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August 2015

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The journal of The Hong Kong
Institute of Chartered Secretaries
香港特許秘書公會會刊



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The Hong Kong Institute of Chartered Secretaries (HKICS) is an independent professional body dedicated to the promotion of its members' role in the formulation and effective implementation of good governance policies in Hong Kong and throughout China, as well as the development of the profession of the Chartered Secretary. The HKICS was first established in 1949 as an association of Hong Kong members of the Institute of Chartered Secretaries and Administrators (ICSA) of London. It became a branch of ICSA in 1990 before gaining local status in 1994, and today has over 5,800 members and 3,200 students.

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香港联合交易所计划于12个月内对《环境、社会及治理报告指引》的主要披露要求提升为不遵守就解释。安永的唐嘉欣、俞景垚和何智权就如何有效地披露ESG信息和管理ESG表现提供意见。

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Whistleblowing

Our Institute has been promoting the need for companies to have an effective whistleblowing system for many years. In 2007, in collaboration with Hong Kong Shue Yan University, we published our *Business Ethics: A Path to Success* research report, which produced the interesting statistic that while 87% of respondents agreed that it is necessary for a company to put a whistleblowing policy in place, only 51% of respondents had actually done so.

One reason for this rather startling disparity between good intentions and actual corporate practice is surely that whistleblowing is not yet a compliance issue. Hong Kong's Corporate Governance Code does include a recommended best practice for companies to implement effective whistleblowing procedures, but until this is upgraded to a code provision, or until Hong Kong implements legislation on this issue, there will be no consequences for companies who choose not to go down this route.

This month's *CSj* makes it very clear that companies without a whistleblowing system in place are missing out on one of the most effective corporate governance mechanisms available. Who in an organisation is likely to be the first to become aware of malpractice? In most cases it will of course be employees, or

officers of the company. They are the ones most familiar with how business is being conducted on a day to day basis. If an organisation is able to enlist its own employees in the fight against malpractice it has, at a stroke, acquired the best possible monitoring system it could hope for.

Apart from the lack of a regulatory imperative, there is another factor behind the inertia among Hong Kong companies in addressing the whistleblowing challenge – lack of expertise. Implementing an effective whistleblowing system involves more than simply setting up a telephone or email hotline, or adding a suggestion box to your website. As my predecessor as HKICS President, Edith Shih, points out in this month's cover story, the key factor is how the company handles a whistleblower report. It would be preferable that companies have effective procedures in place so that substantive reports can be investigated and escalated to the audit committee. In addition, whistleblowing should be a regular item on the agenda of audit committee meetings.

Fortunately, there is no shortage of good advice on this topic. First stop for our members should be our own Whistleblowing Toolkit (available in the publications section of our website:

www.hkics.org.hk). The Institute of Chartered Secretaries and Administrators (ICSA) has also produced guides on this topic.

It is no coincidence that Chartered Secretarial bodies have been at the forefront of this issue for many years since it is relatively common for organisations to identify the company secretary as the confidant for would be whistleblowers. Company secretaries often also handle liaison with the audit committee and/or regulators in investigations following whistleblower reports.

The involvement of the company secretary in whistleblowing does not stop there, however, and I would argue that an even more critical role can be played by members of our profession in advocacy. In companies that have still not implemented a whistleblower system, company secretaries should be highlighting the benefits of such a system for the board. In addition, our Institute will continue to champion best practices in this area.

A handwritten signature in black ink, appearing to read 'Maurice Ngai'. The signature is fluid and cursive, written over a white background.

Maurice Ngai FCIS FCS(PE)

举报弊端

多年来，公会一直提倡公司设立有效的举报制度。2007年，公会与香港树仁大学合作，出版《商业道德：致胜之道》研究报告，当中所发表的数字颇有意思：87%的受访者同意公司有需要订立举报政策，但只有51%的受访者实际执行。

公司的良好意愿与实际做法不大相同，原因之一当然是举报制度尚未成为合规要求。香港的《企业管治守则》的确有一项建议最佳常规，建议公司实施有效的举报程序，但除非这升格为守则条文，又或香港当局订立相关法例，否则公司即使不跟随这做法，亦未见需要承担后果。

本刊今期的文章清楚说明，没有设立举报制度的公司，实在错过了一个极有效的公司治理机制。在机构内，谁最可能首先得知有不良行为？在大部分情况下，当然都是公司的员工，他们最熟悉公司的日常业务运作。假如公司能动员自己的员工打击不良行为，也就是取得了我们所渴望最佳的监察制度。

另外，香港公司不愿接受设立举报制度的挑战，还有另一原因，就是缺乏这方面的专长。实施有效的举报制度，远非纯粹设立电话或电邮热线，或在网站加设意见箱那么简单。正如公会上届会长施熙德律师在今期的封面故事所指出，最重要的因素是公司如何处理举报报告。公司最好能设立有效的程序，调查重大的举报事件，并上报审核委员会。举报弊端还应该成为审核委员会的常设议程。

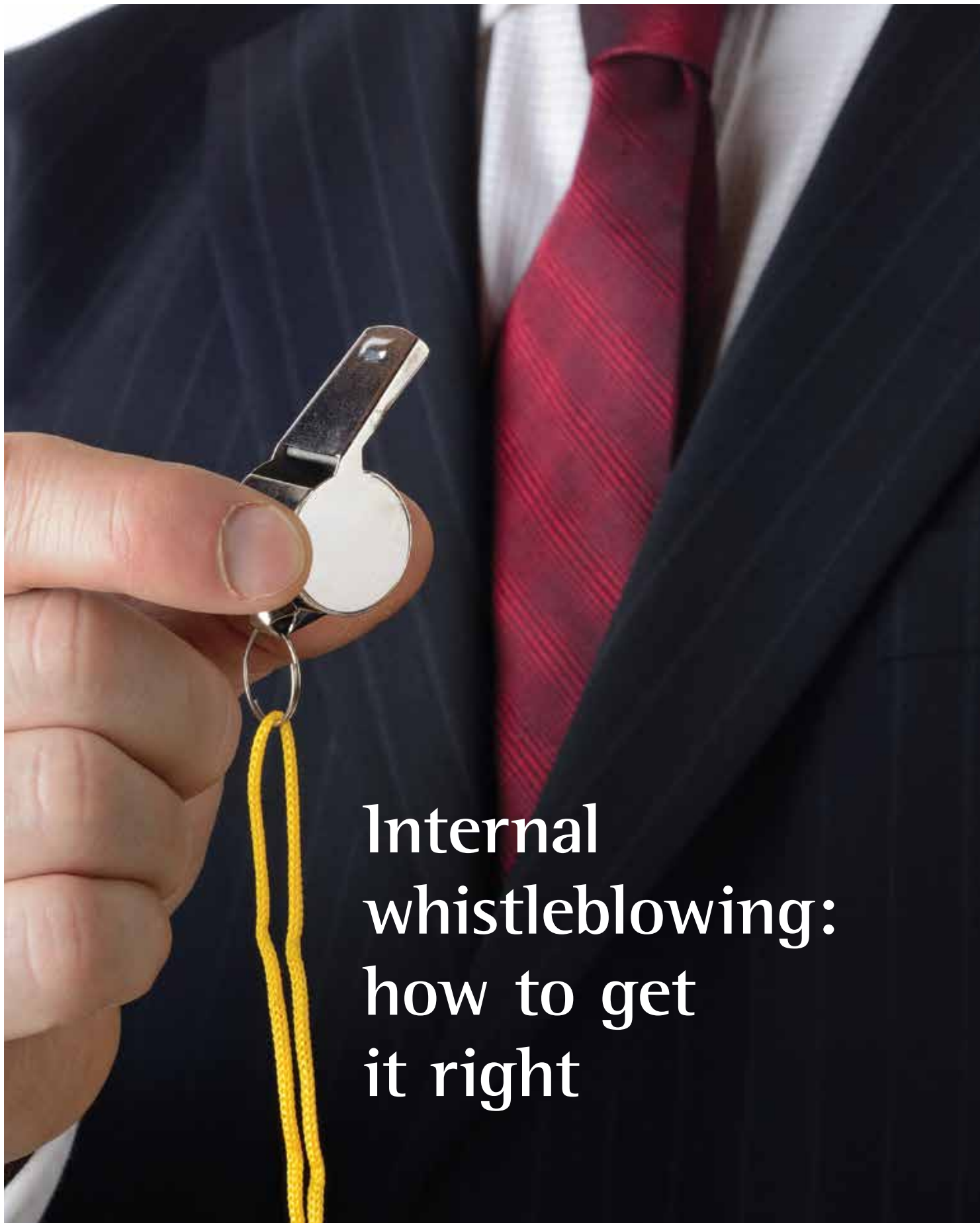
幸好有关这课题的参考资料相当丰富。公会会员首先可参考公会的《举报工具套》（可在公会网站 www.hkics.org.hk 的刊物一栏阅览）。特许秘书及行政人员公会也有就这课题发出指引。

