



18 May 2020

**Consultation Conclusions on the Eligibility of
Weighted Voting Right Companies and Secondary-listed Companies
for Inclusion in the Hang Seng Index and the Hang Seng China Enterprises Index**

Hang Seng Indexes Company Limited (“Hang Seng Indexes”) conducted a consultation during the first quarter of 2020 regarding the eligibility of weighted voting rights companies (“WVRs”) and secondary-listed companies for inclusion in the Hang Seng Index (“HSI”) and the Hang Seng China Enterprises Index (“HSCEI”). The consultation also covered various other matters related to the HSI and the HSCEI.

Hang Seng Indexes received responses from a wide spectrum of market participants. After careful analysis and discussions with the HSI Advisory Committee (“Advisory Committee”), Hang Seng Indexes today announced the following conclusions.

(1) Adding WVRs and Secondary-listed Companies to the HSI and the HSCEI universes

WVRs and secondary-listed companies coming from the Greater China region (i.e. Hong Kong, Mainland China, Macau and Taiwan) will be included in the HSI and the HSCEI universes. This decision is strongly supported by the market, with more than 90% of respondents in favour. As some respondents also expressed a preference for limiting the proportion of these companies in the HSI and the HSCEI, the following measures will be implemented simultaneously.

	Greater China WVRs	Secondary-listed Greater China Companies
Freefloat Shares	<ul style="list-style-type: none">Shares with weighted voting rights will be considered as non-freefloat shares	<ul style="list-style-type: none">A company’s market capitalisation will be based solely on the Hong Kong-registered portion of its shares (“HK Shares”)Any of the HK Shares held by a depositary as underlying for overseas depositary receipts will be considered as non-freefloat shares



Consultation Conclusions on the Eligibility of Weighted Voting Right Companies and Secondary-listed Companies for Inclusion in the Hang Seng Index and the Hang Seng China Enterprises Index/ 2

	Greater China WVRs	Secondary-listed Greater China Companies
Weighting	<ul style="list-style-type: none">Individual constituent weighting of these securities will be subject to a 5% weighting cap	

(2) Removing the Additional Eligibility Criteria on Red-chips and P-chips for joining the HSCEI

Most respondents were in favour of aligning the HSCEI constituent selection criteria for all share classes. Accordingly, the existing additional eligibility criteria (i.e. listing history, price volatility and financial performance) introduced in 2018, when Red-chips and P-chips were first added to the HSCEI, will be removed. To control the index turnover at a manageable level, the number of constituent changes will be capped at three in the first review after implementation.

(3) Positioning and Composition of the HSI

Based on market feedback and after careful consideration by the Advisory Committee, Hang Seng Indexes has decided that no change will be made to the current positioning of the HSI. The HSI will continue to represent the Greater China companies listed in Hong Kong and no specific ratio or weighting limits will be set for Hong Kong versus Mainland China constituents or Financials stocks. Market representativeness will continue to be the main consideration for any changes in HSI constituents.

H-shares companies with unlisted share capital have been excluded from the HSI universe since 2006 due to the potential for them to experience abnormal stock price movements during the implementation of Share Reform in Mainland China. Since this concern may no longer exist, H-shares companies with unlisted share capital will become eligible for inclusion in the HSI universe.

Implementation

Hang Seng Indexes will implement the above changes to the HSI and the HSCEI starting from the August 2020 index review.

The detailed consultation report is attached as an appendix to this release and is also available for [download](#) on Hang Seng Indexes' website.



Consultation Conclusions on the Eligibility of Weighted Voting Right Companies and Secondary-listed Companies for Inclusion in the Hang Seng Index and the Hang Seng China Enterprises Index/ 3

About Hang Seng Indexes Company Limited

The Hang Seng Family of Indexes is managed and compiled by Hang Seng Indexes Company Limited (formerly HSI Services Limited), which is a wholly-owned subsidiary of Hang Seng Bank. The Hang Seng Family of Indexes comprises a wide range of indexes that cover stocks/bonds listed in Hong Kong/Mainland China markets. For further information on the Hang Seng Family of Indexes, please visit the company's website at www.hsi.com.hk.

