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Hong Kong as an International Financial Centre – Enhancement of Hong Kong's IPO offerings

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Contents

Executive Summary

Hong Kong is a global leading initial public offering (IPO) venue and one of the world's largest capital markets. Buoyed by investor demand and market sentiment, the Hong Kong's IPO market continues to show strong momentum despite the pandemic. In terms of total proceeds, the IPO market hit a historical high in the first half of 2021 before slowing down somewhat, and Hong Kong is ranked as the world's number one IPO venue 7 times over the past 13 years. Overall, in 2021, Hong Kong Exchanges and Clearing Limited (HKEX) hosted 98 new listings during the year, in which a total of HK$329 billion was raised[1].

Hong Kong plays a major role in enhancing global investors' confidence in Chinese listed companies and upholding a high standard and focus on quality. This is a bedrock of its status as an international financial centre (IFC).

The vibrant development of the Hong Kong IPO market also owes credits much to its specific advantages and ability to evolve and develop new frameworks. In 2018, among other advantages of the market, Hong Kong's listing regime entered a new era after the HKEX introduced three new chapters to its Listing Rules, which, in short, made listings of pre-revenue biotech issuers and companies with individual weighted voting rights (WVR) structures possible and provided a practical route for companies from Greater China and international markets to obtain secondary listing in Hong Kong.

Hong Kong is now one of the most sought-after listing venues for new economy companies, opening new dimensions for investors, and bringing significant impact to the broader capital market in Hong Kong.

Capturing Opportunities for Hong Kong

Accelerated Development of "new economy"

Home to the world's four largest unicorns, China is also home to approximately 40% of the global unicorns.[2] The accelerated development of the "new economy" and other new and emerging sectors has contributed much to the country's economic growth. According to the Caixin New Economy Index, new economy industries accounted for 28.1% of Mainland China's overall economic input activities in December 2021[3], while that on average for 2021 is estimated at 28.6%.[4]

The new chapters in 2018 brought a framework and new set of rules, which has made listings of pre-revenue biotech issuers and innovative companies with individual WVR structures permissible, while also introduced an attractive but measured route for companies from Greater China and international markets to secondary list in Hong Kong. This strategically enhanced Hong Kong's position as a hub for technology and biotech firms looking to raise capital. Indeed, Hong Kong has become a leading listing venue of choice for Chinese "new economy companies".[5]

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1 HKEX, Market Statistics 2021, January 2022, https://www.hkex.com.hk/-/media/HKEX-Market/Market-Data/Statistics/Consolidated-Reports/Annual-Market-Statistics/2021-Market-Statistics_e.pdf
2 Hurun, Hurun Global Unicorn Index 2020, August 2020, https://www.hurun.net/en-US/Info/Detail?num=E0D67D6B2DB5
3 Caixin Global, Caixin New Economy Index Falls on Drop in Technology Investment, January 2022, https://www.caixinglobal.com/2022-01-04/caix-in-new-economy-index-falls-on-drop-in-technology-investment-101825742.html
4 Based on NEI, calculated by FSDC staff
5 Charltons, Impactof HKEx Listing Reforms of 2018, 2020, https://www.charltonslaw.com/hong-kong-law/impact-of-hkex-listing-reforms-of-2018/

The evolving 'homecoming' environment

Among the IPO listings in 2021 were a number of dual and secondary listings of US-listed companies with the centre of gravity in Greater China. In fact in 2021, 73% of the IPO fund raised was contributed by technology, media & telecom companies, healthcare and life sciences companies and industrials companies. [6] There were also a total of 5 concessionary secondary listings under Chapter 19C, in addition to 20 biotech companies under Chapter 18A and 9 listings with WVR structure at the end of 2021.[7] The 'homecoming' opportunities for Hong Kong are not just from secondary listings, but are also particularly arising from dual-primary listings (e.g. XPeng and Li Auto).

At the same time, the trend has also highlighted the attractiveness of Hong Kong as an attractive second listing venue by overseas companies in the Asia time zone. For Hong Kong to better serve as a potential option for these overseas listed companies to raise capital in Asia, it is timely to consider various short, medium and long-term measures with regards to its listing regime.

It is not just about 'homecoming'. Another possible area to develop is to expand HKEX's international composition by attracting more overseas companies, other than Greater China issuers having variable interest entities structures. Companies from nearby manufacturing bases, such as ASEAN countries and on the Belt and Road should be considered. This expanded international composition will in turn make Hong Kong yet more attractive for Chinese issuers.

Strengthening Hong Kong as a premier global capital formation centre

To fully vitalise opportunities the Hong Kong market, **a holistic review of the existing listing requirement for these companies would be essential**. While the New Chapters introduced in 2018 were a significant milestone in the development of Hong Kong's capital market, it has also brought about some practical challenges for companies seeking to list in Hong Kong, partially in terms of clarity as to the definition and interpretation of the requirement of "innovativeness" for companies and also additional governance standards requirements and support for the transition to Hong Kong. This is particularly relevant to significant companies in the 'middle layer', which satisfy the minimum eligibility requirements in terms of size but are not high in market capitalisation.

Market participants, including potential issuers who consider themselves as innovative companies, tend to share the view that more clarity should be provided on the "innovative" criteria to reduce the uncertainty of and resources required for fulfilling the requirement. To address such market feedback, **the subjective eligibility of "innovativeness" for issuers with WVR structure listed through Chapter 8A of the listing rules should be reviewed and clarified whilst recognising the policy direction of WVR to not to be 'common place' and retain investor protection**.

[6] KPMG, Mainland China and Hong Kong IPO markets – 2021 review and 2022 outlook, December 2021, https://assets.kpmg/content/dam/kpmg/cn/pdf/en/2021/12/china-hk-ipo-2021-review-and-outlook-for-2022.pdf

[7] HKEX, Market Statistics 2021, January 2022, https://www.hkex.com.hk/-/media/HKEX-Market/Market-Data/Statistics/Consolidated-Reports/Annual-Market-Statistics/2021-Market-Statistics_e.pdf

Riding on the successful emergence of the new economy in China and the Guangdong-Hong Kong-Macao Greater Bay Area (GBA) and the introduction of Chapter 18A, together with the fact that many young new economy companies (e.g. hard technology, new energy, Software-as-a-Service, big data and artificial intelligence) will benefit from having adequate fundings, including access to capital markets, for the R&D activities prior to being fully profitable, **the HKEX and the SFC should consider if and how some of the distinguishing and successful features of the framework relating to the listing requirements for pre-revenue biotech firms and SPACs can be applicable to a new specific framework for these 'hard-tech' companies.** These features could include, for example, the involvement of sophisticated investors, rounds of fundings, competent authorities, etc. As mentioned in the 2022-23 Budget, the Government is examining the listing requirement for these companies, we appreciate the support of the Government in taking forward the idea that was discussed between the FSDC and other stakeholders.