特许秘书的行业组织多年来一直带领讨论此议题并非偶然，机构往往视公司秘书为潜在举报者可信赖的对象，收到举报报告后，公司秘书往往也负责与审核委员会以及或和监管机构联系。

公司秘书参与举报弊端的工作却并不止此。我认为专业特许秘书还可担当更关键的倡议者角色。若公司还没有设立举报制度，公司秘书应向董事会重点说明这类制度的好处。此外，公会亦将继续推动这方面的最佳做法。



魏伟峰博士



Internal whistleblowing: how to get it right

Until Hong Kong establishes effective whistleblower protections it will continue to miss out on one of the most effective channels for the detection of fraud. CSj gets some expert advice on this and other aspects of establishing an effective internal whistleblowing channel.

In 2002, *Times* magazine named three women who blew the whistle on corruption at corporate giants Enron and WorldCom as 'Persons of the Year'. They were hailed as heroes. 'They were people who did right just by doing their jobs rightly – which means ferociously, with eyes open and with the bravery the rest of us always hope we have and may never know if we do,' the magazine wrote.

However, real heroes, one might argue, are not necessarily the ones who make giants fall – as in the above cases – but those individuals and employees who detect misdoings within an organisation, report it internally and by doing so stop fraud, corruption or other illegal activities. Not only will this safeguard shareholder interests, it could also ensure the organisation's future existence.

In Hong Kong there are such heroes, too. But compared to other countries, unfortunately, relatively fewer. The reason is not that Hongkongers lack guts or a notion of moral responsibility. It's rather, according to respondents to this article, the lack of effective protections for people within organisations who want to report malpractice.

Numerous research reports show that whistleblowing is one of the most effective tools in detecting and countering corruption. When handled effectively, it safeguards both shareholders' and society's interests. But in order for it to reach its full potential, there needs to be a corporate environment that is conducive to whistleblowing, as well as

a mechanism to protect whistleblowers against intimidation and reprisals. In many respects, Hong Kong lacks this.

Chris Fordham, Managing Partner, Asia Pacific Area, Fraud Investigation & Dispute Services, Ernst & Young (EY), said that most people want to do the right thing and stay clear of being associated with unethical behaviour. But what stops people from speaking up in Hong Kong is that, first, they don't know whom to turn to and, second, if they do blow the whistle, they can probably say goodbye to their career.

'It is unfortunate,' Fordham says. 'A lot of the frauds we deal with in terms of investigations come from whistleblowers. If companies don't have a whistleblower policy that protects the anonymity of the informer, they are missing a fundamental route for issues to be surfaced and to detect fraud. It's as simple as that.'

Over 43% of detected fraud within organisations is discovered by a tip,

according to a global survey by the Association of Certified Fraud Examiners, and the majority of tips come from employees of the organisation. Another study by the University of Chicago showed that almost half of the fraud cases included in its survey were spotted by employees, media or non-financial market regulators.

Background

Corruption and fraud in business are among the greatest challenges in the modern corporate world and a major threat to sustainable growth. According to studies done by the United Nations and the Organisation for Economic Co-operation and Development, corruption adds as much as 10% to the cost of doing business and 25% to the cost of public procurement.

A PricewaterhouseCoopers global economic crime survey showed that 67% of respondents have experienced asset misappropriation, 38% accounting fraud, and 24% bribery and corruption. In

Highlights

- whistleblowing is one of the most effective tools in detecting and countering corruption
- Hong Kong is lagging behind when it comes to whistleblower best practice, mainly due to the absence of effective protections for people within organisations who want to report malpractice
- If employees don't understand the rationale behind the whistleblowing system, it all too easily turns into a forum for general criticisms and an arena for infighting

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China, 84% of polled companies said they were victims of fraud, a Kroll report found.

'If fraud goes undetected, you tend to go into a culture of fraud', Fordham warns. 'You get a situation where people think "If he get's away with it, why would I not get away with it!". It's a downward spiral.'

These facts highlight the urgent necessity to combat corruption in business, and whistleblowing plays an invaluable part in this fight. Jurisdictions around the world have therefore developed legal and regulatory tools aimed at tackling corruption in business.

As early as 1863, the US pioneered the promotion of whistleblowing by enacting

the False Claims Act, which since then has advanced. The Sarbanes-Oxley Act of 2002 contains significant protections for corporate whistleblowers, and prescribes a prison sentence of up to 10 years for retaliatory conduct against whistleblowers. What's more, the US Securities and Exchange Commission (SEC) has come to rely heavily on whistleblowers since the 2010 Dodd-Frank Act gave it the authority to reward people whose tips lead to enforcement actions.

Regulations differ country to country. In the UK, the non-statutory Combined Code of Corporate Governance protects whistleblowers and obliges listed companies to have whistleblowing arrangements or explain why they do not.

There is no cash reward system. Norway has specific legislation on the protection of whistleblowers, while neighbouring Sweden does not define whistleblowing in law, but has statutory provisions – such as the constitution, the trade secrets act and the employment protection act – that shield individual informers.

Is Hong Kong lagging behind?

Hong Kong has a history of taking proactive steps to investigate and prosecute cases of alleged corporate fraud, but the territory is lagging painfully behind when it comes to whistleblower protection.

According to a study done by the HKICS in 2007, 87% of respondents believed that it is necessary for a company to have a

whistleblowing policy in place – but only half of all listed companies actually had one. And the trend does not look positive. EY's new Asia-Pacific fraud survey said the number of employees in Hong Kong prepared to use a whistleblowing hotline has dropped significantly from 2013, to only 40% in 2015.

