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Listing Regulation and Enforcement, Listing Division
Hong Kong Exchanges and Clearing Limited
8th Floor, Two Exchange Square
Central, Hong Kong

By email: annachow@hkex.com.hk

Subject: Response to Conclusions and Further Consultation Paper on Proposals to Optimise IPO Price Discovery and Open Market Requirements

Dear Sir/Madam,

We are pleased to comment on the “Conclusions and Further Consultation Paper on Proposals to Optimise IPO Price Discovery and Open Market Requirements” (the Paper), published by the Exchange on 1 August 2025.

The Asian Corporate Governance Association (ACGA) is a non-profit membership organisation chartered under the laws of Hong Kong and founded in 1999. We conduct research on corporate governance and ESG in 12 markets in Asia-Pacific and advocate at the regulatory and corporate levels across the region to improve standards and practices. Our operations are supported by a network of 102 organisations, 80% of which are institutional investors with aggregate assets under management exceeding US\$40 trillion.

High-level Comments

The public float requirement has long been a cornerstone of the Hong Kong stock market.¹ The Exchange previously consulted market stakeholders in July 2002 and January 2008; the 2008 consultation was prompted by the rising number of large IPOs and difficulties in meeting the public float requirement. The aim then was to provide issuers with greater flexibility in managing their capital structure while ensuring an open, fair and orderly market.

The dual focus—balancing issuer flexibility with market integrity—remains evident in the current consultation. We commend the Exchange for proposing differentiated ongoing public float thresholds grounded in proportionality and flexibility. This represents a measured approach to relaxing the requirement. In addition, the proposed replacement of trading suspension with a special marker, enhanced disclosure obligations and a delisting mechanism gives due regard to investor protection. As one ACGA member commented, the proposed changes would “boost market confidence, potentially improve liquidity, and help investors make more informed decisions”. We support these proposals in principle, subject to the refinements set out below.

However, ACGA considers the public float requirement especially relevant to corporate governance in Asian markets, including Hong Kong, given persistent concentrated ownership. The Exchange has also acknowledged

¹ For example, a 2014 report by the Financial Services Development Council on enhancing Hong Kong’s status as an IPO centre describes the public float as a “key principle of the Hong Kong market” (p.38, <https://www.fsd.org.hk/media/jg1hulvd/ipo4-2-final-17-6-2014.pdf>)

its potential implications for shareholder protection.² We encourage strengthening other key areas of corporate governance—particularly board independence—to balance the proposed relaxation and further enhance market quality and investor confidence.

Specific Comments

Our specific comments on each question are set out below.

Question 1. Implementation of the Alternative Threshold

We support the rationale for the Alternative Threshold, which is designed to provide larger issuers with flexibility over public float for share buybacks and other capital management activities. As highlighted in ACGA's "Value Up, Asia" report (May 2025), effective capital management is key to sustainably higher valuations and shareholder returns.³ In the absence of a comprehensive Value Up-style programme in Hong Kong, the Alternative Threshold can serve as an incremental incentive for issuers—particularly those with a market capitalisation exceeding HK\$4 billion—to enhance their capital management.

We also broadly support the proposed HK\$1 billion market value limb and the 10% percentage limb of the Alternative Threshold. These figures are consistent with the current listing regime and align with international standards. Notably, the HK\$1 billion figure is derived from the HK\$4 billion market capitalisation threshold in the market capitalisation/revenue test for listing qualifications. This is lower than the HK\$6 billion market capitalisation threshold under the new Initial Public Float Thresholds. We therefore welcome the scheduled reviews referenced at paragraph 340 (page 78) of the Paper to assess whether this market value limb, combined with the percentage limb, is fit for purpose.

Additionally, we consider the rolling 125-trading-day value weighted average price (VWAP) methodology a robust, transparent measure of market value that is less susceptible to manipulation. Given its 125-day horizon, issuers whose shares have been trading for fewer than 125 trading days should not be eligible for the Alternative Threshold. Furthermore, if trading has been suspended for more than five consecutive business days during the 125-trading-day period, the period should be extended to re-establish a meaningful sample; otherwise, continuously traded peers are disadvantaged.

