



**NEW BOARD CONCEPT PAPER  
AND LATEST MARKET  
DEVELOPMENT**

**HKEX**  
香港交易所

# AGENDA

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Introduction

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New Board Concept Paper

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# HKEX's Listing Reform Proposals

HKEX has recently issued two papers seeking feedback on proposed market enhancements:

- 1 Review of the Growth Enterprise Market (GEM) and Changes to the GEM and Main Board Listing Rules Consultation Paper (“GEM Review”)
- 2 New Board Concept Paper



- This is a holistic approach
- New Board and GEM Review proposals are complementary to each other
- Focus on the needs of both issuers and investors

# Focus on What Issuers and Investors Need

## What do **ISSUERS** look for?

- Access to capital
- Clear initial and ongoing listing obligations
- Low listing costs
- High valuations
- Aftermarket liquidity

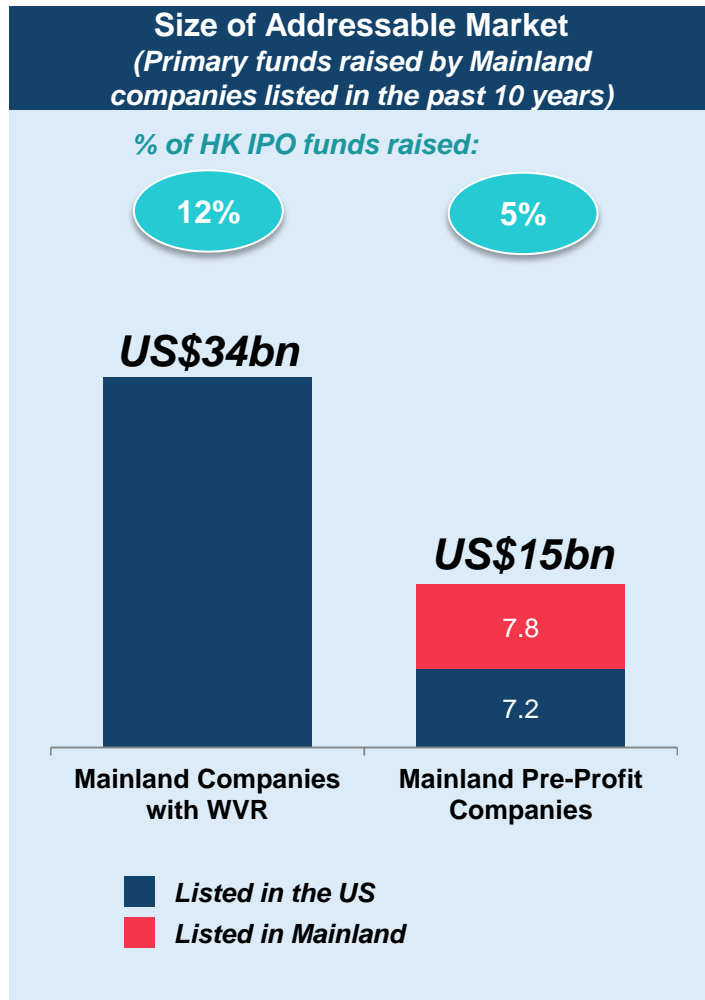
## What do **INVESTORS** look for?

- Access to growth sectors
- Diversity of exposure
- Transparent and fair disclosure
- Appropriate investor protection standards
- Liquidity

*The starting point for our proposals is to address the needs of the core users of our market*



# Potential Benefits of New Board



- ✓ Enhance Hong Kong's competitiveness as a global financial centre
- ✓ Attract high growth New Economy issuers
- ✓ Diversify Hong Kong's Market
- ✓ Develop Hong Kong's high tech ecosystem
- ✓ Generate additional tax revenues from trading
- ✓ Create job opportunities

# Principles Underlying the Proposals

## Market Concerns

### MARKET QUALITY

- Post-IPO liquidity / volatility
- “Shell” creation
- Circumvention of Main Board due diligence requirements via GEM “stepping stone”

### ACCESS TO LISTINGS

- High concentration of “Old Economy” sectors
- Lack of exposures to growth sectors
- Current listing framework does not cater to needs of “New Economy” issuers:
  - Pre-profit companies
  - Non-standard governance features
  - No secondary listings of Mainland companies

## How We Address Them

### GEM REVIEW

*Raise listing criteria*

*Mandatory public offer to broaden shareholder base and reduce price volatility*

*Remove Main Board “stepping stone” mechanism*

*Limit impact on existing issuers and investors*

### NEW BOARD CONCEPT

*Targeted measures to attract New Economy issuers*

*Widen access to listings*

*Maintain protection standards appropriate for eligible investors*

*Remove obstacles to secondary listings by Mainland issuers*

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# Overview of the New Board

- The New Board would comprise two distinct segments
- Each is targeted at different types of issuers and investors
- Both segments would allow WVR companies to list

## New Board *PRO*

### TARGET ISSUERS

- Early-stage / pre-profit New Economy companies

### INVESTOR ELIGIBILITY

- Professionals<sup>(1)</sup> only

### ADMISSION FINANCIAL REQUIREMENTS

- No financial or track record requirements
- Minimum expected market cap of HK\$200mil

### VETTING PROCESS

- Light touch

## New Board *PREMIUM*

- New Economy companies meeting Main Board financial and other key requirements, but unable to meet certain criteria

