

**Keynote Address by Mr YAO Zengke,
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at the Conference on Corporate Governance in the Financial Sector
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Integrity, Diligence and a Clean Government Can Safeguard Development

Professor CHAN, Secretary for Financial Services and the Treasury of the HKSAR; Dr TONG, Commissioner of the Independent Commission Against Corruption of the HKSAR; Mr CHEONG, Commissioner Against Corruption of the Macao SAR; ladies and gentlemen,



Today marks the opening of the Conference on Corporate Governance in the Financial Sector co-organised by the Ministry of Supervision, the Independent Commission Against Corruption of the Hong Kong SAR and the Commission Against Corruption of the Macao SAR, and hosted by the Independent Commission Against Corruption of the HKSAR. On behalf of the Ministry of Supervision and Minister MA Wen, I would like to extend our warmest congratulations on the convening of this conference, and also our sincere greetings and best wishes to

Professor KC CHAN, Commissioner Timothy TONG Hin-ming, Commissioner CHEONG U and all distinguished guests and participants.

With the current global financial crisis spreading and extending far and wide, and the economic situation remaining as complicated and volatile as ever, it is indeed most timely and meaningful for us to convene a thematic conference here to discuss the governance and integrity building issues that affect the financial sector.

The theme of my speech is “Integrity, Diligence and a Clean Government Can Safeguard Development”.

As early as 1991, Mr DENG Xiaoping made the following profound observation: “Finance is very important, because it is the core of modern economy. Handling financial affairs well is the key to success in the economic sphere”. In recent years, as a result of the Central Government’s unremitting efforts to promote financial affairs, this particular sector has undergone major developments and has been placed firmly in the glare of the white-hot spotlight turned on it by the entire world. The financial structures required under the market economy regime are being perfected step by step; the total assets of the financial sector have greatly increased; the asset quality and operational effectiveness of the financial institutions have been continuously enhanced; financial orderliness has improved markedly; and the overall strength and risk management capabilities of the financial sector have been further strengthened. All these advances are playing a pivotal role in the economic development of society. Despite the harsh impact of the global financial crisis and highly unpredictable turns of events, the Central Government remains composed and resolute in strengthening macroeconomic regulation and control in order to safeguard the stability of the financial sector and the capital markets, and to maintain the stable and relatively rapid development of the economy.

In the course of achieving financial reforms and development, it is evident that strengthening effective supervision and entrenching the fight against corruption to build a clean government are two powerful manoeuvres that can best guarantee plain sailing. In fact, ever since the beginning of economic reform in China, we have always insisted on combating corruption and building a clean government in parallel to carrying out reforms and developments, because these two elements clearly complement and facilitate each other. While deep-rooted financial reform has provided the objective conditions and environments that can effectively combat corruption, strengthened financial monitoring and an increasingly vigorous fight against corruption have themselves successfully prevented and resolved financial risks, maintained financial stability, protected public legal rights, and promoted the sustainable development of social harmony and economic coordination. Allow me to outline for you the key policies and work requirements.

- (1) Insisting on carrying out reforms and bringing forth new ideas; and preventing breaches of the law and regulations at source

First, the financial regime must be reformed and a diversified market established. Here, reducing and restricting the degree of administrative examination and approval provides the fundamental weapon against corruption. Riding on the shareholding reform of state-owned commercial banks, the reform of the financial regime as a whole has achieved clear breakthroughs; the financial market has been further opened up, the market system has steadily improved, and a variety of financial institutions are now in active operation. Such achievements contribute to the provision of a level playing field for all.

Second, the reform of financial enterprises must be intensified and the mechanism of corporate governance must be established. Good corporate governance can help to ensure a balance of powers, clarify responsibilities and enhance transparency. Grasping the opportunity offered by the shareholding reform of financial enterprises, we should actively urge financial enterprises to introduce innovations into their systems, exercise prudence in bringing in qualified strategic investors, and set up a sound corporate governance mechanism. On the one hand, these enterprises should specify the structure of property rights, perfect internal reward and disciplinary mechanisms, and enhance work performance; on the other, they need to strengthen their internal monitoring framework, improve their risk management network, and enhance standards of internal control.

Third, system development has to be strengthened and basic regulatory mechanisms have to be standardised. Increases in financial innovations and the expansion of financial businesses into fresh domains must be properly matched by progress in the overall financial system. Such improvements include the gradual standardisation of systems involving the operation, supervisory management and legal operation of the financial market and institutions. In creating a mechanism that can fight corruption, our focus will be on enhancing oversight of the market in building sound systems and on making known to the public the procedures and standard behaviour for major issues involving administrative permission, funding allocation, staff appointment and dismissal, and large scale capital works.