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HANG SENG INDEXES

**Eligibility of Weighted Voting Right Companies (“WVRs”) and
Secondary-listed Companies for Inclusion in the Hang Seng Index (“HSI”) and
the Hang Seng China Enterprises Index (“HSCEI”)**

Consultation Report

18 May 2020



Summary of Consultation Conclusions

- 1) Adding WVRs and secondary-listed companies coming from the Greater China region (i.e. Hong Kong, Mainland China, Macau and Taiwan) into the HSI and the HSCEI universes

	Greater China WVRs	Secondary-listed Greater China Companies
Freefloat Shares	<ul style="list-style-type: none">• Shares with weighted voting rights will be considered as non-freefloat shares	<ul style="list-style-type: none">• The company's market cap will be based solely on the Hong Kong-registered portion ("HK Shares")• Any of the HK Shares held by a depositary as underlying for overseas depositary receipts/ shares will be considered as non-freefloat shares
Weighting	<ul style="list-style-type: none">• Individual constituent weighting of these securities will be subject to a 5% weighting cap	

- 2) Removing the additional eligibility criteria (i.e. listing history, price volatility and financial performance) on Red-chips and P-chips for joining the HSCEI. The number of constituent changes will be capped at three in the first review after implementation
- 3) No change to be applied to the positioning of the HSI and it will continue to represent the Greater China companies listed in Hong Kong
- 4) No specific ratio or weighting limit will be set for HK vs Mainland China constituents or Financials stocks in the HSI
- 5) Market representativeness will continue to be the main consideration for HSI constituent changes

- Consultation Period: 13 Jan - 13 Mar 2020 (two months)
- Total 58 responses were received from 52 organisations^{Note1,2}

Categories	# of Responses	By Geography		
		HK	Mainland China and Taiwan	Others
Asset Management (Passive)	23	9	12	2
Asset Management (Active)	10	7	-	3
Traders	6	4	-	2
Corporates	6	4	2	-
Academics/ Institutes	2	2	-	-
Others ^{Note3}	11	10	1	-
TOTAL	58	36	15	7

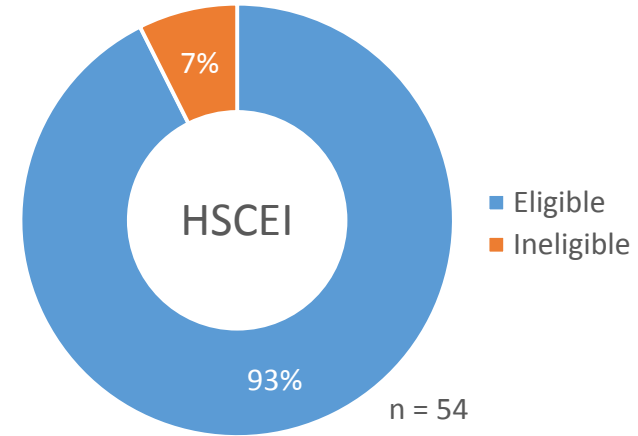
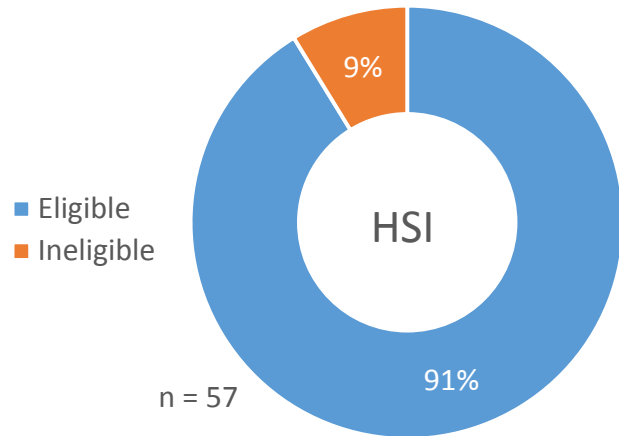
Note 1: Not all respondents answered all questions in the consultation paper

Note 2: Individual replies from the same organisation may have been assessed separately if they represent different capacities

