

LCQ4: Suspension of listing on the stock exchange

Following is a question by the Hon Christopher Cheung and a reply by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, in the Legislative Council today (December 2):

Question:

Ant Group, a Mainland financial technology (fintech) company, was originally scheduled to be dually listed on the stock exchanges in Hong Kong and Shanghai on November 5 this year. Two days before the listing, the Shanghai Stock Exchange suspended the company's listing on its stock exchange for reasons such as a change in the regulatory environment of fintech in which the company operates. On the same day, the company announced the suspension of its listing in Hong Kong. It has been reported that the company originally planned to raise funds of an amount over \$260 billion, which had broken the global record, and the amount of money subscribing the company's shares in Hong Kong was \$1.3 trillion, of which around \$500 billion were loans (commonly known as "margin loans"). In this connection, will the Government inform this Council:

1. whether it knows the details of the change in the regulatory environment of fintech in which the company operates; whether it has assessed if there were errors and omissions regarding the due diligence performed by the sponsors in respect of the company as well as the work undertaken by the Stock Exchange of Hong Kong Limited for vetting and approving the company's listing;
2. given that as small and medium-sized securities brokers lack the financial resources possessed by large securities brokers and banks, they cannot afford waiving the interests and fees payable by margin subscribers of the company's shares in Hong Kong, and may thus lose clients, and that some margin subscribers have to shoulder the expense on interests, whether the authorities have studied amending the relevant rules and regulations so that in future such losses will be shouldered by those parties which have a greater responsibility for leading to suspension of listing (e.g. the company to be listed and its sponsors); and
3. whether the authorities will draw experience from this incident and improve the communication between the regulatory authorities in Hong Kong and those on the Mainland, so as to prevent the recurrence of sudden suspension of listing; if so, of the details; if not, the reasons for that?

Reply:

Acting President,

As an international financial centre, Hong Kong has a premier

international fundraising platform which enjoys clear advantages. The Government, regulatory authorities and the Hong Kong Exchanges and Clearing Limited (HKEX) have been continuously enhancing the competitiveness of our listing platform. The HKEX implemented a new listing regime in April 2018 to allow a few categories of new economy companies, including those with weighted voting rights (WVR) structure, to list in Hong Kong. In addition, the HKEX announced on October 30 this year further grandfathering arrangements in respect of companies seeking secondary listing. Under the arrangements, qualifying companies that have already listed on specified stock markets before that date could seek secondary listing in Hong Kong notwithstanding they possess corporate WVR structures. With the concerted efforts of the Government, regulatory authorities and market participants, Hong Kong has ranked first for seven years globally in terms of annual funds raised through initial public offerings (IPO) during the past 11 years.

While promoting market development, the regulatory authorities have been supervising the securities market, including approving companies' listing applications and supervising listed companies, in accordance with law and regulations such as the Securities and Futures Ordinance, the Securities and Futures (Stock Market Listing) Rules and the Listing Rules, etc., to uphold market quality and the smooth and orderly operation of the market.

As mentioned in the question, Ant Group announced on November 3 this year its suspension of listing in Hong Kong. The Government will not comment on the details of individual listing applications. As far as the regulatory framework under Hong Kong's overall listing regime is concerned, having consulted the Securities and Futures Commission (SFC) and the HKEX, my reply is as follows:

(1) and (3) Generally speaking, listing applicants and listed companies have to comply with the respective regulatory requirements of its place of incorporation, place of business operation and place of listing. If listing applicants or listed companies operate their business and/or list in multiple jurisdictions, they have to comply with the requirements of multiple jurisdictions. As far as companies listed in Hong Kong are concerned, regulatory authorities have been approving listing applications in accordance with the abovementioned law and regulations. The Listing Committee will also vet listing documents including prospectus to ensure that there is sufficient business risk disclosure. The major principles adopted by the Listing Committee in approving listing applications include considering whether applicants are suitable for listing, their compliance of regulatory requirements, and whether sufficient disclosure of material matters have been made in the listing documents. If listing applicants are Mainland H-share companies, they must also obtain prior approval from the China Securities Regulatory Commission. Even after a listing applicant's case has obtained the Listing Committee's approval, the HKEX and the Listing Committee will still monitor whether it can comply with the requirements of the regulations on an on-going basis. Listing applicants will still be required to be responsible for assessing their businesses and the applicable regulatory requirements in order to ascertain whether there have been material changes in the company's financial and trading positions as well as the relevant business and

regulatory environment warranting notification to investors after the listing documents are published. If necessary, the HKEX will enquire listing applicants and their sponsors and request the listing applicants to provide supplementary information on its prospectus as appropriate. The regulatory authorities in Hong Kong have been, and will continue to maintain effective regulatory communications with regulatory authorities in jurisdictions such as the Mainland. The listing application of Ant Group was also processed in accordance with the abovementioned mechanism.

(2) The Hong Kong market has the experience of handling cases in which listing applicants decide not to proceed with listing after the end of the IPO subscription period. In fact, there were cases in which listing applicants have decided not to proceed with listing after the end of the IPO subscription period. The regulatory authorities will ensure that the refund arrangements by the Ant Group will be conducted in an orderly manner.

The competition of Hong Kong's securities industry has been intense. I notice that some banks or brokerage firms have been using different approaches, including waiving the IPO application fees and brokerage commissions, to attract more clients. The regulatory authorities generally do not intervene the industry's price competition which is part of their business operation. The main concern of the regulatory authorities is on whether the refund of subscription money is conducted in a fair and orderly manner. I notice that in refunding the subscription money to investors following Ant Group's recent suspension of H-share listing, some banks and brokerage firms have decided to waive or reduce the interests payable by clients who had subscribed the shares through loans. We believe that every bank or brokerage firm will decide on the business strategy that best fits its respective circumstances having regard to its own commercial considerations. In fact, not all large-scale banks or brokerage firms have waived the relevant interest charges in respect of the Ant Group subscription applications. As far as we understand, some large banks have charged their clients on the relevant interests as usual, while some small and medium-sized brokerage firms have waived or reduced the charges. The relevant decision is therefore purely based on commercial considerations and does not necessarily relate to the scale of the banks or the brokerage firms. We have not seen any unfair competition so far.

In terms of the overall arrangements and processes for IPO subscription, the HKEX is conducting a consultation on "New Proposal to Modernise Hong Kong IPO Settlement Process". The proposal seeks to enable market participants and regulatory authorities to process IPO subscriptions under a more streamlined and digitalised environment through providing brand new online services thereby enhancing efficiency on one hand and reducing the funds that are required to be locked up during the process on the other. It is believed that the proposal can facilitate the development of the market and the businesses of the industry. I encourage all to provide their views on the enhancement of IPO arrangements to the HKEX within the consultation period.