Cornerstone Investors

A Practice Guide for Asian IPOs

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Introduction

Cornerstone investors have now been around for at least 15 years, yet very little has been written about them over that time span, bar the odd academic study or short, factual articles on individual transactions published in the media.

Despite a few attempts to introduce the concept to European markets, cornerstone investors are still essentially a phenomenon limited to three jurisdictions within Asia: Hong Kong, Malaysia, and Singapore. However, they have become so essential to the success of initial public offerings (IPOs) that I thought now was perhaps an opportune time to explain in some detail who they are, as well as the process that is used to gather from them the equity bids that make or break new listings in these marketplaces.

Even though the geographical footprint of cornerstone investors remains limited, the influence they have today on global capital markets activity cannot be ignored, not least because Hong Kong has once again become the world's most active exchange for new equity listings, and cornerstone investors now increasingly dominate demand for IPOs there.

According to InvestHK, a government organization whose remit is to attract and retain foreign direct investment of strategic importance to the economic development of Hong Kong, in 2015, total equity funds raised through IPOs in this special administrative region (SAR) of China amounted to the equivalent of US$33.6 billion. The Stock Exchange of Hong Kong was not only the top stock exchange for IPOs for three consecutive years from 2009 to 2011, but also maintained a top five ranking in the global IPO market for the past decade, thanks almost exclusively to Chinese issuers.[1] According to Reuters, between mid-2015 and mid-2016, cornerstones accounted for about

1. http://www.investhk.gov.hk, accessed 31 August 2016.

50 per cent or more of the deal proceeds for nine out of the top ten IPOs in the territory, underscoring the growing influence of share sales to cornerstone investors in Hong Kong IPOs.[2]

The institutions and corporates who act as cornerstone investors come from a wide range of jurisdictions, from the United States to the United Kingdom, continental Europe, the Middle East, and Australasia, which makes them a truly global phenomenon, well beyond the limited scope of the three markets they have now pervaded. However, cornerstone investors now increasingly come from mainland China, which is fast becoming unavoidable in the commercial and financial sphere, as China slowly, but surely, opens up to the wider world.

In a nutshell, cornerstone investors serve two functions: they de-risk equity transactions for both issuers and the underwriters and, because they are generally well-known stockholders, also encourage a wider pool of market participants to invest in new issues. In many instances, their presence (or, conversely, absence) can actually dictate the success or demise of IPOs.

As with many aspects of new listings, there is often a lot of confusion about cornerstone investors, not just in the media, but also on the part of market participants, be they issuers, investment bankers, or stock pickers. In this guide—the first of its kind—I have sought to clarify the role of cornerstone investors and how they come to subscribe in what are often (but not always) visible and prestigious equity offerings.

Just like my other non-fiction books, this guide is purely a practical one. In these pages, the reader will not find any mathematical formulae, theoretical research, or lengthy legal considerations, but instead clear explanations about the various types of cornerstones and the marketing and documentation processes that are used by investment banks and issuers to secure the commitments made by cornerstone investors, across each of the markets in which they are found.

Accordingly, I have included a wide variety of real-life examples, sample documents (such as a script for the initial approach to potential cornerstone investors, a non-disclosure agreement, and a subscription agreement, all of which were actually used in past IPOs) as well as selected profiles for some 145 institutions and corporates, most of which have already subscribed for

2. Elzio Barreto, 'Hong Kong's cornerstone investors dominate but drain IPOs of vitality', Reuters, 26 June 2016.

equity securities (shares, or units in real estate investment or business trusts), in a cornerstone investor capacity. Readers will also find an investor target list, a comprehensive glossary, and an index to more easily navigate what can be a complex—and even at times daunting—subject.

With any topic related to capital markets, rules and regulations—not to mention market practice—often change. So I would caution readers to seek legal or financial advice, where appropriate, having regard to their specific circumstances. Information included in this book, while generally based on actual transactions, does not in any way convey investment, investment banking, corporate finance, legal, accounting, tax, or other regulatory advice of any kind, and no responsibility whatsoever will be accepted by the author or the publisher in this regard. It should not be relied upon, or used as a substitute for consultation with professional advisers.

