

**Speech by Professor K C Chan, the Secretary for Financial Services
and the Treasury, at the opening of the
Corporate Governance Roundtable**

(13 March 2017)

Distinguished guests, ladies and gentlemen,

Good morning.

It is my great pleasure to join you all today at the Corporate Governance Roundtable, which is one of the highlights of our series of events to celebrate the 20th anniversary of the establishment of the Hong Kong Special Administrative Region. I would like to extend my warmest welcome to you all for attending this conference.

We were also very honoured to have an opportunity to host the Corporate Registers Forum, the CRF, again in Hong Kong last week, after a 10-year gap. I must thank Mr Tim Moss (Chief Executive and Registrar of Companies for England and Wales, United Kingdom), Mr Kenneth Yap (Chief Executive of the Accounting and Corporate Regulatory Authority, Singapore) and Mr Stephen Lowe (Registrar of Companies of Bermuda) for staying in Hong Kong after the CRF to share their insights with us today, and Dr Cao Yong (Deputy Director General, Department of Listed Company Supervision, China Securities Regulatory Commission) for flying in from Beijing.

The CRF held last week brought us up to speed on the latest international trends and actions taken by other economies. And this Roundtable gives us an excellent and timely opportunity to identify and discuss common issues with international experts, share experiences and develop ideas and solutions most appropriate in the Hong Kong context for enhancing corporate governance.

Corporation plays a pivotal role in our modern economy. It is a proven tool for pooling resources from individuals and sharing risks. It provides an institutional form through which we can co-operate with each other to achieve something that requires collective efforts; something which we may not be able to do just as a group of unconnected persons.

There are now more than 1.3 million companies registered in Hong Kong. Despite the economic ups and downs over the past decade, the uncertainties following Brexit and the change of administration in the United States, Hong Kong remains a vibrant business hub and an international financial centre. Our success is built on a number of very important strengths, including a level playing field for all businesses, a clean and efficient government, a low and simple tax regime and the rule of law.

As a leading international financial and business centre, Hong Kong attaches great importance to corporate governance. We believe that for companies to be successful, competitive and sustainable in the long term, a high standard of governance is

indispensable.

A key issue pertaining to good corporate governance is information disclosure. I understand that this is also a topical issue deliberated at the CRF last week. Better disclosure can help us make informed decisions and better manage risks. Let me share what have been moving ahead with in this regard in Hong Kong.

First, we have completely rewritten our company law and make it a piece of modern legislation. The new Companies Ordinance brings substantial improvements, making the operation of companies more transparent and strengthening accountability of directors. Every private company is also required to have at least one director who is a natural person.

The Companies Ordinance also mandates all Hong Kong incorporated companies to include a business review in their directors' reports, 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.

With enhanced corporate transparency and additional disclosure requirements, investors can more easily analyse the risk profiles and investment potential of companies, monitor their progress and performance, and take action when they believe that directors are not acting in the interests of the companies.

To further enhance Hong Kong's business environment, we also brought into operation another piece of legislation a month ago which improves and modernises Hong Kong's corporate winding-up regime. It provides further measures to increase the protection of creditors as well as streamline and enhance the integrity of the winding-up process.

In parallel, we are also preparing legislation to introduce a new statutory corporate rescue procedure. This will help companies with long-term business prospects facing short-term financial difficulties. The goal is to balance the interests of creditors, shareholders and employees. Besides, we are also taking steps to consider how best we can further facilitate corporate insolvency work that involves cross-border jurisdictional issues.

At the international level, corporate ownership, transparency and the sharing of data are important issues being discussed at G8 and G20, and countries around the world are taking active steps to introduce reforms to implement the various initiatives agreed at the leadership summits. I understand that at last week's CRF, more than 80 percent of the delegates indicated that their countries are already planning to implement measures to request companies to disclose their beneficial owners. More than 70 percent of the delegates consider that disclosure of beneficial ownership will enhance the competitiveness of their jurisdictions.

Disclosure of beneficial ownership is not an easy task to both the authorities and the companies. There are many complications and novel issues. I believe that both Tim and Kenneth will tell you more about the reforms and latest developments in the UK and

Singapore later in the conference.

But this initiative will not be effective without close international co-operation. As part of this international movement to improve the legal framework to enhance corporate governance and transparency, we have carried out two consultation exercises, one on the disclosure of beneficial ownership of companies and the other on the codification of customer due diligence and record-keeping requirements applicable to designated non-financial businesses and professions. We plan to introduce a licensing regime for trust or company service providers whereby they will be required to obtain a licence and satisfy a "fit and proper" test before providing business to the public. We will spare no efforts to ensure that the corporate governance regime in Hong Kong is up to date and benchmarked against international best practices.

