

**Inauguration Speech by Professor the Honourable K. C. CHAN, SBS, JP,  
Secretary for Financial Services and the Treasury,  
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)**



Vice Minister YAO (Zengke), Commissioner (Timothy) TONG, Mr CHEONG U, distinguished guests,

Good morning. I am honoured to be here today to attend the opening ceremony of the Conference on Corporate Governance in the Financial Sector. First of all, on behalf of the HKSAR Government, I would like to extend our greetings and our warmest welcome to the leaders and friends from the Ministry of Supervision and the Commission Against Corruption of Macao SAR. I also would like to take this opportunity to thank all participants from listed companies, professional bodies

and the financial sector for your contributions in enhancing corporate governance in Hong Kong, Macao and the Mainland.

**The importance of financial market to economic development**

With a workforce of 5.5% of the working population, the financial sector contributed 16% of the GDP in 2007 and was one of the four economic pillars in Hong Kong. With a stable and well-regulated financial market, funds can be effectively channelled to different economic activities and investments for credit financing, which would indirectly stimulate GDP growth and create employment.

With the untiring efforts of the Government, the regulators and the financial sector over the years, Hong Kong is now one of the most vibrant international financial centres in the world. In the first ten months of this year, the total equity funds raised in Hong Kong was HK\$186 billion, which was ranked fifth in the world. The market capitalisation of the Hong Kong stock market in late October was HK\$9,580 billion, which was ranked seventh worldwide and third in Asia. The number of companies listed on the Stock Exchange of Hong Kong was 1,259, among which 453 were mainland enterprises, representing 36% of the total number of listed companies in Hong Kong and 55% of the total market capitalisation. Besides, following the rapid development in Macao in recent years, more and more companies with operational base in Macao have listed in Hong Kong. From this, we can understand that the economic development of the Mainland, Hong Kong and Macao is closely linked with one another.

**Advantages and challenges of the Hong Kong financial sector**

Apart from leveraging on the development opportunities rendered by the reform and opening up of the Mainland market, Hong Kong's own advantages also play a significant role in the territory's development as an international financial centre in the region. Hong Kong has a sophisticated financial infrastructure, a well-established financial market with free flow of capital, an abundant supply of financial professionals, and most importantly, a sound regulatory regime on a par with international standard. Indeed, after the 1997 Asian financial crisis, the importance of a sound regulatory regime to the stability of a financial market is obvious.

The recent global financial tsunami has brought colossal losses or even bankruptcy and close-down to many major financial institutions and enterprises; and uncertainty in the global economy. Meanwhile, investors' sentiment has been affected and asset prices have been extremely volatile in the past few months. With lending institutions becoming very cautious in approving loans, this leads to a liquidity crunch in the international market. Doubtless, Hong Kong, being a small and open economy, cannot stand aloof under such circumstances.

Despite radical changes in the market, the International Monetary Fund (IMF) delegation which has visited Hong Kong recently stated in their report that the financial system in Hong Kong has been performing well and without significant dislocation. They highly commended the regulatory authorities for strengthening supervisory activities in recent months. They also highly appraised the expedient measures taken and the constant review conducted by the regulatory authorities to enhance the existing system.

### **The importance of good corporate governance in maintaining the status of Hong Kong's financial market**

Although the regulatory regime in Hong Kong is highly acclaimed by international organisations, the stability of the financial market is still subject to many other factors, among which good corporate governance plays a decisive role. According to the Principles of Corporate Governance issued by the Organisation for Economic Co-operation and Development, good corporate governance is the pillar to support the development of a corruption-free, stable and highly efficient financial market.

Facing the financial tsunami, many enterprises may consider "increasing income and reducing expenditure" the foremost and immediate task. They share the view that fundamentally, there is no need nor urgency at all to maintain or enhance corporate governance at this stage. However, the fact is that ineffective corporate governance would impair a company's development potential, and worst still, would drag the company into great financial difficulties. On the contrary, good corporate governance can strengthen risk management and enhance corporate transparency, which in turn will positively upgrade the quality and image of the enterprise and increase the confidence of investors and lending institutions. Indeed, one of the main factors leading to the collapse of a number of financial institutions in the Wall Street in recent months is ineffective corporate governance. In light of the current global credit crunch, corporate governance such as accountability, exercise of authority and disclosure of financial information of enterprises seeking for loans become key factors for consideration during the loan vetting process. Good corporate governance is therefore essential in any enterprises which aim to stand tall or even go further to seek opportunities amid the financial tsunami.

### **Stakeholders    important roles in enhancing corporate governance in the financial sector**

To sustain the stability as well as the competitive edges of the Hong Kong financial market, the SAR Government has attached great importance to corporate governance. The main tasks of the Government in this respect include providing a conducive economic and legal environment and working out an overall development policy for the financial market. This would help the financial market to develop steadily and healthily and Hong Kong to maintain its status as an international financial centre. The daily monitoring work, on the other hand, is undertaken by staff with suitable expertise and market experience in the regulatory bodies. In the securities and futures markets in Hong Kong, the Securities and Futures Commission

is responsible for regulating the Hong Kong Exchanges & Clearing Ltd. (HKEx) and other intermediaries in the market. The Commission also oversees regulating of all the listed companies jointly with HKEx to safeguard the investors' interests. In the banking field, the Hong Kong Monetary Authority is responsible for regulating the banking and deposit taking business and monitoring the authorised institutions to ensure the stability of the banking systems. On the aspect of financial reporting by listed companies, the Financial Reporting Council, which came into full operation in July last year, investigates possible auditing and reporting irregularities and in a bid to enhance corporate governance of listed companies, and to enhance regulating of the accounting profession and safeguard the investors.

In other words, the Government and regulatory authorities should undertake the duties of building and maintaining a fair, transparent and orderly market in a macroscopic perspective, and setting up a sound and perfect organisational framework to encourage good corporate governance in a microscopic perspective. On the enforcement front, proper penalties and sanctions should be stipulated.

Furthermore, good corporate governance also hinges upon professionals such as lawyers and accountants to perform their professional duties properly in assisting enterprises to act in accordance with the law.

To enhance corporate governance in the Mainland, Hong Kong and Macao, the participation of enterprises is the most important after all. As leaders of the enterprise, directors are bound to be role model of integrity and act according to the law for the long-term interests of the company and shareholders. Directors should formulate corporate governance guidelines and regulations clearly so that staff can understand the importance of integrity. An effective internal control system should be established as well to ensure staff's strict compliance with the systems and initiatives on good corporate governance.

## **Conclusion**

To successfully enhance corporate governance in the community, the concerted efforts of all sectors are required. The speakers and participants of this Conference are all remarkable personnel in this field. Your invaluable insights in how to raise the financial sector's ethical standard and the listed companies' corporate governance quality will provide a good reference for the SAR Government and regulatory bodies in formulating and implementing regulatory strategies.

I hope this Conference will not only serve as a platform for collective wisdom but also a catalyst to encourage further discussions on the subject of integrity in your organisation. The SAR Government will continue to co-operate with different sectors in the three places in pursuit of continuous development of corporate governance.

Thank you. 🙏