As ever, whether you are a prospective IPO candidate, an equity issuer, a capital markets professional, an investment banker, a private equity practitioner, an investor, or a journalist, I am always keen to hear from you. Please do not hesitate to reach out to me through one of my websites.

I hope you will enjoy this new book and that it will contribute to better understanding of the somewhat opaque, and certainly misunderstood, world of equity issuance in Asia—and beyond.

Part 1

Key parameters

1.1
What are cornerstone investors?

Simply put, cornerstone investors are investors who subscribe for shares (or units, in the case of real estate investment trusts—REITs—or business trusts) in an IPO or follow-on equity offering, and who benefit from an allocation of stock that is pre-agreed in advance, both with the lead banks (that is, the global coordinators and bookrunners) and the issuer.

In new issues, it is well known among market participants how difficult it often is to secure a sizeable allocation in a transaction that is well oversubscribed, and therefore likely to be successful in the aftermarket (also assuming that the securities have not been overpriced, and that the book of demand includes a good proportion of 'quality' names, with a long-term investment horizon).

Conversely, investors often receive more than they bargained for (even when their allocation has been scaled back, as compared to their actual order) in offerings that receive poor subscription demand, and that are accordingly likely to experience a fall in the price of the securities after the start of trading.

Cornerstone investors get around the first issue by securing an allocation that is, subject to certain requirements (for example, in Hong Kong, a lock-up restricting them from selling the shares for a period of six months after an IPO), agreed at the outset, and even before the marketing process has started in earnest, so that they know exactly how much stock they will receive, irrespective of the level of subscription of a transaction.

If the bet they make is successful, this means that they will have managed to buy a large chunk of a deal that trades up after listing, potentially generating a substantial capital gain for them, or for the other investors on whose behalf they acquired the shares (as a fiduciary or agent). On the other hand, if they did not read the outcome of the transaction correctly, they could find themselves sitting on a substantial amount of securities while the price of the latter 'tanks' in the aftermarket, selling at a loss, often over, or after a period of time has elapsed. In that sense, the risk they take is similar to that of other IPO investors, although it is perhaps magnified on account of the scale of the investment they make. By contrast, they often stand to make a fair bit more money than other investors in offerings that do well.

It can probably be argued that cornerstone investors generally derive proportionately more benefits than drawbacks from the practice. In 2009, Mr Low Chee Keong, an associate professor in corporate law at the Chinese University of Hong Kong and a former member of the Listing Committee of the Stock Exchange of Hong Kong, published an empirical study on cornerstone investors, in which he concluded that 'despite the supposed risks that are assumed by cornerstone investors, the evidence suggests that these are more perceived than actual'.[1]

1. Low Chee Keong, 'Cornerstone investors and initial public offerings on the Stock Exchange of Hong Kong', *Fordham Journal of Corporate and Financial Law*, Vol. XIV, No. 3, 2009.

Part 2

The legal framework

In Part 2, I will summarize the key rules relating to cornerstone tranches in each of the three markets of Hong Kong, Malaysia, and Singapore. For cornerstones, Hong Kong has the most comprehensive—and restrictive—regulatory regime, while the regimes in Malaysia and Singapore are generally considered more flexible.

2.1 Hong Kong

As compared to Malaysia and Singapore, the rules governing subscriptions by cornerstone investors in Hong Kong are relatively detailed and extensive.

In Hong Kong, the frontline regulator for IPOs is the Stock Exchange of Hong Kong, which sets out and administers the Listing Rules. A number of duties of the lead regulator for the securities industry in Hong Kong, the Securities and Futures Commission (SFC), have also effectively been delegated to the exchange.

However, the SFC still acts as a second regulator. Changes to the Listing Rules require its consent, and it is also able to comment on prospectuses and question issuers and the sponsor banks in connection with new listings. The SFC also retains investigation and enforcement powers in relation to listing matters.

At the time of writing, a proposal had been jointly tabled by the exchange and the SFC whereby the exchange's listing department would continue to decide on 'a large majority of initial listing applications and post-listing matters', while the ways in which the SFC's powers and functions are exercised and performed would be slightly enhanced. In particular, it was proposed that the SFC would now no longer look at every single IPO application as 'a second pair of eyes', but only focus on cases that have larger policy and market implications.

