

# *Corporate Governance*

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# 1. INCREASING AWARENESS OF CORPORATE GOVERNANCE

**1997  
Asian Financial  
Crisis**

**2001  
Enron**

**2008  
Global Financial  
Crisis**

2



# 1. INCREASING AWARENESS OF CORPORATE GOVERNANCE



**How is corporate governance related to Enron's failure?**

Shareholders	No transparency
Board	Not for the benefit of the shareholders
Management and Staff	No ethics
Internal Auditors	No independence
External Auditors	No independence

➔ Bad corporate governance leads to the failure of the business

## 2. CORPORATE GOVERNANCE

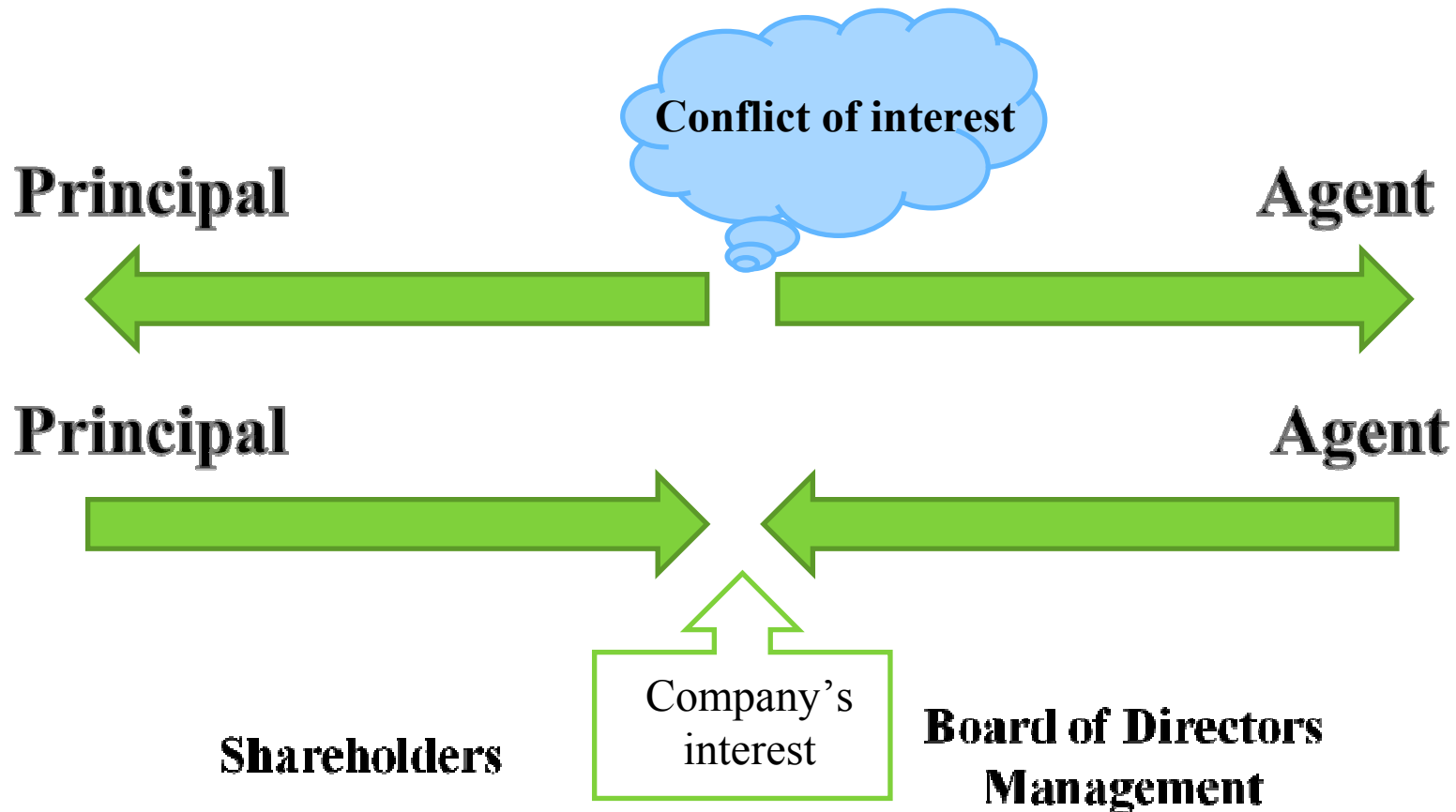
### Definition

“Processes and the related **organisational structures**, by which organisations are directed, controlled and held to account.”