We **agree** with the Exchange's proposals in Questions 1.1–1.6 and welcome scheduled, or even more frequent, reviews of the suitability of the proposed thresholds.

Question 2. Bespoke ongoing public thresholds

We support the Exchange's proposal to introduce bespoke ongoing public float thresholds for PRC issuers with other listed shares, notably A+H issuers. The A+H structure is unique to Hong Kong and there is no direct international peer reference for determining appropriate public float thresholds for H shares. A tailored approach is therefore warranted.

² HKEX, Consultation Paper on Proposed Amendments to the Listing Rules Relating to Initial Listing and Continuing Listing Eligibility and Cancellation of Listing Procedures, July 2002, p.102; Consultation Conclusions on Proposed Amendments to the Listing Rules Relating to Initial Listing Criteria and Continuing Listing Obligations, January 2004, p.12

³ <https://www.acga-asia.org/pdf/value-up-asia-report>

The market value limb of HK\$1 billion in this proposal aligns with the market value limb in the Alternative Threshold and would support orderly price formation. We note the proposed alternative 5% limb, which is based on the proportion of total H shares in public hands to the total issued A and H shares, reflects the Exchange's review of float levels among smaller A+H issuers and is intended to give issuers flexibility in secondary fundraising. While this figure is grounded in empirical analysis, we consider a 5% ongoing public float to be too low, which may result in greater potential risks of market manipulation, especially for smaller A+H issuers. We **recommend** maintaining the 10% threshold in the new initial public free float requirements for A+H issuers as the alternative percentage limb for ongoing thresholds.

With this recommendation, we **agree** with the Exchange's proposals in Questions 2.1–2.2.

Question 3. Regular public float reporting

We support the proposals requiring all issuers to provide monthly and annual confirmations of public float sufficiency, and to disclose the actual public float percentage in annual reports. We also welcome the proposed requirements for disclosure of share ownership and share capital structure. Collectively, these reporting obligations represent a substantial enhancement to the current disclosure regime.

However, an asymmetry remains in the proposed monthly disclosure requirements. Only issuers relying on market value-based thresholds (i.e., those using the Alternative Threshold or the market value limb of the bespoke ongoing public float threshold) would be required to disclose both the market value and the percentage of their public float in monthly returns. This asymmetry may limit investors' ability to detect emerging fragility in public float of issuers relying on other thresholds and to make more informed risk management decisions. We therefore recommend requiring *all issuers* to disclose both the actual percentage and market value of public float in their monthly returns.

We **agree** with the Exchange's proposals in Questions 3.1–3.5, but **recommend** that the proposal in Question 3.3 be extended to cover all issuers.

Question 4. Public float shortfalls

Obligations upon public float shortfall

We consider the obligations proposed in the Paper at pages 87–88 to provide a solid baseline that supports continued trading and incentivises the timely rectification of the public float shortfall. The initial announcement, the restoration plan and subsequent monthly updates together provide visibility into progress and enable investors to monitor developments. To avoid boilerplate disclosure, we **recommend** that the restoration plan should set out concrete steps, a timetable and the internal party accountable for each step. More importantly, the plan should be approved by the board and its implementation kept under board oversight.

Subject to the above recommendations, we **agree** with the proposals in Questions 4.1–4.4.

Issuers with significant shortfalls

We support the proposed significant shortfall thresholds, as they align with the proposed ongoing public float framework and maintain regulatory continuity by anchoring the HK\$500 million absolute value criterion to the existing Main Board listing requirements. We also agree that issuers with a significant shortfall should be subject

to a special marker, enhanced disclosure obligations and a delisting mechanism rather than a trading suspension. Collectively, these proposed measures provide a robust deterrent against prolonged non-compliance while facilitating restoration of public float through on-market transactions.

Regarding the enhanced disclosure requirements, we **recommend** that the required warning statement be presented prominently at the beginning of all relevant announcements and documents to ensure the heightened risks associated with a significant shortfall are clearly communicated to investors.