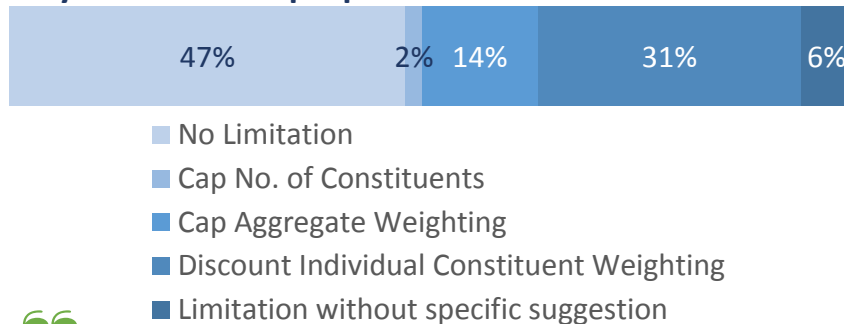
Note 3: Includes individual investors, exchanges and other financial institutes

Consultation Results and Conclusions

1. Eligibility of WVRs for inclusion in HSI and HSCEI – Results



Any need to limit proportion of WVRs in the index?



90%+ of respondents support the inclusion of Greater China WVRs in the HSI and HSCEI universes



Key Comments:

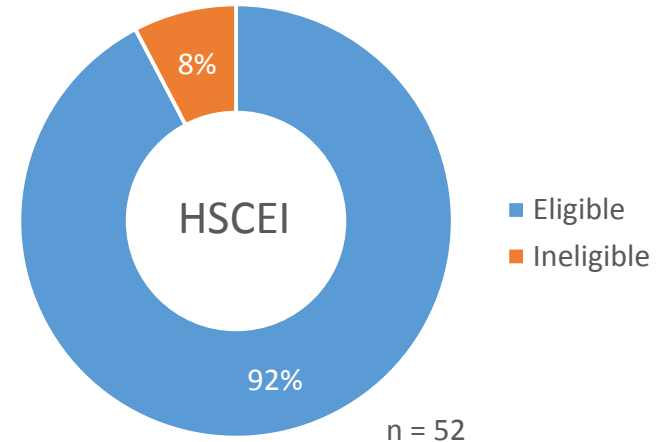
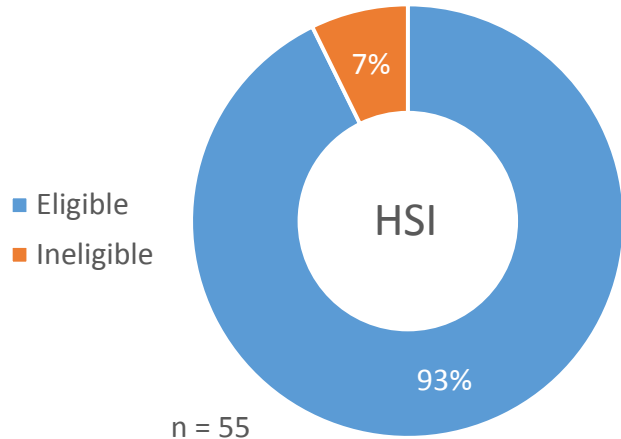
- Hong Kong Stock Exchange and regulator should have sufficient measures in place to protect investor interests
- Some respondents perceive the governance structure of WVRs is different from traditional companies
- Market views on whether to limit the proportion of these constituents in the index are split



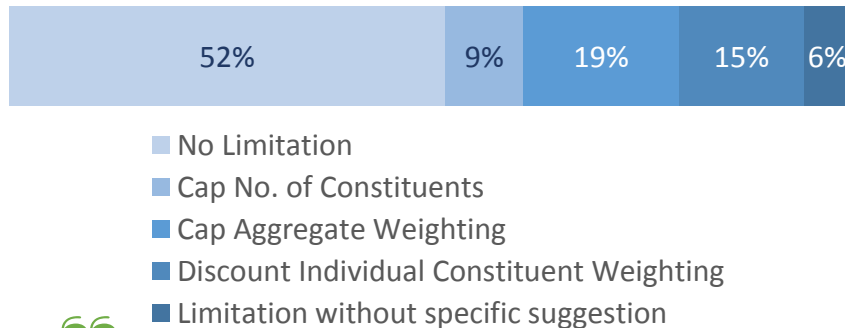
1. Eligibility of WVRs for inclusion in HSI and HSCEI – Conclusions

