Opening remarks at SFC's media luncheon

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There has been a lot of public commentary on the subject of weighted voting rights.

Both the Securities and Futures Commission and Hong Kong Exchanges and Clearing Limited (HKEx) understand that this subject requires a sophisticated, level-headed review to nail down and then weigh up all the potential benefits and risks of any proposals for change.

I should make clear that the SFC is not deaf to new ideas – actually far from it. We should always look carefully at proposals that could result in Hong Kong enhancing its success as a truly international financial centre in the years ahead. Stock Connect is a pretty good example. We should always keep an open mind, as we do on the subject of weighted voting rights.

HKEx's recent consultation on the "Concept Paper" on weighted voting rights was a good starting point and HKEx will issue conclusions on this in due course.

So the question is: after this first consultation, what comes next? Now, as this is about changes to the Listing Rules of the Stock Exchange of Hong Kong Limited (Stock Exchange), the Stock Exchange and the Listing Committee will continue to lead, and, obviously I don't want to pre-empt their future work.

However, I can give you a good idea of some of the questions which will be crucial to answer if any concrete proposals for change are to be pursued.

The first question is pretty simple. If the fear is that our IPO market is losing out to foreign stock exchanges, are we sufficiently certain that a major rule change allowing weighted voting rights will in fact increase our competiveness significantly and for many years to come?

So, on the one hand, we need to anticipate investor reaction to any weighted voting rights proposals, bearing in mind that our markets are nothing without a deep investor base. Would some be attracted by a change, or others repelled? Would fund managers apply a "governance discount" to stock prices, or adjust portfolio weightings away from Hong Kong? Or would they be neutral?

On the other hand, from the viewpoint of some companies wanting to go public, would a weighted voting rights proposal be the magic bullet that would cause them to choose Hong Kong over a foreign stock exchange? A difficulty here is that the choice of listing venue involves a lot of factors. These include relative valuations, research coverage, exchanges that specialise in sectors, the broader legal and regulatory environment, the depth of a local investor base and so on. And here we are really just looking at the US, not least because weighted voting rights are not a feature in other leading markets.

Obviously the US environment for listed companies offers a mix that is extremely different to Hong Kong – lots of securities litigation, low retail participation and, although disclosure standards are high, there isn't much to compare with the sort of corporate governance rules we are used to here. And I should say that these rules in Hong Kong often hinge on shareholder approvals – whether under the Listing Rules or the Takeovers Code.

In the US, weighted voting rights are in fact used only by a small minority of listed companies. But the US also has things like poison pills and other mechanisms that can protect management from unhappy shareholders or unwelcome takeover bids. Some companies don't even hold Annual General Meetings for shareholders. And valuations will always differ. These are just examples – but the point is that we need to bear in mind the whole picture when looking at competitiveness between different markets. And relative valuations in each market may also reflect investor's views on the overall regulatory environment, including the existence of weighted voting rights.

The second question is also conceptually straightforward. Should weighted voting rights only be available to specific types of companies where it might make more sense for its business and stakeholders? This question is particularly important for Hong Kong as many of its listed companies are already majority controlled. Also it is difficult to see why a standard industrial, financial or services company which otherwise would list without weighted voting rights should have the option to use them.

Many have said that weighted voting rights makes sense where the whole enterprise value is completely tied up with the identity of a founder. But how to identify these companies? Some have said that a separate exchange board could cater for companies wanting to use weighted voting rights. Others have different ideas. But the question of how weighted voting rights might only be available within a ring-fence of some kind is important, and needs thorough examination when any specific proposals for change are put together.

The next question is about investor protection. Without previewing the consultation conclusions to be released by HKEx, it wouldn't surprise you that those against any change would be more concentrated amongst the investor community, but that quite a few others express views along the lines of "weighted voting rights may be ok for Hong Kong, but…". This begs another question – "But" what?

This is really all about safeguards to ensure that any weighted voting rights proposal which dilutes the ability of shareholders to have a voice is balanced and proportionate. In fact, the small minority of companies in the US which use weighted voting rights normally do employ safeguards of various types. These vary, but they include sunset provisions, the disappearance of weighted voting rights if a founder departs, minimum equity to be held by a founder and so on.

In addition, we need to look at the future of existing Listing Rules that currently link investor protection to shareholder approvals, such as those dealing with related party transactions. So, as Hong Kong contemplates a possible rule change, we need to look at which safeguards should be hardwired into any proposal.

These questions are just a flavour of the deeper issues that we know have to be looked at very carefully if we move forward. And I really hope that a better appreciation of the real issues involved will enable commentators of all types to engage in a more sophisticated and clear eyed conversation on such an important subject for Hong Kong's future as an international financial centre.