'In territories that have whistleblowing protection, people are more likely to use it', Mr Fordham says. 'Hong Kong not only lags behind other jurisdictions; it has failed to make any strong inroads in the past few years. I'm concerned about the situation here.'

He adds, however, that Hong Kong Exchanges and Clearing (HKEx) has taken steps in the right direction. It recommends listed companies to adopt a whistleblowing policy encouraging employees, shareholders and other business associates to voice their concerns on suspected malpractice. Currently this is a 'recommended best practice' in the Corporate Governance Code, and is not therefore mandatory, and there is no direct legislation making whistleblower programmes compulsory. Also, crucially, Hong Kong is missing the comprehensive legislation required to offer whistleblowers protection. At present there is only a very narrowly defined provision in the Employment Ordinance which states that, 'an employer shall not dismiss an employee by reason of his giving evidence or information in any proceedings and inquiry in connection with the enforcement of the Employment Ordinance, work accidents or breach of work safety legislation.'

In 2013, lawmaker Cyd Ho Sau-lan, a member of the Legislative Council of Hong Kong (LegCo), proposed whistleblower

protection legislation which would protect individuals from retaliation for uncovering malpractices of the government or public organisations in the public interest. It wasn't passed. Charles Mok, who represents the information technology sector in LegCo, supports an enhanced whistleblower protection system in Hong Kong. Too often, as he put it, the whistle is shoved right back down the blower's throat.

'I am in favour of having whistleblower protection in Hong Kong. We certainly lack such protection for people in Hong Kong', he said. 'Unfortunately the issue is not controversial enough to garner the attention of the public to see the merits of having such protections,' he said.

Dr Brian Lo FCIS FCS, Vice-President and Company Secretary of APT Satellite Holdings Ltd, says it is 'unfortunate' that the LegCo proposals were voted down. The

use of whistleblowing to combat fraud and corruption, he explains, is among the most important – as well as controversial – aspects of corporate governance.

APT Satellite Company has a well-established whistleblower protection policy, he explains. It works together with a complaints handling procedure under the oversight of the company's audit committee and internal auditor. The success of such systems should not be measured by the number of tip-offs they generate, Dr Lo points out, because their very presence is a deterrent to misconduct.

He believes that Hong Kong would benefit from whistleblower protection regulation. He also believes that the recommendation in the Corporate Governance Code for companies to implement effective whistleblowing procedures should be upgraded to a code provision.

In their own words

"If fraud goes undetected, you tend to go into a culture of fraud. You get a situation where people think 'If he gets away with it, why would I not get away with it'. It's a downward spiral."

Chris Fordham, Managing Partner, Asia Pacific Area, Fraud Investigation & Dispute Services, EY

"It all depends on how the company handles whistleblower reports. If the internal auditor just puts it away, it's the end of the story."

Edith Shih FCIS FCS(PE), Head Group General Counsel and Company Secretary, CK Hutchison Holdings Ltd

"What's needed to create a better speak-up culture in Hong Kong and to get people to raise the flag on wrongdoings entirely depends on their 'level of comfort'... the informant must know that there is someone powerful enough in the organisation to listen from an independent perspective."

Mohan Datwani, FCIS FCS(PE), Senior Director and Head of Technical & Research, HKICS

Edith Shih FCIS FCS(PE), Head Group General Counsel and Company Secretary, CK Hutchison Holdings Ltd, doesn't think Hong Kong is in urgent need of additional legislation or amendments to the listing rules at the moment. The Independent Commission Against Corruption (ICAC) investigates suspected corruption reported by the public via its 24-hour hotline and report centres, and all companies should make an effort to have a functional internal system for tipoffs and complaints, she says.

All business units in the CK Hutchison group have some form of whistleblowing system, depending on where they are listed. The most sophisticated systems are in jurisdictions like the US and the UK where listing rules make such schemes compulsory. In Hong Kong, where whistleblowing is still a recommended best practice, the system can be simpler – an e-mail and mailbox – but such a system can still be sufficient and efficient, she says.

'There are sophisticated whistleblowing systems in the market but these cost and

if companies take things seriously then even an e-mail address for reporting is not a bad idea. It does the job, too, in preserving anonymity. It all depends on how the company handles whistleblower reports. If the internal auditor just puts it away, it's the end of the story. But our internal auditor actually has to investigate and report the cases to the audit committee, and whistleblowing is always an item on the agenda to be accounted for at our audit committee meetings. If there have been any issues, further investigation would be conducted with a view of bottoming out the issues being reported on.'

CK Hutchison also has an ongoing education and information process to ensure that all employees are aware of the system and its benefits.

Most reports from the whistleblowing system are not about major crimes, but rather information on issues such as unfair employment treatment, harassment, suspected bribery, or breaches of regulatory or legal requirements. Whistleblowing is one of many ways of detecting misdoings,

Edith Shih points out. 'If we're talking about major crimes, I don't think we would rely entirely on the whistleblowing system for that purpose. The way I look at it, our internal auditor, management, risk management and internal control colleagues would have picked up those cases', she says. 'If material misconducts are not picked up by our own system, then we have not done our job properly and are being negligent as managers.'

Encouraging a 'speak-up' culture

The HKICS has been promoting the benefits of whistleblowing for some time. It has issued guidance and a toolkit on how companies can implement a whistleblowing system (available from the HKICS website: www.hkics.org.hk).

'There is a sound commercial purpose for whistleblowing', says Mohan Datwani FCIS FCS(PE), Senior Director and Head of Technical & Research at the HKICS. 'If appropriate issues are escalated and dealt with, this is significant risk mitigation!'


Basically, what's needed to create a better speak-up culture in Hong Kong

Ombudsman – the perfect confidant?

As mentioned in the main article, whistleblowing procedures have a relatively long history in the US. A related best practice recommendation emerging in the US is for companies to establish an ombudsman function. Having an ombudsman to provide employees with neutral and confidential advice on a range of issues, not just on suspected malpractice, is a significant benefit for companies, writes David

Bogoslaw in an article in *Corporate Secretary* (available online at: www.corporatesecretary.com, see 'Ombuds programs: creating a culture of trust rather than compliance', 17 June 2015).

Formal whistleblower hotlines are often underused since they do not gain the trust of employees as an independent and confidential space in which issues can be discussed. This is a significant advantage the ombudsman

function has over formal reporting channels and, while it is still a rarity in the US, increasing numbers of organisations are seeing the value of creating a safe space for employees to voice concerns and get advice on the situations they face in the workplace. The ombudsman function comes with a cost, but companies could be facing a much more costly denouement if issues are not resolved at an early stage. 

“
 what stops people from speaking up in Hong Kong is that, first, they don't know whom to turn to and, second, if they do blow the whistle, they can probably say goodbye to their career”



and to get people to raise the flag on wrongdoings entirely depends on their 'level of comfort', he adds. 'The informant must know that there is someone powerful enough in the organisation to listen from an independent perspective. For example, if the complaint is against the CEO, what is there to make sure that the complainant will not be sacked following a complaint, including for some tangential operational reasons? There thus needs to be a whole series of wrap around protections for a better speak-up culture.'

