Strengthening Hong Kong's Corporate Governance Culture

Commissioner, Mr. Sun, distinguished guests, ladies and gentlemen,

It is a pleasure to be here with you all today.

Corporate governance may not be a subject that elicits immediate excitement, but it is fundamental to maintaining Hong Kong's hard-earned position as an international financial centre. Good corporate governance means governance free of corruption, fraud, undue influence and conflict of interest. At the root, good corporate governance is about personal integrity and honesty, and not just complying with rules and regulations. Capital naturally flows to markets and companies that practice good governance.

I am honored to be given the opportunity to serve as the Chairman of the Advisory Committee on Corruption of the ICAC since 2013 and the Chairman of HKEX since 2012. They give me a unique perspective. The ICAC and HKEX share the common goal of upholding fairness and the stability of Hong Kong and its financial market.

The ICAC's mission statement says the Commission is "committed to fighting corruption through effective law enforcement, education and prevention to help keep Hong Kong fair, just, stable and prosperous." There are similar words in HKEX's role as a front-line market regulator, through the maintenance of an orderly, informed and fair market, so as to sustain Hong Kong's status as a leading international financial centre. Both organisations are working towards the same goal. Keeping Hong Kong corruption free and prosperous.

HKEX deeply believes that good corporate governance is not just some esoteric ideal, but results in tangible competitive advantages.

It is widely recognised that companies with a consistent record of good governance find it easier to raise capital. And they are able to do so on more favourable terms. To avoid over- simplification, I should mention that good Governance alone will not necessarily lead to success. A successful company also needs strong leadership and management. They must co-exist. Strong leadership without Governance could lead to tyranny, unchecked decisions, conflict of interest and behaviors unacceptable to stakeholders which often times end in ruins. Good governance without corresponding leadership and management can lead to atrophy, bureaucracy and indifference.

Experience shows that bad corporate governance negatively affects both the companies concerned, and the reputation of the markets in which they are listed.

We don't need to look very far to see what happens. The Asian financial crisis of 1997 is regarded by some commentators as a crisis of corporate governance. If that crisis reflected failures in Asia, then the collapse of companies like Enron and Worldcom in 2002, as well as the global financial crisis from 2008 reflects corporate governance issues in western markets.

The collapse of these companies – largely as a result of accounting fraud – shone a spotlight on the fundamental issue of corporate governance. Contrary to popular belief, the responsibility to detect and prevent corporate fraud does not rest with external auditors or regulators, it rests squarely on the shoulders of the company's directors and managers. Poor governance standards were often at the root of unhealthy companies.

What was the common denominator in these failures? It was not that there were no rules. In fact, there were plenty of rules. It was rather that the principles behind the rules were not being followed. People were generally complying, but complying with the "letter of the law" rather than the spirit. No one was asking, "Is this right?"

In Hong Kong, partly by good fortune and partly by design, we escaped most, though not all, of the problems that arose from the financial crisis. None of our banks collapsed. Our capital market recovered quickly.

Nonetheless, there is no room for Hong Kong to be complacent. Corporate Governance, like ethical standards, do not stand still. They evolve and change over time as values and circumstances of societies change. Treating customers fairly, diversity, sustainability, social responsibilities, preparedness for risk, and a whistleblowing policy are subjects that are regarded much more importantly today than a decade ago.

HKEX therefore closely monitors corporate governance developments and reviews the related Code and rules on an ongoing basis to ensure that they are relevant and are adequate for maintaining investors' confidence.

While there is a consistently high level of compliance with the code and related rules, we want to avoid compliance being an exercise whereby companies simply "tick the box". The Exchange believes it is important to educate and remind business leaders the crucial areas of directors' duties and corporate governance to ensure they can fulfill their responsibilities. We clearly set out our expectations for directors and launched a quarterly directors' training programme on our website this year.

We have also started publishing a biannual Enforcement Newsletter which provides news and updates of the work undertaken by the Exchange, and highlights specific areas of concern.

We are looking at further enhancing transparency and accountability of the nomination and election process of independent non-executive directors. INEDs play an important role in assuring investor confidence -- they act in the interest of the company and the shareholders as a whole, and are expected to exercise independent judgment and guard against conflicts of interest. We hope to have more to say on this shortly.

All of these initiatives show that HKEX and the market have continued to improve corporate governance.

This also aligns with the ICAC's long history in advocating for ethical governance and best practices. In the past two decades, the Hong Kong Business Ethics Development Centre of the ICAC has been dedicating efforts to train and bring awareness of business leaders and professionals to anti-bribery laws, ethical business practices and directors' responsibilities in the anti-corruption cause.

HKEX and the ICAC began to cooperate to promote good governance to listed companies as early as 2003. There have been many joint efforts in seminars, conferences, and talks, as well as the preparation of practical guides and case studies.

Good corporate governance does not happen overnight: it takes years of education, and improvements to Listing Rules together with compliance enforcement, promotion and communication.

Hong Kong has ranked number one globally in IPO funds raised in five out of the past eight years, above New York, London and Tokyo. Issuers and investors come

to our market because they trust us; they trust our standards, they trust our record, they trust our regulation, and they trust our transparency.

The call for ethical governance has become an international quest. Listed companies are not only expected to fulfill the requirements set out by regulators, but should also enshrine good governance in their DNA and build an ethical corporate culture so that the company can prosper in the long run.

In closing, I would like to leave you with two thoughts. Ethics in business is extremely important. Our reputation is all we have in life. Corruption is the enemy of development. We must work together to get rid of it.

Thank you.