



Governance Briefing for HKEX-listed Company Directors

More Information, Less Clarity: Governing in the Age of Opacity

There is, if one steps back from the daily churn of regulatory circulars and market data, a peculiar irony at the heart of modern corporate governance. Boards of directors have never had access to more information, more sophisticated risk tools or more expert advice — and yet the challenges they face have arguably never been more opaque. From artificial intelligence (AI) systems whose inner workings remain inscrutable even to their creators, to geopolitical tensions that transform routine supply chain decisions into matters of national security, the landscape confronting directors of Hong Kong-listed companies in 2026 bears little resemblance to the governance terrain of even five years ago.

This newsletter examines four governance themes that have converged with particular urgency in the first quarter of 2026, each demanding the close attention of directors of HKEX-listed issuers. Viewed through the lens of Hong Kong law, the Listing Rules of The Stock Exchange of Hong Kong Limited (HKEX), and the fiduciary and statutory obligations incumbent upon directors, these themes are: the governance of AI amid a technology cycle of unusual intensity, Hong Kong's remarkable IPO resurgence and the evolving weighted voting rights (WVR) regime, the increasingly complex challenge of navigating China market access under conditions of geopolitical strain, and the democratisation of private capital markets. Each carries distinct implications for directors' duties, regulatory compliance, and strategic oversight, and taken together, they define the governance landscape that HKEX-listed company boards must navigate in the year ahead.

01 Governing the AI Boom: Lessons from Past Technology Cycles and Directors' Duties

The Recurring Pattern of Technology Euphoria

Technology cycles, as any student of financial history will recognise, follow a remarkably consistent arc: euphoria, proliferation, correction and institutionalisation. The dot-com bubble, the social media revolution, and the blockchain frenzy each traced this path with varying degrees of destruction along the way. During the euphoric phase, governance invariably lags. Capital floods in, growth eclipses controls, and boards — often lacking technical expertise — find themselves unable to pose the right questions at the right time. The NASDAQ's decline of over 75% from its dot-com peak serves as a salutary reminder of what follows when governance fails to keep pace with

exuberance.¹

The current AI cycle exhibits all the hallmarks of this familiar pattern, yet presents genuinely novel dangers. ChatGPT reached 100 million users faster than any technology in history.² OpenAI's reported valuation exceeds US\$150 billion despite generating a fraction of the revenue of established technology companies.³ The "DeepSeek moment" — in which a Chinese laboratory demonstrated that highly capable AI models could be developed at a fraction of the cost incurred by American competitors has forced reassessments of competitive moats and capital expenditure assumptions across the sector.⁴ We appear to sit somewhere between proliferation and early correction, with significant variation across applications and geographies.

AI's Distinctive Governance Challenges for HKEX-Listed Issuers

AI presents governance challenges qualitatively different from those posed by earlier technologies. The first is the *explainability deficit*. Large language models and advanced neural networks operate as "black boxes" even to their creators, exhibiting capabilities that emerge from training rather than explicit programming. For directors of HKEX-listed companies, this opacity engages fundamental questions about the discharge of duties under the Companies Ordinance (Cap. 622), specifically the duty to exercise reasonable care, skill and diligence under section 465.⁵ Deploying technology whose behaviour cannot be completely predicted demands that boards establish compensating controls commensurate with the risk.

The second challenge is one of *speed and scale*. AI systems make millions or billions of autonomous decisions, far exceeding the pace of human review. A single flawed model propagates errors at enormous scale before detection. This requires a governance shift from ex-ante approval to the design of robust automated controls operating at machine speed — a paradigm for which many existing board oversight frameworks are not equipped.

The third challenge concerns *liability and insurance uncertainty*. When AI systems cause harm, the allocation of responsibility remains unsettled across most jurisdictions. Directors' and officers' insurance may not adequately cover AI-related liabilities. For directors of HKEX-listed issuers, the indemnification provisions under the company's articles of association and the scope of D&O coverage warrant careful review in light of AI deployment.⁶

Practical Imperatives for HKEX-Listed Boards

HKEX-listed issuers' directors should resist the false dichotomy between innovation and governance. Companies that have successfully navigated prior technology cycles, Amazon surviving the dot-com crash through coherent strategy and improving unit economics, for instance, integrated governance into innovation from the outset. Strong governance does not impede innovation; it renders innovation sustainable.

