



Proposals to Optimise IPO Price Discovery and Open Market Requirements

Law Society Submissions

The Stock Exchange of Hong Kong Limited (“Exchange”) issued the “Conclusions and Further Consultation Paper on Proposals to Optimise IPO Price Discovery and Open Market Requirements” on 1 August 2025 (“Consultation Paper”).

In response, the Law Society provides the following submissions to the questions posed. Unless otherwise defined, the same abbreviations and definitions appearing in the Consultation Paper are used in this paper.

Question 1

- 1.1 Do you agree with the proposal to implement the Alternative Threshold, which will provide an alternative ongoing public float threshold for issuers in addition to the Initial Prescribed Threshold (as set out in paragraphs 310 to 312 of the Conclusions and Further Consultation Paper)?*

Please give reasons for your views and any alternative suggestions.

Law Society's response:

The Law Society welcomes this proposal as a step toward modernising the Stock Exchange’s rules to adapt to a global changing market. The obligation to maintain a fixed public float at the same level required at listing unnecessarily constrains listed issuers from managing their capital structure and conducting legitimate share transactions, such as share buybacks and strategic placings. It is a reasonable proposal that balances flexibility for large-cap issuers with investor safeguards. The HK\$1billion absolute threshold ensures that even at 10% float, there is a substantial value of shares available for trading without compromising liquidity.

While small-cap companies need more stringent oversight due to higher volatility and market manipulation risks, we consider that introducing a tiered approach for mid-cap companies (between HK\$3 billion and HK\$10 billion with an alternative threshold of say, 15% + HK\$500 million) is conducive to market developments. Many high-growth innovators in tech, biotech companies and new economy sectors fall into the mid-cap range. They will face disproportionate burdens compared to large-cap companies under the current rigid public float requirement, which restricts capital management tools, such as on-market repurchases. Stricter public float rules can deter them from listing on the Hong Kong Stock Exchange. Introducing a more flexible tiered approach reduces the Stock Exchange's over-reliance on mega-cap listings and foster a more balanced and diversified issuer base. From a price discovery perspective, a tiered system could increase IPO activity and secondary market liquidity.

A tiered approach also reduces market distortions and improves fairness. The current proposal's cut-off at HK\$1 billion creates a cliff effect, where a say, HK\$9.9 billion company must maintain a 25% float. A tiered approach will smooth the transition.

- 1.2 *If your answer to Question 1.1 is "yes", do you agree with the proposed threshold figures (i.e. HK\$1 billion and 10%) for the Alternative Threshold (as set out in paragraph 312 of the Conclusions and Further Consultation Paper)?*

Please give reasons for your views and any alternative suggestions.

Law Society's response:

Please see our response to Question 1.1.

- 1.3 *If your answer to Question 1.1 is "yes", do you agree that for the purpose of determining whether the market value of shares held by the public meets the market value limb of the Alternative Threshold, the market value of an issuer's shares will be determined on a rolling basis by multiplying (a) the number of shares held by the public as of the date of determination by (b) the volume weighted average price of the shares listed on the Exchange over 125 trading days immediately prior to the date of determination (as set out in paragraph 316 of the Conclusions and Further Consultation Paper)?*

Please give reasons for your views and any alternative suggestions.

Law Society's response:

We agree that this is an appropriate method for determining the market value under the Alternative Threshold. Using VWAP over a 125-day period (about 6 months) reduces short-term volatility and temporary price swings.

- 1.4 *If your answer to Question 1.1 is “yes”, do you agree that a listed issuer would not be able to rely on the Alternative Threshold if the issuer’s shares have traded for fewer than 125 trading days since listing on the Exchange?*

Please give reasons for your views and any alternative suggestions.

Law Society's response:

The calculation of the Alternative Threshold assumes that the issuer has a proven track record of trading activity. New listings often experience volatility in their early days with high trading volumes that may not be sustainable. Requiring 125 days ensures the issuer has achieved a more stable, market-driven valuation before graduating to the Alternative Threshold.

- 1.5 *If your answer to Question 1.1 is “yes”, do you agree that, in the case of an issuer seeking to switch from relying on the Initial Prescribed Threshold to the Alternative Threshold, if its listed shares have been suspended from trading for more than five consecutive business days during the 125-trading-day period for determination of the market value of shares, the Exchange may require the issuer to extend the 125-day period to demonstrate that it can meet the Alternative Threshold over a reasonable period after resumption of trading?*

Please give reasons for your views and any alternative suggestions.

