



So in a moment I will talk about recent regulatory changes in Hong Kong which have a direct
-loaded
regulatory approach also have major implications for INEDs.

INEDs in Hong Kong and the rest of the world

To set th
major markets.

Here in Hong Kong, the Listing Rules require the boards of listed companies to have at least
three INEDs, who must make up at least one-third of the board.

As in most other major financial centres, in Hong Kong



For comparison, a large listed bank in Hong Kong paid INEDs annual fees of between \$150,000 and \$200,000 in 2015.

to stricter rules than non-banking listed companies. y will be subject

-loaded regulatory approach

Turning to the SFC, over the past year we introduced a new approach to policing Hong Kong's listed market. Let me briefly mention what this means in practice for listed companies.

The SFC has moved out from "behind-the-scenes" and now makes its direct presence felt through early, proactive interventions. We now deal directly with companies and listing applicants when it comes to issues of concerns to the SFC.

In many cases, these concerns have involved acquisitions of questionable assets, businesses with a change of control, lack of sponsor due diligence or poor disclosure.

- more targeted intervention, with an aim to deliver a faster response and maximise the impact of our actions.

To achieve this, we use our existing statutory powers in the the Securities and Futures Ordinance (SFO) referred gives us the power to object to listings and under section 8 we can suspend trading.

In 2017, the number of cases involving the potential or actual exercise of SMLR powers increased substantially to around 40 from only two or three cases per year in the past.

We have usually adopted this front-loaded approach in dealing with post-IPO transactions, but recently we stepped up our front-loaded approach to IPO cases.

This means that listing applicants, sponsors and other parties involved in an IPO process can be investigated at the application stage where we have grounds to suspect that the SMLR provisions are triggered. There will be enforcement consequences if breaches of the SFO are identified, even if the listing application is withdrawn.

If necessary, we can combine our powers under the SMLR with our investigative powers under the SFO. These are usually SFO section 179, the power to require production of records and documents concerning listed companies, and section 182, to conduct enforcement investigations.

You may have seen recent news reports about our searches and investigations into the use of networks of companies to commit fraud and market manipulation.

Regulatory action against INEDs

non-executive directors and executive directors all have the same duty of care and fiduciary duties.

You may be interested to know that in 2016, in the case of Freeman FinTech Corporation Limited, the SFC sought disqualification orders in the Court of First Instance against 10



Freeman directors including four INEDs and an NED who is a member of the Liu family, descended from the founder of Chong Hing Bank, formerly Liu Chong Hing Bank.

In this case, the SFC alleged that the directors caused Freeman to indirectly buy a stake in the parent company of Chong Hing Bank in disregard of the ability of other Liu family members to object to the purchase. As it turned out, the other Liu family members did object. Freeman could not complete the acquisition and this resulted in a loss of almost \$77 million.

The SFC claimed that the 10 directors breached their duties of care by not asking the right questions before approving the acquisition.

In another case, just last month we started proceedings in the Market Misconduct Tribunal against Magic Holdings International Limited and its nine directors. We alleged that they failed to disclose inside information in a timely manner after a preliminary agreement was
Of these nine
directors, two were NEDs and three were INEDs.

I cannot comment any more on these cases as the legal process is still ongoing. But it should be clear that regulators including the SFC are increasingly holding INEDs responsible for the misconduct of companies. With INEDs playing an increasingly important role in ensuring effective corporate governance, they can also expect to bear more legal responsibility when things go wrong.

Carillion

If you need a recommendation for bedtime reading, you may want to pick up the recent UK House of Parliament report on the collapse of Carillion, one of the largest house builders in the UK.

everyone by surprise, including the UK

published on 1 March 2017, presented a rosy picture and on the back of those results, it paid a record dividend of £79 million £55 million of which was paid on 10 June 2017. It also awarded large per3(esu)3733(i)15(.TBT(I)pl)6((nsi)(se o)4 529.03 Tm[A9BT6Tm(£)-53(55)3()-4(m)-3(i)5(l)5

