

Speech

Speech by SFST at Hong Kong Institute of Directors Annual Dinner cum Presentation of 2016 Directors of the Year Awards (English only)

Tuesday, December 6, 2016

Following is the speech by the Secretary for Financial Services and the Treasury, Professor K C Chan, at the Hong Kong Institute of Directors (HKIoD) Annual Dinner cum Presentation of 2016 Directors of the Year Awards today (December 6):

Henry (Chairman of HKIoD, Mr Henry Lai), ladies and gentlemen,

Good evening. It is again my great pleasure to join you at the annual highlight of the Hong Kong Institute of Directors. First, my warmest congratulations to the winners of this year's Directors of the Year Awards. Your commitment to the highest standards of corporate governance is central to Hong Kong's reputation as an international financial centre.

Promoting good corporate governance has long been a government priority. We see now corporate governance structures are widely adopted in administration of many public bodies in Hong Kong and other parts of the world. With good practices, investors' confidence and the appeal of our markets will be enhanced, which underpin the stability of our financial system.

Launched in 2001, the Directors of the Year Awards are the first of its kind in Asia. So far 151 awardees who have demonstrated exemplary high standards in corporate governance and professional director practices have been recognised. So, a big applause to all your contributions.

The theme for this year's awards is "Corporate Sustainability – the Board's Crucial Role". While corporate sustainability recognises that corporate growth and profitability are important, it also requires corporations to pursue societal goals, specifically those relating to sustainable development – environmental protection, social justice and equity, and economic development.

In other words, corporate sustainability generally and essentially refers to a way to conduct business that creates long-term consumer and employee value, is friendly towards the natural environment and also taking into consideration

the social, cultural and economic environments in which the business operates. The Government, the regulators, i.e. the Securities and Futures Commission (SFC) and the Stock Exchange of Hong Kong, have updated policies concerning sustainability and corporate governance in general in recent years. The choice of the theme this year is very timely indeed.

As you all know, the new Companies Ordinance mandates all Hong Kong incorporated companies to include a business review in their directors' report, which should include a discussion of their environmental policies and performance, their compliance with relevant laws, and an account of their key relationship with employees, customers and suppliers. In order to maintain a level playing field, these disclosure requirements have been adopted as mandatory requirements for all companies listed on the Stock Exchange here regardless of their place of incorporation.

Meanwhile, following a consultation exercise, the Stock Exchange of Hong Kong has decided to upgrade certain disclosure obligations in the Environmental, Social and Governance (ESG) Guide from voluntary to "comply or explain". The upgrades in different aspects are implemented in phases from beginning of this year and 2017 respectively.

The development of ESG report will continue to be an evolutionary process, with the longer term goal of achieving better and more comprehensive ESG reporting amongst issuers. Going forward, the Stock Exchange intends to review the Guide periodically, particularly in the light of any future regional or international developments in this area.

For investors, no doubt they can play a significant role in corporate governance by holding the board accountable for the fulfilment of its responsibilities. Investors can seek information from companies to evaluate risk and investment opportunities; monitor the progress and performance of their investee companies; and take action when they believe directors are not acting in their interests. As such, shareholders carry out an essential function for effective capital allocation that contributes to economic growth.

As a leading international financial centre, it is important that Hong Kong plays its part as a world citizen and encourage proactive ownership engagement between investors and publicly-listed companies. The consultation

conclusions on the Principles of Responsible Ownership were published by the SFC in March. The Principles, which are voluntary, are intended to apply to investors who invest money or hold shares on behalf of clients or stakeholders to whom they are accountable. The Principles provide guidance on how investors in Hong Kong listed companies should fulfil their ownership responsibilities. The goal is to promote an investment culture where engagement with investee companies is regarded as paramount and fundamental. This will in turn strengthen corporate governance.

And thanks to good corporate governance standards, our stock market has always been a highlight of the financial markets. In fact, we ranked first in the world in 2015 and this year so far in terms of IPO funds raised. But for a healthy market to develop, we must look beyond the amount of funds raised or the number of new IPO cases. We must also pay attention to the quality of the market. The SFC and Stock Exchange have recently completed a joint consultation exercise on listing regulations and are currently looking into the responses received. I have every confidence that we will be going after an even fairer and more accessible market for the benefit all stakeholders.

Ladies and gentlemen, as an international financial hub, Hong Kong is renowned for its excellent standards of corporate governance, among others. And our hard work has not gone unnoticed. We were given recognition in a number of international reports and rankings over the years as the most competitive economy or the freest economy in the world.

These achievements are due in no small part to the work of directors, and I can see that the best of directors are represented here tonight, to be recognised through the 2016 Directors of the Year Awards. My congratulations also to the Hong Kong Institute of Directors for another successful year, and another great year-end celebration. I wish you all the best of business, and directing, in the coming year.

Thank you.

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