



Hong Kong General Chamber of Commerce
香港總商會 1861

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18 October 2024

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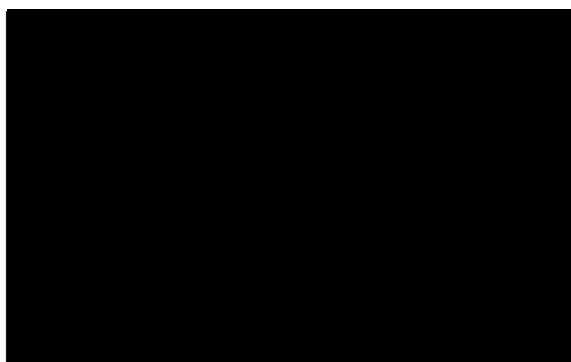
Dear Bonnie,

Re: HKEX Consultation Paper on Proposals to Further Expand the Paperless Listing Regime and Other Rule Amendments

The Hong Kong General Chamber of Commerce welcomes the opportunity to forward our views on the captioned.

We agree in principle with the HKEX's continued efforts to drive paperless initiatives amongst listed companies, and its significance in meeting sustainability objectives and aligning Hong Kong's regulatory regime with global standards. We nevertheless recommend that, through assessment of the practicability of certain digitalization proposals - corporate communications, payments and web accessibility amongst others - flexibility considerations are factored into the regime's implementation, thereby striking a suitable balance between the needs of listed issuers, securities holders and the investing public.

We hope you will give our comments your due consideration.



Encl.

HKEX Consultation Paper (“CP”)
Proposals to Expand the Paperless Listing Regime and Other Rule
Amendments (August 2024)

Response by The Hong Kong General Chamber of Commerce (HKGCC)

1. HKGCC welcomes the opportunity to respond to the CP. In general, we support the objectives behind the CP’s proposals of increasing efficiency and protecting the environment through reducing the use of paper. However, we suggest that consideration be given to assessing the practicability of some of the proposals under the Companies Ordinance (Cap.622), as it currently stands, and believe that a more informal approach than that proposed to some of the issues raised in the CP may be more appropriate. We explain our views in more detail in our answers to the consultation questions below.

Answers to Consultation Questions

Question 1 *Do you agree with the Electronic Instructions Proposal as detailed in paragraphs 29 to 45 of the Consultation Paper? Please give reasons for your views.*

2. We believe in principle that issuers should put in place an option for securities holders to send corporate communications to issuers electronically, as an alternative to sending them in printed form. The reasons for doing so are listed in the CP, namely improving the speed and efficiency of receiving and actioning securities holders’ instructions; improving securities holders’ engagement with issuers; minimising the impact on the environment by reducing the use of paper; and facilitating listing processes during severe weather.¹
3. The CP notes that, of the 82 constituent companies of the flagship Hang Seng Index (as of 7 August 2024) only 17 (20.7 per cent) enabled the electronic submission of proxy forms for their general meetings in 2023/24.² This suggests that intervention by HKEX to require or encourage issuers to put in place an option for securities holders to communicate with them electronically, may be appropriate.
4. There is a problem, however, with the proposal to introduce a Listing Rule amendment requiring issuers to put in place such an option for securities holders. As the CP itself recognises, putting in place such an option may require an amendment to issuers’ constitutional documents (in particular, their Articles of Association).³ But it is not within the power of issuers to secure such an amendment. An amendment to the Articles requires a shareholders’ (securities holders’) special resolution, which requires a majority of at least 75 per cent of the votes cast at the meeting.⁴ While it may be that such a resolution would be popular amongst shareholders, achieving an approval of at least 75 per cent cannot be guaranteed by issuers.

¹ CP para 46.

² CP para 31 footnote 13.

³ CP para 33.

⁴ Companies Ordinance sections 88 and 564.

5. This means that if HKEX does decide that an amendment to the Listing Rules is required in this respect, some re-framing of the amendment may be required. Issuers should not be required by the Listing Rules to offer such an option in their constitutional documents (if it does not already exist). At most, they should be required (a) to put any necessary amendment to the constitutional documents implementing this option to the vote of the shareholders by way of special resolution; and (b) if the requisite shareholders' resolution is passed, to ensure that the appropriate amendment to the constitutional documents is implemented within a time period that is reasonably practicable to achieve.
6. A corollary of the recommendation above is that a qualification would need to be made to the proposed transitional period suggested in the CP for compliance with such a Listing Rule requirement.⁵ The proposed transitional period of one year after the uncertificated securities market (USM) is implemented should, we suggest, be extended to five, and would need to be subject to an exception where issuers had been unable to secure an affirmative special resolution by shareholders approving the necessary amendments to the constitutional documents within this period, in spite of having put such amendments to a shareholders' vote.