2.1.1 Offer structure and underwriting

In Hong Kong, subscriptions by cornerstone investors are part of the placement tranche, and there is therefore a *de facto* requirement for cornerstone offerings to be underwritten by the banks included in the syndicate of underwriters under the institutional portion (also known in Hong Kong as the international tranche) of an IPO. Such underwriting takes place after pricing and is therefore a 'soft' (or settlement) underwriting only, unlike the underwriting of the retail tranche, which is made at the outset. This is different from the approach in Malaysia or Singapore where cornerstone tranches are not required to be, but in practice still are, underwritten.

As already noted in Chapter 1.10, cornerstone subscriptions remain unaffected when a clawback in favour of public offer investors is triggered.

2.1.2 Basic requirements

In summary, the involvement of cornerstone investors is allowed (although obviously not compulsory) in Hong Kong IPOs, with the following conditions:

- The cornerstone investors must buy shares at the IPO offer price.
- They must abide by a lock-up for a minimum of six months after the listing date (which is also the settlement or closing date, as well as the date when trading starts). It should be noted that, rather than being imposed by the Listing Rules, this is a contractual arrangement with the issuer and the underwriters and that, as such, it can be waived (although in practice rarely is) by the lead banks.[1]
- As seen in Chapter 1.11, they do not receive any direct or indirect benefit from their involvement, other than the guaranteed allocation. In particular, no financial assistance must be granted to cornerstone investors and there must be no side letter or arrangement offering such benefits.
- They must be independent from the issuer and persons connected to the issuer (such as directors, associates, and shareholders of the issuer), although, as we will see in more detail in Section 2.1.5, 'business partners' of issuers and the like are acceptable as cornerstone investors.
- Details of the individual subscription, identity, and background of the cornerstone investors must all be included in the prospectus.

1. Nigel Davis and Melanie Mitchell, *Hong Kong Listed Companies: Law and Practice*, Wolters Kluwer, 2012.

2.1.3 Independence from the underwriters

In Hong Kong, cornerstone investors must not be 'connected clients' of the underwriters, which essentially means that proprietary trading accounts of the underwriting banks cannot act as cornerstone investors, although the private banking or wealth management arms, as well as asset management divisions of underwriting banks face no such restrictions—provided that the cornerstone subscriptions are made on behalf of parties independent of the underwriters (that is, *bona fide* end-investors), with the banks acting as agents or fiduciaries.

In specific circumstances when an asset manager is a connected client of a lead bank that manages funds on a non-discretionary basis (that is, who only takes orders from end-investors but makes no investment decisions of its own), the risk of it leveraging its relationship with connected brokers/distributors to obtain actual or perceived preferential treatment is considered by the exchange to be low. This is because the asset manager is in such cases acting only 'as a pass through, simply aggregating orders placed by its clients, and not exercising any decision-making authority over the size of the order or its distribution among its client accounts'. Accordingly, the exchange will look 'through the asset manager' and treat the underlying investors as the persons receiving the allocation.[2]

Conversely, when the asset manager is a connected client of a lead bank that manages funds on a discretionary basis, confirmations to the exchange and other procedures may be required to ensure that no preferential treatment for such asset manager has taken place.[3]

2.1.4 Prohibition on 'double dipping'

As already mentioned in Chapter 1.11, cornerstone investors (and parties related to such cornerstone investors) must not place orders in the institutional book of demand on top of, or in addition to, their guaranteed allocations. The reason for this lies in a listing rule that prevents existing shareholders of an issuer from participating in an IPO if shares are offered to them on a preferential basis. Accordingly, cornerstone investors effectively cannot 'have

2. HKEx Guidance Letter HKEX-GL85-16, January 2016.
3. HKEx Guidance Letter HKEX-GL85-16, January 2016.

it both ways', and can only receive their guaranteed subscription as part of the allocation process.