A whistleblowing policy is only as good as its implementation and the level of comfort it provides in the expected protections and abilities to lead to results. The most commonly discussed flaw by industry practitioners does not relate to having or not having a tip-off system, Datwani explains. Rather, it relates to a lack of understanding of the use of whistleblowing.

The first step is therefore for the company to have a whistleblowing policy, a viable

whistleblower channel and a training programme to ensure that employees know how – and why – to use the whistleblowing channel. Companies must set the right tone from the top so everyone in the company feels protected. If employees don't understand the rationale behind the whistleblowing system, it all too easily turns into a forum for general criticisms and an arena for infighting. The systems must also be localised to local languages and customs – this, Fordham says, is something many organisations miss.

The second step is for the company to establish effective procedures to deal with the tips when they come in. Often the whistleblower doesn't come forward with all the information at the same time, but sits on more documents and material. How do you keep an open channel with informers if they wish to remain unidentified? How can you safeguard their security if they step forward? Then, how do you proceed with the investigation to

validate the tip-off? Do it wrong, and you risk alerting the suspects who are then likely to quickly get rid of all evidence against them by destroying computers and burning documents – this, Fordham says, happens all the time.

Fordham relates some real-life examples of how not to do it. On one occasion, a company executive got an anonymous tip-off about suspected fraud within the organisation. His reaction was to stick the letter on the staff notice board, with a note saying: 'If you don't have the guts to tell me who you are...! Then he put the people who were complained of in charge of the investigation.

'I couldn't believe what I was hearing, it was unbelievable', he says. 'It later became clear that there was a fundamental issue in the company with bribery and fake invoices.'

Johan Nylander
Journalist



The value of good communication

Investor relations is a relatively young profession in Hong Kong, but this month's In Profile candidate is a Chartered Secretary who has played a major role in building the profession over the last decade. This month, *CSj* talks to Dr Eva Chan FCIS FCS(PE), Council Member of the HKICS, Head of Investor Relations at C C Land Holdings Ltd and Founding Chairman of the Hong Kong Investor Relations Association.

Thanks for giving us this interview, what attracted you to investor relations work?

'Investor relations is mainly about communicating with people and that fits my character well. I like the fact that I am continually learning from the people I talk to, and I have always seen this as an interesting job.

Once I moved to C C Land and started to specialise in investor relations, I quickly realised that there are a lot of misconceptions about this work. My previous job had been as a CFO for a listed company and I received a lot of phone calls from my friends when I moved to C C Land telling me about CFO jobs. They thought that my new job was a very junior position and I had only taken it because I had no better opportunities. That was when I realised the degree of misunderstanding about the roles and responsibilities of the investor relations position.

Actually the investor relations profession in Hong Kong is relatively young. When I started at C C Land, which was only eight years ago, people had very little knowledge about the profession and would still mix up the 'IR' and the 'PR' functions. I wanted to do something to promote the status of investor relations in Hong Kong so I set up the Hong Kong Investor Relations Association. We started with six people and we now have more than 400 members. We still have work to do, but the awareness of the investor relations function has improved a lot.

Eight years ago, for example, less than 10% of listed companies had a formal, dedicated investor relations position, now many do. This is an important indicator that boards and management recognise the importance of this work. They know that their cost of capital depends on whether they have a good relationship with investors. These days, listing candidates cannot do without an investor relations officer. Often sponsors will make it a requirement for listing candidates to have an experienced person in this role!

So what has changed – what do you think led to this better recognition for investor relations work?

'The critical change was in 2005. In that year we had the biggest IPO in Hong Kong – that of China Construction Bank. The bank's market capitalisation was over HK\$100 billion, at a time when most companies listed in Hong Kong were worth less than \$10 billion. Back then you could be in top 50 companies if you had a market cap of about \$7 billion, but today if you want to be in the top 50 companies you have to have a market cap of over \$100 billion.

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Eight years ago, people had very little knowledge about the profession and would still mix up the 'IR' and the 'PR' functions
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Another factor is the influx of institutional investors into the Hong Kong market. Before 2005, most investors here were retail investors. Institutional investors are managing other people's money and have much more rigorous procedures to go through before deciding to invest. These procedures will usually involve visiting their potential investee companies and talking to the management. So, as more institutional investors have entered the Hong Kong market, the requests for management meetings have become much more common. Companies recognise, therefore, the need to have a dedicated person to handle this work!

Were company secretaries handling investor relations work before the position of the investor relations officer became more common?

'Yes, the company secretary or the CFO would often be responsible for investor relations and these two positions were often combined. In fact, when I started working as a CFO I actually had three capacities, those of CFO, company secretary and investor relations officer. Having a dual CFO and company secretary was quite common back then, and this is still quite common in small and mid-cap companies.'

Highlights

- companies in Hong Kong increasingly recognise the value of having an experienced and well-qualified investor relations officer
- new technology is having an impact on investor relations work, mostly in terms of new communication platforms, but most investors still prefer face-to-face meetings
- company secretaries with good communication skills can consider specialising in investor relations

Did you feel overstretched handling these three roles?

'It was really stressful. Particularly since that was before company announcements could be made online. At that time, we still had to make company announcements via the newspaper. So after the board meeting on the company's results announcement, I had to proofread the announcement and make sure it was correct before the newspaper deadline. We often had to work on that until 2am. Once that was done, I would start on my presentation for the meeting with investors the following morning.'

Am I right in thinking that in Mainland China investor relations are still a big part of the board secretary function?

'That is one of the main differences between the role here and in Mainland China. For Mainland Chinese companies, the board secretary is the speaker for the company. Therefore, investor relations work is carried out by the board secretary. I have worked for a Mainland Chinese company where I was responsible for both the board secretarial and the investor relations work. I was spending about half my time on

investor relations, so this is a very important function of the board secretary.'

Did your Chartered Secretarial training give you a good foundation for your career?

'The company secretarial training is a good all-round training—you have to study law, accounting, administration, corporate governance – and this certainly helped to get me started.'

I graduated from the City University of Hong Kong with a Bachelor of Arts in Accounting and started work in the company secretarial department of a company that had just delisted. I knew it was a good professional qualification to have, so I decided to sit for the Chartered Secretarial exams. Once I had become qualified, I started working in the company secretarial department of a listed company. I continued to study, however, and I eventually took the certified public accountant (CPA) exams. I then moved to the accounting department of the same listed company and, having got the required accounting experience, I qualified as a CPA.

The company secretarial training gives you many different opportunities. Many HKICS members get a second professional qualification and go on to become a CPA or a lawyer. I encourage more young people to get into this profession, especially now that corporate governance is becoming more important.'

Senior company secretaries often emphasise that it is important to have good communication skills if you want to make a success of the company secretarial career – do you agree?

'Yes. Being a good company secretary is not only about doing all the documentation and the compliance work, you need to know how to work with and communicate with the board of directors, as well as the internal departments and the different external stakeholders. The important thing is for company secretaries to look at how they can contribute to the board of directors. This is the value they bring, this is how they help listed companies to build a good image in the capital market and in public. So it is an important function.'

Do you think the access to the board which company secretaries have is also important for investor relations officers?

