

# LCQ1: Subscription arrangements for initial public offering of shares

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 (July 14):

Question:

According to the Listing Rules of the Stock Exchange of Hong Kong Limited (SEHK), where securities are offered to the public for subscription or purchase, issuers, their directors, sponsors and underwriters (collectively referred to as the parties involved in the issue) must take reasonable steps to ensure that multiple or suspected multiple applications are identified and rejected. Regarding the subscription arrangements for initial public offering of shares (IPO shares), will the Government inform this Council:

(1) whether it knows, among the individual investors who were allotted IPO shares in the past three years, the respective percentages of those whose places of residence were Hong Kong, the Mainland and other regions; the number of multiple subscription applications uncovered in the past three years, broken down by the applicants' places of residence;

(2) whether it knows how the parties involved in the issue currently prevent investors from making multiple applications for subscribing for IPO shares, and if the SEHK will implement new measures to prevent multiple applications; if the SEHK will, of the details; if not, the reasons for that; and

(3) as it has been reported that Mainland residents can, in general, successfully subscribe for the IPO shares of companies listed in Hong Kong, whereas it is difficult for Hong Kong people to subscribe for the IPO shares of companies listed on the Mainland, whether the Government strove, in the past three years, for the establishment of a channel by the Mainland authorities for individual investors in Hong Kong to subscribe for the IPO shares of companies listed on the Mainland; if not, of the reasons for that; if so, the details, and whether there is an implementation timetable?

Reply:

President,

Hong Kong is a major global listing platform for companies from different jurisdictions. During the past 12 years, Hong Kong had, on average, over 120 new listed companies every year and ranked first in the world seven times in terms of funds raised through initial public offerings (IPOs). Companies raising funds in Hong Kong through listing have to comply with laws and regulations including the Securities and Futures Ordinance, the

Securities and Futures (Stock Market Listing) Rules, the Listing Rules, etc. The Listing Rules stipulate that listed companies, their directors, sponsors and underwriters must take reasonable steps to ensure that multiple or suspected multiple applications are identified and rejected.

Having consulted the Securities and Futures Commission and the Stock Exchange of Hong Kong Limited (HKEX), my reply to the three parts of the question raised by the Hon Christopher Cheung is as follows.

(1) and (2) During the past three years, the number of newly listed companies in Hong Kong ranged from 146 to 208 every year. The Listing Rules do not require listed companies to provide the HKEX with geographical distribution of individual investors who are allotted shares during IPOs. The figures on invalid applications and rejected multiple or suspected multiple applications will be disclosed by individual listed companies at their "Announcement of Offer Price and Allotment Results" before listing. The Listing Rules do not require listed companies to provide the HKEX with geographical distribution of rejected applicants involved in multiple or suspected multiple applications and the HKEX does not maintain such data.

Listed companies however need to determine the eligibility of investors who can subscribe IPO shares of the companies having regard to the relevant laws and regulations mentioned above, set out relevant information in the prospectus and application forms including a warning in the IPO application form stating "only one application may be made for the benefit of any person", and require investors to make relevant declaration. Investors, who intend to make IPO subscription, should read the prospectus of listed companies before applying to understand whether they are subject to the restrictions of relevant application terms. Investors should also declare in the application forms to confirm that they will not violate relevant restrictions or make multiple application.

In general, listed companies will assign sponsors and/or share registrars to review and handle the abovementioned task of identifying and rejecting multiple subscriptions. When complaints about multiple applications are received or multiple applications are suspected, the HKEX will require sponsors to address the issue and present the measures it has put in place to detect multiple applications, for example, measures in compliance with the "Best Practice Note on Treatment of Multiple/Suspected Multiple Applications" published by the Federation of Share Registrars. Sponsors will also be asked to confirm that the appointed share registrar has put in place appropriate systems and monitoring to produce a list of possible multiple applications for sponsors to review.

The Government and regulatory authorities strive to enhance the efficiency of Hong Kong's IPO process. The HKEX issued a Concept Paper in November 2020 on modernising Hong Kong's IPO settlement process and issued conclusions on July 6 this year, taking forward the establishment of an IPO settlement platform named "FINI" to allow sponsors, share registrars, securities brokers and regulatory authorities, etc. to process IPO applications simultaneously on an electronic platform. It will expedite the

IPO process and reduce market risks of investors. At the same time, to assist relevant institutions to strengthen their capabilities of identifying multiple subscriptions, the HKEX will standardise information that investors are required to provide when subscribing shares in the public offer tranche of IPO, which include the applicant's full name, identity document number, issuing jurisdiction, etc., for relevant parties to identify and reject multiple subscription applications through the "FINI" platform.

(3) Generally speaking, Hong Kong investors, when complying with local laws and regulations, can subscribe or trade shares of listed companies in other jurisdictions. For example, Hong Kong residents who work and live in the Mainland may subscribe or trade shares of companies listed on Mainland exchanges through qualified Mainland securities firms in accordance with the Mainland laws and regulations. At the same time, Hong Kong investors may also trade Mainland stocks through the northbound trading of Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect. The Government and regulatory authorities have been working to deepen the mutual access between Hong Kong and Mainland financial markets and will continue to discuss with relevant Mainland authorities to provide more categories of investment products for investors, with a view to further strengthening Hong Kong's role in connecting Mainland and international financial markets as well as Hong Kong's position as an international financial centre.

Thank you, President.