As noted above, however, they are obviously free (and generally encouraged) to place aftermarket orders, so as to top up their cornerstone allocations, which provides further support for the share price after the start of trading. If and when they do so, shares purchased as part of such 'top-up orders' are obviously not locked up.

2.1.5 Disclosure

Prospectuses for Hong Kong IPOs subscribed for by cornerstone investors must include a section dedicated to the cornerstone tranche, and providing information on:

- the identity of each cornerstone investor;
- the amount subscribed by *each* cornerstone investor, as well as the percentage of shareholding it represents (both pre- and post-exercise of the overallotment option, if any); and
- the independence of each cornerstone investor. In this respect, it should be noted that cornerstone investors that are customers, suppliers, or even joint-venture partners of an issuer are generally acceptable, provided that such arrangements are disclosed in the prospectus. In addition, while each application is considered on a case-by-case basis, the Stock Exchange of Hong Kong will also normally give its consent to connected clients of an issuer to act as cornerstone investors if it is satisfied that the allocation to such connected clients represents genuine demand for securities in an applicant, and that they have not taken (or will not take) advantage of their position to receive an allocation for their own benefit at the expense of other placees (or the public), that is, that no actual or perceived preferential treatment has been given to them.[4] Examples of such cases are shown in Appendices 1 and 2.

It should also be noted that cornerstone subscription agreements are considered as material contracts entered into by the issuer and their terms must therefore be disclosed as such in the prospectus. This also means that

4. HKEx Guidance Letter HKEX-GL85-16, January 2016.

they must be made available for inspection by the public and delivered to the Companies Registry, as and when the prospectus becomes registered.

2.1.6 Conditions precedent

In Hong Kong, subscriptions by cornerstone investors are subject to, among other things, the following conditions precedent:

- the offer price having been agreed between the issuer and the underwriters;
- the underwriting agreement for the Hong Kong public offering (that is, the retail tranche of an IPO) and the sale and purchase agreement for the international offering (the institutional tranche of the deal) being entered into, and having become effective and unconditional;
- neither of the above agreements having been terminated;
- the Listing Committee of the Stock Exchange of Hong Kong having granted the listing of, and permission to deal in the shares (or other securities, such as units) of the issuer, and such approval or permission not having been revoked;
- no laws, statutes, or legislation having been enacted or promulgated which prohibit the consummation of transactions contemplated in the Hong Kong public offering, the international offering or the relevant cornerstone subscription agreements, and there being no orders or injunctions from a court of competent jurisdiction precluding or prohibiting consummation of such transactions; and
- each of the representations, warranties, undertakings, and confirmations of the cornerstone investors in the relevant cornerstone subscription agreements being accurate and true in all material respects, and there being no material breach of these on their part.

2.1.7 Protection in the event of clawback

In all jurisdictions, shares (or other securities, such as units) may be reallocated from the institutional offer to the public offer tranche by the bookrunners, and vice versa. However, in the case of Hong Kong IPOs, such clawback mechanism happens automatically, rather than at the behest of the lead banks, and depends of the level of oversubscription achieved by demand generated by members of the public, as we explained in Chapter 1.10.

Specifically, allocations made to cornerstone investors are not subject to clawback provisions, because they are pre-agreed and guaranteed in advance. Accordingly, only institutions placing orders in the book of demand will see the pool of shares to be allocated to them decrease in the case of strong demand by members of the public. Conversely, their allocations will be topped up if the public offer remains undersubscribed.

Part 3

How the process works in practice

Let us now turn to how the process of gathering cornerstone demand actually works. In Part 3, I will review the key steps and building blocks leading to the subscription of securities by a cornerstone until these are actually credited to its investment account, upon listing and the start of trading.

This starts with the banks pitching the opportunity to act as cornerstones to prospective investors, and this can only happen once the equity story has been clearly defined.

