suspensions and pockets of low market liquidity.

I’ll stop there, in the hope that I’ve done a little to shed some light on our and the Exchange’s proposals on listing regulation. And as I have said, we cannot prejudge the outcome at this stage; our next task is to thoroughly analyse all submissions and responses before making any decisions.