At a practical level, boards of HKEX-listed issuers should ensure that at least some directors possess genuine AI expertise, consistent with the HKEX Corporate Governance Code's emphasis on board diversity encompassing skills, knowledge, and professional experience.⁷ Boards should establish governance frameworks specifically addressing AI risks: algorithmic bias testing, explainability requirements, human oversight protocols, incident response plans, and third-party model risk assessment procedures. They should require management to maintain inventories of all AI systems deployed across the organisation, with regular stress testing and reporting on performance, failure modes and adversarial input resilience. Proactive engagement with regulators — including the Securities and Futures Commission (**SFC**), the Hong Kong Monetary Authority, and the Office of the Privacy Commissioner for Personal Data is preferable to awaiting regulation imposed in suboptimal form.

Above all, boards should prepare now for the correction phase that inevitably accompanies every technology cycle. Companies with weak governance face existential crises during corrections; those with strong foundations survive and frequently emerge stronger.

- 1 The NASDAQ Composite Index peaked at 5,048.62 on 10 March 2000 and reached a trough of 1,114.11 on 9 October 2002, representing a decline of approximately 78%. See generally R. Lowenstein, *Origins of the Crash* (Penguin, 2004).
- 2 ChatGPT, developed by OpenAI, reached an estimated 100 million monthly active users within approximately two months of its launch in November 2022. See "ChatGPT sets record for fastest-growing user base", *Reuters*, 2 February 2023.
- 3 OpenAI's valuation was reported at approximately US\$157 billion following its October 2024 funding round. See "OpenAI closes \$6.6bn funding round at \$157bn valuation", *Financial Times*, 2 October 2024.
- 4 DeepSeek, a Chinese AI laboratory, released its DeepSeek-R1 model in January 2025, demonstrating competitive performance with leading US models at substantially lower development costs, prompting significant market reassessment of AI sector valuations. See "DeepSeek: the Chinese AI lab that shook the world", *Financial Times*, 28 January 2025.
- 5 Companies Ordinance (Cap. 622), s 465 (duty to exercise reasonable care, skill and diligence). See also the common law duty of care as preserved under s 465(2).
- 6 Companies Ordinance (Cap. 622), ss 468–469 (provisions relating to indemnification and insurance of directors).
- 7 HKEX, Corporate Governance Code, Appendix C1 to the Listing Rules (as amended January 2022), Code Provision B.1.3 and the Mandatory Disclosure Requirements regarding board diversity policy.

02 Hong Kong's IPO Resurgence and the Evolution of Weighted Voting Rights Structures

A Market Transformed

After the challenging years coinciding with the pandemic and its aftermath, Hong Kong has experienced a remarkable capital markets resurgence. The numbers are striking: HK\$274.6 billion raised from 106 new listings in 2025, securing the top global position for IPO fundraising, with four companies among the world's 10 largest IPOs choosing Hong Kong as their venue.⁸ Follow-on offerings raised a further US\$66 billion, evidencing market depth extending well beyond the initial listing event. Average daily turnover in the first eleven months of 2025 surged 95% year-on-year to HK\$255.8 billion, whilst derivatives markets reached record levels with futures and options volumes of 1.69 million contracts daily.⁹

