

# Operational Review

## Corporates

### Special purpose acquisition companies (SPACs)<sup>1</sup>

We worked closely with the Stock Exchange of Hong Kong Limited (SEHK) to formulate a SPACs framework for Hong Kong. In December, SEHK published consultation conclusions on proposals for a regulatory regime which provides appropriate investor protection along with the flexibility and incentives needed for the development of a high-quality SPAC market. Listing Rules amendments to implement the new regime took effect on 1 January 2022.

We introduced a new Practice Note 23 in December to provide guidance on the formal application process for waiving the application of Rule 26.1<sup>2</sup> of the Takeovers Code for de-SPAC transactions.

### Listings of overseas issuers

We work closely with SEHK to reform the listing regime for overseas issuers in Hong Kong. In November, SEHK published consultation conclusions on enhancements to the listing regime for overseas issuers which aim

to broaden investment opportunities for investors in Hong Kong and maintain high standards of shareholder protection. The Listing Rules amendments took effect on 1 January 2022, except for those subject to transitional arrangements.

### Review of SEHK's work

In December, we published a report on our review of SEHK's performance in its regulation of listing matters during 2019 and 2020. The review covered SEHK's hearings for non-disciplinary matters under the new review regime, its monitoring of newly-listed issuers' disclosures of the use of initial public offering (IPO) proceeds and its handling of reverse takeover transactions under amended rules.

### Share schemes

Following the observations in our 2019 review of SEHK's listing function, SEHK reviewed the Listing Rules and consulted the market in October on proposals to improve the disclosure of share schemes and provide more flexibility to issuers to grant new share options and share awards whilst protecting shareholders from excessive dilution. The consultation period ended on 31 December.

<sup>1</sup> A SPAC raises funds through a listing for the purpose of acquiring a business (a de-SPAC target) at a later stage (a de-SPAC transaction) within a pre-defined time period.

<sup>2</sup> In a de-SPAC transaction, the application of Rule 26.1 of the Takeovers Code, which would result in the owners of the de-SPAC target obtaining 30% or more of the voting rights in a successor company, should normally be waived.

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### Listing applications

Our oversight of listing matters includes the vetting of listing applications. During the quarter, we vetted 40 new listing applications, including two from companies with weighted voting rights structures and one from a pre-profit biotech company. One company achieved a secondary listing on the Main Board under Chapter 19C of the Listing Rules<sup>3</sup> in December.

Exercising our powers under the Securities and Futures (Stock Market Listing) Rules, we issued a letter of mindedness to impose conditions on a listing application in line with our approach set out in the May 2021 joint SFC-SEHK statement on IPO-related misconduct. We also

issued a requisition letter directly to a listing applicant out of several concerns, including whether the financial information presented in the applicant's draft prospectus was representative of its financial performance.

### Corporate conduct

We conduct daily reviews of corporate announcements to identify potential misconduct and irregularities. During the quarter, we issued section 179<sup>4</sup> directions to gather additional information in 14 cases and wrote to a listed company detailing our concerns in one case. These concerns included, for example, whether a corporate action or transaction is conducted in a manner which is oppressive or unfairly prejudicial to shareholders.

### Listing applications and takeovers activities

	Quarter ended 31.12.2021	Nine months ended 31.12.2021	Nine months ended 31.12.2020	YoY change (%)
Listing applications	40	238	177	34.5
Takeovers and share buy-backs transactions	117	319	347	-8.1

<sup>3</sup> Chapter 19C sets out the additional requirements, modifications or exceptions for companies which have, or are seeking, a secondary listing.

<sup>4</sup> Section 179 of the Securities and Futures Ordinance gives the SFC the power to compel the production of records and documents from persons related to a listed company.