

By Email (SMLR.Review@sfc.hk)

23 May 2025

The Securities and Futures Commission
54/F One Island East
18 Westlands Road
Quarry Bay
Hong Kong

Dear Sir/Madam,

Re: Consultation Paper on Proposed Amendments to the Securities and Futures (Stock Market Listing) Rules

CFA Society Hong Kong and CFA Institute (collectively, “we”) appreciate the opportunity to respond to the above Consultation Paper issued by the Securities and Futures Commission (the “SFC”). As a leading professional body committed to promoting high standards of integrity, transparency, and investor protection in Hong Kong’s capital markets, we are pleased to offer our comments in alignment with our advocacy mission.

We note that some of the issues raised in this Consultation Paper were also mentioned in our previous joint response to the Hong Kong Exchanges and Clearing Limited’s (HKEX) consultation on the Proposals to Optimise IPO Price Discovery and Open Market Requirements, where we referred to the regulatory concerns highlighted in the Joint Statement on IPO-related Misconduct. We support the SFC’s overall objectives to strengthen regulatory oversight and enhance investor protection through the proposed amendments. In particular, we welcome the introduction of continuing and post-listing conditions, improvements to the suspension and resumption process, and the extension of Securities and Futures Appeals Tribunal (the “SFAT”)’s jurisdiction to safeguard procedural fairness.

Our response also highlights suggestions aimed at enhancing clarity, consistency, and proportionality in the application of conditions. These include suggesting the addition of a principles-based framework to guide regulatory decision-making, addressing investor protection risks from trading suspensions under section 7A(1) of the Securities and Futures (Stock Market Listing) Rules (Cap. 571V) (SMLR), proposing procedural enhancements to promote transparency and manage expectations, and clarifying institutional roles between the SFC Board and SFAT.

We thank the SFC for engaging with market stakeholders on these important reforms. We would be pleased to elaborate further on our views and suggestions. Please contact Mr. Matthew Chan, Managing Director of CFA Society Hong Kong, at matthew.chan@cfahk.org, or Ms. Mary Leung, CFA, Senior Advisor, Research and Advocacy, Asia Pacific at CFA Institute, at mary.leung@cfainstitute.org, should you have any questions or require further elaboration.

Sincerely,

For and on behalf of
CFA Society Hong Kong

Matthew Chan
Managing Director

For and on behalf of
CFA Institute

Mary Leung, CFA
Senior Advisor, Research and Advocacy, Asia Pacific



About CFA Society Hong Kong and CFA Institute

CFA Society Hong Kong (the "Society") is a non-profit organization founded in 1992. The Society shares the mission of CFA Institute (the "Institute") in raising the professional and ethical standards of financial analysts and investment practitioners through our advocacy and continuing education efforts. In addition to promoting the CFA® designation in Hong Kong, the Society aims to provide a forum for our members, the Institute, other investment practitioners and regulators for networking and the exchange of industry insights and best practices.

CFA Institute is a global, not-for-profit professional association of more than 181,000 members, as well as 160 member societies around the world. The Institute administers the Chartered Financial Analyst® (CFA) Program. Our members include investment analysts, advisers, portfolio managers, and other investment professionals. Our advocacy positions are informed by our global membership, which invests both locally and globally.

Response Section

Question 1: Please comment on the proposal to allow for the imposition of continuing conditions on a listing applicant which will be applicable upon and after listing. Please state and provide reasons for your views.

We support the proposal as it promotes post-listing regulatory oversight without preventing listings, allowing manageable concerns to be addressed through disclosure or appropriate conditions that help investors assess risks and make informed decisions.

To enhance clarity, we suggest that the SFC adopt a proportionality principle, whereby conditions are imposed based on the seriousness of the concern, the level of investor risk, and the intended regulatory purpose. Disclosure-based conditions should be the default, unless more serious governance failures justify restrictive measures.