Three structural drivers underpin this resurgence. The first is the decisive return of global capital — not merely Chinese or regional flows, but genuinely international participation from Europe, the Middle East and North America, catalysed in part by breakthrough AI and technology developments from the Chinese mainland that drew investor attention back to the region. The second is sweeping market reform: the Technology Enterprises Channel launched in May 2025 provides a dedicated listing platform for specialist technology and biotech firms; since the introduction of Chapters 18A and 18C of the HKEX Listing Rules, 88 biotech and specialist technology companies have listed under these regimes.¹⁰ The reduction of minimum spreads in August 2025 lowered transaction costs, and the launch of the HKEX Tech 100 Index signalled the HKEX's strategic direction. The third driver is product innovation deepening market liquidity, including Asia's first single stock leveraged and inverse products, Hang Seng Biotech Index Futures, and 48 new exchange-traded products, with ETP average daily turnover doubling to HK\$37.6 billion.¹¹

The Weighted Voting Rights Consultation: Route A and Route B

Of particular legal significance is the ongoing evolution of Hong Kong's WVR structure regime. Since WVR structures were first permitted in 2018 under Chapter 8A of the Listing Rules,¹² Hong Kong has attracted innovative companies that might otherwise have listed in the United States. WVR issuers represent approximately 1.2% of listed companies by number but account for 14.7% by market capitalisation — substantive, high-value companies demonstrably drawn by the availability of dual-class structures.

The HKEX's current [Consultation Paper on Competitiveness Review of Listing Framework](#) propose refining the criteria for demonstrating "innovativeness" through two distinct routes. Route A, the established pathway, focuses on companies developing novel technologies: biotech firms, specialist technology companies, and R&D-intensive businesses with significant intellectual property. The newly proposed Route B would explicitly accommodate companies whose innovation lies in their business model rather than underlying technology. This is a significant conceptual expansion. For Route B eligibility, proposed requirements include compound annual revenue growth of at least 30% over the track record period, a relatively prominent industry position and a minimum threshold of third-party investment from sophisticated investors — generally at least 10% of issued share capital at listing — providing market-based validation of the company's innovative credentials.¹³ For full details of the HKEX's proposed reforms, please see our newsletter "[HKEX Launches Major Consultation on Listing Framework Reform](#)".

For HKEX-listed company directors, this evolution carries several implications. First, it represents the HKEX refining its approach based on several years of operational experience with WVR structures — codifying what has worked whilst maintaining the fundamental principle that WVR structures should be confined to genuinely innovative companies meeting rigorous standards. Second, the Route B criteria will inevitably generate interpretive questions: the meaning of "relatively prominent position" in an industry, the methodology for calculating compound annual growth and the circumstances in which the sophistication of third-party investors will be assessed. Directors of HKEX-listed companies contemplating WVR structures should engage legal counsel at an early stage to assess eligibility and prepare robust supporting materials.

8 Data as reported by HKEX. See Hong Kong Exchanges and Clearing Limited, "HKEX 2025 Annual Market Statistics" (2025). Hong Kong secured the global top position for IPO fundraising in 2025.

9 HKEX, "Market Statistics – First Eleven Months 2025" (2025); average daily turnover of HK\$255.8 billion (up 95% year-on-year); derivatives volumes reaching 1.69 million contracts daily (up 8%); stock options volumes up 23%.

10 HKEX Listing Rules, Chapter 18A (Biotech Companies) introduced April 2018; Chapter 18C (Specialist Technology Companies) introduced March 2023. Technology Enterprises Channel launched May 2025. See HKEX, "Listing Rule Updates" (2025).

11 HKEX market data: Hang Seng Biotech Index Futures launched November 2025; 48 new exchange-traded products; ETP average daily turnover of HK\$37.6 billion. See HKEX, "Product Development Update" (2025).

12 HKEX Listing Rules, Chapter 8A (Weighted Voting Rights), effective 30 April 2018.

13 HKEX, Consultation Paper on Weighted Voting Rights Structure Reforms (2025/2026). Route B proposed requirements include compound annual revenue growth of at least 30% over the track record period, a relatively prominent industry position, and minimum third-party investment from sophisticated investors of generally at least 10% of issued share capital at listing.