- Non-standard equity governance structures
- US-listed companies with standards differing from HK

- Same as Main Board

- Same as Main Board

- Same as Main Board



(1) As defined in the SFO or by the SFC (e.g. the \$8 million minimum portfolio threshold for individuals)



# Admission Criteria and Listing Process

	New Board <i>PRO</i>	New Board <i>PREMIUM</i>
<b>SUPERVISION</b>	Listing Committee and SFC	
<b>LISTING APPROVAL</b>	Listing Department <i>Under delegation from Listing Committee</i>	Listing Committee
<b>LISTING ADVISOR</b>	Financial Advisers <i>Type 6 Licence Holders<sup>(1)</sup></i>	Sponsor
<b>LISTING DOCUMENT</b>	Listing Document <sup>(2)</sup>	Prospectus <sup>(3)</sup>
<b>OFFER MECHANISM</b>	Placement	Public Offer
<b>MIN. FREE FLOAT / INVESTORS</b>	25%, subject to 100 investor minimum	25%, subject to 300 investor minimum
<b>OVERSEAS ISSUERS</b>	<ul style="list-style-type: none"> <li>▪ Must have IOSCO MMOU / SFC bilateral agreement</li> <li>▪ No requirement for HK equivalent shareholder protection as required by the 2013 JPS</li> <li>▪ Permits secondary listing of Mainland companies</li> </ul>	<ul style="list-style-type: none"> <li>▪ Must have IOSCO MMOU / SFC bilateral agreement</li> <li>▪ Waivers for issuers already listed on a Recognised US Exchange from HK “equivalent” shareholder protection standards</li> <li>▪ Permits secondary listing of Mainland companies</li> </ul>

***Issuers qualifying for New Board PREMIUM, GEM or the Main Board may not list on New Board PRO. The Listing Committee would also retain discretion to require issuers on the New Board to demonstrate that they have the characteristics of a New Economy company***

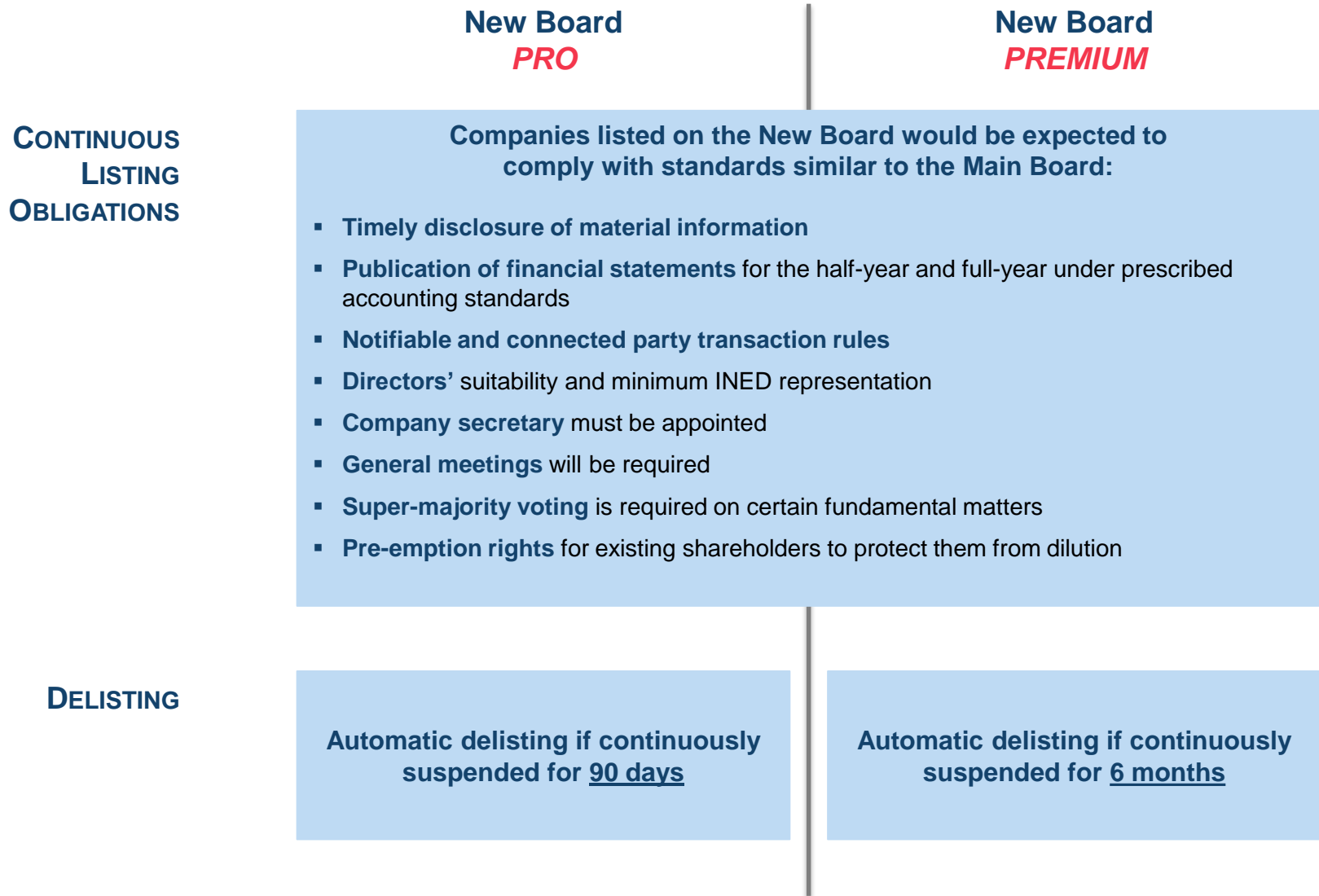


(1) Subject to market feedback and further consideration by the SFC

(2) Contains all material information that would be required by a professional investor in order to make an investment decision

