

21 August 2017

Corporate Communications Department
Hong Kong Exchanges and Clearing Limited
12/F, One International Finance Centre
1 Harbour View Street
Central
Hong Kong

Submitted via email to: response@hkex.com.hk

RE: CP on Review of the Growth Enterprise Market (GEM) and Changes to the GEM and Main Board Listing Rules

Dear Sirs,

BlackRock¹ is pleased to have the opportunity to respond to the Consultation Paper on the Review of the Growth Enterprise Market (GEM) and Changes to the GEM and Main Board Listing Rules, issued by the Hong Kong Exchanges and Clearing Limited (HKEX).

BlackRock supports a regulatory regime that increases transparency, protects investors, and facilitates responsible growth of capital markets while preserving consumer choice and assessing benefits versus implementation costs.

We appreciate the efforts of HKEX to re-position GEM in view of the evolution of Hong Kong capital markets over time as well as to tighten up certain GEM and Main Board listing requirements. BlackRock invest in Hong Kong listed companies on behalf of our clients who comprise both individuals and institutional asset owners including pension funds and insurance companies. We welcome the opportunity to comment on the issues raised by this Consultation Paper and will continue to contribute to this topic or on any related issues that may assist in the final outcome.

We are in general **supportive** of the proposals subject to the following comments:

- 1) Paragraph 34 mentions the current process of the Listing Department reviewing GEM listing applications as not being efficient and proposes to return the power to approve or reject GEM listing applications to the Listing Committee. We would appreciate if HKEX could elaborate on the reasons and circumstances that are causing the inefficiencies. As members of the Listing Committee are not full-time staffers, it is unclear how the proposal can shorten the listing application process. In our submission to the Joint Consultation paper on Proposed Enhancements to the Stock Exchange of Hong Kong Limited's Decision-Making and Governance Structure for Listing Regulation in November 2016, we had commented on the desired listing governance structure including the composition, roles and responsibilities of the Listing Committee². We would like to see the adoption of the proposals therein first before considering what should be the optimal changes to the GEM listing application process.

¹ BlackRock is one of the world's leading asset management firms. We manage assets on behalf of institutional and individual clients worldwide, across equity, fixed income, liquidity, real estate, alternatives, and multi-asset strategies. Our client base includes pension plans, endowments, foundations, charities, official institutions, insurers and other financial institutions, as well as individuals around the world.

² Our response is available here: <https://www.blackrock.com/corporate/en-us/literature/publication/hong-kong-sfc-proposed-enhancements-stock-exchange-listing-regulation-111616.pdf>

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- 2) As per our comments to the Concept Paper on New Board there can be flexibility in the minimum percentage of public free float. 25% can be too restrictive and prevent attractive companies from pursuing a listing. We think that should a New Board be introduced clear distinction between listing venues is important. As we have seen in markets in Australia, when there is a clear distinction it enables defined pockets of investors to develop which creates more listing opportunities for a broader range of companies. We therefore believe there is room to increase the minimum market capitalisation and public float for the Main Board to beyond the current proposal of HK\$500mm and HK\$125mm respectively.
- 3) We are supportive of the proposal to increase the post-IPO lock-up requirement of the controlling shareholders as it will increase investors' confidence in the controlling shareholders' commitment to the company. We do not believe it will be detrimental to the post-listing liquidity if sufficient shareholder diversification is achieved in the placement/public offer tranche. We also do not believe that it will hinder the company's business development by delaying post-listing fundraising as the lock-up should not affect the company's ability to issue new shares.
- 4) While we respect the retention of the current practice of not requiring a GEM applicant that can meet the Main Board admission requirements to list on the Main Board instead of GEM, we would urge the HKEX to exercise additional scrutiny should there be an increasing number of such cases. If the Main Board is indeed perceived as a premium board with higher valuation, such a scenario should raise red flags about potential regulatory arbitrage between the two boards.

We welcome further discussion on any of the points that we have raised.

Yours faithfully,

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