Relatedly, to strengthen the competitiveness of Hong Kong as an international capital formation centre with a unique access to Mainland China's enormous capital pool in the long-run, **an on-going review of areas to enhance and streamline the listing process is appropriate**. Some hurdles for overseas issuers, including those with a centre of gravity in Greater China. From the clarity around criteria of being an innovative company, the relatively lengthy and time-consuming IPO process, to the grandfathering mechanism of primary-listed issuers on Qualifying Exchanges, further enhancement can be explored in order to streamline the onboarding process of overseas issuers. In turn, the potential of the listing market and the broader capital market in Hong Kong can be maximised.

Alongside the aforementioned proposed actions, more support should be given to small and medium enterprises' (SMEs) fundraising needs and access to the capital market. Hong Kong can capitalise on its world-class capital formation capabilities to fuel the further growth of the SME community in GBA and environmental, social and governance (ESG) initiatives, so that a higher degree of synergy can be created within the financing ecosystem in the GBA. Moreover, with the recent establishment of the Beijing Stock Exchange (BSE), Hong Kong could leverage its super-connector role to explore possible collaboration and synergy between the two stock exchanges in creating a more accessible platform for China-based SMEs to broaden and diversify their shareholder base. In this aspect, **a new framework or concept for capturing of SMEs capital needs and development should be explored with a balance between investor protection and market development whilst creating a deeper pool of capital**. Areas to consider include revamping GEM board as an incubator of early-stage fast-growing companies and a professional investor only board.

With a strong financial market historically, Hong Kong's future economic prosperity depends very much on its continued success in maintaining and further developing its status as a leading International Financial Centre, among which the IPO market has long been a growth driver. Hong Kong should assess the competitiveness of its listing regime on an ongoing basis to address evolving market needs whilst always focusing on market quality and high standards of conduct. The FSDC believes that through such a mechanism and continuous market enhancements and through on-going dialogue with HKEX, SFC and Financial Services and the Treasury Bureau (FSTB), Hong Kong's listing market will take further steps forward, allowing it to continue its position as a premier global capital formation centre.

Introduction

Hong Kong is a global leading IPO venue and one of the world's largest capital markets. Despite the headwind brought by COVID-19 in the past two years, economic growth both globally and locally in Hong Kong has bounced back quickly and the IPO market has continued to show strong momentum. Buoyed by investor demand and market sentiment, the Hong Kong IPO market, in terms of total proceeds, hit historical high for the first half of 2021. As one of the leading IPO fundraising hubs in Asia, the HKEX is renowned for its success in the IPO market, taking home the global IPO crown 7 times in the last 13 years. In 2021, HKEX welcomed 98 new listings during the year, in which a total of HK$329 billion was raised. Hong Kong was host to 2,572 listed companies with a total market capitalisation of HK$41.2 trillion as at the end of 2021.[8]

Hong Kong's listing regime entered a new era in 2018 after the HKEX introduced three new chapters to its Listing Rules. Hong Kong has since then been one of the most favourable listing destinations for new economy companies, bringing significant impact to the capital market of Hong Kong. The three new chapters to the Listing Rules, in short, made listings of pre-revenue biotech issuers and companies with individual WVR structures possible. Concurrently, it also launched a practical route for companies from Greater China and international markets to secondary list in Hong Kong. Since then, HKEX has become one of the most sought-after listing venues for new economy companies, bringing significant impact to the broader capital market of Hong Kong.

The new set of rules has essentially made listings of pre-revenue biotech issuers and companies with individual WVR structures permissible, while also introduced a practical route for companies from Greater China and international markets to secondary list in Hong Kong. A major aim of the 2018 reforms was to strategically enhance Hong Kong's position as a hub for technology and biotech firms looking to raise capital. Due in part to such efforts in 2018, Hong Kong has become the listing venue of choice for many new economy companies.[9]

To strengthen its value proposition as a global listing venue of choice and "broaden investment opportunities for investors"[10], HKEX proposed further upgrade to the listing rules targeting overseas issuers through the Consultation Paper on Listing Regime for Overseas Issuers published in March 2021. In November 2021, the corresponding conclusions of the consultation proposed several revisions to the listing rules with an aim of enhancing and streamlining the regime for overseas issuers. As detailed in the consultation conclusions, Greater China and Overseas issuers without a WVR structure are permitted to secondary list on the exchange without having to demonstrate the "innovativeness" in their business, on the basis that the issuers have fulfilled the corresponding market capitalisation and other listing requirements. The proposed changes have become effective in January 2022 and are expected to open doors to more prospective issuers, both from the Mainland and overseas markets, to come list in Hong Kong.

8 HKEX, Market Statistics 2021, January 2022, https://www.hkex.com.hk/-/media/HKEX-Market/Market-Data/Statistics/Consolidated-Reports/Annual-Market-Statistics/2021-Market-Statistics_e.pdf
9 Charltons, Impactof HKEx Listing Reforms of 2018, 2020, https://www.charltonslaw.com/hong-kong-law/impact-of-hkex-listing-reforms-of-2018/
10 Global Times, Secondary flotations of US-listed Chinese companies buoy prospectsas Hong Kong bourse rolls out reforms, November 2021, https://www.-globaltimes.cn/page/202111/1239493.shtml

Capturing opportunities for Hong Kong

Accelerated Development of “new economy” and dynamic composition of IPO market in Hong Kong