3.1

Defining the equity story

In order to kick off a cornerstone investor process, it is first and foremost necessary for the equity story (also known as the investment case) to have been largely finalized. This means that the prospectus (or offer document) needs to be in a reasonably well-advanced stage. In turn, it requires the lead bank(s) in charge of the marketing of the transaction to have conducted comprehensive due diligence into the affairs of the issuer, covering commercial, financial, and legal aspects. In particular, the following elements of disclosure will need to be in near-final shape before any prospective cornerstones can be approached:

- the timetable for the equity offering;
- the risk factors which may affect the business of the issuer;
- the use of proceeds (in cases where the issuer raises new money);
- the dividend policy;
- the capital structure and level of indebtedness of the issuer;
- the financials of the issuer for the period under review (which may, however, be updated at a later stage, also including a management discussion and analysis of financial condition and results of operations);
- an overview of the industry in which the issuer operates;
- the corporate structure of the group;
- a comprehensive description of the business of the company; and
- key management appointments (although the composition of the board of directors may perhaps not yet be finalized at that stage).

In most cases, it is likely that the above will require several months of work before the lead bank(s) is/are in a position to initiate contact with potential cornerstone investors. The main concern here is obviously to avoid any material changes at a later stage to what may first be presented to investors.

Part 4

Issues associated with cornerstone investors

The cornerstone process in Asia has initially worked well, ensuring the success of many transactions over a period of more than 15 years. In particular, many multibillion dollar IPOs in the region (including new listings around the US$20 billion mark by several Chinese and other regional financial institutions) would perhaps not have been possible, absent significant subscriptions by cornerstone investors.

However, the practice now increasingly raises issues, most of which are in relation to IPOs in Hong Kong.

As we saw earlier, the main reason for including cornerstone investors in capital markets transactions is to raise the confidence of the wider pool of investors, and to encourage them to participate in new issues. Effectively, by participating in IPOs, cornerstones provide leadership and momentum, that is, a form of 'stamp of approval' or vote of confidence.

Increasingly, however, cornerstone investors have become the only way some IPOs can be completed at all, by sourcing price-insensitive and 'friendly' demand, which would not otherwise be found through normal marketing channels.

While cornerstone investors always made possible the launch of more challenging offerings, especially against volatile market conditions, their presence has now become effectively *de rigueur* in any sizeable offering in the region, and this may not necessarily be for the better. Many market participants have therefore complained that cornerstone tranches have become too large, as brought to light by the *FinanceAsia* survey, previously mentioned in Chapter 1.5.

In addition, the practice raises other issues, a number of which have been picked upon by financial commentators over the years.

4.1
Ethics

There is no doubt that cornerstone investors are, in a way, 'favoured' by the bookrunners. They are approached at an early stage in IPOs and given the opportunity to subscribe in large amounts in these offerings, well before other investors.

And while they must abide by some additional requirements (although, in fact, very few of them in the case of IPOs in Malaysia and Singapore, as we have seen earlier), they actually pay the same price as any other investors. They are therefore part of a shortlist that benefits from a 'first look' opportunity, broadly equivalent to a right of first refusal, leading some observers to talk of an inside game and unfair behaviour.[1]

Governance activist David Webb argued at the time of United Co. Rusal's US$2.2 billion IPO in Hong Kong in January 2010 that 'the presence of cornerstone investors is of no value to investment decisions', while Low Chee Keong, an associate professor in corporate law at the Chinese University of Hong Kong, also questioned the fairness of the practice, saying that 'it was at best difficult to justify their existence' and that 'at worst, one could contend that cornerstones serve primarily to prefer a select group of investors by the underwriters', and may [even] constitute 'a sophisticated form of bribery'.[2]

This concern has actually become more prevalent, given the increasing weight of cornerstone investors in new issues, and in Hong Kong more than anywhere else. In October 2016, *The Economist* noted that, in Hong Kong, cornerstones 'accounted for 13 per cent of total IPO values in the first decade

1. Philippe Espinasse, 'Cornerstone investors and ethics', *Wall Street Journal*, 22 December 2010.
2. Low Chee Keong, 'Cornerstone investors and initial public offerings on the Stock Exchange of Hong Kong', *Fordham Journal of Corporate and Financial Law*, Vol. XIV, No. 3, 2009.

of the century'. Since then, cornerstone investment as a percentage of Hong Kong's deal volume has steadily increased (with a small dip between 2012 and 2014), to an astonishing 60 per cent.[3]

In 2014, the Financial Services Development Council (FSDC) in Hong Kong noted in a publication, that 'in recent years, cornerstone investment has become an increasingly important part of the Hong Kong IPO process and that cornerstone investments of a combined size exceeding 70 per cent of a global offering are not unheard of'.[4] We have already seen in Section 1.5.9 that such levels have even recently been exceeded on a few occasions, obviously a worrying development as far as the liquidity of new issues is concerned (and also given the requirement for a six-month lock-up in Hong Kong).

