

Speech

Speech by SFST at Hong Kong Institute of Chartered Secretaries 10th Biennial Corporate Governance Conference (English only)

Friday, September 23, 2016

Following is the speech by the Secretary for Financial Services and the Treasury, Professor K C Chan, at the Hong Kong Institute of Chartered Secretaries (HKICS) 10th Biennial Corporate Governance Conference today (September 23):

Ivan (Tam), distinguished guests, ladies and gentlemen,

Good morning.

I am delighted to join you all today at the Biennial Corporate Governance Conference of the Hong Kong Institute of Chartered Secretaries. In its 10th edition this year, the conference has brought together thought leaders from various fields in one place to explore the ever-changing landscape of corporate governance. This year is no exception.

We in Hong Kong have every reason to attach great importance to corporate governance. As of August 2016, Hong Kong has over 1.3 million companies registered with the Companies Register. We incorporated almost 140,000 companies last year alone, and that comes down to more than 500 a day. And despite the slowing global economy, Hong Kong retained the top spot in terms of IPO funds raised in the world last year.

These statistics are a vote of confidence in Hong Kong's corporate governance standards. In fact, Hong Kong ranked fourth in ease of starting a business according to the World Bank's Doing Business Report 2016, which compares business regulations in 189 economies in the world. Among these indicators, Hong Kong ranked first in protecting minority investors worldwide. The study also commended the electronic filing service we launched last year, and the implementation of a modern collateral registry to help improve access to credit.

Cheers and applause to our corporate governance regime as it is a product of many years of hard work. The Corporate Governance Review,

released in two phases in 2001 and 2003, was subsumed in the Companies (Amendment) Ordinances of 2003 and 2004 and, ultimately, in the new Companies Ordinance, passed in July 2012 and came into operation in 2014. And we had the enactment of the Securities and Futures Ordinance in 2003, followed by revisions of the Code on Corporate Governance Practices in 2005, 2012 and 2013.

This year marks the second anniversary of the implementation of the new Companies Ordinance. Under the new Ordinance, the operation of companies is now more transparent and accountability of directors strengthened. There are also more opportunities for shareholders to participate in the decision-making process of companies, and their interests are better protected.

Thanks to the hard work of the industry and the Companies Registry, the implementation of the new Ordinance has been very smooth so far. It is well received as well since the business community is keen to take advantage of the initiatives introduced to facilitate business and save costs. For example, around 98 per cent of those companies which reduced their capital adopted the alternative court-free procedure in 2015. And about 60 per cent of company restoration cases are now dealt with under this new procedure. SMEs meeting specified size criteria are now preparing simplified financial statements and directors' reports.

I would like to thank the Hong Kong Institute of Chartered Secretaries for your inputs during the consultation and your hard work making a smooth sail of the transition process.

Highly regarded by international investors, our corporate governance regime has all along been the cornerstone of our financial market. Good corporate governance enhances investors' confidence and the appeal of our markets, which underpin the stability of our financial system. A Hong Kong listing has also become a popular way for many companies to demonstrate to the world the accomplishments they made in corporate governance.

It is therefore no surprise that Hong Kong was home to the fourth largest stock market in Asia at the end of July. In terms of IPO funds raised, Hong Kong has been among the top five globally for the past decade, ranking first from 2009 to 2011 and 2015.

To further enhance Hong Kong's business environment by giving confidence to investors and creditors, we have conducted comprehensive review of the relevant provisions in the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the relevant Amendment Ordinance was enacted by the Legislative Council in May 2016. The Amendment Ordinance will improve and modernise Hong Kong's corporate winding up regime by providing measures to increase protection of creditors as well as streamline and enhance the integrity of the winding up process. These will also help further align our corporate winding up regime with the latest international developments.

Last but not least, the audit profession also plays a crucial role in helping companies uphold the highest corporate governance standards. It is imperative to ensure that we have a robust regulatory regime for auditors of listed entities that is up to international standards and practices. This is particularly important given the international nature of our financial market and during times of economic uncertainties.

The Government has embarked on a reform exercise to improve the regulatory regime for auditors of listed entities in Hong Kong. The key objective of the reform is to further enhance the independence of the regulatory regime for listed entity auditors with a view to ensuring that the regime is benchmarked against international standards and practices.

Under the reform proposals, the Financial Reporting Council (FRC) will become the independent auditor oversight body vested with direct inspection, investigation and disciplinary powers with regard to listed entity auditors, whilst the HKICPA (Hong Kong Institute of Certified Public Accountants) will perform statutory functions of registration and standards-setting with respect to listed entity auditors under the new regime, subject to the independent oversight by the FRC.

In the earlier public consultation, an overwhelming majority of the respondents were supportive of the objective and direction of the reform. The Government is preparing an amendment bill for the reform and will continue the dialogue with relevant stakeholders in working out the detailed arrangements of the new regime. We look forward to continued support from

all stakeholders to the reform.

As an international financial centre and responsible member of the global community, Hong Kong supports the international agenda to enhance tax transparency and combat cross-border tax evasion.

We have been actively pursuing comprehensive the avoidance of double taxation agreements (CDTAs) and tax information exchange agreements (TIEAs) with other jurisdictions. As of April 2016, 35 CDTAs have been concluded, and we are in discussion with India, Saudi Arabia, Finland, Bangladesh and others. Since the enabling legislation for signing TIEAs came into place, seven such agreements have been concluded with our partners.

We have also been actively involved in the OECD's Global Forum on Transparency and Exchange of Information for Tax Purposes. We indicated our support for implementing the Standard for Automatic Exchange of Financial Account Information in Tax Matters last September. We plan to begin the first information exchanges with appropriate partners by the end of 2018, as long as domestic legislation is in place by 2017.

We will continue to engage relevant local stakeholders and address policy and legal issues before we seek the Legislative Council's approval. In this, we look forward to your input and support. Our intent, of course, is to meet international obligations and, in so doing, protect Hong Kong's status as a global financial centre.

Ladies and gentlemen, the corporate governance system is the cornerstone of modern companies and today's free capital markets. Corporate governance structures are widely adopted in the administration of many public bodies in Hong Kong and other parts of the world. The corporate governance regime is also an evolving one. I'm confident that you will make the most out of this two-day programme to understand the forces driving these changes. We look forward to working closely with the HKICS to further improve our regime in the future.

Thank you.

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