



**By email (research@hsi.com.hk)**

31 March 2022

Our Ref.: C/CFC, M133557

Research Department  
Hang Seng Indexes Company Limited  
19/F Hang Seng Bank Headquarters  
83 Des Voeux Road Central  
Hong Kong

Dear Sirs,

**[Consultation Paper: A New 'Comprehensive' China Index – Access to both Onshore and Offshore China Stock Markets](#)**

We referred the above consultation paper, issued by Hang Seng Indexes Company Limited (“HSICL”), to the Corporate Finance Committee (“CFC”) of the Hong Kong Institute of CPAs (“Institute”) and also sought views from some corporate governance practitioners within the Institute.

Broadly speaking, we are supportive of the concept of a new ‘Comprehensive’ China Index, which could:

- (i) Enhance the long-term development of Hong Kong stock market.
- (ii) Provide a more indicative and comprehensive benchmark of Mainland, China securities investment products to investors outside the Mainland.
- (iii) Support the Mainland’s long-term goal of the internationalisation of the Renminbi, given the potential increase in the investment in A-shares by Hong Kong and overseas investors.

----- We include in the Appendix some additional observations on specific questions, for your consideration.

Should you have any questions on this submission, please feel free to contact me at the Institute on 2287 7084 or at <[peter@hkiipa.org.hk](mailto:peter@hkiipa.org.hk)>.

Yours faithfully,

Peter Tisman  
Director, Advocacy & Practice Development

PMT/NCL/pk  
Encl.

**CFC of HKICPA's comments on Consultation Paper: A New 'Comprehensive' China Index – Access to both Onshore and Offshore China Stock Markets ("CP")**

***Question 1 – Given the improved accessibility, do you agree A-shares should be an integral part of a China-concept portfolio?***

We generally agree that investable A-shares should form an integral part of a China-concept portfolio. As noted on page 6 of the CP, the China A-shares market is quite unique and its risk and return characteristics are different from those in other markets. Therefore, including A-shares in a China-concept portfolio should help to bring greater diversification.

***Question 2 - What is the size/ proportion of your existing portfolio in the below China-concept products?***

Not applicable.

***Question 3 - If you are separately holding investment in onshore and offshore China products***

- a) ***Do you have a plan to re-allocate your investment to a product which is a combination of the two?***
- b) ***What are your considerations?***

Not applicable.

***Question 4 - If you are holding/ planning to hold 'Comprehensive' China products,***

- a) ***What is a good mix of the two 'markets'?***
- b) ***What are your considerations?***

Not applicable

***Question 5 - The Hang Seng China Enterprises Index ("HSCEI") has been regarded as a representative proxy for China investment (and supported by a well-established product ecosystem). One of the options for constructing a new 'Comprehensive' China Benchmark is to ride on the HSCEI.***

- c) ***Do you think it is a good idea to construct a new 'Comprehensive' China Benchmark by combining HSCEI constituents with some A-shares?***
- d) ***What are your considerations?***

In principle, we consider that it would make sense to construct a new comprehensive China benchmark by combining HSCEI constituents with some A-shares. However, HSICL will need to consider the following issues in developing the new index:

- The selection criteria and factors considered in determining which A-shares are to be included in the new index need to be made clear to investors.
- While, at this stage, we do not have a specific view on appropriate proportion of A-shares and HSCEI constituents, and also any limitations in the percentage of A-shares, in the new comprehensive China index, again the rationale for the final mix should be

made clear and transparent, and take into account the views of a range of market participants and stakeholders.

- We note that A-shares counterparts among the existing HSCEI constituents may be added (i.e., the 18 companies that are listed on both the Mainland and Hong Kong stock exchanges). If this is the case, HSICL should consider and explain whether the H-share price or A-share price of these securities will be adopted in developing the index, to avoid any confusion, given especially that there is a significant difference between the H-share price and the A-share price of some of these securities (e.g., PetroChina and China Mobile). If, for example, the A-share price, denominated in Renminbi, is to be adopted for consistency, the exchange rate used should also be stated clearly.

***Question 6 - What is the appropriate proportion of A-shares and HSCEI constituents in this new 'Comprehensive' China Index under the current market development?***

As indicated above, we do not have a fixed view on this question. Other market participants may be better placed to express a view.

***Question 7 - Which group of A-shares should be pooled with the HSCEI constituents in this new 'Comprehensive' China Index?***

While we do not have strong view on this question, it would make sense to include very liquid A-shares that fill gaps, or which are relatively less well covered in the existing HSCEI composition (e.g., industrials, consumer staples, materials and healthcare, as indicated on page 4 of the CP). See also our response to Question 5 above.

***Question 8 - What are the hurdles you expect in constructing a portfolio by combining HSCEI constituents with A-shares?***

One issue would be to differentiate clearly between a new comprehensive China index and the existing Mainland-related indices, including the HSCEI and the relatively-newly-developed Hang Seng China A (Investable) Index. See also our response to Question 5 above.

*Hong Kong Institute of CPAs  
31 March 2022*