High standard of corporate governance strengthens the competitiveness of Hong Kong, and is one of our core competencies as a global financial centre. In fact, for the past decade, our stock market has been among the top five globally for IPO funds raised every year and was ranked first in the world for two consecutive years in 2015 and 2016.

We know that a listed company is a particular form of corporation. Deployed properly, it is an effective tool for mobilising resources. Because it raises funds from the public, a listed company is also subject to more stringent regulation than other forms of companies. Hong Kong has also made good progress in this area as well.

As our front-line regulator, the Stock Exchange of Hong Kong promotes the corporate governance of listed companies and reviews the Corporate Governance Code and the Environmental, Social and Governance Reporting Guide from time to time in light of regional or international developments.

In 2014, the Stock Exchange revamped the risk management and internal control aspects of the Corporate Governance Code to strengthen issuers' disclosure and directors' accountability. With effect from 2016, the Corporate Governance Code requires listed issuers to disclose, on a "comply or explain" basis, a number of risk management related matters, which will further strengthen issuers' disclosure and directors' accountability in this area.

The Stock Exchange also incorporated the environmental, social and governance, also known as ESG, disclosure requirements making the relevant ESG disclosure requirements applicable to all listed companies in Hong Kong, regardless of their place of incorporation. Further, the Stock Exchange upgraded certain ESG disclosure obligations from voluntary to "comply or explain", after receiving strong support in a market consultation exercise. This will further raise the standard of ESG disclosure of our listed companies.

According to a recent Corporate Governance Review, 80 per cent of the Hang Seng Composite Index companies discussed ESG issues either in their annual reports or ESG reports, representing a significant increase from the figure of 49 per cent reported in 2015.

Another study also found that 86 per cent of the Hang Seng Index listed companies were early adopters of disclosure requirements relating to internal control and risk management systems. All these reflect that nowadays listed companies in Hong Kong are paying more attention to the disclosure of relevant non-financial information, in addition to financial information.

Apart from issuers, investors also play an important part in enhancing corporate governance of listed companies. To promote a healthy investment culture, the Securities and Futures Commission, or SFC, published the Principles of Responsible Ownership in March last year. The Principles aim to provide guidance on how investors in listed companies should fulfil their ownership responsibilities, and encourage an investment culture where engagement with investee companies is seen as paramount and fundamental.

We note that during the consultation process of the Principles of Responsible Ownership, there were concerns that Hong Kong may see increasing activities of shareholder activism as in the US and Europe, where activist investors use aggressive tactics such as public campaigns to force the company management to adopt specific changes.

In Hong Kong, shareholder activism tends to be less adversarial than in the US and Europe. Shareholder engagement will promote consensus-building, help pre-empt aggressive activist acts and enhance corporate governance. We believe in this regard the Principles of Responsible Ownership will help by promoting effective shareholder engagement with investee companies. This culture will in turn strengthen corporate governance of the listed companies.

Corporate governance defines the quality of our market. This brings me to the subject of market quality, which is the key to the competitiveness of our listing regime. The Government has always been very concerned about market quality issues and supports the SFC's monitoring and law enforcement efforts in upholding the quality of our listing market.

To cite a few latest moves, with regard to the Growth Enterprise Market IPO placings, the SFC issued a set of guidelines in January on the expected standards of conduct of intermediaries. It has also issued a joint statement with the Stock Exchange regarding the roles of applicants and intermediaries. The SFC and the Stock Exchange announced that they were closely monitoring rights issues and open offers that substantially dilute the interests of non-subscribing minority shareholders. I have every confidence that the SFC will continue to closely monitor these transactions to protect the interests of shareholders and uphold the market quality.

Internationally, our efforts to enhance Hong Kong's business environment and competitiveness have been well recognised. In the World Bank's Doing Business Report 2017 released last October, Hong Kong was ranked the world's fourth easiest place to do business among 190 economies. Among the 10 indicators, Hong Kong was ranked the third worldwide in both "Protecting minority investors" and "Starting a business". We

were also recognised as the most competitive and freest economy in a number of international reports. All these are a vote of confidence in Hong Kong's status as an international financial and business hub, and increasingly a hub for young and energetic start-ups also.

Ladies and gentlemen, the corporate governance regime is an evolving one. The trust and reputation our corporate governance regime now enjoys is the hard-earned result of the continuous efforts and commitment of companies, directors, investors and all relevant stakeholders, including professional personnel, who make good governance their priority.

For the Roundtable today, you will be able to hear more insights on issues relating to information disclosure, risk management and effective board leadership. I am particularly delighted to see that there are students from local universities and young professionals joining us today. They are our future corporate and board leaders. The earlier they learn about the art and craft of good corporate governance, the more effective leaders they will be in future. I encourage you, our future leaders, to take the first step of this journey today.

And finally, may I thank you once again for joining us today and I wish you all a fruitful and inspiring conference.

Thank you.