'Ensuring that investor relations professionals have access to the board is something I want to promote. Often the investor

Career notes

Dr Eva Chan FCIS FCS(PE) is the Head of Investor Relations of C C Land Holdings Ltd, the Founding Chairman of The Hong Kong Investor Relations Association (www.hkira.com) and a Fellow member of the HKICS, ICSA, HKICPA and ACCA. She has more than 25 years' professional experience in senior management teams at various listed companies in Hong Kong. She is also an Independent Non-Executive Director of Capital Environment Holdings Ltd, and an Adjunct Professor in the School of Accounting and Finance of The Hong Kong Polytechnic University.

Dr Chan was admitted as an Associate of ICSA in 1990 and elected a Fellow of ICSA and HKICS in 2006. She has been a HKICS Council member since 2012 and is currently the Vice-Chairman of the Membership Committee and a member of the Professional Development Committee. She is a regular speaker and chairperson at various ECPD seminars and authored the *HKICS Guidance Note 8 – Investor Relations – Part 1* published in 2008. She has also been a member of the Student Disciplinary Sub-Committee since 2010. She has represented the Institute on the Accountancy Training Board of Vocational Training Council since 2011.



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if companies really recognise the importance of investor relations then they should have their investor relations officer report directly to the chairman or the CEO or the business decision-makers
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relations department is under the finance function, but this work is not only about finance, it's also about corporate strategy. I report directly to the CEO who is also the vice-chairman. If you are not reporting to the chairman or the CEO, you will just be getting second-hand information. In this scenario, how can you know the whole story and how can you deliver the right message? If companies really recognise the importance of investor relations then they should have their investor relations officer reporting directly to the chairman or the CEO or the business decision-makers. The point is whether the investor relations officer can get immediate first-hand information from the senior management team.'

What changes do you see ahead for investor relations professionals?

'I think there are a lot of opportunities for investor relations professionals in Hong Kong. Hong Kong is now one of the largest IPO markets in the world and the Hong Kong capital market has become very international. The fund managers I knew 10 years ago in Boston and London have moved to Hong Kong.


The closer links with Mainland China market will also be an important factor in the years ahead. With the launch of Hong Kong-Shanghai Stock Connect, just overnight, Hong Kong companies are facing additional 100 competitors for investment funds. When the Stock Connect is extended to Shenzhen, they will be competing with Shenzhen companies too.

We will see increasing numbers of Chinese companies coming to list in Hong Kong, and I think we will also see increasing numbers of Chinese people taking up key positions in companies – including CFOs, company secretaries and investor relations officers. The same applies to the investors. In the past, most fund managers were English speakers but now they are often Mandarin speakers.'

Has new technology had a major impact on investor relations work?

'New technology is having an impact, mostly in terms of new communication platforms, but most investors still prefer face-to-face meetings. The various social media platforms can help extend your reach – one message on WeChat can reach 100,000 people. We use WeChat as a communication platform, together of course with the company website. But the growth of social media has also presented challenges for companies. When you have a crisis, if you do not respond immediately you are risking significant damage to your reputation.'

Have you seen more interest from investors in corporate governance over the course of your career?

'Yes, investors are more focused on corporate governance and corporate social responsibility (CSR) issues. Corporate governance is an important issue for long-term investors – they have to trust management to handle their money over a longer period of time. We are also seeing investment funds in the market which invest solely in companies with good CSR. I think there will be more emphasis in this area in the years ahead.' 



Weighted voting rights

A straw man proposal is intended to generate discussion of an intended course of action and Hong Kong Exchanges and Clearing's 'straw man' weighted voting rights proposals have certainly succeeded in doing that. The question remains however – what comes next?

In 2013, when Chinese e-commerce giant Alibaba sought to list in Hong Kong with a control structure which would have allowed the company's founder and selected partners to retain control of the majority of board nominations irrespective of their equity stake, Hong Kong was faced with a dilemma. Alibaba would have been a prize IPO for Hong Kong, representing a major coup for the local market – the Alibaba Group has sales that exceed those of eBay and Amazon combined. However, the company's founder and partners were not prepared to relinquish their ability to nominate the majority of the board after being listed and this would have had the effect of concentrating power in a manner that diverges from Hong Kong's 'one-share, one-vote' market rules.

The denouement of this dilemma was, as is well known, that Hong Kong stuck firm to its weighted voting rights (WVR) restrictions and Alibaba listed on the New York Exchange. But the debate has not gone away.

Those in favour of allowing WVR structures in Hong Kong argue that Hong Kong's competitiveness is at stake. Hong Kong is in a good position to become the premier 'overseas' market for large-scale PRC tech companies like Alibaba since it combines the attractions of an

open international financial centre with the familiarity of a jurisdiction within the Chinese geographical and cultural sphere. Hong Kong Exchanges and Clearing Ltd (the Exchange) continues to capture the lion's share of listings by Mainland Chinese companies, but there can be little doubt that some IPOs have been lost to the US because of its restrictions on WVR structures. Of the over 100 Mainland Chinese companies that have chosen to list on US exchanges, almost one third have a WVR structure. This third represents 70% of the market capitalisation of all New York listed Mainland Chinese companies.

Those opposed to WVR structures in Hong Kong argue that the current restrictions

on such structures are there for a very good reason. The consequences of permitting exceptions to the 'one-share, one-vote' principle – which prevents a shareholder from having greater voting power than other shareholders with the same amount of equity in the company – would be highly damaging to Hong Kong's competitiveness, they argue. High standards of corporate governance preserves Hong Kong's deep investor base. In a speech at the Securities and Futures Commission (SFC) media luncheon on 9 March 2015, Ashley Alder, SFC Chief Executive Officer, warned that permitting WVR structures might result in fund managers applying a 'governance discount' to stock prices, or adjusting portfolio weightings away from Hong Kong.

Highlights

- on 9 March 2015, Ashley Alder, SFC Chief Executive Officer, warned that permitting weighted voting rights structures might result in fund managers applying a 'governance discount' to stock prices, or adjusting portfolio weightings away from Hong Kong
- on 19 June 2015, the Exchange's consultation conclusions acknowledged that weighted voting rights remains a subject on which there are 'strong and divided views'
- on 25 June 2015, the SFC issued a statement that it does not support the Exchange's draft proposal for primary listings with weighted voting rights structures

The Exchange's proposals

In August 2014, the Exchange issued a concept paper seeking views on whether WVR structures should be permissible in Hong Kong. The Exchange emphasised that it has not formed any view for or against WVR, but it believes that the issue needs to be debated. Interviewed by CSj in December 2014, the Exchange's Chief Executive Charles Li said: 'we believe that there is sufficient merit in WVR structures being the subject of review and a comprehensive public debate.'

The concept paper was subject to a public consultation which concluded in November 2014. The Exchange concluded from the responses to the consultation that there is support for a second stage consultation on proposed changes to the current rules on WVR structures. 'It is clear from the responses that this remains a subject on which there are strong and divided views', the Exchange's consultation conclusions, published on 19 June 2015, stated. But the Exchange is in the process of finalising a draft proposal for discussion with stakeholders with a view to refining the proposal and then publishing a second stage formal consultation on proposed changes to the current rules for companies seeking a listing with a WVR structure.