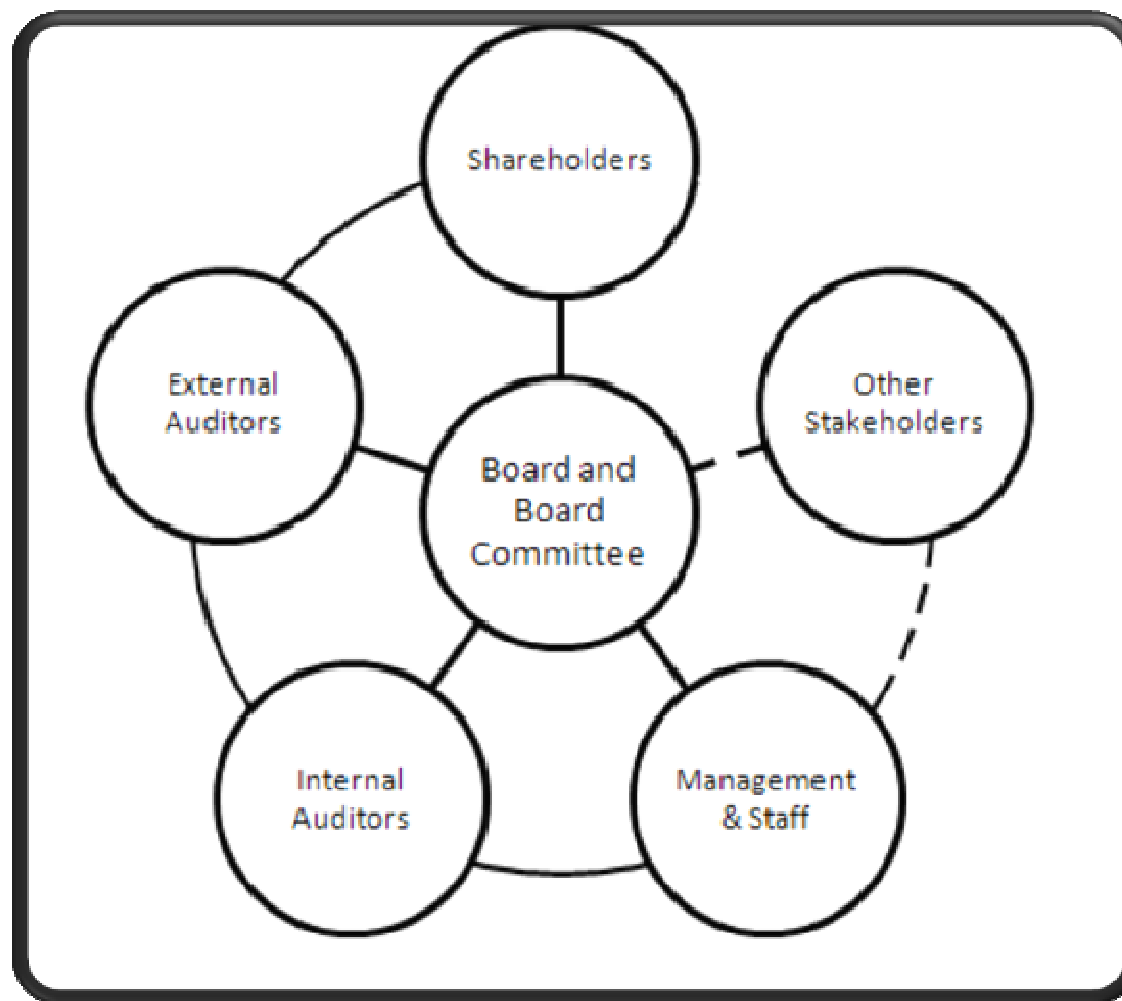


*Corporate Governance for Public Bodies*  
– *A Basic Framework*

# AGENCY THEORY



# RELATIONSHIP – AGENT & PRINCIPAL AGENCY THEORY

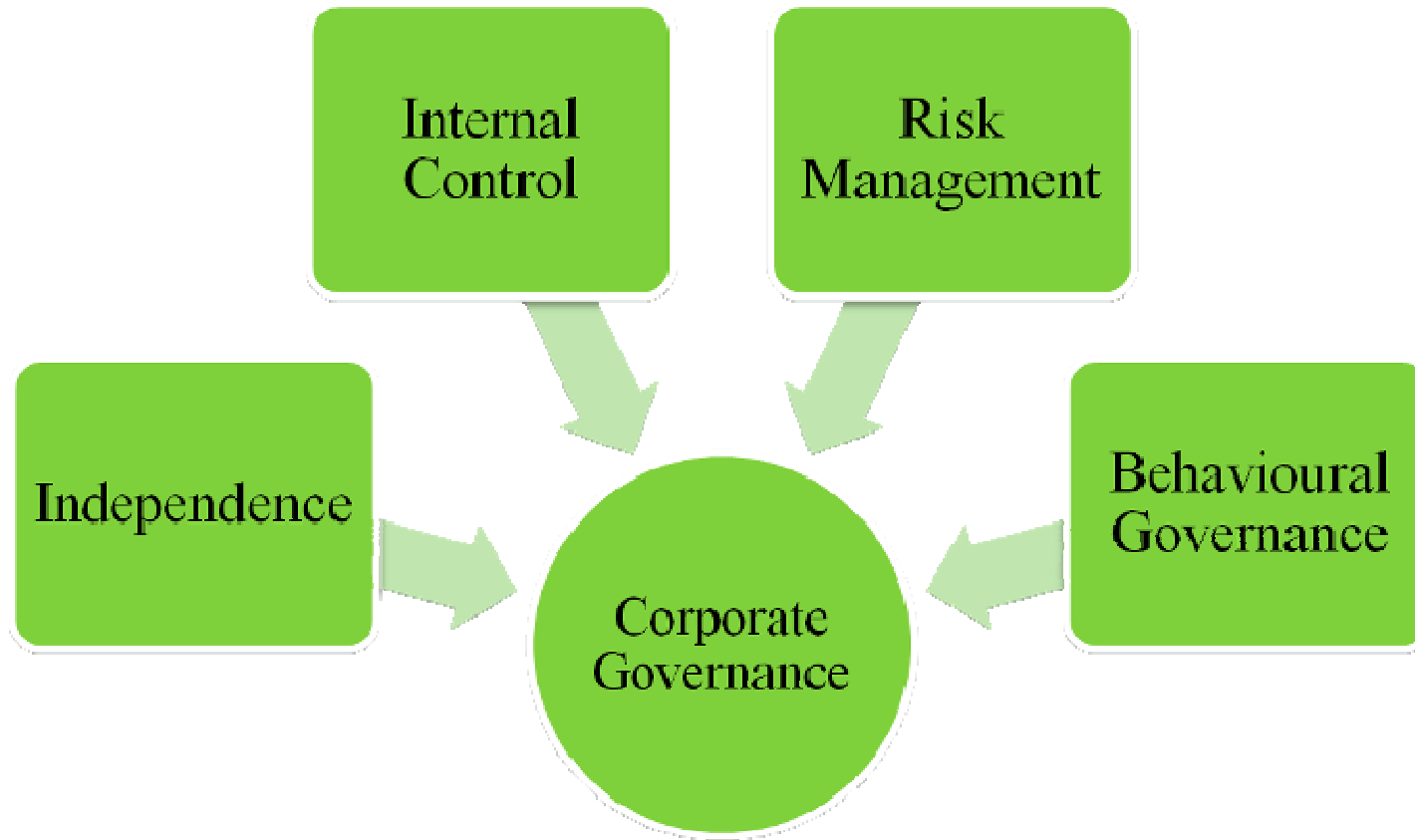


# CORE VALUES

- Self discipline
- Integrity
- Fairness
- Trust
- Sense of responsibility
- Accountability
- Fair competition
- Transparency
- Self-restraint
- Continuous self-development
- Win-win