We have reservations about retaining an 18 months (12 months for GEM) fixed delisting period, particularly in light of the overall relaxation of the public float requirement. The Exchange notes that the removal of trading suspension would shorten the timeline for public float restoration (p.91). In this context, the 18-month period appears generous and could reduce the urgency of remediation. We therefore **recommend** shortening the period to 12 months for the Main Board, while retaining the current 12-month period for GEM.

Subject to the above qualifications, we **agree** with the Exchange's proposals in Questions 4.5–4.7.

Question 5. Scope of application

We **agree** with the proposal in Question 5 to extend the proposed ongoing public float requirements to all existing issuers. Implementing a consistent set of rules for all issuers will enhance regulatory clarity and minimise market confusion.

Question 6. Offers under the Takeovers Code

We support retaining the current practice of granting a time-relief waiver from the ongoing public float requirement after a general offer, except for issuers with a significant shortfall. Excluding these issuers preserves the integrity of the proposed measures for addressing significant shortfalls.

Paragraph 391 of the Paper states that any issuer receiving a time-relief waiver will be subject to the same level of disclosure as if it were in breach of the public float requirement. However, this condition is not explicitly reflected in the proposed amendments to MB Rule 13.33 (GEM Rule 17.38B). We therefore suggest adding a cross-reference to clarify that granting a time-relief waiver is conditional upon compliance with the disclosure obligations in MB Rule 13.32E (GEM Rule 17.37E).

With this recommendation, we **agree** with the Exchange's proposals in Questions 6.1–6.2.

Further comments: Public float under concentrated ownership

We acknowledge that the public float requirement is primarily aimed at providing an open, fair and orderly market. Its role as a corporate governance tool is debatable in markets with dispersed ownership.⁴ However, in many Asian markets—including Hong Kong, where concentrated ownership and controlling shareholders remain common—the public float requirement has greater relevance to corporate governance. A materially reduced public float can dampen institutional and minority investor participation, weaken scrutiny of the board and

⁴ In a 2012 consultation paper, the UK's Financial Services Authority described free float as a "blunt tool even if used explicitly to ensure effective governance in a company", while acknowledging its potential impact on minority shareholders' ability to counterbalance controlling shareholders. See FSA Consultation Paper CP12/25: <https://www.fca.org.uk/publication/consultation/cp12-25.pdf>

further entrench the controlling shareholders' dominance. As ACGA has recently advocated, relaxation of public float requirements should be offset by strengthening other key areas of corporate governance, particularly board independence.⁵ In this regard, we make the following recommendations for Hong Kong, including some reiterated points:

- **Additional accountability for low-float issuers:** For issuers with a public float below 25%, we recommend that the board provide, at the next AGM, a clear explanation of any resolution passed in the prior year despite a majority of independent shareholders voting against it.
- **Independence of nomination committee chair:** In Hong Kong, the nomination committee (NC) can still be chaired by the board chair, usually a connected person. This lags regional practice, as Australia, Malaysia, Singapore, Thailand and India all require an independent NC chair.
- **Updating the minimum three/one-third rule on independent directors.** The current standard in Hong Kong is not in line with global best practice and institutional investor expectations. As set out in previous consultation submissions, we recommend updating the requirement for independence to at least half of the board comprising independent directors for all issuers.⁶
- **Minority shareholder vote on INEDs.** It remains common for a controlling shareholder to nominate and effectively elect independent directors (INEDs) whose independence is questionable. We recommend a vote by independent shareholders for the election of INEDs to enhance their legitimacy in the eyes of investors and foster greater trust.

We appreciate the opportunity to respond to the consultation and would be pleased to discuss any of the points above in more detail. Thank you.

Yours faithfully,

Amar Gill
Secretary General, ACGA
amar@acga-asia.org

Dr. Helena Fung
Head of Research and Advocacy, ACGA
helena@acga-asia.org

Lake Wang
Research Head for Greater China, ACGA
lake@acga-asia.org

⁵ See ACGA's recent response to India's SEBI: <https://www.acga-asia.org/pdf/acga-response-sebi-consultation-paper-on-minimum-public-offer-free-float>

⁶ See, for example, ACGA's response to the Exchange's 2024 consultation on amending the CG Code: <https://www.acga-asia.org/pdf/2024-acga-letter-to-hkex-cg-codes>