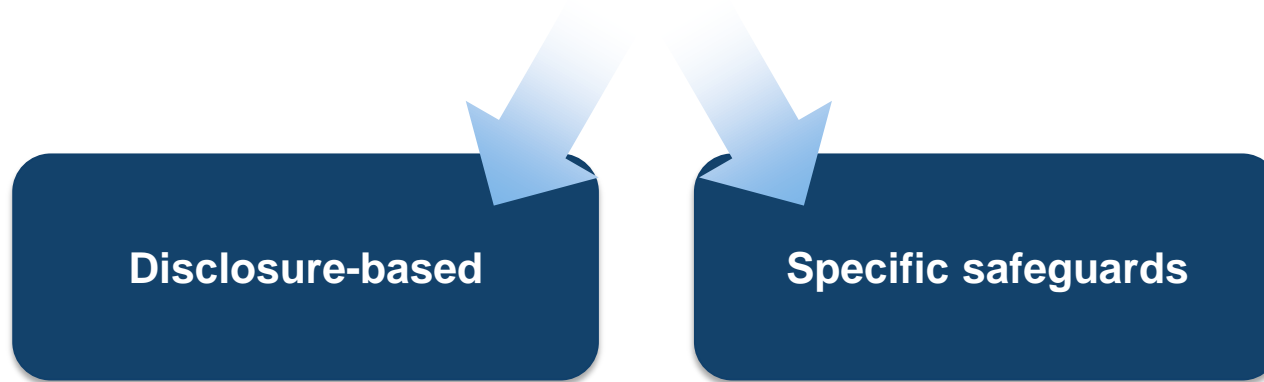
(3) A prospectus refers to a listing document that is required to be registered under Companies Ordinance because it involves an offer to the public

# Continuous Listing Obligations and Delisting



# Special Considerations for WVR Companies

Two potential approaches :



*We are seeking market views as to preferred approach.  
If specific safeguards are preferred, market views are sought on appropriate safeguards*

## Concession for companies listed on a Recognised US Exchange:

- “Disclosure-only” approach for companies with good compliance track record
- Allows listings of WVR companies already listed in the US, without requiring extensive changes to Articles of Association

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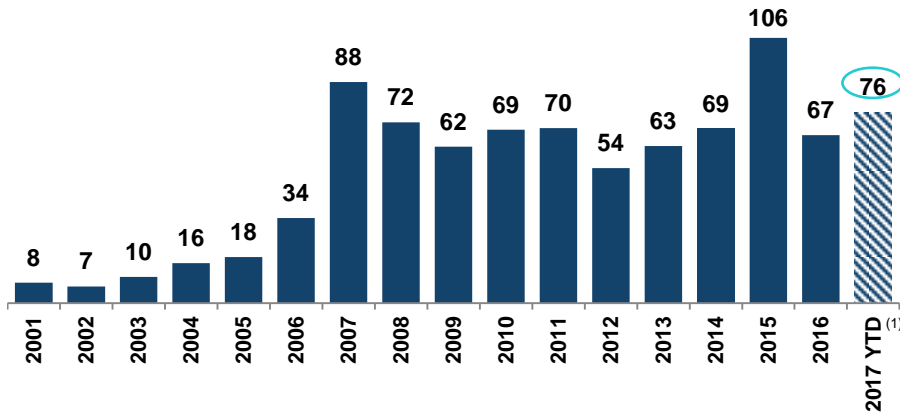
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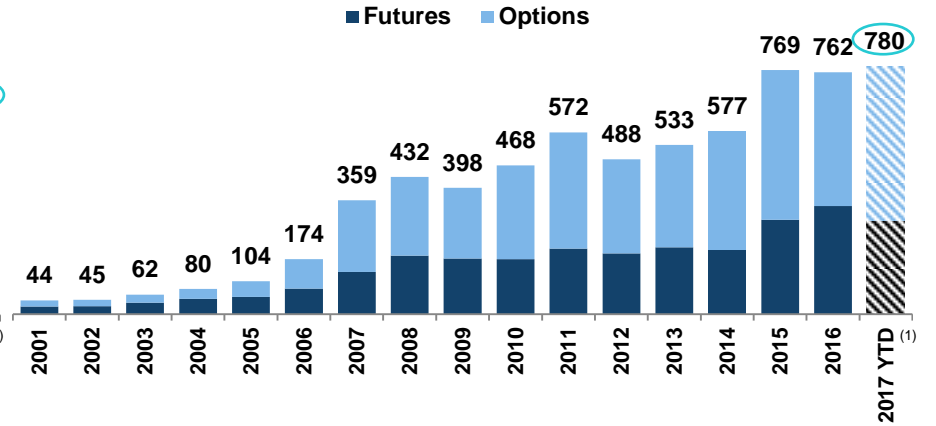