Law Society's response:

Agree.

- 1.6 *Do you agree that the same ongoing public float requirements that apply to Main Board issuers should be applied to GEM issuers?*

Please give reasons for your views and any alternative suggestions.

Law Society's response:

We disagree with applying the same Alternative Threshold to GEM companies because it is mismatched in scale and purpose. Given their typically smaller market capitalisation, the HK\$1 billion would effectively exclude most GEM companies. By imposing a threshold that is mathematically unattainable for virtually all GEM listed issuers, the Stock Exchange risks further marginalising an already struggling market. It also contradicts its 2018 reform proposals that promised “proportionate regulation” for SMEs. GEM is designed to support high-growth start-ups. Overly rigid ongoing float rules could undermine the GEM board’s objective as a fund raising platform for smaller but high growth

companies and push them to other competing markets. If the objective is genuine market optimisation, this tokenistic one-size-fits all approach is meaningless. A lower or tiered threshold for the GEM market would be necessary.

Question 2

- 2.1 *Do you agree with the proposed bespoke ongoing public float threshold figures (i.e. HK\$1 billion or 5%) for a PRC issuer with other listed shares (such as an A+H issuer) (as set out in paragraph 341 of the Conclusions and Further Consultation Paper)?*

Please give reasons for your views and any alternative suggestions.

Law Society's response:

Agree. The proposed dual thresholds for A+H companies are a flexible approach that reflects the unique structure of dual-listed mainland issuers.

- 2.2 *Do you agree that the bespoke ongoing public float thresholds for PRC issuers with other listed shares should also apply (as modified) to non-PRC issuers with shares listed on a PRC stock exchange (e.g. RMB shares), if those shares are in the same class as, but are not fungible with, the shares listed on the Exchange (as set out in paragraph 342 of the Conclusions and Further Consultation Paper)?*

Please give reasons for your views and any alternative suggestions.

Law Society's response:

Agree.

Question 3

- 3.1 *Do you agree with the proposal that all issuers be required to confirm, in their monthly returns and annual reports, whether they have met their applicable Ongoing Public Float Thresholds?*

Please give reasons for your views and any alternative suggestions.

Law Society's response:

We agree with the proposal. It ensures transparency for investors and regulators without imposing excessive administrative costs for issuers.

- 3.2 *Do you agree with the proposal that issuers relying on the Initial Prescribed Threshold must disclose the minimum percentage threshold applicable to them in their monthly returns (as set out in paragraph 352(a)) of the Conclusions and Further Consultation Paper)?*

Please give reasons for your views and any alternative suggestions.

Law Society's response:

Yes.

- 3.3 *Do you agree with the proposal that the following types of issuers must disclose, in their monthly returns, the market value and percentage of the portion of the class of shares they have listed on the Exchange that are held by the public (as set out in paragraph 352(b) of the Conclusions and Further Consultation Paper):*

- (a) issuers relying on the Alternative Threshold; and*
- (b) PRC issuers with other listed shares (e.g. A+H issuers) relying on the market value limb of the relevant bespoke ongoing public float threshold?*

Please give reasons for your views and any alternative suggestions.

Law Society's response:

Yes. The Alternative Threshold is more flexible than the initial public float. Requiring issuers that rely on the Alternative Threshold to disclose both metrics provides a better view to investors of an issuer's liquidity status. It also allows regulators to monitor adherence to the Alternative Threshold.

- 3.4 *Do you agree with the proposal that all issuers also be required to disclose, in each of their annual reports, the relevant information proposed to be included in their monthly returns (see paragraph 352 of the Conclusions and Further Consultation Paper), as at the end of the relevant financial year?*

Please give reasons for your views and any alternative suggestions.

Law Society's response:

Yes.

- 3.5 *Do you agree with the proposed disclosure obligations in relation to share capital structure information in annual reports for all issuers (as set out in paragraph 354 of the Conclusions and Further Consultation Paper)?*

Please give reasons for your views and any alternative suggestions.

Law Society's response:

Yes.

