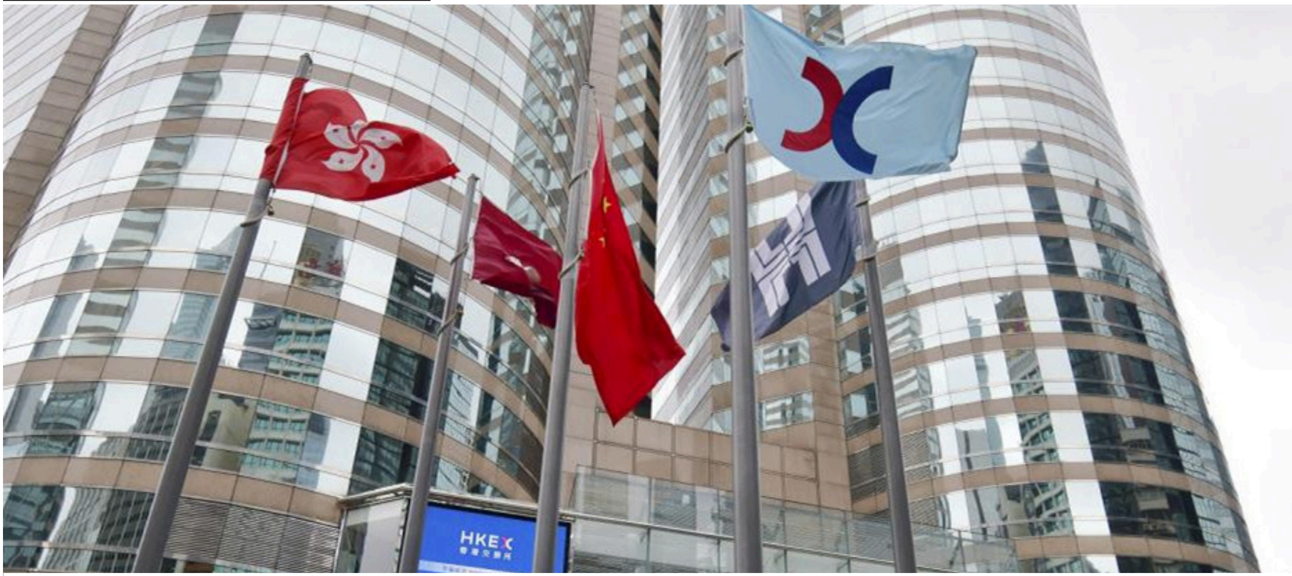

Opinion | Exploring the Hong Kong Stock Exchange Resumption System: Opportunities for Enhancing Market Transparency and Investor Protection

BY Stella | 2024-12-16 17:24:59

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Recently, a listed company resumed trading after being suspended for ten and a half trading days. On the resumption day, at noon, it disclosed significant acquisition information and resumed trading at 1 PM. The system allowing a listed company's stock to suddenly resume trading after a long suspension is indeed inappropriate, lacking fairness for investors. We must delve into the current suspension and resumption system of the Hong Kong Stock Exchange from multiple perspectives, particularly its profound impact on market operations, investor rights, and the overall financial environment.

1. Obstacles to Investor Decision-Making

In global financial markets, the immediacy and transparency of information are crucial for investors to make quick decisions. While the Stock Exchange stipulates that the suspension time should be kept to a minimum, many companies exploit this vague regulation to indefinitely extend suspension periods, disrupting investors' decision-making efficiency. When faced with significant acquisition or corporate restructuring announcements, the halt in market information circulation prevents investors from timely adjusting their portfolios, which can lead to potential profit losses and unfavourable positions during market fluctuations.

2. Deterioration of Information Asymmetry

During the suspension period, the blockage of market information makes it difficult for ordinary investors to obtain timely market trends. Although regulations require issuers to publish announcements before resuming trading, these announcements often appear hastily just before resumption, and their content may lack detail, further exacerbating the issue of information asymmetry. Investors with insider information may be well-prepared before the market resumes trading, while ordinary investors are left out, undermining market fairness and transparency.

3. Challenges to Market Efficiency

The normal operation of the market relies on continuous trading and capital flow. Prolonged suspensions not only restrict market liquidity but may also trigger fluctuations in market participants' emotions, affecting market stability. When investors cannot trade during a suspension, their capital liquidity is frozen, which can be extremely disadvantageous for those needing rapid capital adjustments. Additionally, frequent suspensions may weaken the market's attractiveness, further impacting its liquidity.

4. Deficiencies in Institutional Design and the Need for Improvement

The current system lacks detailed regulations regarding the specific timing and procedures for suspensions and resumptions, giving issuers excessive discretion to arbitrarily decide resumption times. Such institutional design increases market uncertainty and diminishes protections for investors. In other mature markets, there are typically stricter time limits and transparent announcement requirements to ensure market transparency and investor fairness. The Hong Kong Stock Exchange should consider adopting international best practices to improve institutional design and enhance market transparency and regulation. It is suggested that for companies suspended for more than two days, they must announce information between market close to 11:59 PM to prepare investors adequately.

5. Insufficient Investor Protection Mechanisms

The current system appears more inclined to protect the interests of issuers, offering inadequate protection for investors, especially small and medium-sized investors. Investors are unable to trade while awaiting significant announcements, putting them at a disadvantage when market information is finally released. The Stock Exchange should consider designing more effective protection mechanisms, such as enhancing the transparency and timeliness of information disclosure and strengthening investor education and support to safeguard their rights.

6. Impact on Market Confidence

An imperfect resumption system may weaken investor confidence in the market. When investors perceive a lack of transparency or fairness in market operations, they may choose to withdraw or reduce their participation, which not only affects market liquidity but can also adversely impact the market's long-term development. The Stock Exchange should incorporate more transparency and fairness in its institutional design to enhance investor trust.

7. Comparison with International Markets and Competitiveness

In international markets, many exchanges have established stricter and more transparent suspension and resumption systems to ensure effective market operation and protection of investor rights. In contrast, the Stock Exchange's system appears too lenient, potentially leading to a decline in Hong Kong's competitiveness in the global capital market. Introducing international best practices could help enhance the attractiveness and credibility of the Hong Kong market.

8. Long-Term Impact and the Necessity for Institutional Reform

In the long run, an imperfect suspension and resumption system not only affects the immediate operation of the market but can also damage the market's reputation and investor participation on a broader scale. Institutional reform should focus on enhancing market transparency and fairness, ensuring that all investors can trade on an equal basis. Moreover, more effective regulatory mechanisms should be established to ensure that information disclosure during the resumption process meets market demands and to strictly monitor and penalize delayed resumption cases.

Overall, there is room for improvement in the resumption system of the Hong Kong Stock Exchange in multiple areas. This not only concerns the efficiency and transparency of market operations but also impacts investors' trust and confidence in the market. Consideration should be given to further refining relevant regulations to enhance transparency and fairness, promoting healthy and sustainable market development. Such reforms would not only help elevate Hong Kong's status as an international financial centre but also better protect investor rights and foster overall market prosperity.

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