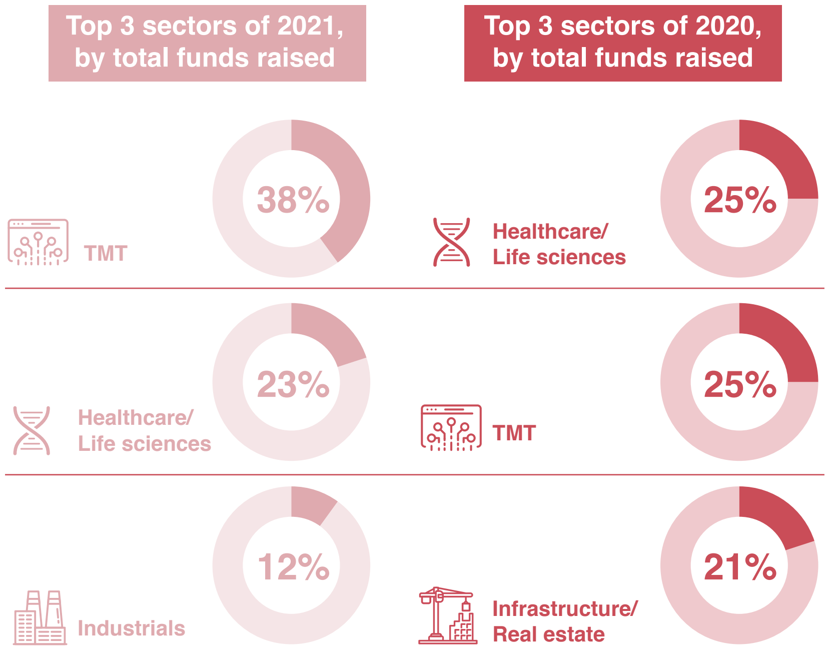
In 2015, the Central Government identified the new economy sector as one of the cornerstones for the country’s economic development, and defined major components of the new economy to include, among others, new generation information technology, high-end computer numeric control machine tools and robots, aerospace equipment etc. In 2018, the National Bureau of Statistics provided further clarification on the classification of new economy industries by formulating the Statistical Classification of New Industries, New Operation Types and New Business Models. Since then, the new economy sector has been a primary focus of the country’s development and has gained recognisable traction and growth.

Home to the world’s four largest unicorns, China is also to the origin of around 40% of the global unicorns.[11] This partly shows that the accelerated development of the “new economy” and other new and emerging sectors has contributed much to the country’s economic growth. According to the Caixin New Economy Index, new economy industries accounted for 28.1% of Mainland China’s overall economic input activities in December 2021[12], while that on average for 2021 is estimated at 28.6%.[13]

Among the IPO listings in 2021 were a number of secondary listings of US-listed Mainland Chinese companies in the new economy sector. In fact in 2021, 73% of the IPO fund raised was contributed by technology, media & telecom(TMT), healthcare and life sciences and industrials companies.[14] There were also a total of 5 concessionary secondary listings under Chapter 19C, in addition to 20 biotech companies under Chapter 18A and 9 listings with WVR structure at the end of 2021.[15] This is not just about secondary listings, dual primary listings are an increasingly important part of the capital market.

[11] Hurun, Hurun Global Unicorn Index 2020, August 2020, https://www.hurun.net/en-US/Info/Detail?num=E0D67D6B2DB5
[12] Caixin Global, Caixin New Economy Index Falls on Drop in Technology Investment, January 2022, https://www.caixinglobal.com/2022-01-04/caixin-new-economy-index-falls-on-drop-in-technology-investment-101825742.html
[13] Based on NEI, calculated by FSDC staff
[14] KPMG, Mainland China and Hong Kong IPO markets – 2021 review and 2022 outlook, December 2021, https://assets.kpmg/content/dam/kpmg/cn/pdf/en/2021/12/china-hk-ipo-2021-review-and-outlook-for-2022.pdf
[15] HKEX, Market Statistics 2021, January 2022, https://www.hkex.com.hk/-/media/HKEX-Market/Market-Data/Statistics/Consolidated-Reports/Annual-Market-Statistics/2021-Market-Statistics_e.pdf

"As many as 200 companies have filed plans with the exchange for potential IPOs,"[16] and it is believed that such a dynamic IPO market was, in part, stimulated by the listing reform in 2018. An illustration is that IPO funds raised by TMT and healthcare/life sciences companies from the new economy sector saw a contribution of 50% and 61% to the total IPO fund raised in 2020 and 2021 respectively.[17]



Source: KPMG

Concurrently, a local ecosystem for biotech and new economy industries in Hong Kong and the GBAs has been cultivated and continues to gain traction. According to the HKEX, "Asian investors have accumulated wealth, and with it, greater appetite for risk and diversity in their investments, which creates demand for new homecoming listings." With the growing investor appetite, as well as sophistication and knowledge in these sectors, it presents much opportunity for Hong Kong.

The evolving 'homecoming' environment

Geopolitical uncertainties have continued to linger and shadow business operations, especially for Chinese companies listed in the US exchanges. Such uncertainties will not only have implications to business operations but also the global IPO market.

In view of the ever-changing situation, there may be a surge of enquiries for companies currently listed or considering to be listed on other exchanges looking for alternative options.

While issuers' interest in Hong Kong as a potential listing option may be on the rise, needs of investors and issuers are evolving rapidly. Therefore, in order for Hong Kong to better serve as a global capital formation centre, it is necessary to assess our competitive position and look for areas of refinement on an ongoing basis, taking into account evolving externalities. Notwithstanding investors are an integral part of the listing and trading ecosystem, this paper and suggestions embedded therein are prepared through the lens of issuers, focusing on ways to refine the regime.

[16] S&P Global, Hong Kong's IPO market to stay hot with about 200 hopefuls waiting in the wings, August 2021, https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/hong-kong-s-ipo-market-to-stay-hot-with-about-200-hopefuls-waiting-in-the-wings-65998401

[17] KPMG, Mainland China and Hong Kong IPO markets – 2021 review and 2022 outlook, December 2021, https://assets.kpmg/content/dam/kpmg/cn/pdf/en/2021/12/china-hk-ipo-2021-review-and-outlook-for-2022.pdf

[18] HKEX, The True Benefits of a Homecoming Secondary Listing, August 2020, https://www.hkexgroup.com/Media-Centre/Insight/Insight/2020/Christina-Bao/The-true-benefits-of-a-homecoming-secondary-listing?sc_lang=en

