



Consultation Conclusions on the Eligibility of

1. Foreign Companies
2. Stapled Securities
3. Weighted Voting Right Companies

for Inclusion in the Hang Seng Composite Index

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Foreign
Companies

Stapled
Securities

Weighted Voting
Right Companies

- On 17 Jan 2018, Hang Seng Indexes issued a consultation paper entitled **‘Review of the eligibility of Foreign Companies, Stapled Securities and Weighted Voting Right Companies for inclusion in the Hang Seng Composite Index’** to seek opinions from market participants. The consultation period ended on 28 Feb 2018.
- The objective of the consultation was to seek views on potential changes designed to enhance the Hang Seng Composite Index (‘HSCI’) by better aligning it with developments in the market, thereby ensuring that the index will continue to serve as a comprehensive HK stock market benchmark.

Responses Received

- Responses were received from a wide range of market participants
- A total of 94 responses were received from 71 organisations^{Note1,2}

Categories	No. of Organisations
Asset Management	22
Financial Services	21
Bank / Insurance	12
Equity Analyst	5
Others ^{Note3}	11
TOTAL	71

Note 1: Not all organisations responded on all three issues under consideration

Note 2: Individual replies from individuals/teams at the same organisation were grouped together to ensure a fairer comparison

Note 3: Includes individual respondents

Eligible for inclusion in the HSCI?

Foreign Companies

- *94%* of respondents supported the option that Foreign Companies with a primary listing in HK should be eligible*

Stapled Securities

- *80%* of respondents supported the option that Stapled Securities with the same legal structure as existing Stapled Securities in the market should be eligible*

Weighted Voting Right Companies

- *74%* of respondents supported the option that Weighted Voting Right Companies should be eligible*

** % of total number of respondents expressing a view on the respective issue*

Foreign Companies



Conclusions:

- Foreign Companies with their primary listing in HK will be eligible
- A maximum aggregate weighting of 5% will be applied to Foreign Companies

Notes:

- Foreign Companies are companies that are incorporated outside Greater China and have the majority of their business presence outside Greater China
- A maximum aggregate weighting of 5% will be applied initially to ensure that the HSCI predominately reflects the performance of Greater China companies listing in Hong Kong
- The maximum weighting may be subject to further review based on future market developments
- As of 31 Mar 2018, there were 35 Foreign Companies in HK, of which 31 have their primary listing in HK. The other four have a secondary listings.

94% respondents supported the option that Foreign Companies with a primary listing in HK should be eligible for inclusion in the HSCI

Comments in favour of Foreign Companies joining the HSCI

- Many respondents noted that the HSCI should reflect HK's status as an international financial hub and overseas companies that meet the HSCI's eligibility criteria should be considered
- Some respondents thought that the increase in 'globalised companies' is blurring the distinction between Foreign Companies and Greater China companies. Hence, there is no need to distinguish between Foreign Companies and Greater China companies in this instance as both types of companies do business all over the world

Concerns

- One respondent raised concerns related to the handling of withholding tax and / or capital gain tax when investing in Foreign Companies
- Some respondents expressed that the existing structure of HSCI as a HK market benchmark is already a good reference for them

Stapled Securities



Conclusions:

- Stapled Securities with a legal structure that is identical to the legal structure of the four Stapled Securities that already exist in the market – i.e., a legal structure that is comprised of three components: 1) trust; 2) ordinary shares; and 3) preference shares – will be eligible

Notes:

- As of 30 Mar 2018, there were four Stapled Securities listed in HK, with the first being listed in 2011
- All existing Stapled Securities have the same legal structure
- The legal structure of the Stapled Securities that already exist in the market is comprised of three components:
 1. A unit in the trust;
 2. A beneficial interest in a specifically identified ordinary share held by the trustee-manager, which is linked to the unit; and
 3. A specifically identified preference share, which is stapled to the unit

80% of respondents supported the option that Stapled Securities with the same legal structure as existing Stapled Securities in the market should be eligible for inclusion in the HSCI

Comments in favour of Stapled Securities joining the HSCI

- Some respondents stated that market views Stapled Securities as a comparable to REITs
- Some respondents noted that Stapled Securities currently listed in HK are subject to the same level of legal and regulatory requirements as listed companies

Concerns

- Some respondents suggested that a prudent approach should be adopted as there are currently only four such securities listed on the HKEX
- Some respondents expressed the opinion that the structure of Stapled Securities is relatively new and may not be well understood by retail investors

Weighted Voting Right Companies



Conclusions:

- Primary- and secondary-listed (under Chapter 19C of the Listing Rules) Greater China Weighted Voting Right ('WVR') will be eligible
- A maximum aggregate weighting of 10% will be applied to WVR Companies

Notes:

- Greater China companies are companies that are incorporated in Greater China and/or have the majority of their business presence in Greater China
- A maximum aggregate weighting of 10% will be applied initially in light of the fact that the WVR company structure is relatively new to Hong Kong and shares of non-WVR shareholders carry relatively lower voting rights.
- The maximum weighting may be subject to further review based on future market developments

74% of respondents supported the option that Weighted Voting Right Companies should be eligible for inclusion in the HSCI

Comments in favour of WVR Companies joining the HSCI

- Many respondents expressed the view that inclusion of WVR Companies could increase the competitiveness of the HK market and encourage more innovative technology companies to list in HK
- Many respondents expressed the opinion that the HSCI should serve as a market benchmark and include WVR Companies as long as they are listed on the HKEX
- Some respondents expressed the view that HKEX's proposal already includes safeguards to protect investors and thus there is no need to have additional screening

Concerns

- Some respondents commented that it is too early to make WVR Companies eligible and that Hang Seng Indexes should wait until WVR Companies have been operating for a few years
- Some respondents expressed concerns related to the complicated structure of WVR Companies and whether retail investors would have a good understanding of the associated risks

HSCI Constituent Selection Criteria

Universe	Existing Eligible Types of Securities <ul style="list-style-type: none"> - Primary-listed Common Stocks - Primary-listed Real Estate Investment Trusts (REITs) 	Newly Eligible Types of Securities <ul style="list-style-type: none"> - Primary-listed Foreign Companies - Primary-listed Stapled Securities - Greater China WVR Companies
Listing History	No listing history requirement	
Market Value	12-month average MV among the top 95 th percentile of the total MV of the Universe	
Turnover	Attained Velocity Ratio of at least 0.05% in: <ul style="list-style-type: none"> • At least 10 of the past 12 months; & • At least five of the past six months 	
No. of Constituents	Variable	
Review	Half-yearly (Q2 & Q4)	
Fast Entry	<u>Ad hoc:</u> A newly listed security will be added to the HSCI and its sub-indexes out of regular review periods if its MV ranks within the top 10% of the existing HSCI constituents (in terms of number of constituents) at the market close of its first trading day. The ad hoc addition will normally be implemented after the close of the 10th trading day of the new issue <u>Quarterly (Q1 & Q3):</u> Securities that are newly listed in the first or third quarter of each year and that meet the criteria for joining the HSLI or HSMI will be added to the HSCI and its sub-indexes on the regular rebalancing date in June or December respectively	
Weighting Cap	Individual: 10% Category: Foreign Companies – 5% WVR Companies – 10%	

Effective
2018Q3

Hang Seng Indexes will closely monitor the development of pre-revenue biotech companies to be listed under Chapter 18A of the Listing Rules and will assess their eligibility in due course.

Q&A



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