- (2) Strengthening and improving regulatory management, and setting up a scientific and effective monitoring system

First, a modern financial regulatory system must be established and perfected. While following a framework that requires separate regulatory regimes for separate businesses, the People's Bank of China, the China Banking Regulatory Commission, the China Securities Regulatory Commission and the China Insurance Regulatory Commission have all made relentless efforts to improve and coordinate their financial regulatory systems, methodologies and practices, as well as enhancing the transparency, objectivity and effectiveness of such systems.

Second, it is necessary to ensure a fully effective interface between the administrative and regulatory departments. Administrative and financial regulatory bodies, together with the relevant regulatory and management departments of the economy and the judiciary, should co-operate and complement each other, sharing out duties such as formulating anti-corruption strategies and programmes, handling complaints lodged by the public, investigating corruption cases, devising trade practices, effectively promoting financial monitoring, and fostering a probity culture.

Third, it is essential to encourage overall monitoring and the monitoring of public opinion. Such monitoring provides important channels of information and these help to guard against ethical risks in the financial sector. By such means, compliance with the law and the efficient operation of markets can be enhanced, "black box" operations can be avoided, and a level playing field can be sustained.

- (3) Maintaining the effectiveness of penalties, carrying out thorough investigation and imposing stricter penalties for breaches of the law and regulations in the financial sector

In the first place, cases of illegal and irregular behaviour must be resolutely investigated and corruption penalised and severely punished. The financial sector is vulnerable to corruption and breaches of the law and regulations are not uncommon. Most of them are secretive in nature and most have serious consequences and adverse effects. We have recently carried out investigations and penalised a number of senior executives in the financial sector, including managing directors, general managers and bank managers, for having accepted or offered bribes or embezzled public funds. We have also investigated several regional financial institutions caught up in fraud and operational irregularities. If law enforcement is to be fully effective and strongly upheld we should take proper note of the deterrent and educational effects of fit punishment. In this way, we can promote corruption prevention and move forward from expedient initial measures towards a permanent cure.

Secondly, we have to deal with corruption in the business sector and to maintain an orderly financial market. Improper transactions and corruption in the financial sector tilt the playing field, increase trading costs, induce breaches of trust and disrupt the market. In recent years, the Mainland authorities have launched carefully phased special programmes to deal with business corruption in the financial sector. These have enjoyed remarkable success and moreover won favourable community response.

Thirdly, we must strengthen the legal system so as to fully demonstrate the preventive and disciplinary functions of the legal provisions. To address the current situation and deal with emergent problems in the financial sector, we should not only formulate and perfect the relevant legislation and regulatory framework but also focus on boosting the administrative, economic and criminal penalties and raising the costs incurred in breaching the law. We should strengthen our capabilities to trace illegal proceeds and properties in accordance with the law. We will continue to increase our cooperation with overseas authorities in order to reinforce our powers to arrest people who have fled the country with illegal proceeds. In this way, we can safeguard financial assets, protect the legal interests and rights of all those affected, and sharply reduce the losses our country might otherwise suffer.

(4) Attaching great importance to probity education and the promotion of integrity building

Our first priority must be to actively build a culture of probity and integrity, establishing the principle of “honour for the honest, disgrace for the corrupt”. By surrounding these cautionary admonitions with the broad cultural attributes of “integrity, probity, fairness and standards”, we can foster the concepts of compliance with the law and true honesty and integrity. We can increase the sense of responsibility and mission on the part of financial practitioners, so providing practical and spiritual support for the stable operation and healthy development of the financial sector.

In the second place, we must introduce an ethical culture into the system. Adding an element of culture building to requirements for strict compliance elevates the ethical dimension and breed respect for clean practice, and effectively binds financial institutions to uphold these values. Such obligations would thus become part and parcel of their management systems and operational regulations, ensuring that they were followed by regulatory departments in the exercise of their powers and by the financial enterprises as a whole when they sought to expand their business. This amalgam of culture and standards would enhance the effectiveness of our educational efforts. It would also develop the mindfulness and self-discipline of the financial practitioners.

Thirdly, we must promote the establishment of an ethical market system, seeing it as the true fount and origin of our efforts to fight corruption. We should improve the integrity of legal standards and management systems, promote an ethical and well-informed market, strengthen corporate and personal ethics, and actively encourage the sharing of trustworthy market and credit information. We need to fortify the penalty system and increase the costs for breach of trust so that those who are in breach will everywhere be kept in firm check. We can then look forward indeed to an atmosphere of “honour for the honest, disgrace for the dishonest” which has been heightened by “distress for the corrupt”.