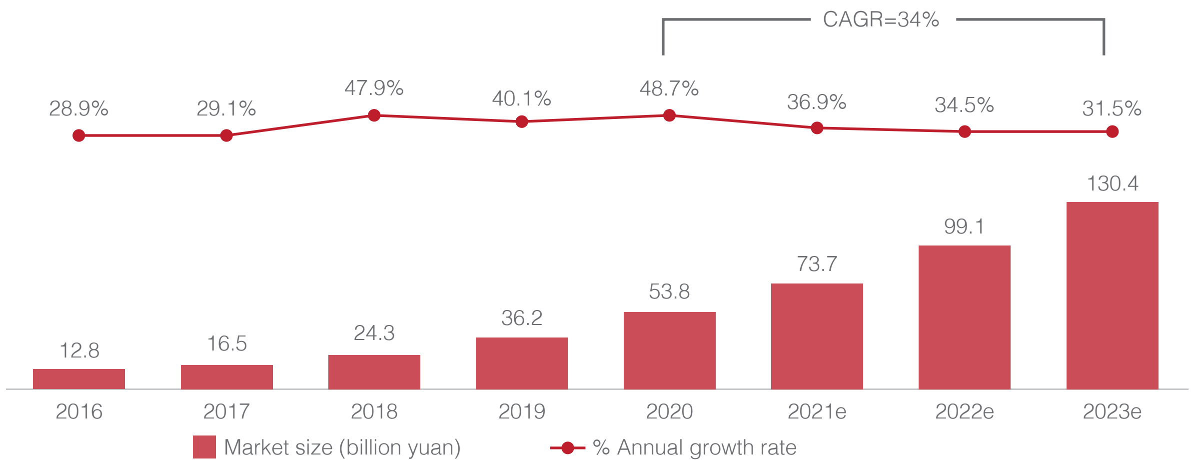
Strengthening Hong Kong as a premier global capital formation centre

I. Updating the listing framework in response to market development

Creating a friendly listing framework for innovative pre-revenue companies

Fast growing sectors that emerged in recent years, including new mobility, environmental, social and governance (ESG), Software as a Service (SaaS), hard tech sectors mentioned in the 14th Five-Year Plan (2021-2025) for National Economic and Social Development, had gained strong momentum recently both in Mainland and the US. While sectors such as energy, information technology and communication services which fall under the umbrella of new economy perform well year-to-date with +2.44%, +0.89% and +0.53% in price change respectively according to Bloomberg,[19] global SaaS market was expected to reach $272 billion in 2021.[20] The size of China's enterprise SaaS market was about 53.8 billion yuan in 2020 and is expected to grow at a CAGR of 34% from 2020 to 2023.[21] Although many of these companies are in earlier stages of development, they have demonstrated great potential and contribution to the global economy.

Size of China's Enterprise SaaS Market from 2016 to 2023



Source: Based on interviews with companies, public market information, and iResearch statistical forecasting model. The research and chart are done by iResearch independently.

The Chief Executive's Policy Address 2021 has put emphasis on integrating Hong Kong into the national development through enhancing Hong Kong's status as an international financial centre and developing it into an international innovation and technology hub. In addition to the world-class innovation and technology facilities in Hong Kong, financing remains an essential element to fuel the growth of innovation. Hence, it is crucial for Hong Kong to secure and develop a large pool of capital to meet these financing demands. Due to their new and innovative nature, many of these new economy companies require heavy investment in research and development (R&D), and see a longer product development cycle. While traditional financiers often look for financial track record, new economy companies would have difficult in gaining access to capital and investments. Therefore, it is important for Hong Kong to leverage its proposition of the international fundraising hub to provide flexibility in the listing regime to capture these opportunities alongside appropriate investor safeguarding.

[19] Bloomberg, Sector Performance, https://www.bloomberg.com/markets/sectors
[20] Bloomberg, Global Software as a Service (SaaS) Market Is Expected Reach $272 Billion in 2021, August 2021, https://www.bloomberg.com/press-releases/2021-08-03/global-software-as-a-service-saas-market-is-expected-reach-272-billion-in-2021
[21] iResearch, 2021 China's Enterprise SAAS Industry Report, October 2021, https://www.iresearchchina.com/content/details8_67909.html

The introduction of Chapter 18A enabling listing of pre-revenue biotech companies has set precedence in the market. With a total of 48 companies[22] listed on the HKEX Main Board through Chapter 18A, such introduction was proven successful. Like biotech companies, non-biotech new economy companies face the issue of having long business development cycles before demonstrating revenue or profits, **it is worthwhile to explore the possibility of applying some of the framework and listing requirement features of Chapter 18A to hard-tech companies. Applying the enhanced disclosure requirement to these R&D intensive sectors is a sensible and meaningful starting point.**

In addition, **reference could also be taken from the newly introduced listing framework for special purpose acquisition companies (SPACs)** which has taken effect on 1 January 2022. To introduce SPACs as a novel type of fundraising vehicles while putting investor protection as top priority, the SPAC regime has been designed to allow trading of SPACs, before completion of a de-SPAC transaction, to professional investors (PIs) only. This additional layer of requirement on investor suitability by restricting retail participation is considered necessary, at least for the initial stage, given the relatively more volatile trading patterns of SPACs observed in international markets. Moreover, the SPAC regime, by imposing a requirement of additional Private Investment in Public Equity (PIPE) funding, places financial institutions and PIs at the central role of valuation, which further facilitates price discovery and boosts market confidence. Similarly, in the up-and-coming new economy sectors, for instance hard technology such as robot-taxi players, autonomous driving companies, space exploration etc and green innovation, investors of these companies would be expected to be equipped with technological and financial sophistication as well as a higher level or risk tolerance. This is where the SPAC regime may provide much reference for a potential regime for pre-revenue innovative companies.

For Hong Kong to capture the market opportunities brought by these emerging companies riding on the growth of the new economy sector and well-developed listing regime, a market demand is identified in terms of designing listing requirements catering to the business nature and operating style of companies from the new economy sector. Market practitioners have often reflected that there is a need for an update of the listing menu, potentially through introduction of a new chapter to the Listing Rules like Chapter 18A, to capture these fast-growing sectors. Moreover, the emerging next wave of unicorns from the Southeast Asia (SEA) market are becoming mature and starting to seek IPO opportunities. However, these SEA issuers tend to opt for overseas exchanges as their listing destination in part due to the less friendly listing regime and process in Hong Kong compared with the US.

While it is not FSDC's intention to advocate customised listing rules for different sectors, drawing reference to the successful and tested features of the Chapter 18A of the HKEX listing rules specifically for biotech companies could be the way forward to allow more pre-revenue new economy companies with great prospect and market potential to be listed on HKEX. Together with the fact that many young new economy companies (e.g. new energy, Software-as-a-Service, big data and artificial intelligence) will require and need to benefit from having adequate fundings for R&D activities prior to being fully profitable, **the HKEX should consider if some of the features of the listing requirements for pre-revenue biotech firms can be applicable to these companies.**

[22] Statistics provided by UBS

Interpretation and definition of "innovative companies"

In the Guidance Letters published in 2018 to the listing rules of both Chapter 8A and 19C of the listing rules of the HKEX, an applicant which is suitable for listing with a WVR structure must be an innovative company, and a qualifying issuer for secondary listing is normally considered to be an innovative company. The "innovative" requirement was subsequently removed for the latter through the publication of the consultation conclusions in November 2021, i.e., companies without a WVR structure who looked for secondary listing opportunities in Hong Kong.

