Exchange must stand firm despite prospect of US$15b listing

US stock exchanges have reportedly been lobbying Alibaba to list on the New York Stock Exchange or Nasdaq, ostensibly to address Alibaba chairman Jack Ma Yun's determination to retain control of his firm through an unequal share structure.

The fact Hong Kong does not allow such "dual class" share structures has led Alibaba and its bankers to negotiate with Hong Kong regulators and explore other mechanisms through which control could be retained. The calculation seems to be that the prospect of a US$15 billion listing should be enough to force Hong Kong to kowtow. The Asian Corporate Governance Association urges the authorities to remain standing.

The Hong Kong stock exchange has long prided itself on running a respected, orderly market in which "all holders of listed securities are treated fairly and equally". It has also sought greater international credibility in recent years through revisions to its code on corporate governance, among other things. Allowing the listing of Alibaba on its own terms would undermine the stock exchange's reputation and likely create innumerable problems. If Alibaba can list with special rights, why not other initial public offering applicants? And will existing issuers seek comparable terms?

Fortunately, the Securities and Futures Commission has signalled its opposition to giving exceptions to Alibaba over any dual-class structure.

Yet media reports suggest the stock exchange is possibly willing to consider a deal allowing Ma and his management partners to control nominations to the company's board. This once again puts the stock exchange's inherent conflicts of interest as a profit-making company and a market regulator under the spotlight.

There is no doubt that a US$15 billion share float would be beneficial to the exchange's business interests. But if it came at the price of the quality and reputation of the Hong Kong market, the benefits would likely be short-lived and illusory.

Recent data from the World Federation of Exchanges shows Hong Kong steadily losing ground to the Shanghai and Shenzhen exchanges in volume terms (for example, market capitalisation and share trading value). Hong Kong can no longer compete with mainland exchanges on crude quantitative measures.

It must differentiate itself on the quality of its regulation, the rule of law and good governance.

If not, we fear it will have an increasingly emasculated role in China's future capital market.

Jamie Allen, secretary general, Michael Cheng, research director, China and Hong Kong, Asian Corporate Governance Association, Hong Kong