Geographic Diversification and Hong Kong as Global Superconnector

Hong Kong's expanding geographic reach merits attention. Listings have been secured from Kazakhstan, Singapore, Thailand and the United Arab Emirates. The Stock Exchange of Thailand has been made a recognised exchange for the purposes of secondary listings, HKEX has signed a memorandum of understanding with Abu Dhabi Securities Exchange, opened an office in Riyadh, and announced a commodities pricing subsidiary in Dubai. The approval of Hong Kong as an official London Metal Exchange warehouse location reinforces this positioning across asset classes.¹⁴ For companies across Southeast Asia, Central Asia and the Middle East, Hong Kong offers deep liquidity, a sophisticated investor base, and robust regulatory standards without requiring navigation of United States or European regulatory frameworks. Directors of HKEX-listed issuers with international operations should consider whether this expanded connectivity creates strategic opportunities for capital raising or cross-listing.

Red-Chip Restrictions: An Emerging Regulatory Constraint

A significant and still-developing regulatory intervention warrants close attention from directors and their advisers. On 17 March 2026, Bloomberg reported¹⁵ that Beijing is restricting Chinese companies incorporated overseas from pursuing initial public offerings in Hong Kong — a move that, if implemented as described, would fundamentally disrupt the “red-chip” listing structure that has underpinned billions of dollars in Hong Kong share sales over several decades. Red-chip companies — entities registered in offshore jurisdictions such as the Cayman Islands or the British Virgin Islands but whose principal assets and operations are located in mainland China — have long utilised this structure to access Hong Kong's capital markets whilst retaining the corporate governance flexibility and investor familiarity associated with offshore incorporation. According to the report, Chinese regulators have stopped short of an outright prohibition but have begun actively discouraging IPO applications from such firms, with some companies already directed by the China Securities Regulatory Commission to restructure — effectively re-domiciling to the Mainland — before proceeding with Hong Kong listings. The implications are far-reaching. For companies in the IPO pipeline, restructuring from an offshore holding company to a PRC-domiciled entity engages complex questions of tax, foreign exchange, regulatory approval and the unwinding of existing investor arrangements, potentially adding months or years to listing timelines. For directors of HKEX-listed issuers that are themselves structured as red-chips, the development raises questions about whether similar expectations may in due course extend beyond the IPO context to existing listed companies, and whether the regulatory environment for offshore-incorporated Chinese businesses is entering a period of structural tightening. Boards should seek urgent legal advice on the potential implications for their own corporate structures, ongoing compliance with CSRC filing requirements under the March 2023 overseas listing regime, and any contingency planning that may be prudent in light of this policy direction.

03 Board-Level Navigation of China Market Access: Governance amid Geopolitical Complexity

The Strategic Imperative and Its Tensions

For directors of HKEX-listed companies, the challenge of navigating China market access is not merely strategic — it is inescapable. China accounts for roughly 18% of global GDP, is the world's largest consumer market across numerous product categories, and remains deeply embedded in global supply chains.¹⁶ Companies exiting China entirely risk sacrificing significant revenue, ceding market position to competitors and losing access to critical manufacturing capabilities. Yet geopolitical tensions between China and the West have intensified, regulatory risks have escalated and business environment predictability has markedly declined.

What renders this particularly challenging from a governance perspective is that reasonable, well-informed directors can reach different conclusions about appropriate strategy. Fiduciary analysis does not yield a single correct answer. Boards must navigate genuine uncertainty, balance competing considerations, and make judgements that will inevitably be scrutinised with the benefit of hindsight.

Transformation of the Chinese Business Environment

The operating environment in China has undergone a dramatic transformation over the past five years, creating governance challenges substantially different from those previously encountered. The trajectory of predictable liberalisation that broadly characterised the three decades following Deng Xiaoping's reforms has given way to selective and sometimes abrupt tightening. The crackdown on technology platforms, commencing with Ant

14 HKEX announcements regarding MOU with Abu Dhabi Securities Exchange, recognition of Stock Exchange of Thailand, Riyadh office opening, Dubai commodities pricing subsidiary, and London Metal Exchange warehouse location approval. See HKEX, “Strategic Initiatives Update” (2025).