We further suggest including in the explanatory note a principles-based, non-exhaustive decision-making framework to guide how and when conditions are imposed. This framework could cover factors such as the materiality of the concern and its impact on investors, the likelihood of recurrence (e.g. based on the issuer's governance track record), the suitability of disclosure versus restriction, the intended duration and review mechanism of the condition, and whether the concern falls below the threshold for rejection under section 6(2) of the SMLR. Urgent or high-risk cases should be prioritized to ensure timely regulatory intervention.

To promote consistency, we also suggest mapping the illustrative examples in the explanatory note in Appendix 2 to this framework to clarify how each condition reflects key factors such as materiality or investor risk. These refinements would enhance transparency, support investor confidence, and facilitate more predictable and consistent regulatory outcomes.

Question 2: Please comment on the proposal to allow for a withdrawal of an objection notice under section 6(2) of the SMLR. Please state and provide reasons for your views.

We support the proposal to allow the SFC to withdraw an objection notice under section 6(2) of the SMLR. This gives applicants the opportunity to resolve regulatory concerns efficiently without having to restart the listing process, thereby improving market certainty and reducing unnecessary costs.

To help manage expectations while preserving regulatory flexibility, and for consistency with the other process under section 6 of the SMLR, we suggest that the SFC include an indicative timeline of 10 business days, measured from the date the issuer submits a complete response or remedial package, for the SFC to consider and decide whether to withdraw the objection.

Question 3: Please comment on the following proposals:

- (a) to add a new section 7A to the SMLR pursuant to which the SFC may impose conditions on a listed issuer; and***

(b) *the grounds under which conditions could be imposed on a listed issuer under the new section 7A.*

We support introducing section 7A to the SMLR as a practical alternative, allowing the SFC to impose conditions to protect market integrity. Where misconduct is suspected but not proven, disclosure conditions may be sufficient to deter misconduct and enable investors to make informed decisions. If misconduct is later confirmed, the SFC can escalate to stronger measures.

To ensure fair and consistent application, we suggest that conditions under section 7A be proportionate to the seriousness of the concern, the risk to investors, and whether disclosure alone would be sufficient. This aligns with the approach under section 6(3) and (3A) of the SMLR and reflects international best practices in risk-based regulation. As with our response to Q1, disclosure-based conditions should be the default, with restrictive measures reserved only for serious or repeated governance failures.

We suggest that the SFC apply the same decision-making framework proposed under our response to Q1 to guide the imposition of conditions under section 7A. The framework should consider materiality of the concern and investor impact, likelihood of recurrence (for example, based on compliance history), suitability of disclosure versus restriction, duration and reviewability, and whether the issue would otherwise fall short of suspension or revocation thresholds.

We further suggest that the SFC emphasize the responsibility of the board of directors to ensure any disclosures are accurate and complete, and remind directors of the potential personal consequences of making misleading disclosures.

In addition, we would like to raise a specific concern relating to section 7A(1), which allows the SFC to impose a condition that no dealing may take place until a regulatory concern is resolved. This restriction takes immediate effect, which means investors lose the ability to dispose of their shares without warning. Even if disclosed promptly, the harm to investors has already occurred. As this has the same practical effect as a trading suspension, we consider this an investor protection risk. If the condition remains unresolved, it could lead to delisting under Main Board Listing Rule 6.01A. We suggest that the SFC introduce additional safeguards where a restriction on dealing is imposed. In non-urgent cases, the SFC should consider a short grace period, prior notice, or an opportunity for the issuer to respond before such a restriction takes effect. We also suggest that clear remediation windows, for example [30 to 60] business days from the date of the condition, be applied to avoid prolonged trading freezes and potential delisting. Urgent or high-risk cases should be prioritized to ensure timely regulatory intervention.

Finally, we support the proposal to extend SFAT review rights to cover section 7A decisions. We suggest that the explanatory note clarify procedural rights and appeal timelines and that SFAT should prioritize time-sensitive cases involving conditions that restrict trading.

Question 4: Do you think that the explanatory note in Appendix 2 will help issuers and their advisors to understand the scope and purpose of the proposed amendments to the SMLR? Please provide any comments on the draft explanatory note in Appendix 2 to this Consultation Paper.