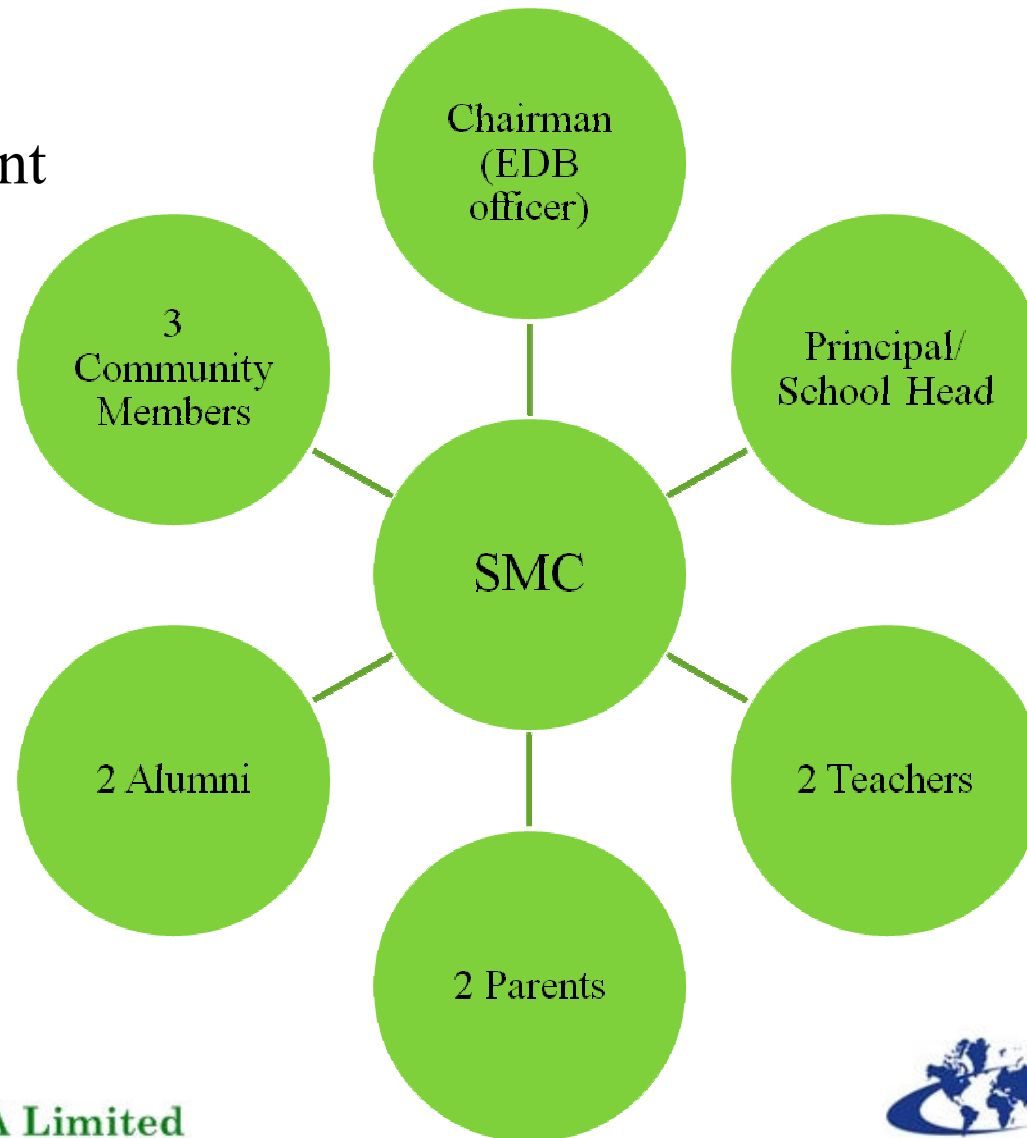


### 3. KEY AREAS OF CORPORATE GOVERNANCE

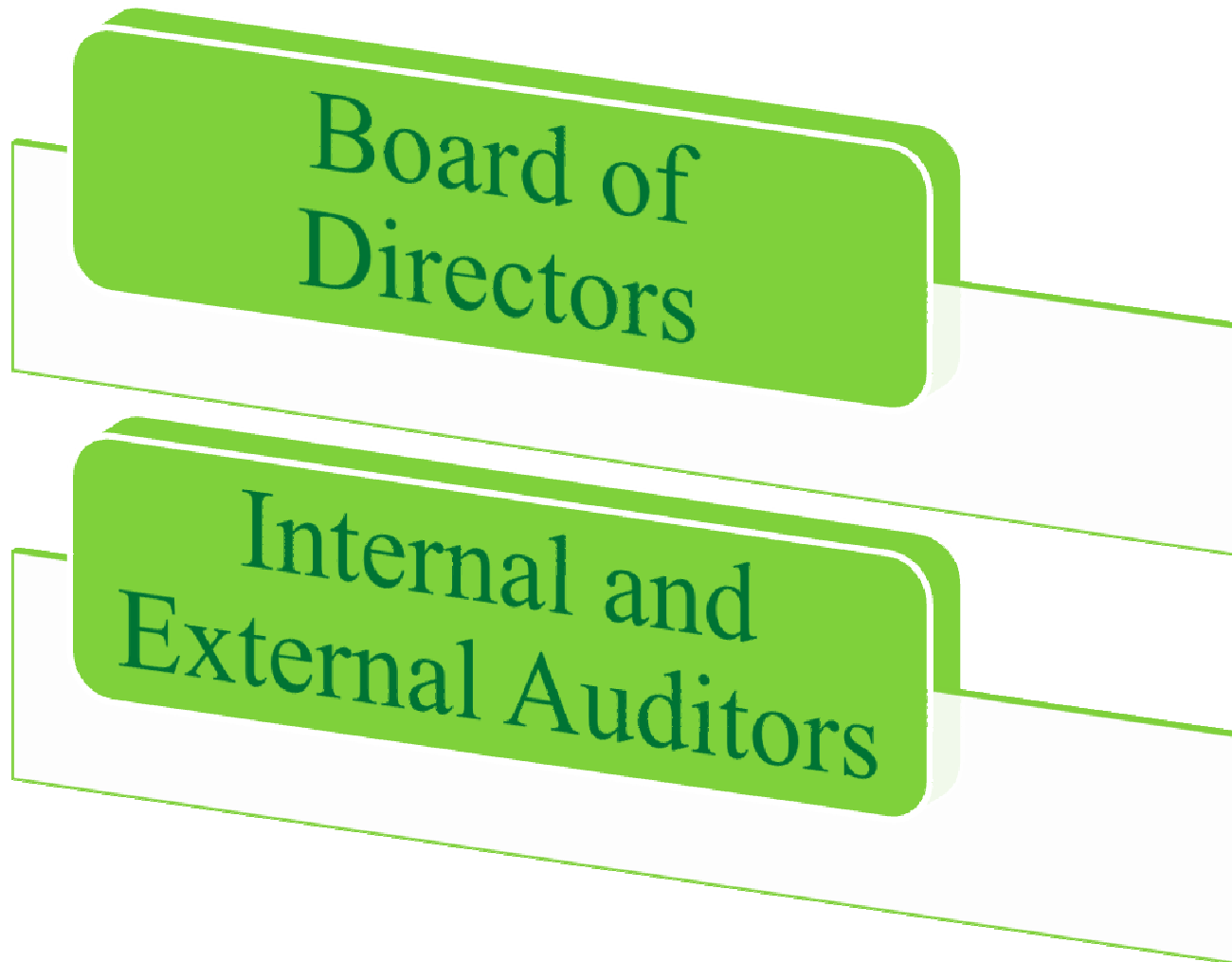


# 3. KEY AREAS OF CORPORATE GOVERNANCE

- Example:  
School Management  
Committee (SMC)  
學校管理委員會



## 3.1 INDEPENDENCE



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- Appendix 14 of *Listing Rules*
  - At least **THREE** independent non-executive directors

	INEDs	NEDs	EDs
CLP	9	10	3
Hysan	4	4	3
Swire Pacific	6	4	7
Hutchison	5	2	7
MTR	8	4	1
HSBC	14	1	6

**INEDs** : Independent non-executive directors

**NEDs** : Non-executive directors  
**EDs** : Executive directors

## 3.1 INDEPENDENCE



Examples:



- The posts of Chairman and CEO are held by separate person
- Although Kadoorie has 19.76% of the issued share capital, he is not involved in day-to-day management



- Keep under review of their independency



CITIC PACIFIC  
中信泰富

- Chairman and CEO → same person

## 3.2 INTERNAL CONTROL

### Definition of Internal Control



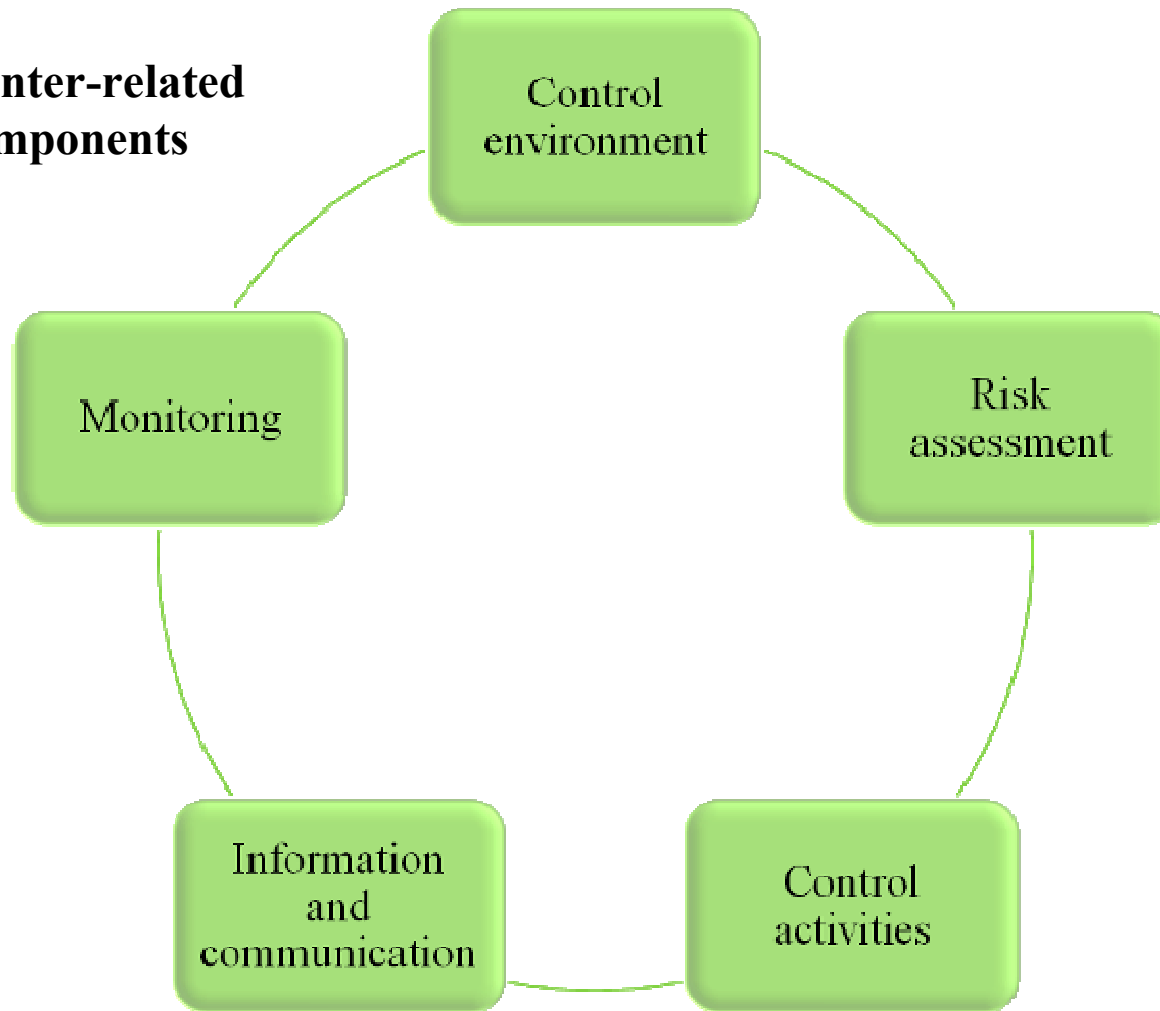
COSO defines internal control as a **process**, effected by an entity's **board of directors, management** and other personnel. This process is designed to provide **reasonable assurance** regarding the achievement of **objectives in effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations.**