Question 2 *Do you agree with the implementation timeline (including the availability of transitional arrangements) for the Electronic Instructions Proposal as set out in paragraphs 47 to 54 of the Consultation Paper? Please give reasons for your views.*

7. See the last paragraph of our answer to Question 1 above.

Question 3 *Do you agree with the Real-time Electronic Payment Proposal as detailed in paragraphs 69 to 74 of the Consultation Paper? Please give reasons for your views.*

8. We agree in principle that securities holders should be provided with an option to receive dividends and other financial entitlements from the issuer electronically, as an alternative to cheques. The reasons are most of those as outlined in the CP, namely to ensure timely payment to securities holders; further reduce the use of paper thereby benefiting the environment; minimising the risk of loss and theft; and facilitating listing processes during severe weather.⁶
9. As to whether there is any need for HKEX to intervene to ensure that such an option is provided, we note from the CP that 92 per cent of payments by issuers to securities holders in 2023 were made by paper cheque rather than electronically.⁷ This would suggest that further encouragement needs to be given by HKEX to issuers to provide securities holders with electronic payment options, as an alternative to payment by cheque. We suggest that this be done by way of HKEX guidance or (at most) an RBP to begin with, before assessing at a later date whether more formal intervention by way of a code provision or an amendment to the Listing Rules is required. Moreover, CHATS should not be specified as one of the required electronic payment options: issuers should have the flexibility to choose the appropriate electronic payment options.

⁵ CP para 51.

⁶ CP paras 75 and 76.

⁷ CP para 59.

Question 4 *Do you agree with the Electronic Subscription Monies Proposal as detailed in paragraphs 83 to 89 of the Consultation Paper? Please give reasons for your views.*

10. We note from the CP that in 2023, as many as 98 per cent of issuers required securities holders to pay subscription monies by cheque or cashier order, rather than via electronic means. This extremely high percentage suggests that there are reasons why there is a preference amongst issuers for paper rather than electronic payment. We suggest that these reasons be explored, and balanced against the interests of securities holders and the investing public, before a decision is made on this issue.

Question 5 *Do you agree that MMOs should no longer be available to issuers as set out in paragraph 99 of the Consultation Paper? Please give reasons for your views.*

11. We note from the CP the lack of any current demand for mixed media offers (MMOs).⁸ On this basis, we have no objection to their removal.

Question 6 *Do you agree with the Hybrid General Meeting and E-voting Proposal as detailed in paragraphs 129 to 134 of the Consultation Paper? Please give reasons for your views.*

12. We agree that the facility to hold hybrid general meetings and conduct e-voting are in the interests of both issuers and securities holders. But we are not convinced that an amendment to the Listing Rules *requiring* issuers to ensure that these facilities are provided is the best way forward. We refer to our answer to Question 1 above, where we pointed out that issuers cannot ensure that their constitutional documents are amended, as this requires a special resolution of the shareholders to achieve. At most, issuers can put any proposed relevant amendments to a shareholders' vote, and if the required special resolution is passed, ensure that the requisite amendments are made to the company's constitutional documents thereafter, within a time period that is reasonably practicable. In addition, we suggest that HKEX gives further guidance on the appropriate mechanism(s) to maintain members' right to speak at virtual or hybrid general meetings.

Question 7 *Should issuers be required to provide securities holders with an option to attend general meetings remotely and vote via electronic means (as set out in paragraph 135 of the Consultation Paper)? Please give reasons for your views.*

13. See our Answer to Question 6 above.

Question 8 *Should web accessibility guideline(s) (e.g. WCAG) be incorporated into, or referred to, in the Listing Rules (for example, the CG Code) or the Exchange's guidance, such that any corporate communications made available on issuers' website under the Rules should conform to such guideline(s), as set out in paragraph 146 of the Consultation Paper? Please give reasons for your views.*

14. We believe in principle that issuers should take into account the needs of securities holders with disabilities in respect of corporate communications, in particular to

⁸ CP para 101.

ensure that they are able to exercise their rights as securities holders. For this purpose, it would be useful for HKEX to refer issuers to the Web Content Accessibility Guidelines as an appropriate international standard. It would be appropriate to do this in non-binding guidance issued by HKEX, rather than to do so in a more a more formal manner (such as in the CG Code), in the absence of any demonstrated need for the latter, and to provide issuers with flexibility as to how to comply. This flexibility is particularly important for small to mid-cap issuers. In other words, an incremental approach should be taken.

Questions 9-19

15. We have no comments on the proposed minor rule amendments and housekeeping amendments referred to in these questions.

HKGCC Secretariat
October 2024