# 2017 Volume Picked up since February

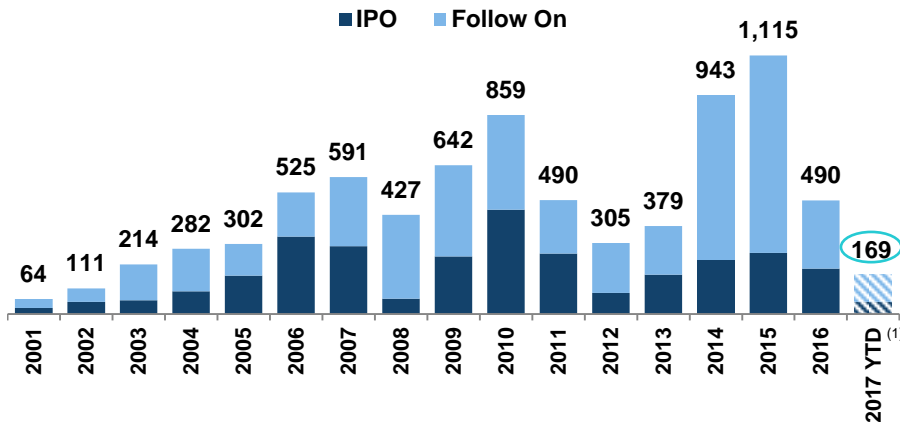
## Securities ADT (HK\$ billion)



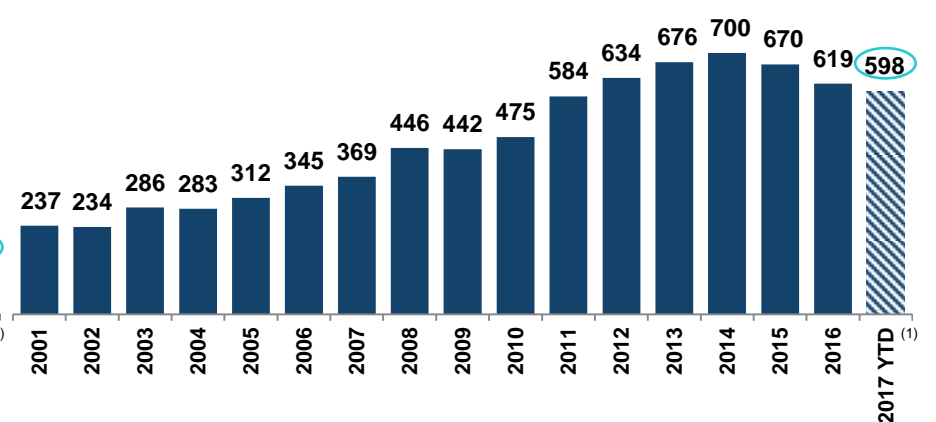
## Derivatives ADV ('000 contracts)



## Total Funds Raised (HK\$ billion)



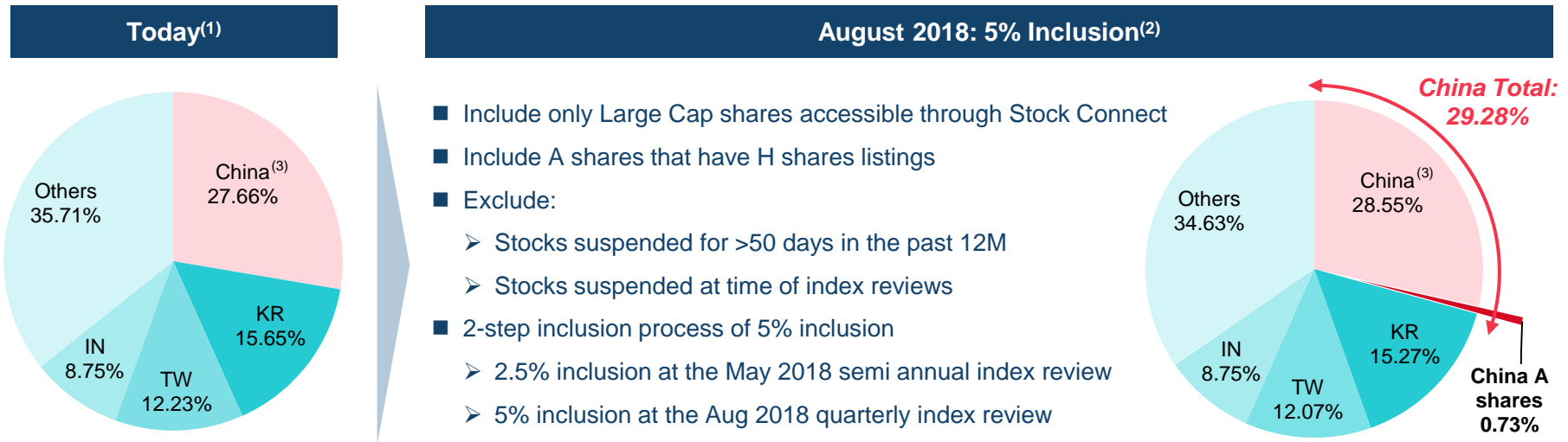
## Commodities ADV ('000 lots)





# MSCI China A Shares Inclusion

MSCI announced on 20 June 2017 that it will include **222 China A Large Cap shares** in the MSCI Emerging Markets Index



