MARKETS

Hong Kong Exchange Considers Rule Change After Losing Alibaba IPO

Some Chinese Tech Companies Have Been Going to New York for Listings

By GREGOR STUART HUNTER

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Hong Kong's stock exchange lost out on the Alibaba IPO earlier this year. *Associated Press*

HONG KONG—Hong Kong's stock exchange is exploring a rule change after its refusal to budge on the issue of equal voting rights for shareholders cost it the initial public offering of Alibaba Group Holding Ltd.

Hong Kong Exchanges and Clearing Ltd. is seeking opinions from market participants on whether "weighted voting rights," which include dual-class shares, should be allowed. At present, the exchange can grant a waiver from its "one shareholder, one vote" principle in exceptional circumstances but there aren't specific details on what those circumstances are. Only one company listed in the city has two share classes.

David Graham, the exchange's chief regulatory officer and head of listing, said discussions on the issue of equal voting rights started before the negotiations with e-commerce company Alibaba, and the decision to explore a rule change wasn't made with a specific company in mind.

"The exchange has formed no view for or against weighted voting rights," Mr. Graham said.

A report by the exchange said about 70% of Chinese companies that listed overseas, mostly in the technology sector, use weighted voting rights. It also cited studies that said companies with a weighted voting structure trade at a discount to those that don't.

The plan to look into a rule change comes as a number of Chinese technology companies have sought to list in the U.S., rather than Hong Kong, which has been a traditional favorite for Chinese firms listing outside the mainland.

This year, Alibaba chose to list in New York after Hong Kong refused to accept the company's proposal that it continue to nominate the majority of the board even after being listed.

Alibaba didn't propose a dual-class share system, but its listing became an issue for Hong Kong because the firm's plan gave senior executives additional power without owning a majority stake in the company. Alibaba is expected to go public on the New York Stock Exchange in September in what could be the largest IPO in U.S. history. Bankers said the listing could raise more than $20 billion.

Dual-class shareholding structures, which give specific stockholders voting control, are widely used in the U.S. They have also been favored by Chinese technology companies that listed in the U.S., including search company Baidu Inc. and e-commerce firm JD.com Inc., which listed earlier this year.

The Hong Kong Stock Exchange will seek opinions on whether the rule, in place since 1989, should be scrapped. It hasn't proposed specific rule changes.

Hong Kong's stock market includes a large number of Chinese state-owned enterprises and family-owned businesses. Some of these firms would likely seek to take advantage of structures that allow founders to have greater control if the option was available, said Mark Chan, a partner at law firm Berwin Leighton Paisner. Minority shareholders could oppose these moves, fearing a loss of influence, he said.

—Juro Osawa contributed to this article.