

**Luncheon Speech by The Honourable John TSANG Chun-wah, JP
Financial Secretary, Hong Kong Special Administrative Region
at the Conference on Corporate Governance in the Financial Sector
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(Translation of original Chinese speech as delivered)

Distinguished guests, ladies and gentlemen,

I am delighted to attend today's Conference on Corporate Governance in the Financial Sector to share with you some of my thoughts on corporate governance.

Government's commitment to good corporate governance in Hong Kong

Following the wave of financial scandals involving Enron and Worldcom, etc. in the USA in 2001 and the recent corporate failures in different parts of the world causing colossal losses, corporate governance has become a white-hot spotlight of public discussions. The Hong Kong SAR Government has always attached great importance to corporate governance in recent years. Our policy objective in this respect is simple. On the one hand, we would build a strong and effective regulatory regime to protect the rights and interests of the minority shareholders; on the other, we would ensure that the regulations would not impose a heavy burden on the enterprises. This regulatory approach has not only improved the quality of our market, but also entrenched Hong Kong's position as an international financial centre and increased our competitive edge.

The SAR Government devised the *Corporate Governance Action Plan* in 2003 to co-ordinate policies and initiatives mapped out by different regulatory bodies. We are pleased to see that the implementation of some of the major initiatives is beginning to bear fruit. For instance, the *(Non-statutory) Guidelines on Directors' Duties* enables directors to better understand their responsibilities; the *2004 Companies (Amendment) Ordinance* allows minority shareholders to initiate derivatives litigation, thereby enhancing accountability of non-compliant company directors and their management. The re-write of *Companies Ordinance* in mid-2006 also helps enhance corporate governance.

Another important initiative implemented by the SAR Government is the establishment of the Financial Reporting Council (the Council). The Council, which has come into full operation in mid-July 2007, is mainly responsible for investigating accounting irregularities in listed corporations and collective investment schemes, with a view to strengthening control over the accounting profession in Hong Kong.

We strongly believe that corporate governance is the core component for sustaining investors' confidence and safeguarding minority shareholders' interests. As a responsible government, we will continue to work closely with the Securities and Futures Commission, Hong Kong Exchanges & Clearing Ltd., Hong Kong Institute of Certified Public Accountants and Standing Committee on Company Law Reform to strengthen corporate governance in Hong Kong.



The need and the advantages of corporate governance

Some enterprises may worry that over-stringent regulation and complicated requirements would increase their operating costs. But the truth is, good corporate governance can deter irregularities and prevent legal liabilities, which in turn saves costs of investigation, litigation and compensation. Good corporate governance can also improve the overall corporate performance and image, which in turn benefits corporate development, generates business opportunities and strengthens the company's capabilities in identifying and mitigating risks, handling crisis and reacting to haphazard market trends.

Furthermore, good corporate governance can increase market confidence, attract investors and which contribute to the steady development of corporations. According to the study conducted by the Hong Kong Institute for Monetary Research in 2005 in 170 index constituent stocks, listed companies with good corporate governance perform better than the others in terms of share price. This reflects that investors generally are more willing to pay a higher price for corporations with good governance. The advantages brought about by good corporate governance are long-term. Strengthening corporate governance is an essential investment for the future growth of corporations.

Corporate governance framework needs to suit the unique situation of different markets and corporations

Corporate governance is an on-going and ever-evolving process. Even in advanced and developed markets, the corporate governance frameworks are ever changing. There is no perfect corporate governance framework or standard in the world. Different markets have their unique situations and they need different frameworks to suit their needs. For example, listed companies' share rights in Britain and the United States are rather scattered, whereas those in Asia are rather centralised. The business models in Asia and the United States and Europe are not the same.

While different markets have to identify their own corporate governance frameworks and regulatory regimes based on their own situations, each corporation has to formulate its code of governance to suit its own requirements. A set of code of governance, formulated in compliance with the enterprise's own characteristics, the market's circumstances and risks, as well as the relevant legislation, can lead the enterprise to develop in the most correct way.

The importance of having an ethical corporate culture

Of course, we should not rely only on the Government or the regulatory bodies to enhance the level of corporate governance. Although laws and regulations do provide guidance and impose deterrent and penalising effects on frauds and conducts detrimental to public interests, stakeholders in different sectors should also strengthen co-ordination and co-operation to enhance the management capabilities, corporate social responsibility and conscience. The basic objective of formulating sufficient regulations is to help enterprises raise their level of governance so that the management can run the business in a well-organised manner and earn profits legally. After all, this is also the prime task of the management.

Effective corporate governance hinges upon the concerted efforts of all the personnel in the enterprise in co-ordinating and implementing stringent market regulations, self-discipline

guidelines and effective internal controls. We are confident that through relentless co-operation of enterprises and regulatory bodies, the culture of corporate governance will be strengthened.

We all learn a lesson from the recent corporate failures in Europe and the United States. Even in mature markets with stringent laws and regulations, the personal integrity of corporate personnel should not be overlooked. Corporate governance principles and systems can only function effectively within an integrity-based corporate culture.

Acting as role model

Role models are important for fostering the culture of good corporate governance. Corporate leaders should always place law compliance and shareholders' interest in the foremost when formulating operational strategies and in daily operations, with a view to promoting the value of good governance.

As business leaders, you are not only the decision-makers in the formulation of operational strategies, but also the forerunners in fostering a culture of ethical governance in your enterprise. Indeed, your presence in this Conference amidst your busy schedule has demonstrated your commitment to this subject. Your active involvement would help the country to cultivate an integrity-based corporate culture with Chinese characteristics.

As principal officials of the Government, we will continue to act as role models and we are dedicated to maintaining an independent judiciary, upholding the values of integrity and implementing a high degree of transparency. We will co-operate closely with the regulatory authorities and the financial sector to improve the corporate governance regime of Hong Kong.

Looking ahead

Looking ahead, Hong Kong is committed to providing quality and diversified credit and financial services through strengthening our cooperation with the Mainland and Macao. We will continue to help enterprises enhance corporate governance and improve market quality to augment Hong Kong's position as a fund-raising centre for the Mainland and a financial centre for the country, and to contribute to the sustainable development of the three places.

Finally, I wish this three-day Conference a great success!

Thank you. 