The practice is clearly not illegal, but can it really be said to be ethical?

3. Anonymous, 'Chinese IPOs in Hong Kong: Cornering the market', *The Economist*, 1 October 2016.
4. 'Positioning Hong Kong as an international IPO centre of choice', Hong Kong Financial Services Development Council (FSDC), June 2014.

Conclusion

There is now no escaping the presence of cornerstone investors in new equity offerings in some of Asia's key markets. Once an optional device in the bookrunners' toolkit to help them complete challenging transactions or, alternatively, a technique used by issuers to reward institutional shareholders with which they had established strategic relationships, cornerstones have now become an essential component of the offer structure to bring sizeable IPOs to market in the region.

There are several reasons behind this development.

The volatile trading environment, a legacy of the global subprime financial crisis, is probably partly to blame. The lead banks now increasingly need to rely on a core group of large allottees to de-risk equity offerings. Launching major transactions without such backing has become largely unthinkable. From a 'nice-to-have', cornerstones have become a 'must-have' feature of pretty much any deal, and especially in Hong Kong.

In effect, cornerstone tranches in Hong Kong have become a bit of a 'magic trick', and maybe even the *only* trick to getting large IPOs done in the city. The well-respected *Economist* observed, after the H-share IPO of Postal Savings Bank of China in September 2016, that 'instead of bringing in savvy investors who might persuade others to hop aboard, [China's] state-owned firms are cramming in other friendly state-backed investors to ensure their IPOs are successful'.[1] Its columnist even added that cornerstones were 'a classic case of China Inc. in action' as the state was 'shifting money from pocket to pocket . . . with limited [IPO] participation from outside investors'.

1. Anonymous, 'Chinese IPOs in Hong Kong: Cornering the market', *The Economist*, 1 October 2016.

The quality of the new issues now coming to market is perhaps also a reason for the increasingly widespread use of the practice. This is again especially true in Hong Kong, where the overwhelming majority of equity issuance in recent times has been by Chinese banks, brokers, and insurance companies. At the time of writing, the weight of the financial sector in the Hang Seng Index was almost 45 per cent. The growing issue of non-performing loans in the PRC, as well as the recurring freeze imposed by the regulatory authorities on domestic IPOs, has led many such issuers to instead seek capital in the neighbouring territory, just across the border from the Chinese mainland.

Irrespective of the industry sector, Hong Kong is also increasingly a listing venue for Chinese, rather than international, issuers. The former now account for more than 60 per cent and almost 70 per cent of the exchange's market capitalization and equity turnover, respectively. In the first quarter of 2016, 92 per cent of the IPO funds raised in Hong Kong were by Chinese companies.[2]

In addition, Chinese banks and brokers, rather than members of the bulge-bracket, international houses, or local brokers, now represent the lion's share of bookrunner roles (at least by number) in Hong Kong IPOs.

The irony is that much of the equity they contribute to raising now comes from investors from their own domestic market, rather than international investors, and that many of the former are now basically using Hong Kong, once a major marketplace for international fund managers to buy into primary issues, as a convenient conduit for such investments.

At the time of writing, there was a significant valuation gap between Chinese stocks listed in Hong Kong and their counterparts in Shanghai or Shenzhen, lending further impetus to this development.

There are signs that the Chinese authorities may be starting to recognize that the issue now needs to be addressed: in October 2016, China's SAFE, the country's foreign exchange regulator, started asking Chinese investors to submit requests for approval if they wanted to buy substantial amounts of Hong Kong currency for IPO investments in the city.[3] Such approval,

2. Philippe Espinasse, 'From the Kingdom to the Middle Kingdom', *GlobalCapital*, 10 May 2016.
3. Fox Hu and Steven Yang, 'China cornerstone buyers get clearer path to Hong Kong IPOs', Bloomberg, 1 November 2016.

however, is not needed in the case of Chinese investors who already have adequate foreign currency funds located offshore, including in Hong Kong.