*Committee of Sponsoring Organisations*

<http://www.coso.org/resources.htm>

## 3.2 INTERNAL CONTROL

Five inter-related components



## 3.2 INTERNAL CONTROL

### Control Environment

- Emphasis corporate governance
- Enhance control consciousness of its people

### Risk Assessment

- Identification and analysis of relevant risks

### Control Activities

- Approvals, authorisations, verifications, recommendations, performance reviews, segregation of duties

### Information and Communication

- Access to internal and externally generated information

### Monitoring

- Internal audit activities
- Assessment of a control system's performance

## 3.3 RISK MANAGEMENT

### The processes of risk management:

Understanding organisational objectives

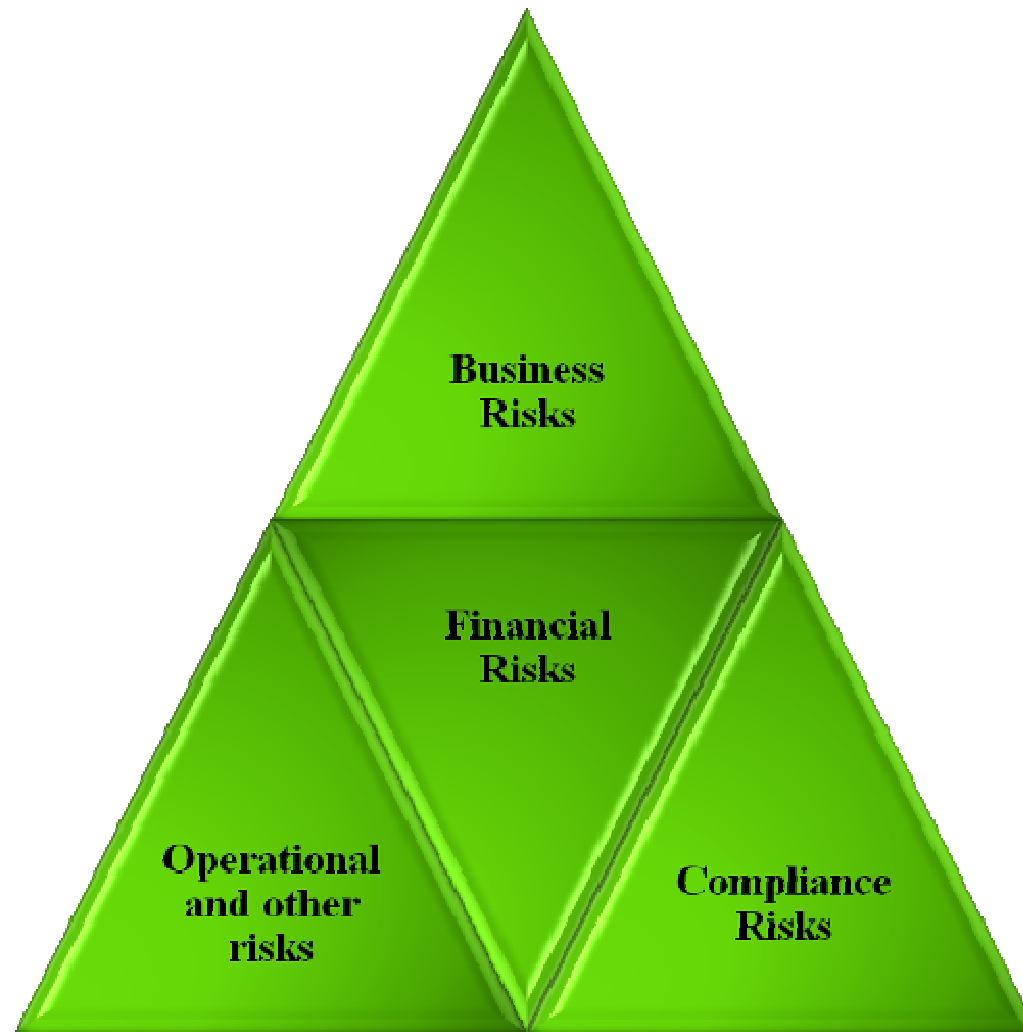
Identifying the risks

Assessing the likelihood and potential impacts

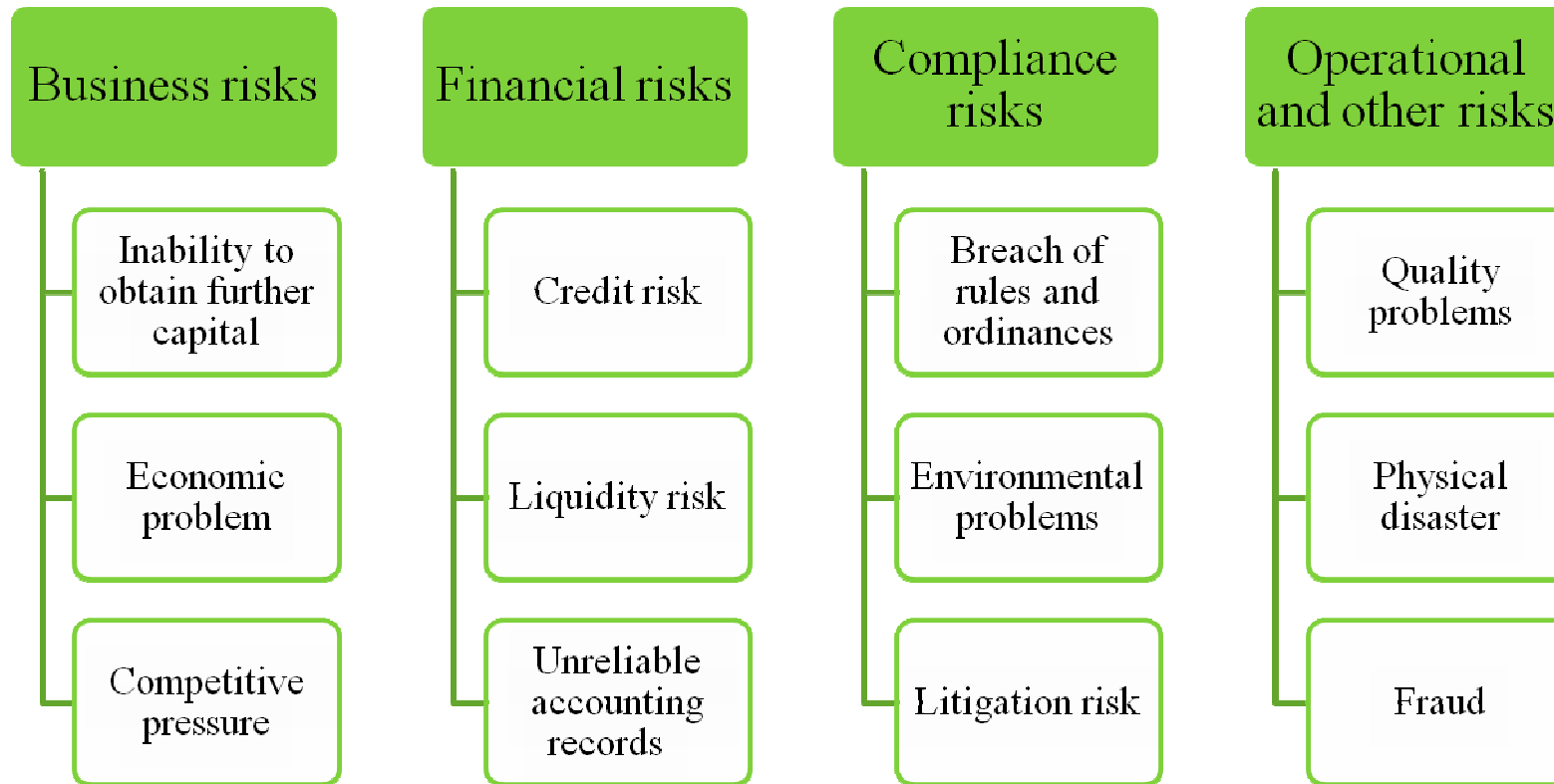
Developing the programmes

Monitoring and evaluating the risks and programmes designed.