'We are considering proposing that, generally, "one-share, one-vote" should prevail but that WVR structures should be allowed for certain companies in certain circumstances and with certain safeguards. We seek to define those circumstances and safeguards. These proposals will, in essence, develop the "exceptional circumstances" concept that already exists in the rules (but which, in practice, has never been used successfully to bring a company to listing

on the Exchange) and extend them to "limited circumstances" in which certain companies with WVR structures could be listed with enhanced investor protection safeguards', the Exchange's consultation conclusions state.

The SFC response

The debate on the admissibility of WVR structures in Hong Kong clearly raises important questions for the HKSAR. Many of these have already been aired by the Exchange and respondents to the Exchange's first consultation on WVRs. However on 25 June 2015, the SFC issued a formal statement on the Exchange's draft proposal on WVR which stated that: 'The board of the SFC has unanimously concluded that it does not support the draft proposal for primary listings with WVR structures.'

The SFC statement raised doubts about the measures so far discussed to limit the availability of WVRs. For example, the Exchange expects that any second stage proposal will limit WVR structures to new companies seeking to list on the Exchange for the first time, but the SFC questions whether it would be possible to prevent circumvention of this restriction. The Exchange has proposed bringing in 'appropriate anti-avoidance measures', but the SFC has 'significant concerns' regarding the effectiveness of these measures. 'For this feature to work, there must be effective measures to prevent ineligible issuers from bypassing the limitation through arrangements such as spin-offs, asset transfers or other forms of corporate restructuring', the SFC states.

'The SFC is of the view that Hong Kong's securities markets and reputation would be harmed if WVR structures became commonplace', the SFC statement

comments. 'It is insufficient to look only at controlling the number of WVR issuers. The SFC is concerned, for example, about the potential impact of acquisitions of existing listed assets by WVR issuers. Unrestricted, post-listing transactions could over time result in the transfer of a significant proportion of existing listed businesses and assets to WVR structures. In the SFC's view, such a development would be detrimental to our markets and the interests of the investing public generally.'

The Exchange is also considering imposing a very high expected market capitalisation test, in addition to existing eligibility criteria for WVR listings on the main board. The SFC, however, is sceptical as to the effectiveness of this measure. 'Size offers no assurance that a company would treat its shareholders fairly', the SFC statement comments. 'Any corporate misconduct by an issuer with a large market capitalisation will likely affect more investors and have a greater impact on our markets. For example, these issuers are more likely to

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become index components which will compel index funds and other types of “passive” institutional investors (which invest public money) to buy and hold their stocks even if fund managers disagree with their WVR structures.’

The SFC also has concerns about the draft proposals that would require regulators to assess compliance with the criteria for companies to be eligible for WVR. For example, the Exchange is considering

imposing ‘enhanced suitability’ criteria which could include the contribution of the founder or founders of the company. ‘Such criteria can only be applied subjectively and are therefore inherently vague. A regime that relies on the subjective judgement of regulators to determine which listing applicants are eligible for WVR would give rise to regulatory uncertainty and could result in inconsistent and unfair decision-making. The SFC is opposed to proceeding on this basis’, the SFC states.

What comes next?

The SFC has not categorically ruled out taking the WVR proposals any further, but the statement released on 25 June 2015 is clearly a significant set back for the draft proposals. After all, the SFC would need to approve any changes to the rules to permit WVR in Hong Kong.

The statement makes it very clear that the SFC does not support the draft proposal for primary listings with WVR





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structures – will the debate now refocus on enabling WVR for secondary listings? If the Exchange still intends to proceed to a second draft proposal, it would have to identify viable safeguards to ensure that any changes to the current restrictions on WVRs do not result in negative consequences for investors and the market as a whole. In addition to the objections described above, the SFC’s statement expresses concern that the current proposals do not explain how the safeguards currently on the drawing board can be monitored on an ongoing basis and what actions can be taken either by regulators or by public shareholders if they are not complied with.

Beyond these specific objections to the draft proposals, the SFC has also questioned the rationale for relaxing the current restrictions on WVRs. ‘A focus of the discussion to date on WVR has been competition from the US for the listing of Mainland China businesses. Hong Kong’s business and competitive environment is affected by many factors and can change significantly within a relatively short period. In carrying out its regulatory functions, the SFC considers both long term and short term objectives

and seeks to uphold the core principles of fairness and transparency which underpin Hong Kong’s reputation as an international financial centre,’ the SFC statement comments.

Some of these doubts had already been raised by Ashley Alder, SFC Chief Executive Officer in his speech at the SFC’s media luncheon on 9 March 2015. He prefaced his remarks by emphasising that the SFC was keeping an open mind to the WVR proposals. ‘We should always look carefully at proposals that could result in Hong Kong enhancing its success as a truly international financial centre in the years ahead,’ he said. He questioned, however, whether allowing WVR will in fact increase Hong Kong’s competitiveness. He pointed out that the US is a very different environment for listed companies. It has higher levels of securities litigation, for example.

This point was also made in an article in this journal by Joseph Lee and David Neuville of Cadwalader, Wickersham & Taft (see CSj January 2014 edition). ‘There is a long history of shareholder derivative and minority shareholder litigation in the US in which US courts have acted

to protect public company shareholders, a litigation history largely absent in Hong Kong. Without these protections for shareholders, Hong Kong regulators clearly have felt, and continue to feel, strong pressure to protect those parties.’

Given the divided views revealed by the Exchange’s first consultation on WVR and the objections raised by the SFC, it will be interesting to see if the proposal will ever forge enough market consensus to move forward in respect of primary listings.

Kieran Colvert
Editor, CSj

More information on the draft proposals on weighted voting rights is available on the websites of Hong Kong Exchanges and Clearing: www.hkex.com.hk, and the Securities and Futures Commission: www.sfc.hk.

The previous CSj articles on weighted voting rights can be found online via the CSj link on the HKICS website (www.hkics.org.hk – see the January 2014 and January 2015 editions).

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SUSTAINABILITY

ESG management and disclosure

Hong Kong Exchanges and Clearing Ltd is likely to upgrade key aspects of environmental, social and governance (ESG) disclosure to 'comply or explain' status within the next 12 months. Ivan Tong, Richard Chou and Brian Ho at Ernst & Young, give some advice on how to disclose and manage ESG performance successfully.

Environmental, social and governance (ESG) factors have been gaining importance in the business environment in response to increasing stakeholder pressure – coming from governments, regulators, investors and consumers – for accountability and transparency of businesses in ESG matters.

In response to this global trend, Hong Kong Exchanges and Clearing Ltd (HKEx) published its *ESG Reporting Guide* as one of the appendices to the main board listing rules in 2012. HKEx has very recently published a consultation paper on proposed changes to the guide, proposing the compliance to part of the guide to become a 'comply or explain' obligation for all listed companies in Hong Kong. This article aims to explain the rationale for disclosing your ESG performance, introduce the key ESG aspects for business and identify the steps required for your company to prepare a compliant ESG report

ESG 101

You may get confused by terms like 'corporate social responsibility', 'corporate sustainability', 'corporate responsibility', 'corporate citizenship', and so on. They are very commonly used and, very often, they are interchangeable with what we refer to as 'ESG' here. In short, it is the management of operational, non-financial risks of a business so as to achieve sustainable development.