We support the inclusion of the explanatory note as it helps market participants understand the types of conditions that may be imposed under the proposed amendments.

We observe that post-listing conditions listed in the explanatory note tend to be event-driven, for example corporate transactions or the appointment of directors. We agree that corporate transactions should be subject to close regulatory scrutiny. We suggest the SFC prioritize regulatory attention on related party transactions, which carry the highest risk of value destruction for minority shareholders. We also suggest adding audit and accounting irregularities to the examples in the explanatory note. Issuers with frequent auditor changes, changes late in the financial year, or significant financial restatements create elevated risks for investors and warrant greater attention.

We have reservations about the treatment of directors with criminal convictions. While we understand the SFC's concern, the current drafting lacks clarity. Board appointments are ultimately a shareholder decision unless a director fails the fit-and-proper test. The SFC does not define whether all convictions would disqualify a candidate, nor distinguish between types of convictions (e.g. white collar offences versus non-financial offences). It is also unclear how the SFC would treat individuals who have served sentences, those convicted overseas but never jailed, or individuals accused but not convicted. We believe the SFC should provide clearer guidance on this issue if it intends to intervene in board appointments on this basis.

On top of expanding the explanatory note into an exhaustive list of examples, we suggest that the SFC incorporate the principles-based framework suggested in our responses to Q1 and Q3. This would provide structured and consistent guidance on how conditions are assessed, based on factors such as materiality, investor harm, likelihood of recurrence, and proportionality. The framework should be expressly stated as illustrative and non-binding, to provide clarity without limiting regulatory flexibility. We also suggest mapping the current examples (e.g. side agreements, criminal convictions) to this framework to show how the SFC applies its discretion in practice.

In addition, we suggest clarifying that the SFC Board is the original decision-maker for material outcomes, such as refusals to resume trading, with SFAT as the independent appellate body. The explanatory note should also provide more detail on how SFC powers complement the HKEX Listing Rules, particularly where both regulators address pre-IPO conduct or post-listing governance risks.

As referenced in the 2021 Joint Statement, the SFC and HKEX have identified warehousing arrangements, undisclosed coordinated shareholding, and pre-arranged placements as serious market integrity risks. In these cases, we believe that disclosure alone may not be sufficient, as the harm arises from deception or manipulation of demand. The SFC should make clear that more intrusive conditions or refusal to list may be warranted in such cases.

We also suggest that the SFC consider maintaining a consolidated database of all past and outstanding conditions imposed under the SMLR, accessible to investors, to enhance transparency and allow investors to easily check the compliance status of issuers.

Question 5: Please comment on the proposals to add new sections 6(3A)(a), 7A(3) and 9(2)(a) to the SMLR pursuant to which the SFC may amend or revoke any conditions imposed by it and new sections

6(3A)(b) and 9(2)(b) to allow the SFC to impose new conditions. Please state and provide reasons for your views.

We support the proposed amendments as they provide the SFC with the necessary flexibility to address evolving risks and changing circumstances post-listing. To ensure procedural fairness, we suggest that issuers be given a reasonable opportunity to respond before any new condition is imposed or an existing condition is amended or revoked. To promote certainty and manage expectations, we suggest that the SFC include in the explanatory note an indicative response period of 10 to 15 business days, measured from the date the issuer submits a complete request or supporting materials. Finally, we suggest that where any amended condition materially affects investor interests, such as restrictions on trading or significant changes in governance, the issuer should be required to make a public disclosure through HKEX to ensure market transparency.

Question 6: Please comment on the proposals to add a new section 7B to the SMLR under which the SFC may require listed issuers to supply information to the SFC that it may reasonably require for the performance of its functions. Please state and provide reasons for your views.