Hong Kong has long been the preferred offshore listing venue for Chinese companies. As of end-October 2021, there are a total of 1210 Chinese enterprises listed in Hong Kong, accounted for nearly 50% of the total number of listed companies in Hong Kong.[23] In addition, in light of the lingering geopolitical uncertainty, it is reported that some tech giants have begun considering different options of listing venues, including Hong Kong.

Among others, some bankers and legal professionals believe that the "innovative" requirement is subjective and brings uncertainty to the positioning of Hong Kong as a listing venue; this will, in turn, discourage issuers, even qualified issuers, to pursue this listing option or proposed applicants feeling frustrated from the process. There are particular concerns in relation to the fact that companies are required to demonstrate its innovative success which serves to differentiate the company from existing players. For illustration, while the first issuer from a new economy industry is approved to be listed on HKEX, this precedent case may not lead to opportunities for similar companies from the same industry. Nonetheless, similar companies, some with even high market capitalisation and business scale, will no longer be treated as "innovative" as they fail to differentiate themselves from the existing precedent case. The lesser certainty would lower the appeal of Hong Kong as a listing venue for some of these potential issuers.

Comparison of listing requirement and investor safeguards

Looking at other exchanges which allow listing of companies with WVR structures or dual class shares, the HKEX has imposed more stringent listing requirements for WVR companies in its attempt to ensure a higher degree of investor protection. For instance, while both the Science and Technology Innovation Board, also known as STAR Market, of the Shanghai Stock Exchange (SSE) and ChiNext of Shenzhen Stock Exchange (SZSE) target growing innovative or sci-tech innovation companies for listing, instead of providing a definition or guidance for potential issuers to prove their "innovativeness", both exchanges adopted a set of objective listing standards where quantifiable factors such as business integrity, revenue, profits are taken into account.[24] In addition, for SSE's STAR Market, apart from looking at companies' revenue stream, its listing requirement puts emphasis on the market value, revenue as well as R&D investment. It is also noteworthy that companies which are yet to be "profitable or have accumulated deficits are also allowed to be listed"[25] on STAR Market.

With the policy aim of not making companies with WVR structures "commonplace", issuers looking to be listed on HKEX are required to have a higher market capitalisation threshold when compared to other markets, such as New York Stock Exchange (NYSE). Meanwhile, HKEX has also introduced a slew of safeguards with the intention to protect minority shareholders, including a maximum of maximum voting differentials (i.e. 10:1) and a minimum equity stake held by founders or other WVR beneficiaries (i.e. 10%); these safeguards are among the strictest, if not the strictest, across different international markets.

[23] Futu, 证监会申兵：将完善境外发行上市监管制度规则，并对企业境外上市持开放态度, December 2021, https://news.futunn.com/post/11594038?src=1&futusource=news_push_page&skintype=3&report_type=market&report_id=189684&seo_redirect=1&level=2&data_ticket=1639039057646383
[24] Star Market, Offering and Listing, 2019, http://star.sse.com.cn/en/gettingstarted/features/offering/
[25] ibid

Comparatively speaking, the US listing regime for companies with dual-class shares structures is less prescriptive in general. It adopts "a disclosure-based regime with fewer restrictions on the WVR structure".[26] In contrast, regimes in place for Hong Kong and some other regions all require an enhanced disclosure and corporate governance structure. In addition, a distinctive stock mark "W" is required on listing documents – including stock code – and corporate communication for WVR companies. Among exchanges around the world, exchanges in jurisdictions in Asia tend to include a natural sunset provision as one of its listing safeguards. A cross market comparison showing key requirements of WVR listings across different markets is set out in Table 1 below.

Table 1. Key requirements of WVR listings across exchanges in major financial centres[27]

Safeguards	NYSE	LSE (Under rules of Standard Listings)	TSE	SGX	HKEX
Minimum market capitalisation	US$40 million	£700,000 (~US$540,000)	25 billion yen for 1st section (~US$220 million)	S$300 million (~US$214 million)	HK$40 billion (~US$5.1 billion); or HK$10 billion (~US$1.3 billion) and HK$1 billion (~US$127 million) in revenue
Restriction to new issuers	Yes	No	Yes	No	Yes
Minimum equity threshold held by founders or other WVR beneficiaries as percentage of total issued share capital	No	No	No	No	10%
Maximum voting differentials	No	No	No	Yes (10:1)	Yes (10:1)
Restriction to particular industries	No	No	No	Yes	"Innovative" companies only
Sunset provisions	No	No	Natural sunset provisions	Natural sunset provisions	Natural sunset provisions

[26] IFLR, The revival of dual class shares, March 2020, https://www.iflr.com/article/b1lmx6clj4l38j/the-revival-of-dual-class-shares
[27] HKEX, Weighted Voting Rights: Angel or Evil to Investors?, July 2019, https://www.hkex.com.hk/-/media/HKEX-Market/News/Research-Reports/HKEx-Research-Papers/2019/CCEO_WVR_201907_e.pdf?la=en

Safeguards	NYSE	LSE (Under rules of Standard Listings)	TSE	SGX	HKEX
Automatic conversation to OSOV shares on retirement/incapacity/ death of founder	No	No	Yes	No	Yes
Automatic conversion to OSOV shares on share transfers	No	No	Yes	No	Yes
Enhanced corporate governance measures	No	Yes	Yes	Yes	Yes
Unique stock name marker	No	No	No	Yes	Yes

Source: HKEX

Investor protection has always been one of the core strengths of Hong Kong's financial market. Investor behaviour changes over time and investor mobility has significantly increased over the past years due to the rapid technology and user preference advancement. "Investors interested in new-economy innovative sectors may be willing to take up shares with less voting rights than, but the same cash-flow rights as, the WVR shares."[28] As technology evolves, investment and trading activities becomes less restricted by time and geographical location. Trades can be made instantly through virtual channels in any time zones.

While it is certainly not the FSDC's intent to advocate making companies with WVR structures "commonplace", the clarity of the definition and interpretation of "innovative" could limit the chances for players with a varying degree of innovativeness to be listed in Hong Kong.

