

**Speech by Mr Paul CHOW Man-yiu,
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at the Conference on Corporate Governance in the Financial Sector
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Good morning distinguished guests, ladies and gentlemen.

It is a pleasure to be invited by the ICAC to be one of the speakers at the Expert Panel this morning. In the next few minutes, I will share with you the thoughts of HKEx on the importance of corporate governance in Hong Kong.

As most of you would agree, the current global financial crisis originated more than a year ago, starting with the subprime and then credit problems in the USA. Some of the commentators have said

that the root cause of this financial crisis was actually due to greed, fraud and selfishness, followed by fear and panic. Unfortunately, the crisis has affected the real economy, resulting in an increased unemployment rate. Companies are withholding some of their existing and new business initiatives. Investors are no longer interested in investing in the financial market. In general, there is a lack of investor confidence.

I have said on many occasions in the past that in order to attract investor confidence, we must uphold and improve the quality of our market. As you would agree, there are many factors affecting the quality of our market, one of which is corporate governance - a dynamic and constantly evolving subject which can be discussed and studied for life, because corporate governance is not solely a matter of rules and regulations; it is a matter of ethics, integrity, people and culture.

Over the past five years, HKEx has worked closely with the Hong Kong Government, the Securities and Futures Commission and professional bodies on a number of initiatives to continuously enhance different aspects of corporate governance standards. These include:

- * Corporate Governance Action Plan (2003)
- * Corporate Governance Code and Corporate Governance Report (2005), which was modelled after the UK Combined Code of Corporate Governance. The Code itself contains some mandatory provisions and recommended best practices for listed issuers and directors to follow. We have also adopted a “comply or explain” approach
- * “Internal Control and Risk Management - A Basic Framework” with the HKICPA (2005), which has become one of the important aspects of Corporate Governance
- * New Rules for Sponsors and Independent Financial Advisors after a joint market consultation with the SFC (2005)
- * New sponsor regime implemented by the SFC (2007)
- * Joint Policy Statement with the SFC regarding Listing of Overseas Companies (2007), which spelled out one of the important requirements for listing of foreign companies in

Hong Kong, and that is investor protection requirements. We want the requirements to offer at least equivalent standards of shareholder protection as offered under the Hong Kong laws

- * Corporate Governance and changes to the Listing Rules is obviously a constantly evolving subject. A year ago, we consulted the market on 18 important issues relating to Corporate Governance and compliance. This is what we called the “Combined Consultation on Proposed Changes to Listing Rules” (2008). We have just released conclusions on 15 out of 18 issues and changes to the Listing Rules. The remaining three conclusions will be issued in early 2009.

Under the Listing Rules and the Code of Corporate Governance, the board of directors of the listed issuer is collectively responsible for the management and operations of the listed issuer. Directors are expected, both collectively and individually, to fulfil fiduciary duties, and to exercise their duties with skill, care and diligence to a standard at least commensurate with those established under the laws of Hong Kong at all times.

In a nutshell, directors are generally expected to follow certain guiding principles, and they include:

- * acting in good faith for the benefit of the company as a whole
- * using powers for a proper purpose for the benefit of members as a whole
- * delegating powers with proper authorisation and exercising independent judgement
- * exercising care, skill and diligence
- * avoiding conflicts between personal interests and interests of the company
- * paying particular regards to the interests of minority shareholders
- * avoiding the gaining of an advantage from use of a position as a director
- * keeping proper books of accounts

Apart from complying with these rules and regulations, listed issuers and their directors are expected to keep the Exchange and their stakeholders informed at all times in a timely manner of any information relating to the issuer and its group.

This is because timely disclosure of financial information and price sensitive information such as potential and real risks, profit warnings, etc by listed issuers is necessary and crucial to help stakeholders of listed issuers to better appraise the issuers’ most up-to-date situation and allow shareholders and investors to make informed investment decisions.

To assist the listed issuers in disseminating relevant information in the market for the listed issuers, the Exchange implemented an Electronic Disclosure Project and subsequently launched a designated issuer website in February 2008. This website allows companies to release their news to the public, and the Exchange and other regulatory authorities can also use this website to release regulatory announcements. In essence, this has been a very useful archive for companies to store information whereby all investors and the public can have access to it.

We must pause here and thank the SFC for approving our rules for shortening the financial reporting period. We are currently working with the SFC to devise the right model for quarterly reporting in Hong Kong. Hopefully, this will help improve companies' disclosure of information to the market. When I talk about financial reporting periods and quarterly reporting, I have to emphasize that the Exchange wants issuers to disclose relevant information to the market on a continuous basis.

The market quality of Hong Kong does not only depend on the mere provision of processes and structures by the operator, it also depends on the collective cooperation of market participants, including accounting and legal professionals, market intermediaries, issuers and their senior executives and directors in upholding corporate governance standards. As I have said earlier, some of the key characteristics of high corporate governance standards include easily accessible information, education and training, comprehensive shareholder protection measures, clear and complete rules, and effective regulatory enforcement. I believe Mr Martin Wheatley from the SFC will say more about transparency, disclosure and regulatory enforcement later on. When I talk about regulatory enforcement, obviously, this will include the Exchange, the Commercial Crime Bureau and the ICAC.

Our corporate governance standards in Hong Kong will not hold if we do not have the full support of all the parties involved - market participants, issuers, professional bodies, regulators, and the media. At the end of the day, responsibility for good corporate governance rests with all the stakeholders in the process.

Therefore, I believe education, including director education, management education and investor education, is very important. We need to understand the true value of adopting international standards and best practices and adopt them with a firm belief that good corporate governance is good for company performance. With good corporate governance, companies may perform better. Studies over the past many years in the academic circles have shown that investors will pay a premium for those companies which adopt good corporate governance. For companies, this will translate into a lower cost of capital. Higher liquidity for the market will be another positive outcome.

In conclusion, I believe the essence of corporate governance is "Doing the Right Things" and "Telling the Whole Truth". This involves many things that I said earlier, such as rules and regulations, transparency and disclosure, education and training, and above all, ethics, integrity, people and culture.

In Hong Kong, our ultimate goal is to establish a compliance culture where directors, market participants and professionals all strive to uphold the highest possible corporate governance standards to help maintain Hong Kong's excellence in market quality. We should not allow any compromise in our upholding of the market quality in Hong Kong, which is essential for Hong Kong to maintain itself as an international financial centre and as a premiere capital formation centre for Mainland China.

Ladies and gentlemen, thank you for your kind attention. 🙏