

Enhancing Corporate Governance

The Mission

Maintaining and enhancing our competitiveness as a leading international financial centre and the premier capital formation centre for our country.

Objective

To upgrade the quality of our market by bringing our corporate governance standards in line with international standards, and to be the preferred support base for Hong Kong and Mainland companies by providing quality international financial and other professional services.

The Corporate Governance Action Plan for 2003

The Administration has, together with the Securities and Futures Commission (SFC) and the Hong Kong Exchanges and Clearing Limited (HKEx), reviewed the measures proposed by concerned parties to improve corporate governance; and taken the lead in drawing up an Action Plan for 2003 to identify priority areas, assign ownership and devise a timeframe for implementation.

The Administration, SFC and HKEx are fully committed to this Action Plan. Together we shall review progress regularly; and coordinate efforts to close any gaps and remove inconsistencies in implementation.

The Action Plan in no way pre-empts the findings of the Expert Group, and will be amended and adapted as necessary to meet any structural or procedural changes flowing from those recommendations.

Five Priority Areas

Priority I: Upgrading the Listing Rules and Listing Functions

- By Q2 2003: HKEx to introduce amendments to the Listing Rules and

promulgate a revised Code on Best Practice to implement various corporate governance measures consulted since Jan 2002.

- By Q1 2003: HKEx to complete streamlining of the listing process in order to improve quality control at the point of entry by focussing on critical matters.
- By phases, starting from Q2 to Q4 2003: HKEx to amend the Listing Rules to improve the initial and continuing listing requirements and delisting procedures, following consultation started in July and November 2002.
- By Q4 2003: The Administration to follow up recommendations of the FS-appointed Expert Group scheduled for publication in March 2003 with a view to improving Listing Functions; and delineating roles of FSTB, SFC and HKEx under the tiered regulatory structure.

Priority II: Tightening the regulation of IPO intermediaries

- By Q1 2003: HKEx to consult the market on amendments to the Listing Rules to tighten regulation of IPO intermediaries, in particular sponsors and financial advisors. Target is implementation in H2, 2003.
- By Q1 2003: SFC to put forward proposals to the Standing Committee on Company Law Reform (SCCLR) on amendments to the Companies Ordinance to extend the prospectus-related liability to IPO sponsors, and possibly, other IPO intermediaries, for ensuring quality disclosure to investors.
- By Q3 2003: FSTB, in consultation with the Hong Kong Society of Accountants, to finalise legislative proposals to enhance the regulation of the accountancy profession.

Priority III: Effective Roll Out of the Securities and Futures Ordinance

- By 1 April 2003: SFC to formulate an effective strategy in enforcing the Securities and Futures Ordinance (SFO), in particular with regard

to execution of “dual filing”, inquiries into corporate misconduct, regulation of licensed IPO sponsors, cooperation with HKEx in combating pre-IPO market manipulation, etc. SFC to adopt a case specific approach as a corporate regulator under SFO and ‘dual filing’.

Priority IV: Successful completion of SCCLR Phase II Corporate Governance Review

- By Q1 2003: The Administration, SFC and HKEx to render full support to the SCCLR for completion of its Phase II Review, with SFC and HKEx putting forward further proposals to SCCLR, including amendments to the Companies Ordinance on related party transactions, shareholders’ rights, disclosure requirements, liability of professional advisers relating to misstatements in listing documents etc.

Priority V: Early implementation of SCCLR Recommendations from its Phase I Corporate Governance Review

- By Q1 2003: FSTB and SFC to release a joint consultation paper on the concept to empower SFC to conduct derivative actions for minority shareholders of a listed company, including legal issues, scope and effectiveness of remedies, and possible implementation arrangements.
- By Q2 2003: FSTB to introduce to LegCo a Companies (Amendment) Bill to enhance corporate governance by implementing SCCLR Phase I recommendations relating to shareholders’ remedies.
- By Q4 2003: FSTB, in consultation with the listed sector and the accountancy profession, to finalise and take forward a proposal to establish a Financial Reporting Review Panel to investigate financial statements of companies and enforce changes thereto.

Financial Services and the Treasury Bureau
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