[28] HKEX, Weighted Voting Rights: Angel or Evil to Investors?, July 2019, https://www.hkex.com.hk/-/media/HKEX-Market/News/Research-Reports/HKEx-Research-Papers/2019/CCEO_WVR_201907_e.pdf?la=en

II. Providing an effective financing channel for SMEs

Various studies have shown that SMEs are especially hit by the COVID-19 pandemic.[29] Under these circumstances, as a leading international financial centre, Hong Kong's financial market should also consider ways to provide diversified financing options for the smaller and no less important players in the economy. In fact, SMEs are a vital and integral part of Hong Kong's economy, with a total number of 340,000 SMEs collectively accounting for 98% of all market entities.[30]

SME opportunities alongside development of GBA and ESG

Rapid development in ESG considerations has provided new perspectives to providing financing support for SMEs. Financial inclusion, defined by the United Nations "prominently as an enabler of other developmental goals in the 2030 Sustainable Development Goals",[31] is a part of the "Social" aspect of ESG and warrants much attention. As defined by the World Bank, financial inclusion means that "individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance – delivered in a responsible and sustainable way".[32] On top of the HKSAR Government's dedicated to facilitate the development of local SMEs through the provision of various support services and funding schemes, resources from the private sector should also be mobilised through the financial market to enrich and diversify sources of capital supporting SMEs.

Looking beyond the local market, Hong Kong can also leverage its well-established financial markets and active participation of global investors and financiers to contribute to the sustainable economic growth within the region and globally.

Among others, as the investment gateway linking Mainland China and the rest of the world, Hong Kong can enable the implementation of the "dual circulation" development blueprint in the GBA and other Mainland areas. The Guangdong Province, hosting 43 unicorns - 19% of the national total – and many other start-ups, micro firms and SMEs, is one of the innovation engines of the country spearheading innovation and technological development on many fronts. A case in point is that Guangdong has ranked first in the country in terms of the number of Patent Cooperation Treaty (PCT) international patent applications in recent years.[33]

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[29] IMF, Rising Market Power – A Threat to the Recovery?, March 2021, https://blogs.imf.org/2021/03/15/rising-market-power-a-threat-to-the-recovery/

[30] Trade and Industry Department, HKSAR, Support to Small and Medium Enterprises, December 2021, https://www.tid.gov.hk/tc_chi/smes_industry/smes/smes_content.html#:~:text=%E7%8F%BE%E6%99%82%E6%9C%AC%E6%B8%AF%E5%85%B1%E6%9C%89%E8%B6%85%E9%81%8E34,%E7%B6%93%E6%BF%9F%E7%9A%84%E7%99%BC%E5%B1%95%E5%B0%A4%E7%82%BA%E9%87%8D%E8%A6%81%E3%80%82

[31] UNCDF, Financial Inclusion and the SDGs, 2022, https://www.uncdf.org/financial-inclusion-and-the-sdgs

[32] The World Bank, Financial Inclusion, October 2018, https://www.worldbank.org/en/topic/financialinclusion/overview#:~:text=Financial%20inclusion%20means%20that%20individuals,a%20responsible%20and%20sustainable%20way.

[33] People's Government of Guangdong Province, 《变局·新局——2020粤港澳大湾区企业创新报告》发布 粤港澳大湾区迈向全球创新前沿, December 2020, http://www.gd.gov.cn/gdywdt/zwzt/ygadwq/qwjd/content/post_3144498.html

Access to adequate funding is essential for companies to continue their devotion to technological research and development. In a recent study, where 308 start-ups in the GBA from industries including biotechnology, information technology, hardware manufacturing, innovation and professional services and new economy and new retail were interviewed,[34] Shenzhen's local start-up ecosystem has been rated as the most satisfactory.; The same study also showed that while interviewees considered highlighted funding shortage as a major challenge facing most start-ups. With mutually complementary advantages in capital market and technology and innovation, more synergy can be created among Hong Kong and the rest of the GBA by leveraging Hong Kong's world-class capital formation capabilities to fuel the further growth of the real economy, especially for traditionally under-served SMEs. In turn, Hong Kong can further elevate its value proposition as a global financing centre.

International and Mainland experiences in supporting SME financing

Globally, much emphasis has been placed on supporting SME financing, as SMEs not only represent about 90% of businesses, but also more than 50% of employment, which makes SME development a high priority for many governments around the world.[35] The significance of SME development has been further highlighted since the outbreak of COVID-19, evidenced by global governments' roll-out of SME funding schemes and other support measures.

Such measures can take various forms, the most common ones including direct credit facilities and financing guarantees. Furthermore, in a recent paper by OECD[36] on promoting the productivity of SMEs in ASEAN countries, it is suggested that another way to strengthen financial support for SMEs is to "diversify the supply of finance beyond bank credit", noting that "governments in a number of countries have also leveraged private resources".

Such developments are in line with our observation that a number of jurisdictions have turned to their capital markets to diversify SME services and financing support. Appendix consolidates selected markets that have been set up with a specific mandate to take forward SME development.

In Mainland China, the reformative establishment of the Beijing Stock Exchange (BSE) is another example. The BSE started trading on 15 November 2021.[37] As of 14 December, in addition to the 71 listed companies transferred from the premium board of the NEEQ, 11 new companies debuted through IPOs.[38] As of 12 November, a total of over 2.1 million investors applied for access as qualified investor for the BSE, with a total of over 4 million investors estimated to be eligible to participate in trading when the market opens. As of 12 November, a total of 112 securities firms have been granted membership status to become official members of the BSE.[39]

The establishment of the BSE in itself is a manifest of the policy makers' commitment to supporting SME financing, which is further elevated by the flexibility provided in its listing rules. It is interesting to note that apart from the more traditional eligibility tests of market capitalisation, profit and revenue, the BSE has also adopted R&D spending as an eligibility criterion to highlight its objective of supporting technology and research driven growth companies. This can provide Hong Kong a new perspective to approaching its own SME initiatives.

