Speech

Speech by Acting SFST at Directors' Conference of the Hong Kong Institute of Directors (English only)

Friday, September 22, 2017

Following is the speech by the Acting Secretary for Financial Services and the Treasury, Mr Joseph Chan, at the Directors' Conference of the Hong Kong Institute of Directors today (September 22):

Ladies and gentlemen,

Good morning. It is a great pleasure to join you all today at the Directors' Conference organised by the Hong Kong Institute of Directors. Over the years, the Institute has played a key role in fostering corporate governance in Hong Kong, not the least through initiatives such as the Directors of the Year Awards, the Global Directorship Programme, and a series of professional talks and training courses. So first of all let me thank the Institute for all the great work in promoting good corporate governance it has done over the years.

Introduction

Business ethics, corporate social responsibility, code of conduct - there are plenty of phrases out there that speak of why we're here today. Because without a clear, compelling and corporate-wide commitment to principled business practices, we put in jeopardy the trust and loyalty of consumers, investors and society at large.

Indeed, not only do corporate governance standards help define market quality. They are also central to maintaining Hong Kong as an international financial centre in today's hyper-competitive and hyper-connected world, where a single error in corporate governance can result in a scandal at the speed of light.

A Clear way forward for Listing Regulation

The Hong Kong Government and our regulators see good governance and market quality as fundamental to maintaining Hong Kong as an international financial centre. Just a week ago, the Stock Exchange of Hong

Kong (SEHK) and the Securities and Future Commission (SFC) released their joint consultation conclusions on the enhancements to the SEHK's decision-making and governance structure for listing regulation. The conclusions have provided a clear way forward and clarified the respective roles of the SEHK as the regulator which administers the Listing Rules, and the SFC as the statutory regulator.

The SEHK will continue to make decisions under the Listing Rules, and the role of the Listing Committee will remain unchanged. The role of the SFC as a statutory regulator has evolved to have a more direct presence in more serious listing matters that fall within the scope of the Securities and Futures (Stock Market) Listing Rules, or the Securities and Futures Ordinance more generally. This approach allows the SFC to raise comments and explain its decisions directly to market participants, ensuring that listing decisions are made in a more transparent, efficient and accountable manner. The SEHK and the SFC will co-ordinate and co-operate to ensure that the process is efficient.

Rules and Guidelines by the SEHK

Of course, corporate governance issues extend beyond IPO applications. For listed companies, the SEHK adopts a multi-pronged approach toward corporate governance through a combination of mandatory rules, code provisions and recommended best practices. The Corporate Governance Code has a direct effect on upholding business ethics, requiring listed companies to put in place risk management and internal control systems. These should include controlling the risks associated with bribery and corruption. This also means creating a company code of conduct for directors and staff, as well as a whistle-blowing policy, ensuring that employees are able to raise concerns about possible company improprieties.

Enforcement by the SFC

Furthermore, enforcement is necessary to maintain market quality. The Government and regulators are closely monitoring rights issues and open offers that substantially dilute the interests of non-subscribing minority shareholders. The Government has also been concerned with very large price declines, high volatility and potential market misconduct in certain small-cap stocks. These stocks usually share the characteristics of thin turnover, small public floats, high shareholding concentrations and multiple relationships between companies and listed brokerage firms. The SFC has stepped up efforts in this area - SFC enquiries into issues such as company disclosure, insider dealing and market manipulation have more than doubled since 2011. Moreover, the number of formal proceedings – disciplinary and otherwise – have increased by more than 50 per cent. The SFC has also set up special operational teams to take on more serious market problems.

The Role of Directors

Directors, of course, are key stakeholders in corporate governance. Effective corporate governance demands that the board sets the right tone at the top and that it puts business ethics squarely at the heart of its company culture. This is why conferences like the one we are at today are so important, engaging directors in continuing professional development to remain up-to-date with corporate governance practices. At their end, the SEHK rolled out its director training webcasts this year. It also publishes findings and recommendations regarding its review of issuers' annual reports and corporate governance practices. These provide guidance to the market on regulator expectations, and that should help raise standards in future.

It goes without saying that investors also play an important role in corporate governance. Ownership of shares brings with it important responsibilities, particularly the right to speak and vote on matters that can influence the way in which a business is conducted. Many investors take into account corporate governance standards during their due diligence and some are willing to pay a fair price for shares if the companies score high on this metric. In fact, investors can play an important part in enhancing corporate governance. To promote a healthy investment culture, the SFC published its "Principles of Responsible Ownership" last year, providing guidance on how investors in listed companies should fulfil their ownership responsibilities. It also inspires an investment culture where engagement with investee companies is seen as fundamental.

Companies Ordinance

In addition to the above, the Government has also led efforts to update our company law, with the improvement of corporate governance as a major objective. The new Companies Ordinance, which came into operation in 2014, has created a more comprehensive set of rules for the disclosure of conflict of interest among directors. It also requires companies to include a business review in their directors' reports. Such a review should include a description of the principal risks facing the business, a discussion of the company’s environmental policies, and an account of its key relationships with employees, customers and suppliers. I'm pleased to note that as a result of these new initiatives, we were commended by the World Bank for enhancing the protection of minority investors. Hong Kong now ranks third, globally, in protecting minority investors.

Conclusion

Ladies and gentlemen, the Government, the regulators, company directors and investors all have a role to play in ensuring good corporate governance. A comprehensive commitment to ethical behaviour means dedicated employees, satisfied customers and responsible investors - all the ingredients, in short, of a flourishing economy. That's what I call a happy ending.

Once again I would like to thank the Hong Kong Institute of Directors for organising today's event, and its continuing efforts in promoting good corporate governance and professional directorship in Hong Kong. I wish you all a rewarding conference today. Thank you.

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