Conclusion	Rationale
Greater China WVRs to become eligible for inclusion in the HSI and HSCEI universes	<ul style="list-style-type: none">Overwhelming market support
Implementation Details	
<u>Freefloat Shares</u> <ul style="list-style-type: none">Shares with weighted voting rights will be considered as non-freefloat shares	<ul style="list-style-type: none">Shares carrying weighted voting rights are not tradable until conversion into shares with no weighted voting rights
<u>Constituent Weighting</u> <ul style="list-style-type: none">Individual WVR constituent weighting in the HSI/ HSCEI will be subject to a 5% weighting cap	<ul style="list-style-type: none">Adopt a prudent approach to start with

2. Eligibility of Secondary-listed Companies for inclusion in HSI and HSCEI – Results



Any need to limit proportion of secondary-listed companies in the index?



92%+ of respondents support the inclusion of secondary-listed Greater China Companies in the HSI and HSCEI universes

Key Comments:

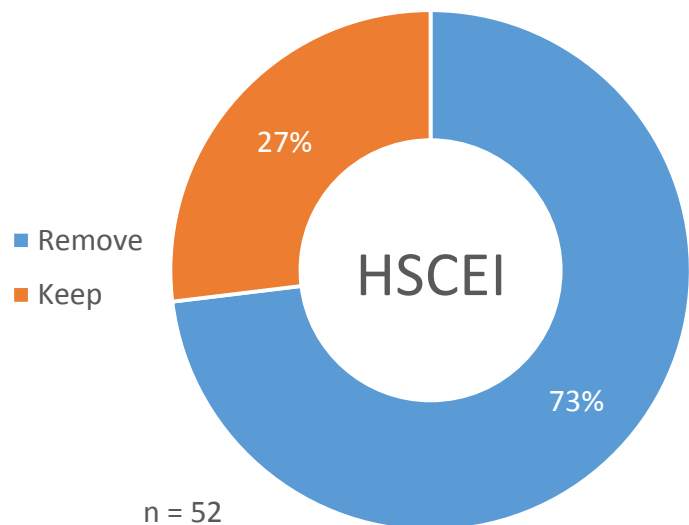
- Some respondents do not see significant differences in the risk profiles of primary and secondary-listed companies, instead they are more concerned about the investability
- Market views on whether to limit the proportion of these constituents in the index are split

2. Eligibility of Secondary-listed Companies for inclusion in HSI and HSCEI – Conclusions

Conclusion	Rationale
Secondary-listed Greater China companies to become eligible for inclusion in the HSI and HSCEI universes	<ul style="list-style-type: none">Overwhelming market support
Implementation Details	
<u>Market Capitalisation</u> <ul style="list-style-type: none">Only shares registered in HK (“HK Shares”) will be considered for index inclusion	<ul style="list-style-type: none">To reflect the portion of shares registered and listed in HK
<u>Freefloat Shares</u> <ul style="list-style-type: none">Any of the HK Shares held by a depositary as underlying for overseas depositary receipts will be considered as non-freefloat shares	<ul style="list-style-type: none">To reflect the portion of shares readily available for trading in HK
<u>Constituent Weighting</u> <ul style="list-style-type: none">Individual secondary-listed constituent weighting in the HSI/ HSCEI will be subject to a 5% cap	<ul style="list-style-type: none">Adopting a prudent approach to start with

3. Additional Eligibility Criteria Placed on Red/ P-chips for Joining HSCEI – Results

Extra Criteria for Red/ P-chips



73% of respondents support the removal of the additional criteria (i.e. listing history, price volatility and financial performance) placed on Red-chips and P-chips for joining the HSCEI



Key Comments:

- Supporting “Remove” respondents indicated a preference for a simple, transparent and consistent set of selection criteria applied across different share classes
- Supporting “Keep” respondents expressed concern about the methodology change
- Some respondents expressed concern about the impact on the index during the implementation of methodology change