34 HKTDC, Exploring the Greater Bay Area Start-up Ecosystem, November 2021, https://research.hktdc.com/en/article/OTAzMDI1MTk2
35 The World Bank, Small and Medium Enterprises Finance, https://www.worldbank.org/en/topic/smefinance
36 OECD, Promoting the Productivity of SMEs in ASEAN Countries, 2021, https://www.oecd.org/industry/ind/promoting-productivity-of-SMEs-in-ASEAN-countries.pdf
37 Xinhua Net, Beijing Stock Exchanges starts trading, November 2021, http://www.news.cn/english/2021-11/15/c_1310311433.htm
38 People's Daily, Beijing bourse runs smoothly in first month of trading, December 2021, http://en.people.cn/n3/2021/1216/c90000-9933387.html
39 明野，北交所10家新股公司一览，November 2021，https://mp.weixin.qq.com/s?__biz=Mzg2MDUyODU1OA==&mid=2247485942&idx=1&sn=e7f72852ebb2fd94b123221e576c0e09&chksm=ce244337f953ca2177dbea509ca98676c01c8a2045a51c8eedb1487f16fbaea0f4d15073b001&mpshare=1&scene=24&srcid=1115wcoCvx2AxVyjGWo6IEbQ&sharer_sharetime=1636933638483&sharer_shareid=f20244166266bf4b1b01e1ebff219917#rd

Developing SME access to the exchange market

In fact, throughout Hong Kong's historical development as a financial hub, various attempts have been made with an aim of providing funding support to SMEs, one of which was the establishment of the Growth Enterprise Market (GEM) in 1999. However, GEM has ever since been on a rather bumpy journey, having encountered the "internet bubble" in its second year of operation, followed by the subsequent Great Financial Crisis that had lingering effects on global markets since 2007. While the Main Board of HKEX, particularly after the introduction of the 2018 listing regime reform, has demonstrated its ability to channel capital to sizeable companies with proven records and strong promises from home and around the globe, GEM, on the other hand, appears to be much less vibrant as a financing platform for its targeted participants. Financing activities on the GEM Board have been on a further decline in recent years – a total of 8 new listings were seen in year 2020 and only HKD 3.6 billion of total funds raised was recorded.

Notwithstanding development of the GEM Board, many SMEs which are in the growth and development stage may find themselves ineligible for any form of listing on the exchange market in Hong Kong under the existing market structure and corresponding listing requirements for various reasons. While GEM Listing Rules do not impose profitability requirements for potential issuers, the operating cash flow and market capitalisation requirements, together with the stringent and lengthy IPO vetting process, may be reasons of the relative inactivity of GEM, and in a way limits access to capital markets for those smaller issuers.

Another consideration around the GEM eligibility requirement is its suitability for today's new economy. Chapter 18A of the Listing Rules has opened the door for pre-revenue biotech companies to go for IPO listings, however, high-tech companies in other sectors have yet to be accorded the same level of flexibility. Similarly, the existing GEM listing rules require a minimum aggregate operating cashflow of HKD30 million, which will be blocking away some growth companies with high valuation but without incurring revenues or profits. GEM's ongoing attractiveness and appeal to investors and issuers is questionable at best when such factors as market liquidity, funds raised in recent years and others are put into consideration.

Assessing the effectiveness of the current market structure in support SME financing

Presented with tremendous growth potential of SMEs in the region, Hong Kong should reassess if the existing market structure remains conducive to the city's capturing SME opportunities. **To this end, the FSDC considers it appropriate for the HKEX to conduct an open-end, holistic review of relevant frameworks and mechanisms.**

Through the FSDC's ongoing industry engagement exercise, market participants tend to have the view that, Hong Kong may benefit from taking a bolder approach to supporting SMEs. Some practitioners opine that a market mechanism conducive to supporting SME financing, potentially as part of a PIs only market, may be worth exploring. At this juncture where the need for Hong Kong to address such market views and restrategise its market segmentation has become pressing again, the FSDC is conducting a separate study looking into relevant matters in hope to stimulate further discussions and conversations in this aspect.

Recommendation

The Hong Kong stock market is a world-renowned fundraising venue for companies of all business scale. Global exchanges in major financial centres in recent years have adopted institutional reforms to cater the listing needs from issuers from the new economy and emerging sectors. **In order for Hong Kong to stay in the race and strengthen its proposition as a leading capital formation hub in Asia and the world, to embrace the opportunities in relation to these sectors, a tactical review of the exiting listing requirement for these companies would be essential.** While the new chapters in 2018 and the newly introduced amendments to the listing requirement effective January 2022 were significant milestones in driving the development of the listing market forward, some areas of the listing regime still pose challenges for companies seeking to list in Hong Kong.

Market participants, including potential issuers who consider themselves as innovative companies, tend to share the view that more clarity should be provided around the "innovative" criteria to reduce the uncertainty of, and resources required for fulfilling the requirement. **For Hong Kong to realise potential market opportunities, and given the business nature of the new economy companies, the HKEX should consider expanding the pre-revenue requirement to other sectors, commencing with hard-tech companies, riding on the success of the development of Chapter 18A for biotech listings.** We also appreciate the support of the Government in taking forward the idea that was discussed between the FSDC and other stakeholders in the 2022-23 Budget. **Moreover, the definition and interpretation of "innovativeness" for issuers with WVR structure listed through Chapter 8A of the listing rules should be reviewed, without making WVR companies "commonplace".**

Alongside potential enhancements to the listing regime catering to the needs of high quality overseas issuers, further support for SME financing should also be considered. Addressing these issues will allow Hong Kong to better capitalise on its world-class capital formation capabilities to fuel the further growth of the SME community both globally and locally, and especially for those in the GBA. We appreciate the Government's effort, led by the Secretary for Financial Services and the Treasury and relevant regulators, to listen to broader market views on the potential enhancement/refinement of GEM's function as suggested in the Panel on Financial Affairs Meeting on 7 February 2022. **In this respect, a holistic study on possible mechanism is deemed appropriate, bearing in mind the importance of balancing investor protection and market development.**

Hong Kong has long been praised for its strong fund-raising ability, which is a key indicator and important factor of an international financial centre. With the lingering global geopolitical hiccups and evolving investor and issuer behaviour, as well as the uncertainties embedded therein, Hong Kong cannot risk resting on its laurels. By proactively seeking to refine its listing regime so as to stand ready when historical opportunities present themselves combined with constant efforts to introduce market enhancements, the FSDC believes Hong Kong will take another step further as a premier global capital formation centre.

