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INVESTMENT MANAGEMENT

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## Proposal to allow weighted voting rights for corporate entities

We refer to the consultation of the Stock Exchange of Hong Kong Limited (“the Exchange”) on extending the current listing regime to permit weighted voting rights (WVR) also for corporate entities, dated 31 January, and we welcome the opportunity to contribute our perspective.

Norges Bank Investment Management (NBIM) is the investment management division of the Norwegian Central Bank (Norges Bank) and is responsible for investing the Government Pension Fund Global. NBIM is a diversified investor with a substantial presence in all major equity markets globally, holding equity investments of USD 9,3 billion (HKD 72,4 billion) in Hong Kong at the end of 2019. We are a member of the Asian Corporate Governance Association (ACGA), and we responded to the Exchange’s consultation on WVRs for individual shareholders in 2018.

As an investor predominately investing in public markets, we are supportive of measures to motivate companies to go public. We appreciate the aim of the Exchange to attract more listing applicants from emerging and innovative sectors, allowing public investors to invest in these fast-growing industries and to diversify their holdings. As a global investor, we also recognise the benefits of competition between listing venues for well-functioning markets<sup>1</sup>. At the same time, we are mindful of the effects changes to listing rules can have on the protection of minority shareholders’ rights. Stock exchanges should strive to protect shareholders’ rights when encouraging companies to go public.

We share the Exchange’s view that “one share, one vote” is “the optimum method of empowering shareholders and aligning their interests in a company.” We note that only a limited number of issuers have made use of WVRs for individual shareholders since their introduction in April 2018. The Exchange currently proposes to extend this regime to corporate shareholders, subject to stringent eligibility criteria. To benefit from the proposed regime, the listing applicant must share a business ecosystem with the corporate entity. Assessing the eligibility for WVRs based on this qualitative criterion appears rather complex,

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<sup>1</sup> Norges Bank Investment Management, Asset Manager Perspective, *The Listings Ecosystem: Aligning Incentives*, 2016

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and we therefore welcome the outlined quantitative criteria, notably the market capitalisation threshold of HKD 200 billion and the minimum underlying economic interest of at least 30% that the corporate entity needs to hold in the listing applicant at the time of listing.

If unequal voting rights for corporate shareholders were to be introduced, we support safeguards to limit the divergence of economic interest from voting rights, as well as time limits to dual share class structures. We welcome the proposed cap on voting rights for shares with WVR which cannot exceed those of ordinary shares by more than five times. The provision for individual shareholders with WVRs contains an event-based sunset clause, for instance, triggering the unification of share classes once the founder is no longer actively involved in the management of the company. It is difficult to observe when synergies in a business ecosystem cease to exist, illustrating the complexity of this concept. As another way to align voting with cash flow rights over time, we appreciate the currently proposed time-based sunset clause, of 10 years, which give shareholders certainty. According to the proposal, WVRs could be extended for further periods, of 5 years, through a vote by independent shareholders. This could allow tailoring the governance structure of the company to its specific circumstances.

Given that the proposed changes could undermine the rights of minority shareholders, we would like to emphasise the role of independent directors, especially in the presence of a controlling shareholder. As an additional safeguard for minority shareholders, we encourage a provision that related-party transactions should be approved by independent directors.

We appreciate your willingness to consider our perspective, and we remain at your disposal should you wish to discuss these matters further.

Yours faithfully

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Chief Corporate Governance Officer

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