



Renaissance Capital 2nd Annual Emerging Markets Investor Conference – Hong Kong

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In light of the international nature of this event I thought that it would be best for me to direct my remarks to those of you who are new to Hong Kong and who may be interested in getting your businesses listed on our stock exchange. I want to concentrate on this subject because the Securities and Futures Commission (SFC) plays a key role in the listing process together, of course, with the Exchange itself as the frontline regulator of listings.

Starting with the basics, the SFC is the statutory regulator of Hong Kong's public securities markets – roughly the equivalent of the Securities and Exchange Commission in the United States and the Financial Services Authority in the United Kingdom. So among the things we do is to look after rules concerning public disclosure of key information by all listed companies, and in that capacity we are able to take enforcement action against those who mislead investors, whether that takes place during the IPO process or afterwards. We also have a reserve statutory power to stop listings from taking place in Hong Kong.

So in light of the fact that we are very active in the listing market I think it would be useful if I give you a short summary of the SFC's overall approach to non-China overseas listings.

It is absolutely clear that, despite the extremely difficult conditions now affecting all international markets, there remains a very high level of interest among companies from outside China in gaining a listing in Hong Kong, including a large number of companies represented at this conference. We think that this level of interest is based on some compelling fundamentals which explain why Hong Kong has been identified as the best venue for many companies to launch an IPO.

From a commercial perspective, Hong Kong offers a unique time zone and valuation advantage for companies who have what I would call a China "angle" to their activities. Companies in this bracket range from natural resources concerns to financial services and retail businesses, many of whom can demonstrate a powerful investor story which rests on the inter-section between China's development over many years as a major exporter and its more recent re-orientation towards increased domestic consumption. International investors naturally focus their interest on the Hong Kong Exchange when seeking to participate in companies offering a China narrative, knowing that Hong Kong is a centre of gravity for professional, banking, and other expertise focused on China inbound and outbound opportunities. In addition, there are more recent indications that companies with a pan-Asian footprint are also attracted to Hong Kong as the best listing venue, particularly in the financial services sector. Furthermore our stock market offers deep liquidity and a specialty in local and overseas China and Asian plays, and to us it seems obvious that this combination offers all the ingredients for success.



Separately, the financial crisis in the West, which many have remarked is now looking like a slow motion train wreck, has undoubtedly accelerated Asia's leadership of economic growth relative to the developed economies, although I should be clear that we are not immune from the effects of the crisis – certainly the theory that Asia economies are “decoupled” has now thoroughly been debunked. Nevertheless we retain a distinct growth and stability advantage.

It is therefore unsurprising that the core strategy of the Hong Kong Exchange is founded on our unique position as an intermediary between China and other markets. It rightly sees itself as the Chinese exchange of choice for global companies and investors and the international exchange of choice for Greater China companies and investors. And I should also make absolutely clear that the SFC is fully aligned with this strategy. I know there has been some commentary a while back to the effect that there may have been some mixed signals as to whether Hong Kong welcomes companies from overseas countries. Bluntly, I think this is both uninformed and far wide of the mark. From my perspective, the track record speaks for itself; listings from a range of jurisdictions outside China are on the increase, demonstrating that companies really do understand why Hong Kong offers a clear set of advantages.

Now, from the SFC's point of view, one special advantage is seen as being absolutely crucial to Hong Kong's success. This centres on our extremely strong system of rule of law and financial regulation. This system underpins our market entry requirements, our disclosure, governance and other obligations applicable to all listed companies as well as the effectiveness of the SFC's enforcement efforts to deal with market and corporate misconduct. This advantage, which I believe to be unique in all of Asia, underpins our bias towards the listing of what I would term “quality” companies – i.e. those whose governance and other attributes are suited to an environment which is characterized by first-class regulation. Quality listings attract quality investors, and foster a broad and liquid market where investor confidence is high and relative valuations are also very attractive for companies and investors alike.

Against this background I will give you some brief thoughts on possible directions in which the regulatory approach to the listing of non-China companies may evolve. I should be clear that these are my own thoughts – we are currently in discussions on a range of possible improvements and no doubt we and the Exchange will together be talking to the market about our ideas as they mature.

First, I think that the distinction between a secondary and primary listing in Hong Kong could be made clearer. At the moment, that distinction is fairly opaque. Second, the listing process itself can at times be complex. It has tended to treat different overseas jurisdictions on a case by case basis involving a large number of case-specific waivers from our standard rules. The aim would be to inject greater clarity into the process by adopting a common standard for all overseas listings under our rules, while ensuring that standards of investor protection are not compromised. This would be part of a general evolution of our rules in recognition of the fact that Hong Kong is now increasingly an international exchange, broadening out from a dominance by Greater China companies.

Although details of the way forward have not been settled, and further discussion and consultation will be necessary, I have the following thoughts.



First, we should think about defining a Hong Kong secondary listing as being suitable when a company's primary listing is in a place where a highly credible internationally recognised home regulator is responsible for the vast majority of regulatory oversight. On the whole I think that secondary listings should be aimed at established companies with credible histories and clean regulatory records. If on the back of this, a "passport" approach is adopted we would dis-apply most of our local rules, including the Takeovers Code, save for basic principles such as equivalent disclosure of corporate announcements in both the primary and the secondary markets.

As for primary listings, we should consider simplifying and standardizing the listing criteria and process to ensure a common approach to all non-China overseas issuers based on core minimum standards. This would hopefully minimise or replace a system using an often complex series of different rule waivers for different overseas jurisdictions. It might also cut down the amount of prospectus disclosure including, for example, line by line comparisons between Hong Kong company law and similar requirements in an overseas companies' place of incorporation. In short, I think we should aim so far as possible to achieve a "standard" regime for overseas listings which is set out plainly in our rules, rather than being the result of an iterative process during the listing application.

Even greater clarity and efficiency at the entry level should, I hope, further support most companies in their choice of Hong Kong as an obvious venue for primary (or dual primary) listings. Investors will also be clear that core requirements of shareholder protection will apply across the board and that our Listing Rules dealing with corporate governance and disclosure will apply on a uniform basis.

It is also crucial that the SFC is able to exercise its enforcement powers over overseas companies effectively; this underpins investor confidence in our markets and, ultimately, credible enforcement benefits all listed companies because it maintains Hong Kong's branding as a quality market. It is of course plain that our enforcement reach over companies which are incorporated and operate outside Hong Kong is not the same as it is for those incorporated in Hong Kong and headquartered here. Nevertheless, we think that it is important to demonstrate that we are able adequately to enforce the laws and regulations designed to protect those who choose our market to invest in, regardless of whether they participate in local or overseas companies.

For overseas companies much of our ability to enforce rests on cooperation with foreign regulators and other authorities to obtain information which may be relevant to working out whether any of our listing rules or securities laws have been breached. On this front I should say that the SFC is committed to working hard to ensure that we have effective cooperative agreements in place with as many countries as we are able.

In closing, I would like to assure you that Hong Kong is most certainly open for business for overseas companies. We recognize that it would be helpful for companies and investors to further calibrate our rules to enhance even further Hong Kong's attractiveness as a destination of choice. The SFC is committed to ensure that this is the place where many of the companies attending this conference can list under an efficient process and with an assurance of first-rate regulation and investor protection supporting overall market quality, and we look forward to working with you to help you realize your ambitions for growth and the development of your business in this part of the world.



Thank you and have a great conference.