15 “China Clamps Down on Key Route to Hong Kong IPOs After Boom”, *Bloomberg*, 17 March 2026

16 China's share of global GDP at approximately 18% based on nominal GDP. See International Monetary Fund, *World Economic Outlook* database (2025).

Group's suspended IPO in November 2020, resulted in billions in fines, forced business model restructuring, and dramatic valuation declines.¹⁷ The "double reduction" policy effectively dismantled the private tutoring sector, rendering tens of billions in investments essentially worthless overnight.¹⁸

The increasing importance of political alignment warrants particular attention. The concept of "common prosperity", announced in 2021, signalled a structural shift towards reducing inequality and increasing state influence over the private sector.¹⁹ Companies are increasingly expected to align with government priorities encompassing technological self-sufficiency, environmental objectives and social goals.

Variable Interest Entity Structures and Continuing Legal Uncertainty

Many Chinese technology companies listed in the United States or Hong Kong do not directly own their operating businesses but instead utilise variable interest entity (VIE) structures, under which offshore holding companies maintain contractual arrangements with onshore Chinese entities holding the business assets and licences. VIE structures have always involved legal uncertainty, given that they have never been expressly endorsed under PRC law, but this uncertainty became acute in 2021 when Chinese regulators signalled concerns. The case of Didi Global Inc., which proceeded with its New York IPO despite reportedly being asked to delay, and which was subsequently subjected to cybersecurity review and ordered to cease accepting new users, illustrated the operational risks attending these structures.²⁰ Directors of HKEX-listed issuers with VIE exposure should ensure that risk disclosures are current, that contractual arrangements are periodically reviewed for enforceability and that contingency planning addresses the possibility of regulatory intervention.

Geopolitical Tensions and Their Regulatory Dimensions

The intensification of US-China strategic competition has rendered corporate decisions with ostensibly commercial character into matters of regulatory compliance and, in some instances, national security. United States export controls on semiconductors, AI, quantum computing and biotechnology carry extraterritorial reach, meaning that supply chain decisions about manufacturing location are no longer purely commercial calculations but engage complex compliance obligations.²¹ Multiple jurisdictions have implemented or strengthened investment screening mechanisms: the US Committee on Foreign Investment in the United States (CFIUS) has expanded its scope, the European Union has implemented an investment screening framework, and the United Kingdom introduced the National Security and Investment Act 2021.²²

Data localisation requirements add a further layer of complexity. China's Data Security Law, Personal Information Protection Law, and sector-specific regulations require certain data categories to be stored domestically and restrict cross-border transfers.²³ Conversely, Western jurisdictions have imposed or are considering restrictions on data flows to China. For HKEX-listed companies with operations across multiple jurisdictions, data governance has become a board-level concern requiring dedicated compliance infrastructure.

A Governance Framework for China Strategy

Directors should adopt a structured framework for China-related strategic decisions. This begins with the explicit articulation of strategic objectives: the reasons for seeking China access — whether revenue growth, manufacturing efficiency, talent access, or innovation — imply different strategies and risk tolerances. A comprehensive risk assessment across regulatory, political, operational, reputational, financial and intellectual property dimensions should be conducted regularly rather than as a one-off exercise.

Scenario planning and stress testing are essential given the prevailing uncertainty. Boards should model multiple scenarios — continuation of current trends, sharp deterioration in bilateral relations and potential de-escalation — and assess the implications of each for the company's China strategy. Preference should be given to strategies that preserve optionality: partnerships over wholly-owned subsidiaries, asset-light over capital-intensive models

17 The China Securities Regulatory Commission and other regulators suspended Ant Group Co. Ltd's planned dual listing in Shanghai and Hong Kong in November 2020. Subsequent regulatory actions across the technology sector included significant fines imposed on Alibaba Group Holding Ltd (RMB 18.228 billion, April 2021) and others. See "Ant Group's IPO suspension", *Financial Times*, 3 November 2020.