**Roadmap of Future China A Shares Inclusion**

- Potential increase of the currently announced 5% Inclusion Factor
- Potential addition of China A Mid Cap shares
- Subject to:
  - Greater alignment of the China A shares market with international market accessibility standards
  - The resilience of Stock Connect
  - The relaxation of daily trading limits
  - Continued progress on trading suspensions
  - Further loosening of restrictions on the creation of index-linked investment vehicles

**MSCI may revise the planned implementation to a single phase should the daily limit be abolished or significantly expanded before the scheduled inclusion dates**



Source: MSCI as of 21 June 2017

(1) As of 31 May 2017

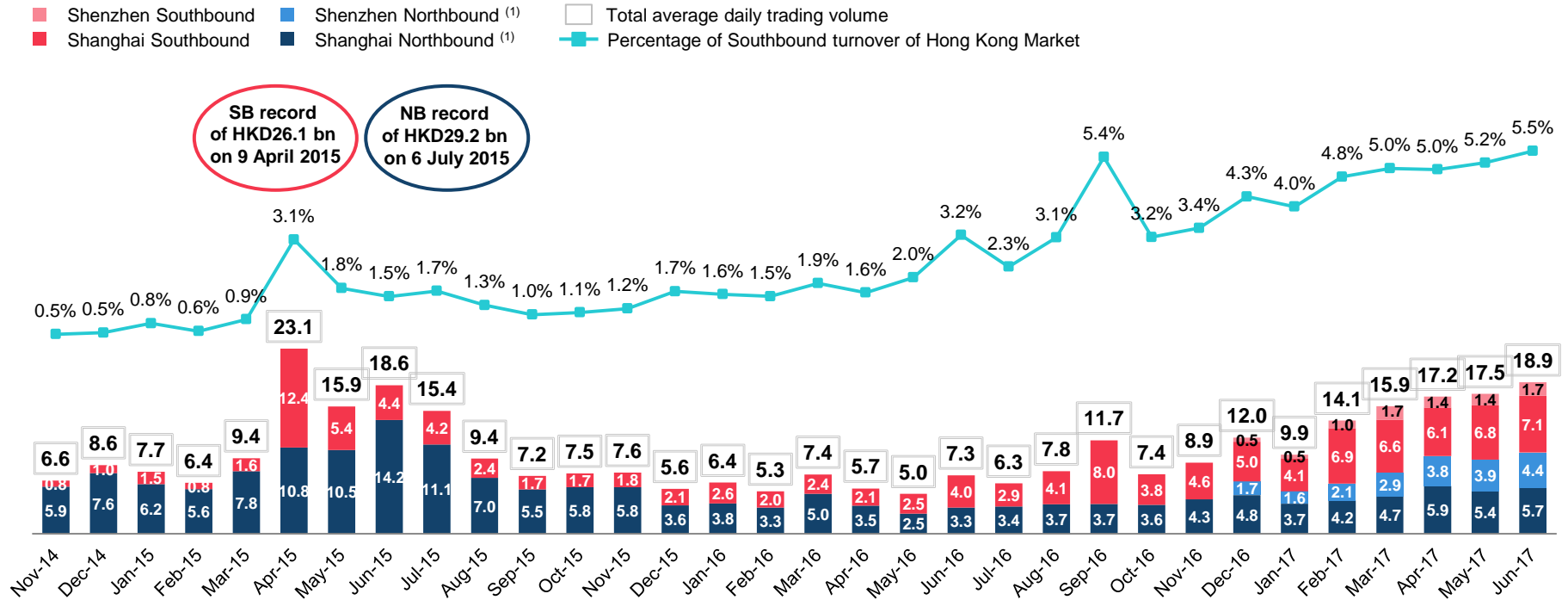
(2) The 5% inclusion factor will be applied to the free-float market cap of China A share in the MSCI China Index at the review date

(3) Including H-shares(HK), Red Chip(HK), P Chip(HK) and B-shares(Mainland) and Overseas

# Stock Connect – Trading Trends

Stock Connect contributed \$75m in income in Q1 2017 and \$177m for 2016

### Stock Connect Average Daily Trading Volume (HKD bn)



- Northbound turnover exceeded Southbound at the initial stage
- Southbound turnover picked up after the announcement of Shenzhen-Hong Kong Stock Connect<sup>(2)</sup> and the approval of onshore insurance funds to trade through Shanghai-Hong Kong Stock Connect<sup>(3)</sup>

**Aggregate quota removed since 16 August 2016; Shenzhen Connect launched on 5 December 2016**

Source: HKEX data as of 30 Jun 2017

(1) Northbound trading is conducted in RMB; The NB figures in the chart are converted to HKD based on the month-end exchange rate  
 (2) CSRC and SFC jointly announced the approval of Shenzhen-Hong Kong Stock Connect on 16 August 2016  
 (3) China Insurance Regulatory Commission (CIRC) published the notice on 8 September 2016





# Northbound Stock Connect – Top 10 Traded Stocks

Shanghai – Hong Kong Stock Connect			
Rank	Stock Name	ADT RMB Million	%
1	Ping An Insurance*	358.3	7.2%
2	Kweichow Moutai	301.4	6.1%
3	Jiangsu Hengrui Medicine	144.0	2.9%
4	China Merchants Bank*	143.0	2.9%
5	SAIC Motor	136.7	2.7%
6	Inner Mongolia Yili Industrial	133.7	2.7%
7	Founder Securities	131.9	2.6%
8	CITIC Securities*	112.4	2.3%
9	Anhui Conch Cement*	107.3	2.2%
10	Industrial Bank	106.9	2.1%