With cornerstone investments largely made through subsidiaries incorporated in the British Virgin Islands, it is doubtful whether this move will actively help stem the flood of IPO investments from the mainland into Hong Kong's new issues. Furthermore, the root of the problem probably lies more in the existence of the compulsory lock-up in Hong Kong than in cross-border fund flows regulations. Some commentators at the time went as far as to suggest that the city's IPO market might even get a boost from these new rules, since they may smoothen the path for Chinese cornerstone investors to subscribe into Hong Kong new listings (which may now perhaps be the case under the new procedures decreed by SAFE allowing them to bypass the QDII scheme, and which came into effect in February 2017—see Chapter 4.5 above).

Cornerstone investors have served the Asian equity capital markets well, but now is perhaps the time for a rethink, and in Hong Kong more than anywhere else. The practice, however, continues to work well in Southeast Asia, not least because the rules there—and in particular the absence of a compulsory lock-up—make it much more palatable to institutional players.

As to whether cornerstones will increasingly feature (and perhaps even become regulated) in new offerings in Europe, or indeed in the US, only time will tell.

In February 2017, Snap Inc., the owner of messaging app Snapchat disclosed that it expected investors buying up to 25 per cent of its US$3.4 billion IPO to agree to be locked up for a year. This may perhaps be the start of a 'new normal' for new listings beyond Asia's shores.[4]

4. Lauren Hirsch and Olivia Oran, 'Snap expects some IPO investors to hold stock for a year', Reuters, 28 February 2017.

Appendix 1

Recent examples of cornerstone tranches in Hong Kong

Issuer	IPO size pre-Greenshoe (US$m equivalent)	Cornerstone investors (*indicates investors related to the issuer or to one of its shareholders)	Amount subscribed (US$m equivalent)
Postal Savings Bank of China	7,430	CSIC Investment:	2,090
(September 2016)		Shanghai International Port:	2,044
		Victory Global Group:	1,000
		State Grid Overseas:	300
		China Chentong Holdings:	150
		Great Wall Pan Asia:	100
		Total:	**5,684.0**
		Number of cornerstones:	6
		Percentage of IPO size:	76.5%
Everbright Securities	1,105	China Shipbuilding Capital:	184.0
(August 2016)		CSCEC Capital (Hong Kong):	184.0
		Hengjian International:	184.0
		China Life:	80.0
		BOCOM Investment:	50.0
		Dazhong HK:*	30.0
		PICA:*	30.0
		Mercuries Life:	20.0
		Total:	**762.0**
		Number of cornerstones:	8
		Percentage of IPO size:	69.0%

(continued on p. 125)

Issuer	IPO size pre-Greenshoe (US$m equivalent)	Cornerstone investors (*indicates investors related to the issuer or to one of its shareholders)	Amount subscribed (US$m equivalent)
DFZQ	1,000	Hung Jia Finance:	100.0
(June 2016)		BOCOM Investment:	99.0
		Great Boom Group:	50.0
		Pinpoint Asset Management:	50.0
		CES Global Holdings:	30.0
		Shanghai Electric:	30.0
		SIIC Treasury:	30.0
		Value Partners:	30.0
		Yunnan Energy:	30.0
		CM Securities:	25.0
		Total:	**474.0**
		Number of cornerstones:	10
		Percentage of IPO size:	47.4%
China Logistics Property Holdings	432	Joy Orient:	120.0
(June 2016)		Anbang Investment:	60.0
		LRC. Belt and Road:	20.0
		China Fintech:	20.0
		Total:	**220.0**
		Number of cornerstones:	4
		Percentage of IPO size:	50.9%

(continued on p. 126)

