

May 5, 2020

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Via electronic submission: response@hkex.com.hk

Re: Corporate WVR CP

Dear Sir/Madam

State Street Global Advisors (“SSGA”) appreciates the opportunity to provide comments to the Hong Kong Exchange and Clearing Limited (“HKEX”)’s consultation paper on proposal to extend weighted voting rights (“WVR”) regime to permit corporate entities as beneficiaries.

SSGA is the asset management business of State Street Corporation, one of the world’s leading providers of financial services to institutional clients. As of March 31, 2020, we are among the largest global asset managers with US\$2.7 trillion assets under management across a range of asset classes and investment styles. In our view, corporate governance is an integral part of the investment process. As long-term shareholders in companies that comprise the world’s primary indices, we have a dedicated team of professionals who regularly engage companies on corporate governance matters, and provide insights on the principles and practices that drive our voting decisions.

Specific to Hong Kong, SSGA has a sizeable assets under management, with Hong Kong serving as a gateway for investments into the region. Our strong support for Hong Kong as an investment destination over the past decades is deeply rooted in the high quality of corporate governance standards we see in Hong Kong’s legal and regulatory regimes. Maintaining this value proposition is fundamental to safeguarding Hong Kong’s reputation in attracting quality company listings, valuations, market liquidity and investor protection. Conversely, any dilution, while may be beneficial in attracting unique initial public offerings in the short-term, may potentially have detrimental effects in the longer-term.

Principle of “One Share One Vote”

SSGA strongly advocates for a “one share one vote” principle in every market that we invest in. We had conveyed this same feedback in our comment letter to the HKEX in August 2017, when HKEX had consulted on the “New Board Concept Paper”, which subsequently permitted WVR being granted to individuals. This

principle stays and our opposition remains, regardless of whether the shareholder in question is an individual or a corporate entity. In fact, permitting corporate entities, in addition to individuals, as potential WVR beneficiaries, will further erode the principle of “one share one vote”.

We believe “one share one vote” is the founding principle on which all other shareholder rights are built. Granting voting rights to shareholders was designed to mitigate the inherent principal-agent problem that exists in publicly-listed companies. Investors rely on these voting rights to execute our stewardship responsibilities in investee companies. Granting unequal or WVR to some shareholders, particularly if they are controlling shareholders, dilutes this authority, making it difficult for us to provide the oversight needed in financial markets.

The ability to vote becomes even more important in situations where index investment vehicles are utilized, where investment mandates do not allow for significant deviation from designated index holdings. In such situations where asset managers are unable to express approval or disapproval through buy or sell decisions, voting and engagement become the primary tools to influence management and reflect investors’ views.

Any deviation from alignment between a shareholder’s economic interest and voting right can potentially increase the risk of misappropriation of company assets by the controlling shareholders or management. It is imperative that non-controlling, minority shareholders have voting rights that proportionately reflect their economic interests. Many of the companies that have issued limited or non-voting shares have been high-profile tech companies that are often perceived to have high growth prospects. If that growth does not materialize over the longer term and those companies deliver sub-par returns, investors of limited or non-voting shares will have little power to effect change. Recently we have also empirically observed the risks associated with WVR come to fruition whereas the misalignment of economic and voting interests exacerbated failures in oversight and accountability.

Corporate Entities “Live” in Perpetuity

As the HKEX has rightly pointed out, corporate entities do not have a natural lifespan, unlike an individual’s WVR which will lapse when the individual passes on. Allowing corporate entities to benefit from WVR in effect introduce the possibility that they could enjoy such rights in perpetuity even with change in ownership or without future exceptional contribution to the listed companies.

We appreciate HKEX’s proposal to mandate that the WVR of a corporate WVR beneficiary be subject to a time-defined sunset clause of 10 years. However, we note that this could nonetheless still be over ridden and renewed with the approval of independent shareholders for perpetual periods of every five years following the expiry of the previous terms.

Complex Sunset Clauses

We note that under HKEX's proposed regime, there could be multiple individuals and corporate entities as WVR beneficiaries in an issuer at the same time. HKEX has also proposed that the WVR belonging to a corporate WVR beneficiary will not be affected by the trigger of an individual WVR beneficiary's "event based" sunset. In essence, if the sunset on an individual's WVR is triggered, the proportionate voting power enjoyed by the corporate WVR beneficiary (and any remaining individual WVR beneficiaries) may increase. This complex structure is not only detrimental, but adds confusion to minority shareholders on their rights.

Conclusion

Thank you again for the opportunity to provide our comments. We appreciate your consideration of our views. Please feel free to contact us if you would like to discuss this submission in further detail.

Yours faithfully



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Benjamin Colton
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