## 3.3 RISK MANAGEMENT



# 3.3 RISK MANAGEMENT



## 3.3 RISK MANAGEMENT

### Sub-prime Crisis in the US

**‘Nobody is watching the risk, everyone is relying on someone else’s rating’**

*Martin Wheatley,  
Chief Executive Officer,  
Securities & Futures Commission*





## 3.3 RISK MANAGEMENT



- Credit risk
  - Credit risk management
  - Credit exposure
  - Areas of special interest
  - Renegotiated loans
  - Credit quality of financial instruments
  - Impaired loans and advances
  - Impairment allowances and charges
  - HSBC Holdings
  - Risk elements in the loan portfolio
- Liquidity
  - Policies and procedures
  - Primary sources of funding
  - HSBC Holdings
- Residual value risk
- Operational risk
  - Legal risk
  - Global security and fraud
- Pension risk
- Reputational risk
- Sustainability risk

## 3.3 RISK MANAGEMENT

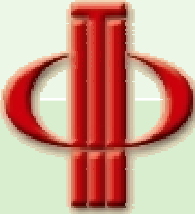


- Market Risk
  - Impact of market turmoil
  - Trading portfolios and non-trading portfolios
  - Defined benefit pension schemes
  - Sensitivity of net interest income
  - Structural foreign exchange exposures
  - HSBC Holdings
- Risk management of insurance operations
  - Life insurance business and non-life insurance business
  - Insurance risk
  - Financial risks
  - Present value of in-force long-term insurance business
- Capital management and allocation
  - Capital management
  - Capital measurement and allocation
  - Risk-weighted assets by principal subsidiary

## 3.4 BEHAVIORAL GOVERNANCE

### Nov, 2007 Statistical Figures

- 94% of companies : include ethics in their corporate goals, missions and strategies
- 52% of listed companies have a code of ethics
- 69% of those with no code of ethics : no plan to have the code within 2 years
- 59% of those with no code of ethics : provide ethics training to the staff

Date	Issues	CG
30 Aug 07	Signing Leveraged Foreign Exchange Contracts	Risk management
28 Aug 08	Mr Yung Chi Kin and Fan Hung Ling increased their shares in Citic Pacific	Ethics
7 Sep 08	The board discovered and hid the fact of the deregulation of currency in the company	Transparency
20 Oct 08	Disclosing HK\$15.5 billion loss from unauthorised trades on the foreign currencies The board admitted that the loss six weeks before	Internal control Transparency, ethics
21 Oct 08	Demoted Frances Yung Ming-fong and cut her salary for her unauthorised bets She did not tell the chairman about those unauthorised transactions before the board uncovered them	Internal control Transparency
22 Oct 08	<b>SFC</b> was investigating on the transactions	
13 Nov 08	Citic Group would buy HK\$11.62 billion worth of its convertible bonds and absorb most of the losses from the unauthorised transactions	
2 Dec 08	Company documents revealed that executive director had signed some of the 24 'foreign exchange accumulator' derivative contracts in 07 and 08	Internal control
14 Dec 08	<b>Commercial Crime Bureau</b> had begun examining the circumstances of the transactions and the reasons for six-week delay announcement.	 <b>CITIC PACIFIC</b> 中信泰富
2 Jan 09	Entire board of directors were under investigations from <b>SFC</b> .	

# CURRENT ISSUES

- *Morning Star Resources Limited*



<http://www.hkexnews.hk/listedco/listconews/sehk/20090423/LTN20090423640.pdf>

- *The First Immediate Jail Term for Insider Dealing*

[http://www.sfc.hk/sfc/doc/EN/speeches/public/enforcement/09/apr\\_09.pdf](http://www.sfc.hk/sfc/doc/EN/speeches/public/enforcement/09/apr_09.pdf)



- *US unveils \$1 trillion toxic asset plan*

<http://news.bbc.co.uk/2/hi/business/7958501.stm>

# RECENT DEVELOPMENT OF CORPORATE GOVERNANCE

Legislation changes in Hong Kong

- 3 of the Ordinances and Rules that govern directors' and officers' duties and obligations

- **the Securities and Futures Ordinance (SFO)**

<http://www.legislation.gov.hk/eng/home.htm> → Chapter 571

- **the Companies Ordinance**

<http://www.legislation.gov.hk/eng/home.htm> → Chapter 52

- **the Hong Kong Listing Rules**

<http://www.hkex.com.hk/rule/index/rulesandguidelines.htm>

# RECENT DEVELOPMENT OF CORPORATE GOVERNANCE

## Professional bodies

- Internationally recognised accounting standards
- More stringent audit standards
- Continuous professional development

# RESOURCES

- ***HKICPA***

<http://www.hkicpa.org.hk/> → Standards and Technical  
→ Corporate Governance

- ***CLP Code on Corporate Governance***

<https://www.clpgroup.com/CorpGov/CodNPolicy/Pages/default.aspx?lang=en>

- ***Listing Rules – Code on Corporate Governance***

[http://www.hkex.com.hk/rule/listrules/Appendix\\_14.pdf](http://www.hkex.com.hk/rule/listrules/Appendix_14.pdf)

- ***Listing Rules – Corporate Governance Report***

[http://www.hkex.com.hk/rule/listrules/MB%20App%202023%20\(E\).pdf](http://www.hkex.com.hk/rule/listrules/MB%20App%202023%20(E).pdf)

- ***Corporate Governance: Analysis of Listed Company Problems***

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PhD candidate of Business School

**Thanks for your time!**

**Q & A**

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