Appendix

Examples of Global SME markets[40]

	Objectives	Listing Requirements	Investor Suitability
Nasdaq private market[41 42]	Premier venue for pre-IPO share trading	Not announced yet	Accredited investors
AIM (London Stock Exchange)[43]	Helps companies attract the external funding needed to sustain growth and expansion	Non-prescriptive: no minimum public float, no minimum initial equity, no minimum market capitalisation and no minimum level of profitability. Sufficient working capital for at least 12 months from thedate of admission[44]	Institutional and retail investors
Luxembourg Stock Exchange Professional Segments[45]	Aims at ensuring that the LuxSE remains a market leader in the listing of securities by enabling issuers to enjoy the largest spectrum of listing options possible, tailored to the issuers' specific needs and addressing those in the most cost-efficient and time-efficient manner	Example: listing of a bond must fulfil the following criteria: Minimum issue size of €200,000 or equivalent value in other currencies Bond should be eligible for clearing and settlement Bond should be freely negotiable and fungible[46]	Professional clients as defined in Directive 2014/65/EU (MiFID II) Qualified Investor as defined in the Prospectus Regulation Well-informed Investor with the meaning of Luxembourg legislation on alternative investments funds, including – but not limited to – specialised investment funds (SIF), investment companies in risk capital (SICAR) and reserved alternative investment funds (RAIF), or any similar category under any other jurisdiction[47]

40 Selected markets with explicit objectives of supporting SME financing.
41 Reuters, Nasdaq partners with major banks to spin out trading platform for pre-IPO stocks, July 2021, https://www.reuters.com/business/finance/nasdaq-teams-up-with-banks-create-separate-market-pre-ipo-stocks-2021-07-20/
42 Nasdaq, Nasdaq Links Up With Banks To Spin Off Its Market For Pre-IPO Shares, July 2021, https://www.nasdaq.com/articles/nasdaq-links-up-with-banks-to-spin-off-its-market-for-pre-ipo-shares-2021-07-23
43 London Stock Exchange, Find the funding to grow your company to the next level, 2020, https://www2.londonstockexchangegroup.com/AIMforgrowth-2
44 PWC, Listing in London: A guide to floating on AIM, January 2021, https://www.pwc.co.uk/audit-assurance/assets/pdf/guide-floating-aim-listing-london.pdf
45 Luxembourg Stock Exchange, Professional Segments, https://www.bourse.lu/professional-segments
46 Luxembourg Stock Exchange, Listing a bond on the BdL Market, https://www.bourse.lu/listing-bonds-bdl-market
47 Luxembourg Stock Exchange, Professional Segments, https://www.bourse.lu/professional-segments

	Objectives	Listing Requirements	Investor Suitability
Euronext ACCESS[48]	Designed especially for start-ups and SMEs that wish to join a stock exchange to finance growth and gain the reputational advantages of listing, but do not meet the criteria for admission to Euronext's regulated markets or Euronext Growth.	No free float requirement • For a Public Offer >€8m in Paris or Brussels or >€5m in Dublin or Lisbon: EU Prospectus • For a Public Offer below these amounts or for an admission through Private Placement or Direct Admission: • Paris, Dublin and Lisbon: Information Document • Brussels: Information Nota	No restriction
Tokyo Pro market[49 50]	To provide new opportunities for financing and advantages other markets could not offer to companies with growth potential in Japan and Asia, to offer new investment opportunities to professional investors at home and abroad, and to revitalize and internationalize the financial market in Japan.	No numerical criteria for the number of shareholders, tradable shares, amount of profit, etc.	Specified investors and certain non-residents: Qualified institutional investor (financial institutions, etc.), national government, Bank of Japan; Listed company, stock company with capital of 500 million yen and more; Stock company other than a specified investor, individual with financial assets or net assets worth 300 million yen and more; Individual who does not have an address or residence in Japan, corporation that does not have a principal place of business in Japan

48 Euronext, Going Public with Euronext: Choosing the right market for your company, January 2022, https://www.euronext.com/en/raise-capital/how-go-public/choosing-market
49 Japan Exchange Group, Overview, https://www.jpx.co.jp/english/equities/products/tpm/outline/index.html
50 Japan Exchange Group, Key Statistics for Domestic Stocks, October 2021, https://www.jpx.co.jp/english/markets/statistics-equities/monthly/b5b4pj000004er3v-att/01_sokatu2109.pdf

	Objectives	Listing Requirements	Investor Suitability
Korea New Exchange (Konex)[51]	To support small and middle-sized start-ups to raise capital[52]	The par value shall be one of KRW 100, KRW 200, KRW 500, KRW 1,000, KRW 2,500, KRW 5,000[53]	'Professional investors'* under the definition of the Financial Investment Services and Capital Markets Act (FSCMA) - Among investors who are not 'professional investors' by the definition of the FSCMA, those with investment expertise in SMEs or risk-absorbing capability will be allowed to invest in KONEX-listed SMEs[54]
Swiss stock exchange – Sparks[55]	Listed SMEs will benefit from having greater flexibility in optimizing their ownership structure, broadening their financing options and gaining access to a broad investor base thus raising equity-capital efficiently[56]	The following listing requirements must be fulfilled on the day of the listing: A market capitalization of less than CHF 500 million An equity capital > CHF 12.0 million A capital increase > CHF 8.0 million as part of the IPO (unless equity capital > CHF 25.0 million) Market capitalization of freely tradable shares > CHF 15m	No restriction
BSE SME[57]	BSE SME Platform offers an entrepreneur and investor friendly environment, which enables the listing of SMEs from the unorganized sector scattered throughout India, into a regulated and organized sector.	Post Issue Paid up Capital The post issue paid up capital of the company (face value) shall not be more than Rs. 25 crores. Networth Positive Networth. Tangible Asset Net Tangible Assets should be Rs 1.5 Crore.[58]	No restriction

[51] Financial Services Commission, Korea Next Exchange (KONEX) to be Revitalized, January 2019, https://www.fsc.go.kr/eng/pr010101/22201
[52] PWC, Listing in Korea: A Guide to Listing on the Korean Exchange, 2015, https://www.pwc.com/kr/en/tax/samil pwc_2015k-ipo_en.pdf
[53] Global Legal Insights, Initial Public Offerings Laws and Regulations 2021 | Korea, 2021, https://www.globallegalinsights.com/practice-areas/initial-public-offerings-laws-and-regulations/korea
[54] Financial Services Commission, Establishment of Korea New Exchange, April 2012, https://www.fsc.go.kr/eng/pr010101/21990
[55] SIX Group, Sparks. The SME Venue to Fuel Your Growth, https://www.six-group.com/en/products-services/the-swiss-stock-exchange/listing/equities/sme-ipo/sparks-sme-stock-exchange.html
[56] SIX Group, SIX Swiss Exchange to Launch Sparks – its New SME Equity Segment, August 2021, https://www.six-group.com/en/newsroom/news/the-swiss-stock-exchange/2021/sparks-launch.html
[57] BSE SME, About BSE SME, 2015, https://www.bsesme.com/static/about/introduction.aspx#getlisted
[58] BSE SME, Criteria for New Listing, 2015, https://www.bsesme.com/static/getlisted/criteriaisting.aspx?expandable=0

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About the FSDC

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

The FSDC has been incorporated as a company limited by guarantee with effect from September 2018 to allow it to better discharge its functions through research, market promotion and human capital development with more flexibility.

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