NORGES BANK
INVESTMENT MANAGEMENT

Hong Kong Exchanges and Clearing Limited
12/F, One International Finance Centre
1 Harbour View Street
Central
Hong Kong
Re: New Board Concept Paper

Delivery by email: response@hkex.com.hk

Date: 17.08.2017
Your ref.: [Reference]
Our ref.: OKG

Proposed establishment of a New Board on the Stock Exchange of Hong Kong

We refer to your Concept Paper on the proposed establishment of a New Board, dated 16 June 2017, and we welcome the opportunity to contribute our comments.

Norges Bank Investment Management is the investment management division of the Norwegian Central Bank (Norges Bank) and is responsible for investing the Norwegian Government Pension Fund Global. The fund had assets of USD 873 billion at the end of 2016, of which USD 18.6 billion (HKD 144 billion) was invested in equities listed on the Stock Exchange of Hong Kong. We are a globally diversified investment manager with an equity portfolio consisting of minority stakes in listed companies. We have a substantial presence in all major equity markets globally, including in Asia, and we are a member of the Asian Corporate Governance Association (ACGA). We regard the protection of minority shareholder rights as a necessary requirement to safeguard and promote the fund's long-term financial interests.

We note that the Concept Paper is a "straw man" proposal and not a fully developed proposal on how to adjust the listing requirements at the Exchange. We would have liked to see a more balanced consideration of the interests of all the stakeholders in the listing environment. Considerable weight is given to the interests of the Exchange in attracting the listing of certain issuers compared to the interests of long-term investors in supplying capital to issuers.

We support measures that motivate companies to go public to raise capital and share risk, both in the early phase of their life cycles and in more mature stages.[1] Exchanges may successfully operate junior secondary markets to reduce barriers for smaller firms. Relaxing certain eligibility criteria may be appropriate, at least in the early stages of a newly listed company's life cycle. Conditions that are more stringent can be re-applied at a future date

[1] We addressed this issue in "The Listings Ecosystem: Aligning Incentives", Asset Manager Perspectives 1/2016, Norges Bank Investment Management.

based on growth in company size. In this context, we are receptive to the arguments in favour of listing companies that have not yet reported profits, i.e. "pre-profit companies".

Our main concern is with the suggested introduction of Weighted Voting Rights (WVR) on the New Board. This would allow issuers to provide unequal voting rights to shareholders of different share classes. In 2014, we responded to a related Concept Paper on WVR by recommending that the Hong Kong Exchange keep its long-standing rule of not allowing differentiated voting rights structures.[2] We remain opposed to the introduction of differentiated voting rights, and we are encouraged by an increasing awareness that voting rights are a fundamental issue for all investors.

We recognise that the Exchange in its current Concept Paper proposes to limit the introduction of WVR to a New Board, but in our view this does not provide sufficient safeguards against the weakening of investor protection.

We believe that the Exchange has an important role as a regulator in the equity market. As such, the Exchange should continue to take responsibility for upholding and developing the current high standards of shareholder protection as part of promoting well-functioning markets. There is a risk that accepting WVR on a New Board will, over time, put pressure on the high standards of investor protection on the Hong Kong market as a whole. A New Board might attract listings that would otherwise have taken place on the Main Board, and lead to a lowering of standards on the Main Board.

In the long term, we expect that issuers will be willing to adapt to higher standards of corporate governance if incentivised by the listing framework. We believe the Hong Kong market has an opportunity to compete as a stock exchange with high-quality market standards. Being regarded as a quality stock market may have a positive long-term effect on allocation to the Hong Kong market by global investors.

We appreciate your willingness to consider our perspectives, and we remain at your disposal should you wish to discuss these matters further.

Yours faithfully,

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CIO Equities

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[2] See our letter, dated 28 November 2014, available at nbim.no.