Question 4

- 4.1 *Do you agree that the additional obligations we propose to apply to issuers if their public float falls below the applicable Ongoing Public Float Threshold (as set out in paragraph 360 of the Conclusions and Further Consultation Paper) are sufficient to: (a) enable continued trading of the issuer's shares (on the basis that the proposal would enable sufficient information to be provided to potential investors and existing shareholders); and (b) incentivise relevant issuers to restore their public float to meet the applicable Ongoing Public Float Threshold as soon as practicable?*

Please give reasons for your views and any alternative suggestions.

Law Society's response:

We consider that the proposed framework is sufficient and represents a significant improvement over the current regime of automatic suspension.

- 4.2 *Do you agree with the proposed disclosure requirement for the initial announcement to be made by an issuer with a public float shortfall within one business day of it becoming aware that there is a public float shortfall (as set out in paragraph 360(b) of the Conclusions and Further Consultation Paper), including the proposed requirement that the issuer must also announce its plan and expected timeline to restore to the applicable Ongoing Public Float Threshold, which can be announced in a subsequent announcement that must be published no later than 15 business days of it becoming aware that there is a public float shortfall?*

Please give reasons for your views and any alternative suggestions.

Law Society's response:

We agree with this requirement as it ensures that the market is informed promptly allowing investors to react.

- 4.3 *Do you agree that if an issuer's public float falls below the applicable Ongoing Public Float Threshold, it must provide monthly updates, by way of announcement, to notify the market of the status of its public float and updates on its restoration plan (as set out in paragraph 360(c) of the Conclusions and Further Consultation Paper)?*

Please give reasons for your views and any alternative suggestions.

Law Society's response:

Yes, this requirement ensures transparency and ongoing accountability. It requires an issuer to manage the restoration plan on a continuing basis, preventing complacency and undue delays. Investors and analysts can also assess the credibility and timeliness of the rectification process.

- 4.4 *Do you agree that, for so long as an issuer does not comply with the applicable Ongoing Public Float Threshold, the issuer itself, and each of its directors, must not (and each director must use his best endeavours to ensure that his close associates do not) take any action that may further lower the issuer's public float percentage, unless the circumstances are exceptional (as set out in paragraph 360(d) of the Conclusions and Further Consultation Paper)?*

Please give reasons for your views and any alternative suggestions.

Law Society's response:

We generally agree with this restriction which is designed to prevent exacerbation of non-compliance and protect market liquidity. There should, however, be suitable exemptions in order not to hinder legitimate corporate actions, such as:

- a top-up placing: where a director who sells down to increase the public float and subsequently subscribes for the same number of shares to maintain his holdings;
- emergency fund raising exercise to alleviate financial distress, such as rights issue;

- exercise of share options pursuant to employees' share option or other incentive plans granted before the non-compliance.

Additionally, the rule creates an asymmetry in hostile situations. Hostile shareholders may, for example, gradually build stakes by buying from the public without restrictions, while the board may be handcuffed from countering this by initiating defensive purchases. An exemption for hostile situation should be included.

- 4.5 *Do you agree that shares of issuers with a public float below the applicable Ongoing Public Float Threshold can be traded without a special stock marker, as long as such public float shortfall does not constitute a Significant Public Float Shortfall (as set out in paragraph 363 of the Conclusions and Further Consultation Paper)?*

Please give reasons for your views and any alternative suggestions.

Law Society's response:

We agree. This tiered approach strikes a suitable balance between maintaining market efficiency and investors' protection. Minor or temporary shortfalls which often arises from legitimate market activities, such as buybacks, do not inherently disrupt fair trading or price discovery. By reserving special market interventions only for significant shortfalls, the Exchange avoids over-regulation and prevents investors from over-estimating the severity of the situation.

- 4.6 *Do you agree that, instead of suspension, issuers with a Significant Public Float Shortfall should be identified with a special stock marker and subject to heightened disclosure requirements and a delisting mechanism (as set out in paragraphs 361 to 369 of the Conclusions and Further Consultation Paper), such that there can be continued trading in the issuer's shares?*

Please give reasons for your views and any alternative suggestions.

