

LCQ14: Attracting China Concept Stock companies to list in Hong Kong

Following is a question by the Hon Nelson Lam and a written reply by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, in the Legislative Council today (April 6):

Question:

The Financial Secretary has pointed out in the Budget delivered in February this year that, as Mainland enterprises need to face increased risks and uncertainties of listing in overseas markets, quite a number of China Concept Stock (CCS) companies have chosen to return. The Government has already made preparations for attracting quality CCS companies to list in Hong Kong, so as to enhance the competitiveness of Hong Kong as a global financing platform. In this connection, will the Government inform this Council:

(1) whether it has formulated specific plans for attracting quality CCS companies to list in Hong Kong; if so, of the details and timetable;

(2) as there are analyses pointing out that with the United States (US) Congress's passage of the Holding Foreign Companies Accountable Act in 2020, CCS companies failing to meet the relevant audit requirements need to be delisted from the US in 2024 at the earliest, whether the Government has assessed the number of CCS companies which may be affected and need to switch to listing in Hong Kong; and

(3) as there are comments pointing out that political conflicts between China and the US may result in the need for CCS companies to be delisted from the US and switch to listing in Hong Kong within an extremely short period of time, whether the Hong Kong Exchanges and Clearing Limited and the relevant regulators have put in place contingency mechanisms and measures to regulate the relevant CCS companies; if so, of the details; if not, the reasons for that?

Reply:

President,

With the substantial fundraising needs from Mainland enterprises in the international market, there are over 200 Mainland enterprises listed overseas. They are commonly known by the market as "China Concept Stocks". As far as the "China Concept Stocks" listed in the United States (US) are concerned, the Financial Stability and Development Committee under the State Council stated after the meeting on March 16 that the regulatory bodies concerned have maintained good communication on the regulation over US-listed Chinese enterprises and made positive progress. The two sides are working on

a concrete co-operation plan. Subsequently, the China Securities Regulatory Commission (CSRC) also indicated that it would continue to work on an actionable arrangement for bilateral co-operation on audit supervision. Meanwhile, the CSRC also expressed that it would further expand high quality market opening-up, supporting capital market co-operation between the Mainland and Hong Kong to jointly safeguard soundness and stability of the Hong Kong market. The CSRC would also strive for an early implementation of new draft rules for overseas listings, rendering continued support for eligible companies seeking listings in overseas markets and maintaining smooth channels for overseas listings.

The Government will, as in the past, contribute to the opening-up of our country in accordance with policy direction of the Central People's Government. For "China Concept Stocks" issuers who would like to list in Hong Kong, leveraging on our institutional strengths as an international financial centre and unique advantages under the "one country, two systems" principle, we have already made preparation to attract quality "China Concept Stocks" to list in Hong Kong, providing more choices to investors and increasing market liquidity.

In consultation with the Securities and Futures Commission (SFC) and the Hong Kong Exchanges and Clearing Limited (HKEX), my reply to the three parts of the question is as follows:

(1) The Government has all along strived to develop Hong Kong into a deeper and broader fundraising platform. The HKEX introduced a series of reforms to the listing regime in April 2018, which include launching a new concessionary route to secondary listing for Greater China issuers (Note) that are listed on the major overseas markets, from emerging and innovative sectors, and meeting specific eligibility criteria, while grandfathering their weighted-voting-right (WVR) and variable interest entity (VIE) structures.

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, the HKEX conducted a holistic review of the relevant listing regime in 2020 and consulted the market in March 2021 on a set of proposals to further enhance and streamline the listing of Greater China issuers in Hong Kong. With support from a majority of the respondents, the HKEX implemented the measures in January 2022 to facilitate "China Concept Stocks" in seeking secondary listing or obtaining primary listing status in Hong Kong. The key enhancements are as follows:

Secondary listing

the requirements of secondary listing in Hong Kong for Greater China issuers without a WVR structure are relaxed by removing the "innovative company" condition and lowering the market capitalisation requirement to \$3 billion;

From secondary listing to primary listing

secondary listed issuers will be regarded as primary listed issuers in Hong Kong in the event of delisting from an overseas exchange. While they need to comply with the applicable provisions for primary listed issuers under the Listing Rules, the issuers concerned would have a 12-month grace period to allow for the preparation of financial statements in accordance with Hong Kong or international financial reporting standards;

for issuers who are involuntarily delisted from an overseas exchange, the continuing transactions entered into before the issuers' notification to the HKEX on the expected involuntary delisting would be exempted from the relevant Listing Rules for three years from the date of the notification. If necessary, the HKEX may grant a grace period on a case-by-case basis; and

Dual primary listing

for Grandfathered Greater China issuers with WVR or VIE structures who could meet the requirements for secondary listing, they could apply for dual primary listing directly and their existing WVR or VIE structures will be grandfathered. In addition, the existing WVR and VIE structures of Grandfathered Greater China issuers will also be grandfathered if such issuers apply for conversion to primary listing status after secondary listed in Hong Kong.

The above measures not only enable more "China Concept Stocks" to seek secondary listing in Hong Kong, they also provide greater flexibility to relevant issuers seeking dual primary listing directly or obtaining primary listing status in Hong Kong through transferring from secondary listing. In the event of being delisted from an overseas exchange, their primary listing status in Hong Kong could still be retained. Overall speaking, the measures would be conducive to attracting quality "China Concept Stocks" listed in overseas exchanges to list in Hong Kong and meet the fundraising needs of the Mainland enterprises. At the same time, this would enhance Hong Kong's competitiveness as a premier global fundraising platform.

(2) and (3) Hong Kong has a highly open and internationalised market, a regulatory regime aligned with major markets, and a highly efficient, open and transparent listing platform. Since 2020, "China Concept Stocks" issuers have made the most appropriate arrangements according to their respective circumstances. The HKEX and the SFC have been closely monitoring the developments and striving to attract quality "China Concept Stocks" to return to Hong Kong through a series of enhancements to the listing regime while balancing the risks involved and investor protection.

According to market information, currently over 200 "China Concept Stocks" are listed in the US. As of March 2022, 19 "China Concept Stocks" issuers have returned to Hong Kong through secondary listing or dual primary listing, the total market capitalisation of whom accounted for over 70 per cent of all "China Concept Stocks" listed in the US. The HKEX and the SFC will continue to process listing applications from the returning "China Concept Stocks" in accordance with the enhanced listing rules.

When handling listing applications, the HKEX has taken the frontline role in regulating companies seeking listing in the Hong Kong market and supervise those companies once they are listed in accordance with the Listing Rules. The SFC monitors the HKEX's performance of its listing-related functions and responsibilities and adopts a "front-loaded" regulatory approach according to the Securities and Futures (Stock Market Listing) Rules and the Securities and Futures Ordinance to intervene in serious cases at an early stage.

Specifically, the SFC will discuss with the HKEX regularly on listing-related matters. Under the dual filing regime, the HKEX will pass copies of materials submitted by listing applicants to the SFC. The SFC may object to a listing if the disclosure in the listing materials appears to the SFC to be false or misleading, or the listing of the concerned securities would not be in the interest of the investing public or in the public interest. The SFC also conducts a periodic audit of the performance by the HKEX in its regulation of listing-related matters.

The above mechanism is working smoothly at present. The Government will maintain close communication with the SFC and the HKEX, continue to review the implementation of the regulatory regime for listing, and introduce further enhancements in due course.

Note: Qualified issuers with a centre of gravity in Greater China.