Shenzhen – Hong Kong Stock Connect			
Rank	Stock Name	ADT RMB Million	%
1	Hangzhou Hikvision Digital Technology	614.5	16.0%
2	Midea Group	340.8	8.9%
3	Gree Electric Appliances	213.1	5.6%
4	Wuliangye Yibin	146.9	3.8%
5	BOE Technology	102.9	2.7%
6	Yunnan Baiyao	82.6	2.2%
7	Focus Media Information Technology	62.4	1.6%
8	Zhejiang Dahua Technology	54.9	1.4%
9	Jiangsu Yanghe Brewery Joint-Stock	50.2	1.3%
10	Hangzhou Robam Appliances	48.0	1.3%



# Southbound Stock Connect – Top 10 Traded Stocks

Shanghai – Hong Kong Stock Connect				Shenzhen – Hong Kong Stock Connect			
Rank	Stock Name	ADT HKD Million	%	Rank	Stock Name	ADT HKD Million	%
1	Tencent	566.0	7.9%	1	Tencent	149.0	8.9%
2	China Construction Bank*	454.4	6.4%	2	IGG <sup>(1)</sup>	78.4	4.7%
3	HSBC	429.4	6.0%	3	ZTE*	61.4	3.7%
4	Geely Automobile Holdings	273.7	3.8%	4	Geely Automobile Holdings	51.3	3.1%
5	Great Wall Motor*	242.8	3.4%	5	Great Wall Motor*	49.7	3.0%
6	ICBC*	242.0	3.4%	6	Evergrande Real Estate	49.6	3.0%
7	Evergrande Real Estate	217.0	3.0%	7	China Vanke*	49.0	2.9%
8	Bank of China*	181.0	2.5%	8	Sunac China	35.3	2.1%
9	China Merchants Bank*	174.7	2.5%	9	Tiange	29.1	1.7%
10	Ping An Insurance*	173.5	2.4%	10	New China Life Insurance*	27.8	1.7%



Source: HKEX, from 1 June to 30 June 2017 (\* A&H listed stocks)

(1) IGG was newly included in Hang Seng Composite SmallCap Index, effective on 6 Mar 2017

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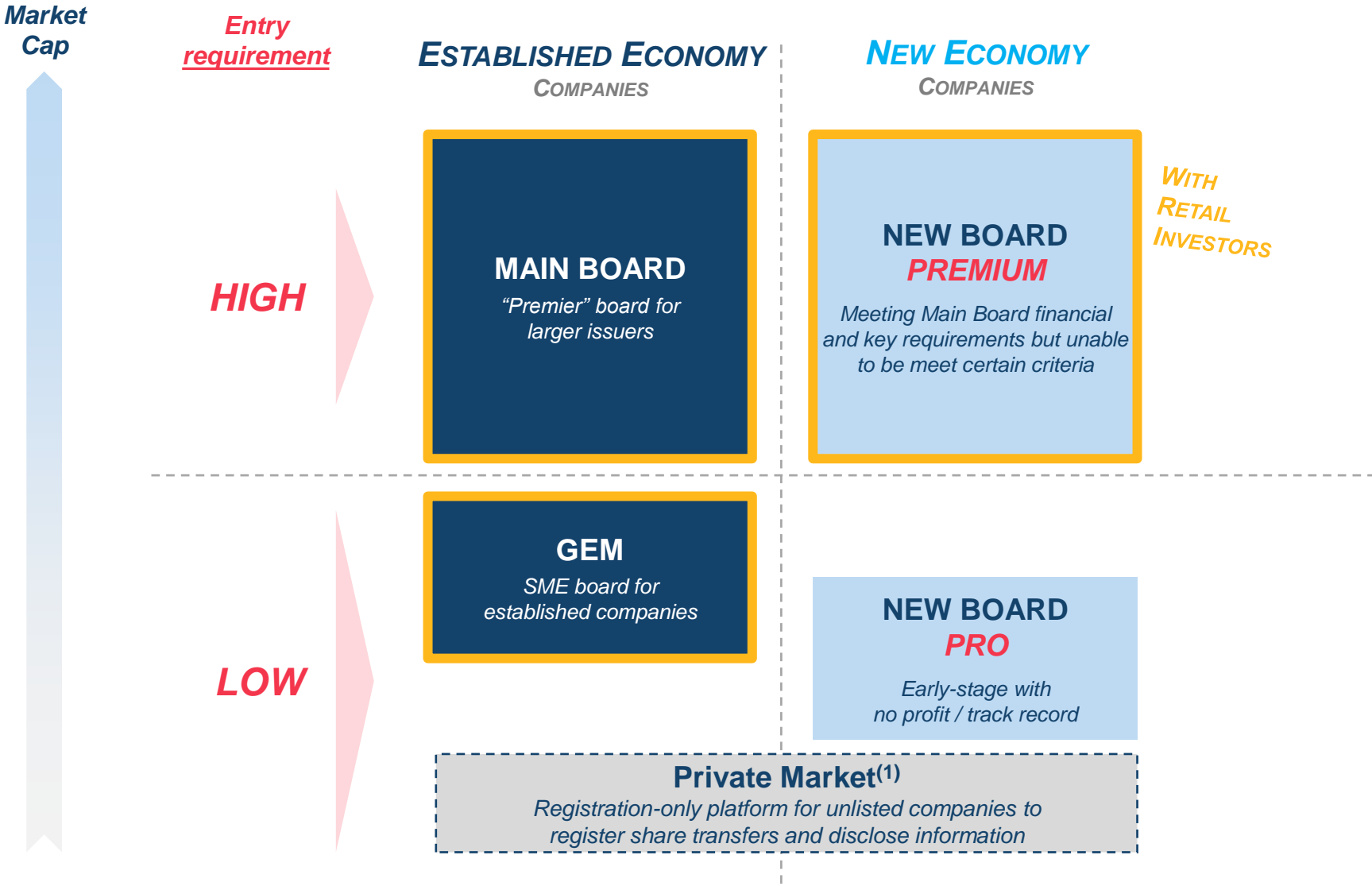
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# Overview of Proposed Future Listing Structure / Framework