Corporate risks traditionally cover economic, technological and political risks. They are well monitored by the risk management functions of most companies. Yet, corporate risks become more diverse as the influence of stakeholders, namely employees, regulators, suppliers, mass media,

opinion leaders and local communities, intensifies in the emerging global landscape. Businesses can no longer please only their investors and customers, they need to consider the stakeholders mentioned above. ESG risks often arise from the changing business-stakeholder relationship, the market environment and exposure to sophisticated social networks.

Most companies find it difficult to understand ESG risks and manage them effectively. However, we observe frequently that businesses which ignore this issue suffer losses or are forced to reform under stakeholder pressure. Many businesses still think of ESG as a liability, or they confuse it with corporate philanthropy and 'paying back the community'. Such a mindset undermines the true value of ESG management.

Stakeholder pressure as a driver for ESG disclosure and management

ESG issues are on managers' radar because stakeholders nowadays are more empowered. Businesses must disclose and manage their ESG performance properly.

Authorities and regulators, who work in the public interest, are pressing businesses to be more transparent in how their operational activities may impact the

public. According to a study by Ernst & Young (EY), by 2012, governments or stock exchanges of 33 territories had mandated or encouraged local enterprises to disclose their ESG performance. In China, all state-owned enterprises (SOEs) had published their ESG reports according to the instructions of the State-Owned Assets Supervision and Administration Commission of the State Council. The Shanghai Stock Exchange and Shenzhen Stock Exchange had published their respective ESG reporting guidelines for their listed companies. These were followed by the publication of the HKEx *ESG Reporting Guide* in 2012.

Investors are a major stakeholder. More and more investors recognise the correlation between ESG performance and the long-term prosperity of a venture. More investors, especially those who seek for long-term value, like pension and sovereign funds, are integrating ESG performance considerations into their investment decision making process.

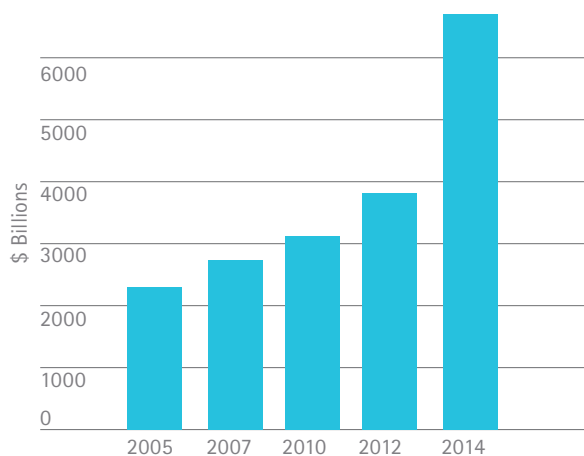
This approach is justified because ESG risks that are not identified and managed result in external costs, implying that the company may be overvalued. On the other hand, businesses with better ESG management in place are more efficient,

Highlights

- how the board and the management team approach the governance of ESG issues is the key factor for a successful ESG strategy
- more investors, especially those who seek for long-term value, like pension and sovereign funds, are integrating ESG performance considerations into their investment decision making process
- ESG disclosure is only a means to an end, once you start reporting you begin the process of continually improving your ESG performance

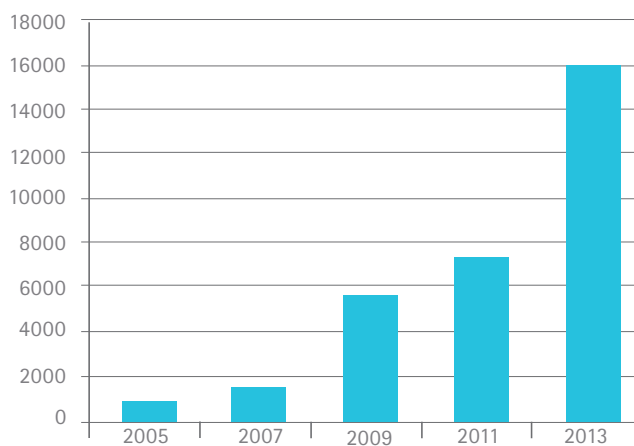
The rise of socially responsible investment (SRI)

SRI in the US (US\$ Billion AUM)



Source: The Forum for Sustainable and Responsible Investment

SRI in Europe (Billion € AUM)



Source: European Sustainable Investment Forum

enjoy greater productivity, are better able to innovate and have better internal controls. To ensure they are well-informed before putting in money, investors demand ESG performance disclosure.

Inaugurated in 2006, the United Nations Principles of Responsible Investment (UNPRI) offer a set of voluntary standards. The standard seeks to ensure that investors are informed about the ESG performance of businesses before

investing and drive the continuous improvement of the business' ESG performance. According to recent UNPRI statistics, to date there are more than 1,200 institutional investors who have signed the UNPRI. These signatories are managing an AUM of 34 trillion USD, or 15% of global investible assets.

Customers or consumers can exert their influence through the market. Market shares are damaged due to corporate

scandals like food safety scandals in food processing or food and beverages industries. But consumers increasingly vote for products and services with good quality and businesses with a responsible brand image. This is especially true if your industry is subject to fierce competition, with ever-increasing customer bargaining power. In the European and US markets, for instance, customers joined hands to request businesses to enhance their environmental policies and deliver products and services with a reduced environmental footprint. Global supply chains are also affected as downstream customers are requiring their suppliers to follow their ESG standards.

Civil society has also been empowered as a corporate watchdog. Over the years, opinion leaders have been rallying civil actions to fight against global challenges like climate change and pollution. This has raised general awareness about how businesses can be part of the solution, or part of the problem. With the leverage of

“ Many businesses still think of ESG as a liability, or they confuse it with corporate philanthropy and ‘paying back the community’. Such a mindset undermines the true value of ESG management. ”

social media and pressure groups such as green groups and labour groups, have become more tactical in their advocacy against businesses. Businesses have to respond if pressure groups put their irresponsible acts under the spotlight. It is better if businesses disclose their ESG management status themselves, in a controlled manner, rather than have pressure groups do that for them.

Key ESG aspects

The ESG risks of a business will vary greatly based on the nature and location of the business. ISO 26000, the corporate social responsibility guideline, has outlined the key ESG aspects that apply to a wide range of businesses. This framework serves as a basis for businesses to develop their ESG strategies. The graphic (opposite) shows these key aspects of ESG.

1. Corporate governance

How the board and the management team approach the governance of ESG issues is the key factor for a successful ESG strategy. This covers how the ESG governance bodies are structured, for example, who is in charge of ESG risk management in the organisation and the authority he or she has. It could also be of interest to stakeholders to know whether the remuneration of board members and senior managers is linked to the ESG performance of the company.

2. Environmental protection

The wellbeing of nature and mankind is closely linked. All businesses, to a certain extent, have an impact on the natural environment. It is an obvious responsibility of businesses to understand their potential environmental impact and to adopt mitigation measures. Common topics of this aspect include: carbon emissions,

Key ESG aspects



climate change mitigation, pollution prevention, sustainable use of resources and the protection of natural habitats.

3. Labour and workplace

Companies rely on their labour force to create financial value. Employees, on the other hand, are dependent on their employers for their earnings. Common topics of this aspect include: labour relations, working conditions and social protection.

