



Hong Kong

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## HONG KONG STOCK EXCHANGE PUBLISHES LISTING DOCUMENT SIMPLIFICATION GUIDE

The Stock Exchange of Hong Kong Limited (the **Exchange**) has published new guidance letter HKEx-GL86-16 on producing simplified listing documents for new applicants' listings of equity securities (the **Listing Document Simplification Guide**).<sup>1</sup>

Given concerns that Hong Kong listing documents are excessively long and complex and difficult to understand, the Listing Document Simplification Guide aims to:

- encourage the production of clearer, more succinct listing documents;
- provide guidance on the information the Exchange expects to be included in different sections of a listing document; and
- enhance investors' ability to find and understand information in listing documents necessary to make properly informed assessments of listing applicants.

The Listing Document Simplification Guide comprises three parts:

- General guidance on producing clear and concise listing documents – Section 3;
- A consolidated and updated version of a number of the Exchange's guidance letters on disclosures in listing documents – Section 4; and

- Sample "Summary of the Constitution and Laws of Place of Incorporation" sections of listing documents for listing applicants incorporated in Bermuda, the Cayman Islands and the PRC, and corresponding sample constitutional documents for applicants incorporated in these jurisdictions. The hyperlinks to these sample documents are set out in Section 5.

The Exchange will not return a listing application solely because it does not follow the general guidance in Section 3 or the sample listing document sections and constitutional documents for listing applicants incorporated in Bermuda, the Cayman Islands or the PRC, although it will remind applicants to do so.

Listing applicants intending to submit their listing applications after 30 April 2016 should comply with the consolidated guidance set out in Section 4 of the Listing Document Simplification Guide. Applicants submitting their applications before 30 April, can comply with the consolidated guidance or the standalone guidance letters which will be withdrawn on 30 April.

### Background

It is a general principle of the Hong Kong Listing Rules (the **Listing Rules**) that sufficient information should be given to potential investors to allow them to make a properly informed assessment of a listing applicant (*Main Board Rule 2.03(2) / GEM Rule 2.06(2)*). To support this general principle, Main Board Rule 2.13 / GEM Rule 14.26 requires listing document information to be clear and in plain language. The Securities

<sup>1</sup> Listing Document Simplification Guide available at [http://en-rules.hkex.com.hk/net\\_file\\_store/new\\_rulebooks/g/llgl8616.pdf](http://en-rules.hkex.com.hk/net_file_store/new_rulebooks/g/llgl8616.pdf).

and Futures Commission (SFC) and the Exchange have published guidance in the past to assist listing applicants and their advisers to meet this requirement. However, this has had a limited impact in reducing the length and complexity of Hong Kong listing documents or reducing the amount of legal and technical jargon.

While the Exchange expects the Listing Document Simplification Guide to be followed, it is not intended as a checklist of information which must or must not be included. Additional specific disclosures may also be necessary for applicants engaged in particular industries.

## Guidance on Producing a Clear and Concise Listing Document

The Exchange has pinpointed four key drafting principles.

### 1. *Is disclosure necessary for each piece of information?*

Listing applicants and their advisers should consider why each piece of information is disclosed in the listing document and critically assess whether it needs to be disclosed. Relevant questions include:

- is the information relevant and material, i.e. would its omission or misstatement affect an investor in making an informed assessment;
- is the information specific to the applicant's business;
- is the information necessary to comply with a specific requirement under applicable laws and regulations or the Listing Rules; and
- is the information disclosed elsewhere in the listing document.

### 2. *Simplification of the language*

The Exchange's rule of thumb is that listing document disclosures should read like everyday conversation. Information should be disclosed using short sentences and everyday language and should take into consideration that retail investors often have little or no technical knowledge in the listing applicant's business or industry.

### 3. *Avoid using defined terms or technical jargon*

The Exchange does not consider defined terms, legal, financial and other technical jargon to be plain language. They should only be used if they improve the readability of the disclosure. An inherent problem with defined terms is that disclosures are harder to understand as readers have to check their meaning from time to time. The Exchange's recommendations are:

- if disclosure can be explained in plain language, avoid using a defined term or technical jargon;
- if defined terms or technical jargon are necessary, use terms with plain language meaning that best explain their defined meaning. Refrain from creating new defined terms which are unique to the listing document;
- ensure that all defined terms are set out in the "Definitions" or "Glossary" sections for easy cross reference by the readers; and
- use a defined term consistently throughout the listing document.

### 4. *Simplifying the layout*

The Exchange recognises that many applicants have complex businesses which require extensive disclosures. Organising disclosures logically will thus be crucial in ensuring the readability of listing documents. Specific recommendations include:

- using a simple design and layout and choosing and using a consistent font and type size that is easy to read. Upper case characters should be avoided;
- employ a top-down approach by starting with the big picture, i.e. describe the applicant's business generally before describing detailed features of the business. Group related information together;
- use descriptive headers and sub-headers to break up information into small digestible parts. If possible, number headers for easy cross reference;

- use tables and bullet points to present information effectively. For example, financial information such as revenue contribution by business segment is better suited to being presented in a table rather than in a narrative form; and
- present information in a meaningful way to stress matters that are of most interest to investors.