(1) Currently in planning stage

# Proposed Enhancements to HK Listing Framework

## New Board Concept Paper

### Purpose

- Enhance access to listings in HK
- Diversify HK market
- Address needs of New Economy companies:
  - Pre-profit companies
  - Non-standard governance structures
  - Mainland Chinese companies who wish to secondarily list in HK

### Proposal

	NB PRO	NB PREMIUM
Investor Eligibility	Professionals only	Professionals & Retail
Financial Requirements	Market cap >\$200mil <i>Profit &amp; track record not required</i>	Same as Main Board
Equivalent Investor Protection	No	Yes <sup>(1)</sup>
Listing Adviser	Financial Adviser	Sponsor
Listing Documents	Listing Document <sup>(2)</sup>	Prospectus
Listing Approval	Listing Department	Listing Committee
Fast-track Delisting	After 90 calendar days of suspension	After 6 months of suspension
Common Features	Require IOSCO MMOU Listing Committee oversight WVRs permitted Mainland Chinese companies secondarily listings	

## GEM Reform Consultation

- Raise quality of GEM market
- Address market concerns:
  - Post-IPO volatility
  - “Shell” creation

	GEM	Main Board
Cash Flow	\$20mil → \$30mil	No change
Market Cap	\$100mil → \$150mil	\$200mil → \$500mil
Free Float Value	\$30mil → \$45mil	\$50mil → \$125mil
Streamlined Transfer to Main Board	Removed	N/A
Controlling Shareholders Post-IPO Lock up	1yr → 2yrs	1yr → 2yrs
Public Offering	Mandatory at least 10% of the total offer size	No change

***This is a holistic review of the Hong Kong listing framework aimed at widening capital markets access by opening up to a more diverse range of issuers, improving the quality of SEHK's markets and enhancing Hong Kong's competitiveness as a global financial centre***



(1) Companies listed on recognised US exchanges are exempted

(2) Contains all material information that would be required by a professional investor in order to make an investment decision

# Market Feedback Process

## KEY DATES



## HKEX invites market views on the two proposals

### Submission of Feedback

By mail or hand delivery to	Hong Kong Exchanges and Clearing Limited 12/F, One International Finance Centre 1 Harbour View Street, Central, Hong Kong
By fax to	(852) 2524-0149
By e-mail to	response@hkex.com.hk

*Please mark in the subject line:  
Re: New Board Concept Paper*

**Subject to responses, we will finalise detailed rules by early 2018**

## Our Strategic Goal

*Stay*  
**COMPETITIVE**

*Stay*  
**RELEVANT**

*Enhance*  
**MARKET QUALITY**

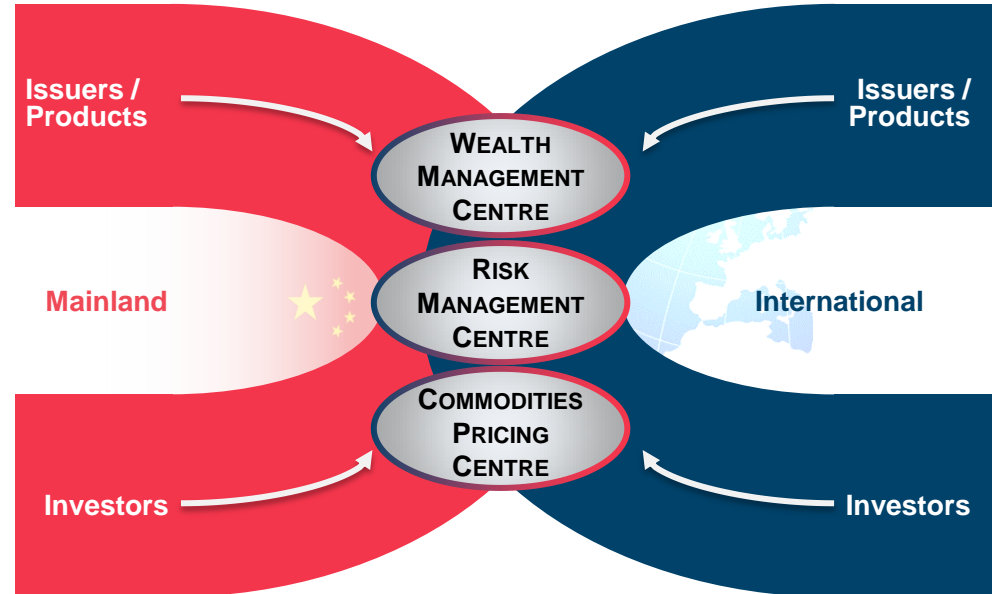


# HKEX's Strategic Vision

## What have we achieved so far?

- 1 Expanded our asset class reach
- 2 Created mutual market access channels
- 3 Enhanced market microstructure and efficiency
- 4 Continued to build and upgrade systems and platforms