Ladies and gentlemen,

Currently, in the face of a beleaguered economy and a harsh financial crisis, countries worldwide are actively taking expedient and effective measures to tackle the problems. This financial crisis has not only brought challenges but also opportunities to our own country as

well. But we really need to think deeply what lessons we can learn from the crisis and how we can turn crises into opportunities and calamities into advantages. Only thus can we arrive at a systematic conclusion and devise appropriate measures to tackle the situation. Nobody can dispute that the present financial meltdown will generate both rises and declines in the world's economies. As the lifeline of these economies, the financial sector must carry on functioning properly, steering a course that will preserve the health and vigour of the economic organism. Past history and the present severe requirements together urge us to ponder how best to handle six crucial relationships:

First, let us consider the relationship between the real economy and virtual economy. While striving to improve the real economy, we should also develop the virtual economy appropriately. These two economies must complement and promote each other. There must be no delinking, and no running counter to each other;

Second, the relationship between free market development and government's macroeconomic regulation and control. When bringing into full play the fundamental role of deployment of market resources, scientific and powerful macro control is required so that the "invisible hand" at work in the market and the "visible hand" of the Government can bring out the best in each other according to their own particular functions;

Third comes the relationship between financial innovations and risk prevention. Even as we promote financial innovations, we should set up a sound and powerful regulatory and prevention mechanism to help quantify the risks involved;

Fourth, we have the relationship between stability and the opening up of the financial market. If we insist, as we should, on prescribed principles, the degree of opening up of the financial market should match the degree of market growth and the regulatory capabilities of the Government;

The fifth crucial relationship is that between "integrity, diligence and honesty" and the legal system. The legal system is the beating heart of the financial sector and integrity is its soul. These two elements are indispensable and form true complements to each other in the healthy development of the financial sector;

Sixthly and finally, we must consider the relationship between external monitoring and self-regulation by enterprises. The survival or collapse of an enterprise may hinge upon whether it has set up internal controls; but external monitoring is just as important. An advanced concept of regulation requires that monitoring should be treated as part of service provision; advanced corporate governance requires that enterprises must effectively handle public and corporate, external and internal affairs with equal diligence if they are to perform the social responsibilities which they should rightly bear.

This leads me to advocate the following concepts and share them with you today:

First, the practical strengthening of financial regulation — "The better that finance develops, the more important regulation becomes." With the financial market becoming increasingly innovative, complicated and varied, we should adhere steadfastly to following the trends of the development and reform approach and should implement powerful and effective regulation.

Second, the industrious practice of the concept of "integrity, diligence and honesty". A market economy is not only an economy ruled by law; it is also an economy based on ethics.

In his book *The Theory of Moral Sentiments*, Adam Smith singles out self-love, self-discipline, diligence, honesty, fairness, justice, courage, modesty, public spirit, and public ethical standards as the human attributes required of market participants. The concept of “integrity, diligence and honesty” is not only a manifestation of the common values of a market economy; it also squarely reflects the prescribed requirements of the financial sector. Practitioners and other stakeholders of the financial sector have to practise this concept diligently. They should perform their duties in compliance with the law and regulations, with honesty and integrity, with diligence and dedication and in the interests of the people. The administrative, regulatory and anti-corruption agencies have a heavy responsibility to bear and an honourable mission to pursue in bringing about this state of affairs.

Third, the strengthening of exchanges and the cooperation among the three places represented here today. Our respective administrative, regulatory and anti-corruption agencies should actively break new ground and strengthen cooperation. Riding on previous successful experiences and cooperation, we should establish new exchange channels, enrich exchange formats and deepen exchange content (including convening thematic conferences) to provide a long-term exchange and cooperation mechanism and an interactive platform for sharing experience. Regarding actual corruption prevention work in the financial sector, such as combating cross-boundary corruption crimes, our three jurisdictions should strengthen cooperation and coordination, and enhance integration and effectiveness.

Ladies and gentlemen,

Since the return of Hong Kong and Macao, the “One Country, Two Systems” policy has been successfully implemented. Society is stable, the economy has developed and the livelihood of the people has improved. Finance in particular — the pillar of Hong Kong’s economy — has developed steadily and contributed significantly to the development and stability of Hong Kong within a comprehensive and sound regulatory framework. Amid the current financial crisis, the SAR Governments of both Hong Kong and Macao have proactively and resolutely taken actions to prevent systemic risks and mitigate any impact of financial volatility on the economy as a whole. Both present and past experiences indicate that unwavering confidence is of the utmost importance when facing the challenge of a financial crisis. As we often say, “As long as you don’t let the spirit down, there will be more solutions than hardships”. Although the global financial crisis does to some degree affect the finance and the economy of China, the financial regime in China still stands stable and secure. The basic economic situation of China remains unchanged. Our great motherland still provides a strong and solid backing for the prosperity and stability of Hong Kong and Macao.

We may experience wind and wave on the way but we can be assured of plain sailing in the days to come. We truly believe that we have the ability to brace ourselves against challenges and resolve the crisis. Through our concerted efforts, we can enhance economic development, safeguard the stability of the financial market of China and enjoy a brighter future by promoting ethics, strengthening supervision and building a clean government.

Finally, I wish this conference great success, and all those taking part good health and prosperity! 🐯