Law Society's response:

We disagree with a delisting mechanism after a prescribed 18 months remedial period. The delisting timeline is overly draconian and does not take into account market realities and extenuating circumstances, such as economic downturns and sector-specific crisis that could make full restoration challenging. This also risks unnecessary delistings, which could disrupt markets, erode investor confidence and undermine the competitiveness of the Hong Kong Stock Exchange. The primary goal of the rules should be to restore compliance and to protect investors, not to eliminate their investments entirely.

A more nuanced approach is required. Instead of mandating a return to the applicable ongoing public float, issuers should be given the flexibility to restore the public float to just above the Significant Public Float Shortfall threshold within the 18 months, with an extended period, say another 12 months, for full compliance. This tiered approach is more equitable.

More importantly, the draconian nature of delisting highlights a systemic gap in the Hong Kong market: the lack of a formal OTC trading facility. The OTC regime was briefly discussed in the previous consultation and we consider that it is worth exploring. In other jurisdictions, delisting does not equate a total loss of liquidity, shares can often continue to trade using the OTC facility. We strongly urge the Exchange to prioritise the establishment of a regulated OTC framework as this would serve as a vital safeguard for small investors.

4.7 *If your answer to Question 4.6 is “yes”, do you agree with:*

- (a) the proposed Significant Public Float Shortfall thresholds (as set out in paragraphs 364 to 366 of the Conclusions and Further Consultation Paper);*
- (b) the proposed delisting mechanism for issuers with a Significant Public Float Shortfall (as set out in paragraph 368 of the Conclusions and Further Consultation Paper);*
- (c) the proposed additional disclosure obligations for issuers with a special stock marker (as set out in paragraph 369 of the Conclusions and Further Consultation Paper); and*
- (d) the proposed conditions for removal of the special stock marker (as set out in paragraph 370 of the Conclusions and Further Consultation Paper)?*

Please give reasons for your views and any alternative suggestions.

Law Society's response:

Please refer to our reply to Question 4.6.

Question 5

5 *Do you agree that the proposed ongoing public float requirements be applied to all existing listed issuers?*

Please give reasons for your views and any alternative suggestions.

Law Society's response:

Yes.

Question 6

- 6.1 *Do you agree with our proposal to retain the current practice of granting a timing-relief waiver to an issuer from the ongoing public float requirement for a reasonable period after a general offer to restore the public float (as set out in paragraph 391 of the Conclusions and Further Consultation Paper)?*

Please give reasons for your views and any alternative suggestions.

Law Society's response:

Yes.

- 6.2 *If your answer to Question 6.1 is “yes”, do you agree that such a timing-relief waiver from the ongoing public float requirement should not be granted to the issuer if the public float shortfall upon completion of the general offer is considered as a Significant Public Float Shortfall (as set out in paragraph 391 of the Conclusions and Further Consultation Paper)?*

Please give reasons for your views and any alternative suggestions.

Law Society's response:

We strongly disagree with this. The proposal to deny a time relief waiver in cases of a Significant Public Float Shortfall after a general offer is flawed, as it effectively penalises the very success of an offer that received broad shareholder support. This approach creates a perverse incentive: a higher bid price benefits shareholders and is a core feature of an efficient market. The rule indirectly discourages bidders from making full value offers.

The rationale for a post offer relief is to acknowledge that the float shortfall is caused by a market-driven event outside an issuer's control with shareholders freely accepting a good premium offer. The severity of the shortfall does not change the fundamental rationale. Denying an issuer a waiver based on a high level acceptance misapplies the rule, treating the outcome of a successful offer as if it were a failure of issuer governance.

The focus of the rule should be on granting a reasonable period of time to restore meaningful liquidity, not on the initial severity of the shortfall after the close of an offer. A significant shortfall is precisely when an issuer needs more time, not less, to execute a reasonable solution.

A key principle of the Takeovers Code is to provide equality and clarity. This proposal introduces significant uncertainty for both the bidders and shareholders who do not elect to accept the offer.

Appendix V: Proposed Amendments to the Main Board Listing Rules Relating to the Ongoing Public Float Proposals

Law Society's response:

Please refer to our general comments above.

Appendix VI: Proposed Amendments to the GEM Listing Rules Relating to the Ongoing Public Float Proposals

Law Society's response:

Please refer to our general comments above.

**The Law Society of Hong Kong
14 October 2025**