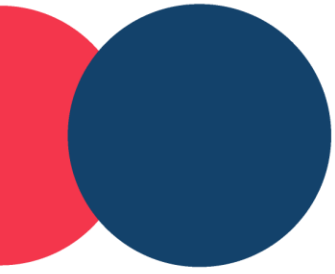
## What is our long-term aspiration?



### Need to bring:

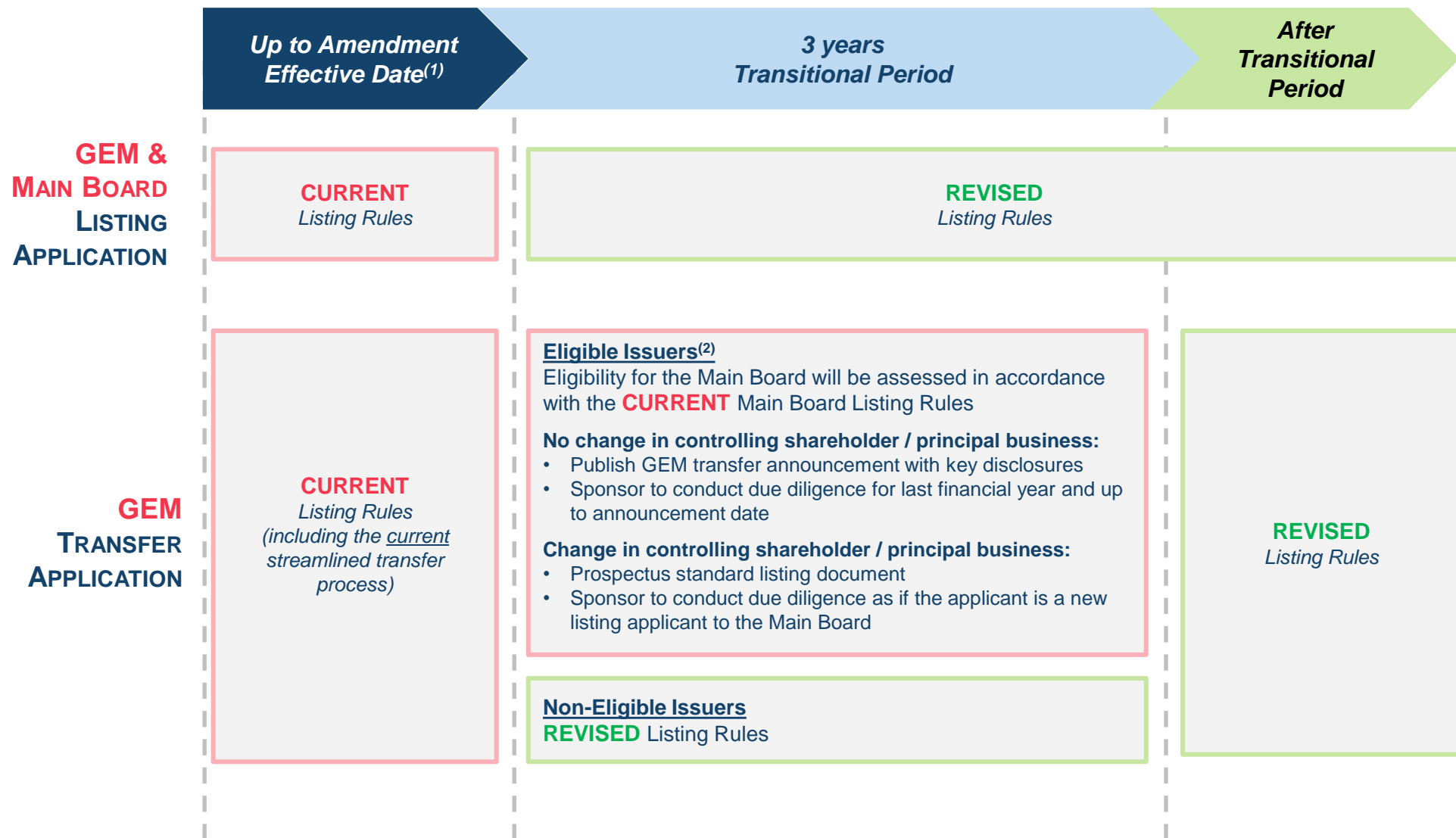
- Mainland Investors
- International issuers
- Commodities capability
- Risk management / derivatives





# APPENDIX

# Transitional Arrangements



(1) Amendment Effective Date is expected to be approximately **six months** after the date of the GEM consultation paper.

(2) Eligible Issuers are companies listed on GEM on or before the date of the GEM consultation paper and GEM applicants who have submitted a valid listing application on or before the date of the GEM consultation paper

