

## Hong Kong Exchanges and Clearing

## Down market?

A proposed new board, with laxer standards, sparks controversy

**B**OSSES at Hong Kong Exchanges and Clearing (HKEX) ought to be feeling smug. In five of the past eight years it has been the world's leading exchange for initial public offerings (IPOs). Chinese companies have swarmed to list on its comparatively mature, open and transparent capital market, generating over 90% of the funds raised there in the past five years. Yet, launching a long-awaited consultation on reforms on June 16th, HKEX warned of "stagnation" if it does not change. It has one eye on its regional rivals. Last year Singapore knocked it into fourth place in a prominent ranking of financial centres. As Shenzhen and Shanghai, where trading volumes dwarf Hong Kong's, open up, they could eat Hong Kong's lunch.

Besides tinkering with the rules on Hong Kong's main board and its second one, the Growth Enterprise Market, the proposed changes include, most contentiously, a third board. This would be designed to attract fizzy "new economy" technology firms. Stalwart property and finance stocks at present make up over 40% of the market.

Winning more Chinese listings is another goal. Alibaba, a Chinese e-commerce giant, left a deep scar when it chose the New York Stock Exchange for its blockbuster listing in 2014. It jilted Hong Kong because of its ban on dual-class shares, which grant some shareholders outside voting rights. Soon after, HKEX tried to persuade Hong Kong's Securities and Futures Commission (SFC) to allow such companies to list in Hong Kong. But corporate-governance activists and big fund managers such as BlackRock lined up against it; so did the SFC. Proponents say entrepreneurs can make good use of dual structures (think Google). Opponents argue that other shareholders lose out as a result.

Since Alibaba, a slew of Chinese tech firms have slipped through Hong Kong's grasp. And Singapore's exchange has launched its own consultation on dual-

class shares. Cannily, HKEX is pushing for "non-standard governance features" only on the new third board. The SFC appears to be softening its stance on dual-class structures; bankers salivate over new moneymaking opportunities.

Yet HKEX may not get approval. Governance hawks still oppose dual-class shares. "We think it's wrong to develop the market by lowering standards," says Jamie Allen of the Asian Corporate Governance Association (ACGA), an independent advocacy group. Singapore's consultation, he notes, has also prompted strong adverse reactions.

Proposed safeguards, such as stricter disclosure rules, do not convince sceptics. And the fact that the new board's main targets would be companies from China, where business can have a whiff of the Wild West, compounds the risk to its reputation. Some also question the commercial benefits for HKEX: Graeme Lane, a broker, points out that last year daily turnover on its boards fell by 37%, despite the addition of over 100 companies.



The big bored

▶ spark inflows of up to \$250bn by 2020. Over the past half year both Bloomberg and Citigroup have started to add China to their emerging-market bond indices.

For China-focused financiers, all this serves as belated recognition. "I'm not saying institutions should have 15% exposure to China. But they should certainly have somewhere north of zero," says Peter Alexander of z-Ben Advisors, a Shanghai-based

consultancy. Looked at narrowly, the index inclusions might seem technicalities. They are simply judgments about the accessibility of Chinese shares and bonds, not their value or prospects. And with minimal weights assigned to China, the inclusions are symbolic. But symbols can be powerful, as these certainly are. Some of the leading gatekeepers of global markets think China is at last open for business. ■

## Aircraft finance

## Maximum altitude

LE BOURGET

The aircraft-leasing business may be flying too high

**A**IR shows are where the aerospace business shows off. At this year's Paris show, the world's largest, which opened at Le Bourget airport on June 19th, the military types are most ostentatious. Aeronautical party tricks include helicopters that ascend into the sky tail-first and stealth fighters that fly backwards.

But no one is keener to strut their stuff than Airbus and Boeing, the world's two biggest makers of airliners. At the 2015 show the pair sold 752 planes worth around \$107bn. But the party atmosphere at that event—with copious food and wine laid on for customers and journalists alike—has given way this year to a more sober mood, weaker sales and a bring-your-own-lunch policy. This should give pause to investors in one of the world's fastest-growing asset classes: aircraft.

Airbus and Boeing still booked plenty of orders. But for the first time, most came from lessors, which lease them to operators, rather than from the airlines that use them. This has fuelled fears that the surge in investment going into aircraft finance is pushing orders for new jets, and prices for old ones, to unsustainable levels. "We're in a bubble that will burst," says Adam Pilarzski of Avitas, a consultancy. "It is only a question of timing and severity."

In the past airlines bought planes with expensive unsecured bank loans or state handouts. But since the 1970s, the ownership of aircraft has gradually been hived off to financial firms. This has benefits for both airlines and investors, explains Alec Burger, chief executive of GECAS, the world's biggest lessor. Leasing rather than buying gives carriers the flexibility to expand or shrink fleets quickly. It can cut tax bills. And as lessors are often bigger than airlines, they can strike better deals with planemakers and borrow more cheaply.

Investors also find aircraft attractive assets. International agreements make it easy to repossess one when an airline defaults on a payment. The market for planes is more liquid than that for ships or trains. And unlike houses, planes are mobile.

The doubts centre on whether there really is enough demand for the lessors' latest orders. Peak leasing may soon be reached, according to new research from Toulouse Business School. Using data from 73 carriers over 15 years, it calculates that airline profits are maximised when 53% of fleets are leased—not far off the current figure of around half for narrow-bodied jets. ▶▶