18 The "double reduction" policy ("Opinions on Further Alleviating the Burden of Homework and Off-Campus Training for Students in Compulsory Education") was issued by the General Office of the CPC Central Committee and the General Office of the State Council in July 2021, effectively prohibiting for-profit tutoring in core academic subjects.

19 President Xi Jinping's remarks on "common prosperity" at the 10th meeting of the Central Committee for Financial and Economic Affairs, 17 August 2021. See *Xinhua News Agency*, 17 August 2021.

20 Didi Global Inc. completed its New York IPO on 30 June 2021. The Cyberspace Administration of China announced a cybersecurity review on 2 July 2021 and ordered Didi to cease new user registrations on 4 July 2021. Didi subsequently delisted from the NYSE in June 2022.

21 See US Bureau of Industry and Security, Export Administration Regulations, as amended by successive rules restricting semiconductor and AI-related exports to China (October 2022, October 2023, and subsequent updates).

22 50 USC §§ 4565 *et seq.* (CFIUS); Regulation (EU) 2019/452 (EU Foreign Direct Investment Screening Regulation); National Security and Investment Act 2021 (UK), in force from 4 January 2022.

23 PRC Data Security Law (effective 1 September 2021); PRC Personal Information Protection Law (effective 1 November 2021).

and maintained alternative supply sources.

Compliance infrastructure must be robust, encompassing clear policies on export controls, sanctions, anti-bribery (under both the Prevention of Bribery Ordinance (Cap. 201) and, where applicable, the US Foreign Corrupt Practices Act and UK Bribery Act 2010), and data security.²⁴ Employee training, regular audits, whistleblower mechanisms and legal counsel with dual-jurisdiction expertise are not luxuries but necessities for any HKEX-listed issuer with meaningful China exposure. Boards should include directors with China expertise and establish dedicated processes for China strategy oversight at the board level.

04 The Democratisation of Private Markets: Governance Implications for Listed Company Directors

The Structural Shift from Public to Private Capital

Perhaps the most consequential structural transformation occurring in global capital markets today is the democratisation of private markets — the extension of access to private equity, venture capital, private credit and late-stage private companies to a far broader investor base than the institutional and ultra-high-net-worth investors who have historically dominated these asset classes. Global private markets assets under management have grown from roughly US\$2 trillion in 2010 to over US\$13 trillion in 2024, with private equity alone accounting for approximately US\$7–8 trillion and private credit growing to roughly US\$1.5–2 trillion.²⁵

The implications extend beyond aggregate figures. The lifecycle of companies has fundamentally altered. In the 1990s, technology companies typically listed publicly at an early stage: Microsoft went public six years after founding, Amazon three years after founding. By contrast, recent technology companies have remained private far longer: Facebook listed eight years after founding at over US\$100 billion valuation; Uber, ten years at over US\$80 billion; Airbnb, twelve years at over US\$100 billion.²⁶ Research suggests that in the 1990s, approximately 30% of total value creation occurred whilst companies were private, with 70% accruing after listing. By the 2010s, this ratio had reversed — 70% or more of value creation occurred in private markets.²⁷ If wealth creation happens primarily in private markets accessible only to wealthy investors, capital markets risk reinforcing rather than ameliorating inequality.

Governance Challenges Arising from Democratisation

The governance challenges inherent in democratising private markets are substantial and warrant careful attention from directors of HKEX-listed companies, particularly those with asset management subsidiaries, private market fund interests or exposure through balance sheet investments.

Information asymmetry poses the most fundamental challenge. Public companies provide extensive disclosure — interim and annual financial statements, inside information announcements, connected transaction disclosures, directors' remuneration details — all governed by the Securities and Futures Ordinance (Cap. 571) and the Listing Rules.²⁸ Private companies face no equivalent obligations. When retail investors gain access to private markets, this asymmetry creates conditions ripe for mispricing and misallocation of capital.

Valuation opacity compounds the information problem. Public securities benefit from market prices determined by supply and demand. Private asset valuations are performed by fund managers or third-party valuation firms using methodologies involving substantial judgement. Valuations may be biased, stale or create a false sense of precision.