We support the proposal to introduce section 7B to the SMLR, as it strengthens the SFC's ability to monitor and enforce compliance with listing conditions after listing. To ensure proportionate use, we suggest that the SFC exercise these powers where material risks or regulatory concerns arise, consistent with risk-based supervision principles. We also suggest that the SFC include in the explanatory note an indicative response period of 10 to 15 business days for issuers to respond, measured from the date the request is received, with flexibility where the request involves complex or extensive information.

Question 7: Please comment on the following proposals:

- (a) amendments to sections 9 and 10 to (i) simplify and streamline the procedures for lifting a suspension (with or without conditions); and (ii) provide an issuer with a reasonable opportunity of being heard before the SFC makes a decision leading to the refusal of trading resumption or cancellation of listing; and***
- (b) removing the restriction under the current section 9(6) of the SMLR on non- delegability of the SFC's powers under section 9.***

Please state and provide reasons for your views.

We support the proposed amendments as they clarify the basis for SFC-imposed suspensions and simplify the resumption process. We agree that issuers should be given a reasonable opportunity to be heard before any decision is made to refuse trading resumption or cancel a listing. However, we are concerned that prolonged suspensions due to unresolved conditions may result in unnecessary delisting. We suggest that the SFC consider setting time-bound remediation expectations, for example, [30 to 60] business days for issuers to take corrective action.

To enhance consistency and accountability, we suggest that section 9 be amended to explicitly state that refusals of resumption are typically decided by the SFC Board, unless formally delegated. We also suggest that the explanatory note provide non-exhaustive guidance on what constitutes a satisfactory explanation for

resumption, such as full disclosure of past breaches, evidence of rectification, and improvements to governance or internal controls. Finally, to reduce uncertainty, we propose that SFAT adopt an indicative review target of [three to six months] for appeals involving time-sensitive suspension cases.

Question 8: Please comment on the proposal for the SFAT to assume the role of the review body for the SFC's decisions under the SMLR as set out in paragraphs 52 and 53 above. Please state and provide reasons for your views.

We support the proposal to expand SFAT's jurisdiction. This aligns with the SFO's full-merits review system and strengthens procedural fairness and accountability for issuers. We also suggest that the explanatory note clearly confirm the institutional roles, namely that the SFC Board remains the original decision-maker, while SFAT serves as the independent appellate body, as mentioned in our response to Q4.

Question 9: Please comment on the proposal to remove the circumstances relating to pre-emptive issuance pro rata to existing shareholders and exercise of options under employee share option schemes under sections 4(b) and 4(d) of the SMLR so that they would fall within the scope of a "listing application"? Please state and provide reasons for your views.

We support the removal of exemptions where rights issues or employee option schemes are abused to circumvent transparency or shareholder protections. We suggest that the SFC clarify that ordinary pro-rata rights issues and bona fide employee share option plans will not be subject to additional review unless specific concerns arise, such as warehousing, coordinated placements, or other market misconduct.

We also suggest expanding explanatory note to include representative examples of red flags, including deeply discounted issues with no clear commercial rationale, placements to related parties without disclosure, and rapid or coordinated share transfers among pre-arranged holders, which may indicate warehousing. We agree with the SFC's view that disclosure alone is insufficient to address serious risks arising from pre-arranged placements or disguised control, which should be treated as regulatory misconduct. Finally, we suggest that the SFC clarify how its oversight will coordinate with HKEX enforcement where both parties may have regulatory interest, particularly regarding use of proceeds, float compliance, or dilution-related misconduct.

Question 10: Please provide comments on the proposed amendments to the SMLR in the indicative draft at Appendix 1 to this Consultation Paper.

We consider the draft amendments to be well structured and consistent with the policy objectives outlined in the consultation paper. To further enhance clarity and predictability, we suggest that the SFC include indicative timelines for decisions relating to condition impositions, revocations, or withdrawals, measured from the date the issuer submits a complete response. We also suggest that the explanatory note confirm that a reasonable opportunity of being heard applies consistently across all material decisions. Finally, we suggest clarifying that listing resumption will be considered promptly once the issuer has complied with all relevant conditions, without unnecessary procedural delays.