## 5. Practical suggestions

The Exchange's practical drafting suggestions are:

- avoid copying disclosures from other listing documents;
- tabulate financial information;
- summarise material agreements by describing key provisions in plain language;
- when summarising applicable Listing Rules, legislation or other regulations, describe in plain language how they apply to the listing applicant;
- make cross references to other relevant sections in the listing document to add more details on the subject matter and to avoid duplication;
- avoid marketing language – The Exchange will request removal of statements which do not give a fair, unbiased, balanced and factually supported view of a listing applicant's business;
- use a lead writer/editor - this helps to ensure that the listing document has a logical structure and consistent language usage; and
- review the listing document after its preparation to consider whether any information can be removed, summarised or re-structured to emphasise matters of most importance to investors.

## Guidance on Disclosure in Specific Sections of the Listing Document

Appendix 1 of the Listing Document Simplification Guide sets out a consolidated and updated version of a number of the Exchange's guidance letters on disclosures in listing

documents. This gives detailed guidance on what information the Exchange expects to be included in each section of a listing document. The guidance appears in the order it would generally appear in a listing document. The updates that have been made to the original guidance letters can be seen on the Exchange's Marked-up Version of the Guidance Letters included in the Consolidated Guidance.<sup>2</sup> The consolidated guidance covers the following sections of the listing document:

- a) "Summary and Highlights" section (an update of HKEx-GL27-12);
- b) "Risk Factors" section (an update of HKEx-GL54-13);
- c) "Industry Overview" section (an update of HKEx-GL48-13);
- d) "History and Development" section (an update of HKEx-GL49-13);
- e) "Business" section (an update of HKEx-GL50-13);
- f) "Financial Information" or "Management discussion and analysis on the historical financial information (MD&A)" section (an update of HKEx-GL59-13);
- g) "Applicable laws and Regulations" section (an update of HKEx-GL72-14);
- h) "Directors, Supervisors and Senior Management" section (an update of HKEx-GL62-13);
- i) "Use of Proceeds" section (an update of HKEx-GL33-12); and
- j) Application Forms and "How to Apply for Hong Kong Offer Shares" section (an update of HKEx-GL64-13).

Due to the consolidation in Appendix 1, the individual guidance letters referred to above will be retracted by the Exchange after 30 April 2016. However, the following guidance letters on listing document disclosure will remain in full force and effect:

*Industry-specific guidance letters:*

- a) "Business models with significant forfeited income from prepayment" (HKEx-GL26-12);

<sup>2</sup> Exchange's Marked-up Version of the Consolidated Guidance available at [https://www.hkex.com.hk/eng/rulesreg/listrules/liststoptop/guidepsld/Documents/consol\\_gl\\_blackline.pdf](https://www.hkex.com.hk/eng/rulesreg/listrules/liststoptop/guidepsld/Documents/consol_gl_blackline.pdf).

- b) "Restaurant operators" (HKEx-GL28-12);
- c) "Distributorship business" (HKEx-GL36-12);
- d) "Mineral companies" (HKEx-GL52-13); and
- e) "Gambling activities" (HKEx-GL71-14).

*Other guidance letters on disclosure in a Listing Document:*

- a) "Disclosure of statistics and data quoted in listing documents" (HKEx-GL8-09);
- b) "Disclosure requirements for IPO cases – Formal Notice" (HKEx-GL24-11);
- c) "Disclosure of intellectual property rights" (HKEx-GL30-12);
- d) "Disclosure of hard underwriting" (HKEx-GL34-12);
- e) "Latest practicable date and latest date for liquidity disclosure" (HKEx-GL38-12);
- f) "Indebtedness, liquidity, financial resources and capital structure disclosure" (HKEx-GL37-12);
- g) "Disclosure of material changes in financial, operational and/or trading position after trading record period" (HKEx-GL41-12);
- h) "Disclosure of material non-compliance incidents" (HKEx-GL63-13); and
- i) "Disclosure of property valuation report and market report" (HKEx-GL65-13).

**Sample "Summary of the Constitution and Laws of Place of Incorporation" sections of listing documents of listing applicants incorporated in Bermuda, the Cayman Islands and the PRC, and corresponding sample constitutional documents**

The Exchange observed that the "Summary of the Constitution and Laws of Place of Incorporation" section of many published listing documents is generally long-winded. Further, the Exchange recognised that this section is capable of being identical or very similar for most applicants from the same jurisdiction. As a result, the Exchange has prepared templates of this section and the corresponding standard constitutional documents for listing applicants incorporated in the PRC,

Bermuda, and the Cayman Islands. These templates are available on the Exchange's website at [https://www.hkex.com.hk/eng/rulesreg/listrules/listsptop/guidepsld/Documents/consol\\_gl\\_blackline.pdf](https://www.hkex.com.hk/eng/rulesreg/listrules/listsptop/guidepsld/Documents/consol_gl_blackline.pdf). The Listing Document Simplification Guide states that these templates are provided by the Exchange by way of example only and it will only update them to reflect changes in law when notified of the changes. They should therefore be reviewed by legal advisers qualified in the relevant jurisdiction before being adopted or incorporated in a listing document.

**Presentations on the Listing Document Simplification Guide**

The Exchange will be holding seminars in March 2016 to help market practitioners gain a better understanding of the Listing Document Simplification Guide.

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