Liquidity mismatches arise when democratisation structures — interval funds, open-ended vehicles investing in illiquid assets — promise periodic liquidity that may prove unavailable during market stress. The experience of several commercial real estate funds in 2022–2023, which suspended or limited redemptions and effectively **trapped investors**, is instructive.²⁹ Fee structures in private markets typically involve multiple layers, and when

²⁴ Prevention of Bribery Ordinance (Cap. 201); US Foreign Corrupt Practices Act, 15 USC §§ 78dd-1 *et seq.*; UK Bribery Act 2010.

²⁵ Private markets AUM data based on industry estimates. See *McKinsey Global Private Markets Review 2025*; Preqin, *Global Alternatives Reports* (2024).

²⁶ Microsoft Corporation IPO: 13 March 1986 (founded 4 April 1975); Amazon.com Inc. IPO: 15 May 1997 (founded 5 July 1994); Facebook Inc. (now Meta Platforms Inc.) IPO: 18 May 2012 (founded 4 February 2004); Uber Technologies Inc. IPO: 10 May 2019 (founded March 2009); Airbnb Inc. IPO: 10 December 2020 (founded August 2008).

²⁷ Research on the shift in value creation from public to private markets. See, e.g., M. Ewens and J. Farre-Mensa, "The Deregulation of the Private Capital Markets and the Decline of IPOs" *Review of Financial Studies*, Vol. 33, No. 12 (2020), pp. 5463–5509.

²⁸ Securities and Futures Ordinance (Cap. 571), Part XIVA (Disclosure of Inside Information); HKEX Listing Rules, Chapters 13, 14 and 14A (Continuing Obligations, Notifiable Transactions, and Connected Transactions).

²⁹ Notable examples include Blackstone Real Estate Income Trust (BREIT), which limited redemptions in late 2022 and into 2023 after requests exceeded quarterly thresholds. See "Blackstone limits withdrawals from \$69bn property fund", *Financial Times*, 1 December 2022.

retail investors access these markets through intermediary structures, additional layers emerge. All-in costs can easily exceed 3–4% annually, materially eroding net returns.

Governance rights present a further asymmetry: institutional investors negotiate board representation, information access and approval rights, whilst retail investors in the same funds typically possess none of these protections.

Principles for Responsible Democratisation

Directors of HKEX-listed companies with interests in private market structures — whether as sponsors, managers or investors — should ensure that suitability and investor protection remain paramount. Democratisation should not equate to the mere removal of barriers; it demands considered assessment of which investors should have access, under what circumstances, and with what constraints. The SFC’s existing framework governing the authorisation of collective investment schemes and the professional investor regime under the Securities and Futures (Professional Investor) Rules provide the local regulatory architecture, but directors must look beyond technical compliance to the substance of investor protection.³⁰

Transparency about fees, risks, and limitations should be comprehensive and comparable. Valuation processes should be independent, with disclosed methodologies, regular verification through actual transactions, and range estimates rather than misleading point estimates. Liquidity mechanisms must be designed to function under stress: conservative redemption limits, pro rata allocation when requests exceed available liquidity, clearly defined suspension triggers, and redemption fees or holdbacks that protect remaining investors from the costs imposed by those departing.

Fee structures should genuinely align fund manager interests with investor outcomes. Performance-based fees with high-water marks, clawback provisions, co-investment requirements, and independent oversight represent best practice. Directors should be mindful that the SFC has demonstrated increasing willingness to scrutinise fee arrangements and conflicts of interest in the asset management sector, and that reputational risk from association with structures that disadvantage retail investors can be severe and enduring.³¹

30 Securities and Futures Ordinance (Cap. 571), Part IV (Offers of Investments); Securities and Futures (Professional Investor) Rules (Cap. 571D); SFC Code on Unit Trusts and Mutual Funds.

31 See SFC, “Circular to Licensed Corporations Managing SFC-authorized Funds on Disclosure of Fees and Charges” (various); SFC Enforcement Reporter (ongoing).

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