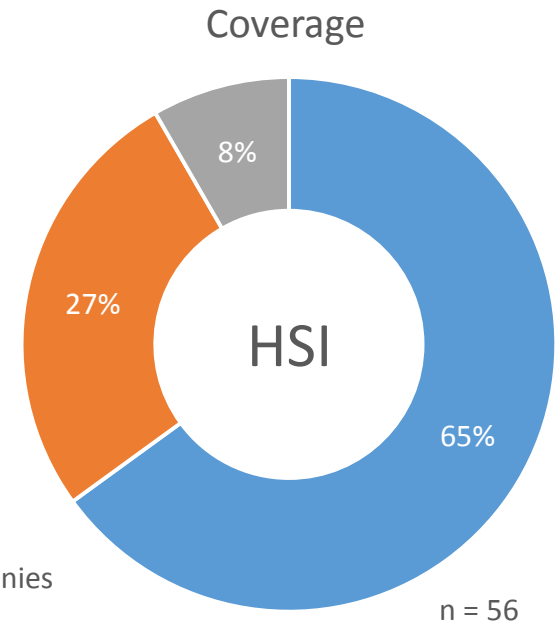


3. Additional Eligibility Criteria Placed on Red/ P-chips for Joining HSCEI – Conclusions

Conclusion	Rationale
Remove additional eligibility criteria placed on Red-chips and P-chips for joining the HSCEI	<ul style="list-style-type: none">• Apply consistent methodology to all share classes
Implementation Details	
<u>Reduce the Impact on the Index</u> <ul style="list-style-type: none">• Cap the number of constituent changes in the Aug 2020 HSCEI index review at three• The restriction on the number of constituent changes will be removed starting from the Nov 2020 index review	<ul style="list-style-type: none">• Control the index turnover at a manageable level

35% of respondents prefer the HSI's existing representation as a Greater China/ HK market benchmark or even to reflect only the HK economy

- All HK-listed Companies
- HK-listed Greater China Companies
- HK-listed companies that reflect HK economy



Key Comments:

- Some respondents expressed a preference for having index coverage simply based on the stock exchange and do not mind extending the HSI to even cover foreign companies
- Even advocates of extending HSI coverage to all HKEx-listed companies still expressed concern about the liquidity and investability of foreign companies
- There was no strong preference as to what the HSI should represent in the long run

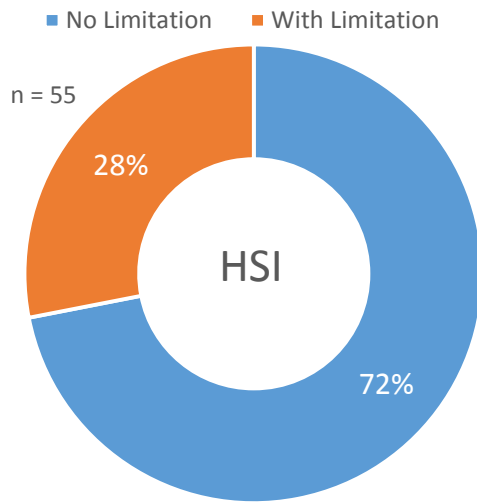


4. Positioning of HSI – Conclusions

Conclusion	Rationale
The current positioning of the HSI (representing the Greater China companies listed in HK) will be maintained and foreign companies will not be added to the HSI universe now	<ul style="list-style-type: none">• The current positioning of HSI, which is a Greater China concept, has been adopted for long time and is well received by the market• The HSI has been used for asset allocation in HK/ Mainland China markets; suddenly adding foreign companies to the index might have a significant and/ or unexpected market impact• Given that more than one third of respondents expressed the view that HSI should represent Greater China/ HK companies, it may be pre-mature to add foreign companies to the HSI universe for now• There is currently no prominent foreign company in the market that would be a suitable candidate for joining the HSI

5. Composition of HSI

HK vs Mainland China Balance



Key Comments:

- The existing Financials weighting in the HSI is largely a reflection of HK market structure
- WVRs and secondary-listed companies are mainly from New Economy sectors and the skew in Financials may be reduced naturally after adding WVRs and secondary-listed constituents
- Nevertheless, respondents prefer to see a diversified portfolio

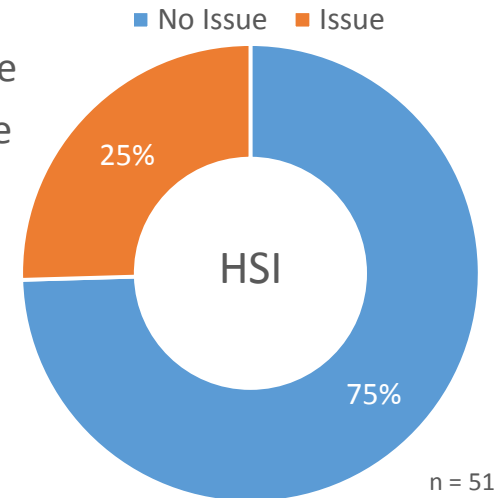
72% of respondents believe there is no need to impose any limitations on the composition of the HSI regarding proportion of HK vs Mainland China constituents

Key Comments:

- Some respondents perceive the current mix of HK constituents and Mainland China constituents to be fine

75% of respondents do not consider the Financials weighting in the HSI to be an issue that needs to be addressed

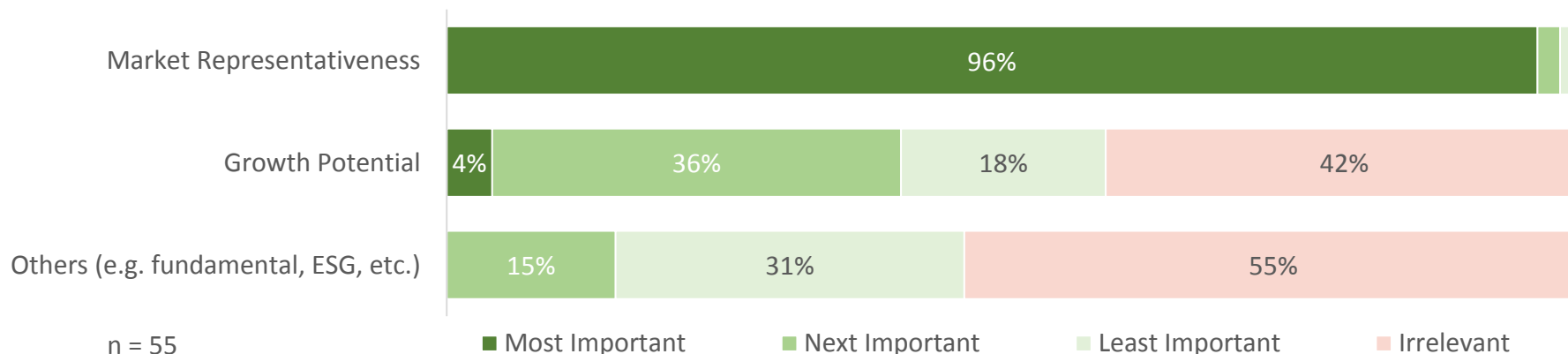
Financials in the HSI



Conclusion: No additional limitation will be imposed on the composition of HSI regarding HK vs Mainland China constituents or Financials stocks

Rationale: Respondents are generally satisfied with the current composition of the HSI

6. HSI Constituent Change Consideration



96% of respondents consider market representativeness as the most important selection criteria for HSI constituents

Key Comments:

- Some respondents suggested creating thematic indexes that select constituents based on growth/ ESG/ other criteria – but these factors should not be overly emphasised in the HSI as it is the benchmark for the HK market
- Some respondents like having the Advisory Committee as a gatekeeper in finalising HSI constituent changes

Conclusion: Market representativeness will continue to be the major consideration for HSI constituency; other criteria that are relevant to specific candidates will also be taken into consideration

Rationale: Respondents want transparency in the HSI methodology, with balanced input from the Advisory Committee in deciding constituent changes

The above changes will be implemented starting from
the August 2020 index review

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