

FSDC releases research report on Hong Kong's IPO regime

The Financial Services Development Council (FSDC) today (June 18) released a research report titled "Positioning Hong Kong as an International IPO Centre of Choice".

The report notes that Hong Kong has been a leading global equity fundraising centre, due to its reputable legal system, proximity to the Mainland and other fast-growing economies in Asia, as well as the clustering effect of international investors and capital that have been drawn to our market. Nevertheless, the industry believes that in addition to attracting quality companies from Mainland China, Hong Kong can further strengthen its appeal to companies from around the world by enhancing its initial public offering (IPO) platform.

The Chairman of the FSDC, Mrs Laura Cha, said, "We appreciate that over the years the Government, regulators and Hong Kong Exchanges and Clearing Limited (HKEx) have tirelessly sought ways to expand and internationalise the market by attracting more overseas companies of good quality to list in Hong Kong.

"Along this direction, the report sets out the industry's views on some key issues relating to Hong Kong's IPO market where a detailed review and reform may need to be considered."

"We believe the recommendations in the report will help focus the efforts of the Government, regulators, HKEx and other stakeholders in making Hong Kong a preferred centre for listing and fundraising," said Mrs Cha.

The report notes the successful launches of IPOs involving overseas companies, including those for mining, retail and luxury companies, on the Stock Exchange of Hong Kong over the past years.

To attract more overseas companies to utilise Hong Kong's IPO platform and recognising that certain unusual risk features may not be considered suitable for all investors, the report proposes to consider the introduction of distinct market segmentation to enable better matching between different types of issuers and investors; to accommodate innovations in shareholding and management structure

by allowing the listings of businesses in various legal forms provided that appropriate shareholders' safeguards are in place; and to develop Hong Kong as a hub for issuers in specific industries.

The report points out that as a short- to medium-term initiative, the regulators may wish to re-assess the ambit of the public filing of safe harbours so as to strike a better balance between information transparency for investors and confidentiality protection for overseas issuers. Meanwhile, strengthening cross-border regulatory enforcement, double taxation treaty network and channels for shareholders' recourse would enhance protection for investors of overseas companies listed in Hong Kong, thus consolidating Hong Kong's status as an international centre of choice for IPO activities.

The report also welcomes the progress of legislation related to implementing uncertificated securities market regime, which will facilitate the listing of issuers from a number of jurisdictions in addition to promoting efficiency in the overall local equity market.

Other procedural issues covered in the report include a proposal to conduct a general review of the Hong Kong IPO process to mitigate any distortion on price discovery, which could be achieved by further improvements or refinements of the settlement cycle, the clawback mechanism, and the regulation of cornerstone investments.

"We recognise that some issues identified in the report may require longer-term solutions involving in-depth planning and consultation, while others are more procedural in nature and may be addressed with relative expediency," Mrs Cha said.

"It is crucial for all concerned to act promptly to enhance our IPO market, especially when the upcoming launch of the Shanghai-Hong Kong Stock Connect pilot programme will open up new horizons for the Hong Kong stock market," Mrs Cha added.

The report can be downloaded from the FSDC website: www.fsd.org.hk.

About the FSDC

The Hong Kong Special Administrative Region Government announced in January 2013 the establishment of the FSDC as a high-level, cross-sectoral advisory body to engage the industry in formulating proposals to promote the further development of Hong Kong's financial services industry and to map out the strategic direction for development.

The FSDC established five committees, namely the Policy Research Committee; Mainland Opportunities Committee; New Business Committee; Market Development Committee; and Human Capital Committee.

Ends/Wednesday, June 18, 2014