



**By Email (research@hsi.com.hk)**

31 May 2023

Index Department  
Hang Seng Indexes Company Limited  
19/F Hang Seng Bank Headquarters  
83 Des Voeux Road Central Hong Kong

Dear Sir/Madam,

**RE: CONSULTATION PAPER ON 1) ELIGIBILITY OF FOREIGN COMPANIES TO THE HANG SENG INDEX (“HSI”), 2) REVIEW RESULTS OF THE SEVEN INDUSTRY GROUPS FOR HSI CONSTITUENT SELECTION AND THE NUMBER OF “HK” CONSTITUENTS IN THE HSI**

CFA Society Hong Kong has reviewed the consultation paper on the proposed inclusion of Foreign Companies and the review results of the industry groups and number of constituents. We are hesitant about the inclusion of foreign companies to the HSI because it does not align with the distinct representation of the index, which is widely recognized as a benchmark for measuring the performance of HK-listed companies from the Greater China region. We, on the other hand, welcome the review results, with a recommendation of incorporating sustainability elements into the industry grouping in order to promote sustainable investment.

**Question 1:**

**What do you think the HSI should represent given the significant development and evolution of the Hong Kong stock market over the past 50 years?**

✓ HK-listed companies from the Greater China region (i.e. Hong Kong, Mainland, Macau, and Taiwan)

The HSI has long been the widely recognized benchmark for measuring the performance of HK-listed companies from the Greater China region. By focusing on companies in the region, HSI provides investors with an accurate and unique representation of the Greater China region market, which shares the same cultural and traditional values. This enables investors to accurately track the market and manage risk (by mitigating the jurisdictional and cultural risks), as the constituents of the HSI are of the same nationality and are subject to similar investor protection regimes. In addition, because of this unique characteristic, the HSI has been an ideal reference for further expanding its index family with additional features and different themes.





As such, we suggest the HSI to maintain its current position as a benchmark for investors tracking the Greater China region by representing the HK-listed companies from the Greater China region.

**Question 2:**

**Do you agree that Foreign Companies should be eligible to the HSI (as long as they can meet the same set of principles as other candidates)?**

✓ Foreign Companies should not be eligible for the HSI inclusion.

Further to our above response to Question 1, the inclusion of foreign companies in the HSI would diminish its value proposition. The inclusion may dilute HSI's representation of the Greater China region and change its risk and return characteristics to investors seeking exposure to the region. For example, active funds that focus on investing in equities in Greater China may face limitations on investing in foreign companies, which can lead to tracking errors and cause their performance to deviate from the HSI. In addition, including foreign companies could potentially expose investors to greater risks arising from geopolitical tensions and sanctions, thereto increasing the risk of non-compliance and potential legal liability for index investors.

In contrast, by excluding foreign companies from the HSI, all constituents are subject to similar regulatory regimes, ensuring that investors tracking HSI are not burdened with additional jurisdictional or sanction risks. Furthermore, excluding foreign companies from the HSI would align with the policy objectives of promoting Hong Kong as a gateway to China.

Given the above cost-benefit analysis, we suggest that foreign companies should not be eligible for the HSI inclusion.

**Question 3:**

**If Foreign Companies are to be included in the HSI, do you think there is any need to have any additional limitation?**

Leaving as blank given our responses in Q1 & Q2.

**Question 4:**

**If you agree that Foreign Companies could be eligible to the HSI, would you also agree the same to be applied to the HSTECH?**

Leaving as blank given our responses in Q1 & Q2.



**Question 5:**

**Do you agree with the review results and the No Change proposal of the HSI seven industry groups?**

✓ Yes, I agree.

We propose to incorporate sustainability elements into the industry grouping, especially for groups 6 and 7. We suggest adding sub-group namely “Extractives & Minerals Processing” and “Renewable Resources & Alternative Energy” with reference to Sustainable Industry Classification System (SICS), published by the Sustainability Accounting Standards Board (SASB). This provides additional information to investors by indicating the weights between brown and green investments, and demonstrates our commitment to sustainable investing.

**Question 6:**

**Do you agree to remove the upper limit of “HK” constituent number in the HSI?**

✓ Yes, I agree.

Our responses are also contained in the Appendix. Thank you again for the opportunity to participate in this consultation. Should you have any questions on our comments, please do not hesitate to contact me at [matthew.chan@cfahk.org](mailto:matthew.chan@cfahk.org) or 2530 9200.

Yours faithfully,  
For and on behalf of  
CFA Society Hong Kong

Matthew Chan  
Managing Director

**CFA Society  
Hong Kong**