

Conference on Corporate Governance in the Financial Sector

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Welcoming Remarks by Dr Timothy TONG Hin-ming, Hong Kong ICAC Commissioner

Mr YAO Zengke, Vice Minister of Supervision of the country; Professor KC CHAN, Hong Kong Secretary for Financial Services and Treasury; Mr CHEONG U, Commissioner of the Macao Commission Against Corruption; distinguished guests and friends,

I would like to extend a very warm welcome to you all to today's Conference.

Like most people in other parts of the world, we in Hong Kong are also deeply concerned about the serious impact of the financial tsunami. Regulators, corporation executives, professionals and investors all face unprecedented and grave challenges, whereas financial institutions, large corporations and listed companies also suffer serious losses or even have to make arrangements for acquisitions or close-downs. It is therefore most timely for Hong Kong, as an Asian financial centre, to hold today's Conference on Corporate Governance in the Financial Sector.

The problems caused by the financial tsunami are complex and involve many different dimensions. In trying to examine the root cause, we will focus today primarily on two aspects, "governance" and "integrity building". Many commentaries have pointed to Wall Street's greed culture as one of the root causes, resulting in the emergence of many over-leveraged derivative products; also corporations' overexpansion, leading to blatant neglect of risk management; and the failure of boards of directors in their fiduciary duty to monitor the operations of their companies. These may be a simplistic analysis of the problem but doubtless, these are not random conclusions and provide important lessons for the whole financial industry.

Perhaps we might better understand the importance of "integrity management" in a micro perspective. In recent years, and in particular after the Asian financial turmoil in 1997, cases investigated by the ICAC concerning listed companies invariably revealed a breakdown in corporate governance and integrity. Our experience tells that these serious problems usually occur when the topmost echelon (i.e. the board of directors) fail to lay down ethical standards for the corporation or the personal integrity of individual leaders

falters when they seek personal gains on the pretext of fulfilling the corporation's aspirations. Secondly, though the board of directors has laid down an ethical framework, the management fails to set up a sound mechanism to implement it. Thirdly, even if there are a framework and a mechanism for implementation, the lack of effective supervision deprives the management and the board of directors of any knowledge of any breach by their executives. Regardless of the circumstances, every corruption and fraud scam impairs the interests of investors, dampens the confidence of the market and erodes the leading position of Hong Kong as an international financial hub.

That's the reason why the ICAC of Hong Kong launched the Directors' Ethics Training Programme last year with a view to raising the ethical standard of directors. This year, riding on the momentum of the positive responses to the Training Programme, we take one step further to jointly organise today's Conference with the PRC Ministry of Supervision and the Macao Commission Against Corruption. With 13 local related organisations serving as supporting partners, we aim to explore with the management of listed companies effective ways to perfect their corruption prevention supervisory framework and enhance their directors' capabilities in confronting ethical challenges.

Hong Kong was tested by the financial turmoil in 1997 but thanks to our comparatively stable financial system and transparent market, the economy of Hong Kong was able to witness a powerful revival. The powerful backing given to the Hong Kong and Macao SARs by the Mainland, coupled with the rapid integration of our economies, has accelerated the successful development of the financial sector and the other trades. I wish today's conference great success and hope that it signifies the seamless co-operation of the Mainland, Hong Kong and Macao as a model entity in driving forward the international economy.

Finally, I wish to express my deepest gratitude to all those who have rendered support to this Conference, including all the working staff. Today we have placed a bronze cauldron here. The ancient cauldron is the characteristic of the thousands of years of Chinese traditional culture since the Shang and Zhou Dynasties. The four-leg ancient cauldron at this venue symbolises the stable development of the three places and, in particular, the fourth leg represents the vital element for flourishing operations in all trades - "the culture of integrity".

Thank you.