Issuer	IPO size pre-Greenshoe (US$m equivalent)	Cornerstone investors (*indicates investors related to the issuer or to one of its shareholders)	Amount subscribed (US$m equivalent)
Greentown Service Group	198	Greentown China:*	35
(June 2016)		Zhejiang Silicon Paradise:	31
		China Orient:	25
		Total:	**91**
		Number of cornerstones:	3
		Percentage of IPO size:	46.0%
China Development Bank Financial Leasing	795	Three Gorges Capital:	335.0
(June 2016)		China Re Group:	95.0
		Hengjian International:	65.0
		Fortune Eris:	50.0
		BOCGI:	41.0
		CCCC International:	39.5
		Total:	**625.5**
		Number of cornerstones:	6
		Percentage of IPO size:	78.7%

(continued on p. 127)

Issuer	IPO size pre-Greenshoe (US$m equivalent)	Cornerstone investors (*indicates investors related to the issuer or to one of its shareholders)	Amount subscribed (US$m equivalent)
BOC Aviation	1,121	China Investment Corporation:	99.5
(May 2016)		Silk Road Fund:	99.5
		China Development Bank:	59.7
		China Life Franklin AM:	49.7
		Oman Investment Fund:	49.7
		Hony Capital:	49.7
		Elion Resources:	49.8
		Fullerton:	37.8
		Fosun International:	34.8
		The Boeing Company:	29.8
		China South Industries:	29.8
		Total:	**589.8**
		Number of cornerstones:	11
		Percentage of IPO size:	52.6%
Yadea Group Holdings	165	Keenway International:	20.0
(May 2016)		Kunsheng Investment:	10.0
		Total:	**30.0**
		Number of cornerstones:	2
		Percentage of IPO size:	18.2%
Nameson Holdings	77	Fast Retailing:*	9.0
(March 2016)		Shima Seiki:	5.0
		Talent Charm:	5.0
		Total:	**19.0**
		Number of cornerstones:	3
		Percentage of IPO size:	24.7%

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Issuer	IPO size pre-Greenshoe (US$m equivalent)	Cornerstone investors (*indicates investors related to the issuer or to one of its shareholders)	Amount subscribed (US$m equivalent)
China Zheshang Bank Co., Ltd. *(March 2016)*	1,675	Zhejiang Provincial Seaport:	508.0
		Yancoal International:	203.0
		Shaoxing Lingyan:	127.0
		Shenwan Hongyuan:	100.0
		Alipay:	30.0
		Total:	**968.0**
		Number of cornerstones:	5
		Percentage of IPO size:	57.8%
Bank of Tianjin Co., Ltd. *(March 2016)*	943	Fortune Eris:	270.0
		Sinotak:	100.0
		Tewoo Investment:	50.0
		Tianfang Jincheng:*	50.0
		Ruifuxiang Investment:	30.0
		Teda HK:*	30.0
		Hui Ding:	30.0
		Total:	**560.0**
		Number of cornerstones:	7
		Percentage of IPO size:	59.4%
Sinco Pharmaceuticals Holdings Limited *(February 2016)*	41	Prestigious Leader:	6.4
		Sichuan Huifeng:*	5.0
		Total:	**11.4**
		Number of cornerstones:	2
		Percentage of IPO size:	27.8%

About the author

Philippe Espinasse spent almost two decades working as a senior investment banker in the US, Europe, and Asia. He now lives in Hong Kong, where he writes and works as an independent consultant.

He is also an honorary lecturer in the Faculty of Law of the University of Hong Kong and sits on the board of a financial institution listed on the Taiwan Stock Exchange as an independent, non-executive director, chairman of the audit committee, and a member (former chairman) of the remuneration committee.

He has published several books on IPOs and has contributed articles to a variety of newspapers and magazines, including *The Wall Street Journal*, *South China Morning Post*, *Nikkei Asian Review*, *China Economic Review*, and the website of BBC News. He pens the 'Clawback' column on Asian equity capital markets for Euromoney's *GlobalCapital*.

He has also published two novels, *Hard Underwriting* and *The Traveler*, both thrillers set in contemporary Hong Kong.

Philippe may be contacted through his websites, www.ipo-book.com (which includes a blog on equity capital markets news and developments) and www.philippe-espinasse.com.

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