Towards better corporate governance

Chamber of Hong Kong Listed Companies 11th anniversary gala dinner

Carlson Tong
SFC's Chairman

12 December 2013

Chairman Sun, distinguished guests,

corporations started out as family business and are still growing: Wal-Mart, Samsung, Toyota, LVMH, IKEA, to name but a few. And by choosing to list in Hong Kong, most Mainland

governance standards, including some -deserved winners.

Sound and effective corporate governance

Following the global financial crisis, there have been calls for ethical business behavior and greater accountability and transparency to create a more sustainable market environment. This is where corporate governance comes in as it establishes the mechanisms necessary to ensure that a corporation is properly run and professionally managed.

Whilst corporate govern

Hong Kong came first in terms of regulatory enforcement, posting a double-digit increase in its enforcement score from 56 in 2007 to 68 in 2012.

Clearly, Hong Kong has come a long way in setting corporate governance standards and promoting good practices. For listed companies, their corporate conduct is primarily governed by the Stock Exchange of Hong Kong Limited and up to now, to a lesser extent, the SFC, but this is going to change as I will explain later.

Over the years, the SFC has expanded its regulatory oversight of listed companies to cover three key areas, two of which are new:

first, the dual filing regime, under which we are able to veto listings on the ground of public interests, and to exercise enforcement powers against persons issuing false or misleading corporate information;

next, the inside information disclosure regime, which came into effect on 1 January 2013, provides statutory backing to continuous disclosure obligation of inside information. As at 31 October, there were increases of 47% in corporate announcements and 16% in profit warnings and alerts; and

more recently, the new IPO sponsor regime, effective 1 October this year, aims to enhance the IPO gatekeeping process and the quality of listings.

We have had a higher public profile in our enforcement work in recent years, due in part to our dealings with misconduct in the management of listed companies, many of which led to outcomes that were favourable to the investing public

The number of listing-related complaints we receive has continued to account for 25-30% of total complaints filed with the SFC in the past five years. In the same period, we have commenced investigations into

As thought-provoking as
questions unanswered, and this is certainly not the way we operate.

We are going to be more proactive in overseeing corporate conduct of listed companies. This will mean more surveillance, analysis and enforcement work on our part and expanding a role we have already been performing under the inside information regime and as a result of referrals from HKEx and complaints received.

A major priority for the SFC is to take on broader, more proactive oversight of listed companies as a corporate regulator. As a first step, we have set up the Corporate Regulation team under our Corporate Finance division to review company announcements, circulars and reports; monitor press reports and analyst research; conduct periodic in-depth review of each company and adopt risk-based criteria to focus on particular companies, for example companies with history of losses, frequent corporate restructuring, changes of auditors, etc.

Our new approach does not require a radical departure from what we have been doing but a significant step in the development of our role as a statutory regulator.

By actively detecting misconduct and following up on suspicious activity, we hope to identify red flags and enhance the SFC