

## LCQ11: Cancellation of dividend payments already announced

Following is a question by the Hon Holden Chow and a written reply by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, in the Legislative Council today (May 13):

Question:

On February 18 this year, the Board of HSBC Holdings plc (HSBC) announced that its fourth interim dividend in respect of 2019 would be paid on April 14 this year and the ex-dividend date would be February 27. On March 31, HSBC announced that in response to the request of the regulatory authority in the United Kingdom, it had decided to cancel the said dividend payment which had been announced. It also decided that it would not make any quarterly or interim dividend payments until the end of this year. Some minority shareholders of HSBC are of the view that HSBC's cancellation of the dividend payment already announced is unethical and has undermined investors' confidence in the stock market. In this connection, will the Government inform this Council:

(1) whether it knows if there were incidents in the past, apart from the aforesaid case, in which listed companies announced dividend payments and then cancelled them; if there were, of the details, and whether such practice violated the relevant requirements; and

(2) given that the dividends paid by HSBC have been a major source of income for quite a number of Hong Kong residents (especially for retirees), whether the authorities (i) will urge HSBC to have regard to the economic situation and the interest of minority shareholders in Hong Kong and reconsider its decision of not making dividend payments, and (ii) have assessed the impacts of the cancellation of dividend payments by HSBC on the economic situation in Hong Kong and investors' confidence in the stock market; if they have assessed, of the outcome; if not, whether they will make such an assessment?

Reply:

President,

(1) The Government and regulatory authorities (including the Hong Kong Monetary Authority (HKMA) and the Securities and Futures Commission (SFC)) are aware that some companies, including HSBC Holdings plc (HSBC), have decided to cancel dividend payment recently pursuant to the request of their home regulator. According to HSBC's announcement, the relevant decision was made by its Board having regard to the written notice and request issued by the Bank of England through its Prudential Regulation Authority.

Dividend policy and arrangements of listed companies are commercial

decisions of the respective companies' Board having regard to a range of considerations. Indeed, there were precedents in which listed companies made the decision of dividend cancellation in the past (for example, CT Environmental Group Limited withdrew the payment of 2018 Interim Dividend in 2019). However, the individual circumstances of each company differ and the cases are therefore not comparable. Generally speaking, the dividend arrangements of listed companies should comply with the requirements as stipulated in the company law of their respective jurisdiction of incorporation as well as their articles of association. The Securities and Futures Ordinance and the Listing Rules require listed companies to announce the information about dividend payment and any changes relevant to dividend arrangements in a timely manner in order to uphold the transparency of market information. Whether the cancellation of dividend violates the relevant requirements would depend on individual circumstances and cannot be generalised.

(2) We understand and appreciate that HSBC's decision would have certain impact on shareholders and some of them would feel disappointed and dissatisfied. Banks incorporated in the United Kingdom (including HSBC) are regulated by the Prudential Regulation Authority under the Bank of England and they are required to comply with its relevant requests. It is understood that due to the uncertainties arising from COVID-19, the Prudential Regulation Authority has requested seven large-scale banks, including HSBC, to suspend the payment of dividends in order to strengthen the capital position of the banking system. Similar actions were also taken by the regulatory authorities in Europe. In Hong Kong, the HKMA has requested the Hong Kong branch of HSBC to reflect the concerns expressed by its shareholders in Hong Kong to HSBC. The HKMA has also informed the Prudential Regulation Authority about the concerns expressed by HSBC shareholders in Hong Kong through HKMA's regular regulatory communications with the Prudential Regulation Authority. In addition, the SFC will perform its statutory regulatory functions in accordance with the Securities and Futures Ordinance and take necessary action if any non-compliance with our regulatory requirements is detected or to make any public comment or announcement.

Since the shareholders of listed companies such as HSBC generally come from different jurisdictions and may opt for different dividend options (such as receiving cash dividend or scrip dividend), it is difficult to assess the impact of HSBC's dividend cancellation on the economic situation and investors' confidence in Hong Kong. But on the whole, we believe that the dividend policy and arrangements of individual listed companies would not affect the overall competitiveness of Hong Kong's securities market.