

“Ethics – The Core Value of Leadership” – 2007 Directors’ Forum
14 September 2007

Opening Address by The Honourable John TSANG Chun-wah, JP,
Financial Secretary of the HKSAR

Timothy, Distinguished Guests, Ladies and Gentlemen,

Good morning.

It is my great pleasure to join you all today to witness the inauguration of the first co-ordinated, structured and long-term Directors' Training Programme. It marks the unwavering commitment of the Hong Kong SAR Government to promote corporate governance through the practice of ethical governance and leadership. May I, on behalf of the Hong Kong SAR Government, extend to you all my deep appreciation of your presence here today.

The spate of corporate scandals around the world in recent years has fuelled global discussion on the causes of corporate failures. There is an emerging consensus on the value of good corporate governance. Many studies have clearly suggested a positive link between good corporate governance and company performance. Prevention is better than cure. There is nothing that is more effective than to practice ethical corporate governance and to build in systems and procedures that are conducive to transparency, accountability and proper checks in order to enable corporations to effectively manage the risks arising from unethical behaviour, malpractice, or even corruption and fraud.

Together with the rule of law, an independent judiciary, a level playing field for business, an effective regulatory framework and a clean and efficient civil service, the high standard of corporate governance here has enabled Hong Kong to maintain and enhance the competitiveness of our financial markets.

Over the years, the Hong Kong SAR Government has been making conscious efforts to promote a robust and effective corporate governance regime. In 2003, we drew up a Corporate Governance Action Plan, together with the Securities and Futures Commission and The Hong Kong Exchanges and Clearing Limited, to promote our corporate governance standards and bring them into line with international ones. Since then, we have launched further initiatives to upgrade our corporate governance regime. The latest effort resulted in the establishment of the Financial Reporting Council in July this year to investigate audit irregularities and accounting non-compliances of listed companies in Hong Kong. It is an example of institutional arrangements to further enhance the quality of financial reporting by listed companies. Our efforts in these few years have begun to bear fruit.

The Hong Kong Institute of Directors and City University of Hong Kong conducted a comprehensive study on corporate governance practices by Hong Kong companies in 2005. The study found that there has been an overall 16% improvement in corporate governance practices as compared to the results in the first study in 2004. Internationally, our good progress in strengthening corporate governance was recognised this year by the International Monetary Fund in its Staff Report on Hong Kong that was released in January this year. In addition, the Heritage Foundation has ranked Hong Kong as the world's freest economy for 13 consecutive years, with being free of corruption one of the key factors. The Global Financial Centres Index, published by the City of London in March, also placed Hong Kong third worldwide in terms of financial centre competitiveness, and saw Hong Kong as a genuine global financial heavyweight in the years ahead.

We have come a long way to achieve these, and the Government appreciates that these achievements would not have been possible without the concerted efforts of the business community. However, there is always room for improvement. Riding on the momentum and past achievements, we need to continue to vigorously pursue various corporate governance initiatives by strengthening the "Three-Cs" - compliance, culture and continuous collaboration. Let me elaborate on the "Three-Cs" approach :

The first "C" – compliance

* Compliance - With a view to strengthening compliance, the Hong Kong SAR Government will continue with efforts to enhance the regulatory framework. We have started to work on legislative proposals to give statutory backing to major listing requirements. When enacted, these statutory requirements will upgrade the standard of corporate disclosure and enhance the market quality in Hong Kong. We will also embark on a five-year project to modernise Hong Kong's Companies Ordinance with a series of public consultation on topical issues. The first public consultation on how to improve the accounting and auditing provisions of the Ordinance was launched in March.

The second "C" – culture

* Culture - Corporate governance is not just about rules, regulations and systems. Good corporate governance ultimately depends on an ethical corporate culture. Corporate leaders and directors should practise ethical governance and constantly upgrade themselves in this regard. Through consultation on several corporate governance reviews and measures in previous years, we have noted supportive views from different stakeholders on the need to provide training for directors. Training, in order to achieve its ultimate objectives, should not cover only technical issues such as directors' duties and the latest regulatory requirements, but must also address the important topic of enhancing directors' ethical responsibilities and value judgment. In this fast-changing world, we constantly encounter grey situations which render right or wrong judgments difficult. As corporate leaders pursuing ethical governance, you would definitely find today's group discussion session and plenary discussion thought-provoking and useful in helping you master these grey situations and put ethical leadership into practice in your company.

The third "C" - continuous collaboration

* Continuous Collaboration - The success of building up good corporate governance culture and achieving satisfactory compliance hinges very much on the continuous and collective efforts of relevant stakeholders. The Hong Kong SAR Government will continue these collaboration

efforts, both in spirit and in action. Today, I am glad to see the concerted efforts by the ICAC and relevant stakeholders, including regulators, professional bodies and chambers of commerce in pledging their support to the launch of the Directors' Training Programme to promote directors' ethics on a long-term basis. The Hong Kong SAR Government fully endorses this initiative and my warmest congratulations go to the co-organisers in bringing the programme into reality.

Looking ahead, it is vital to make continuous efforts to take the "Three-Cs" to new heights, and demonstrate to local and international investors our commitment to enhance the quality of Hong Kong's market. To achieve this goal, we need to pool the expertise, support and commitment of all stakeholders, including the regulators, professional bodies and corporate leaders like yourselves.

Ladies and Gentlemen, thank you once again for your participation. I wish the forum and the training programme monumental success.

Thank you very much.