4. Human rights

Companies run the risk of violating human rights in various parts of their value chain. According to The Universal Declaration of Human Rights, human rights can be categorised as citizenship, political, economic, social and cultural rights. For companies, human rights violations may take the form of the use of child labour or forced labour in the supply chain, impacts on the livelihood of indigenous residents due to land development and workplace

discrimination. Marketing promotion might also involve various forms of discrimination. Companies should have an effective management system in place to mitigate such risks.

5. Consumer rights

Consumers expect companies to provide sufficient and accurate information for them to make purchasing decisions. Companies should not only address the expectations of their direct customers, but also those of the end users. Consumer rights aspects may include: fair marketing, health and safety protection, sustainable consumption, dispute resolution, data and privacy protection.

6. Ethical operating practices

When companies build business relationships with organisations or individuals, they need to guard against unethical business practices such as corruption, unfair competition and collective pricing. Stakeholders expect companies and their suppliers to abide

by socially responsible behaviour and to respect intellectual property rights.

7. Community involvement and development

This aspect goes well beyond philanthropic initiatives and is much more about community involvement. Companies can leverage their resources and networks to improve the living standards of their neighbouring communities. With innovative strategies, businesses can also benefit from community investment.

The ESG management and disclosure cycle

The guidelines published by the Global

Reporting Initiative (GRI) are the most widely referenced ESG reporting guidelines worldwide. Many local reporting guidelines are based on the GRI guidelines, including the HKEx's *ESG Reporting Guide*. GRI emphasises the importance of setting up the necessary governance structures and cyclical disclosure processes (see graphic opposite). Once the process is in place, the reporting organisation will have a good idea about which ESG aspects it should manage, and can evaluate respective performances in a systematic manner.

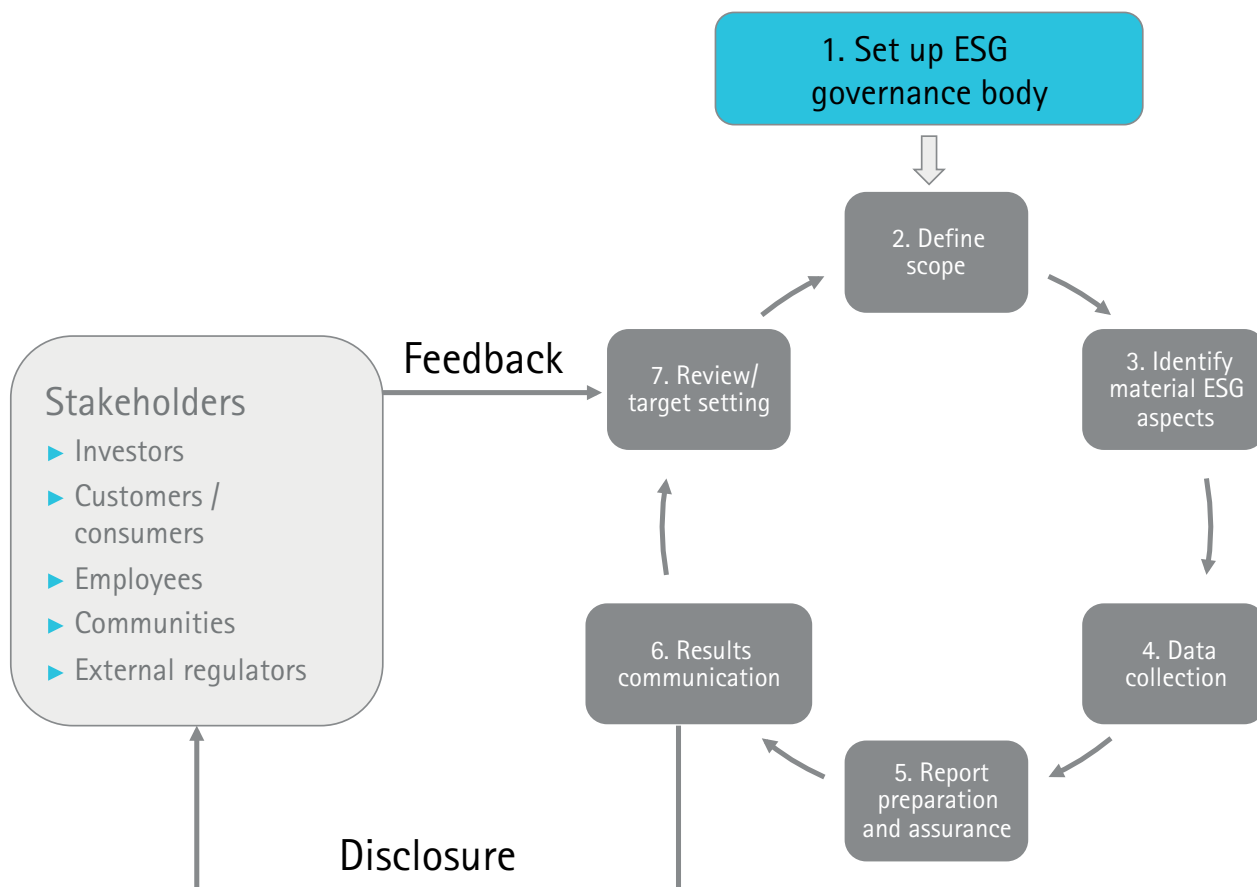
As a start, setting up an ESG governance body that is led by senior management or directors ensures the company has

the necessary resources allocated to ESG disclosures. This body should also be assigning roles to different departments, setting ESG management goals and initiating programmes. The board's support is also crucial for making sure that the sustainability message is spread throughout the organisation. Board committees dedicated to this area have been observed in many Western-based multinational corporations. What we observe from companies in this part of the world is that the audit committee usually takes the lead in bringing the ESG topic to the boardroom. Departments such as the company secretarial, investor relations or corporate communications department are commonly assigned to

“
it is better
if businesses
disclose their
ESG management
status themselves, in
a controlled manner,
rather than have pressure
groups do that for them
”



The ESG management and disclosure cycle



lead ESG disclosure at a working level. Companies that have better experience with ESG management tend to establish their own sustainability departments.

Once the necessary institutions have been set up, management can define the reporting boundary based on the organisation's sphere of influence. 'Sphere of influence' refers to the organisations or individuals who are directly or indirectly affected by the operational activities of the companies. Bear in mind that they may pose various risks to the company and, in this sense, defining the scope of the ESG report is based on the identification of sources of ESG risk.

It is particularly challenging for conglomerates and investment holding companies to define their sphere of influence. For conglomerates, their operations may cover a few industries in different parts of the world. Consequently, their sphere of influence is vast and there is a good chance they might miss out on some material impacts. Investment holding companies may have an even less defined boundary because of the diversity of their investments.

After defining your sphere of influence, you will then need to define the material ESG aspects that you will be managing, disclosing and evaluating from now

on through a logical materiality analysis process. In short, ESG aspects that are deemed important to your stakeholders and are relevant to your business development are those you should disclose. This implies that you need to identify your stakeholders and talk to them so as to learn about the environmental and social impacts of your organisation relevant to them.

Under each ESG aspect considered material, respective key performance indicators (KPIs) are designated. The KPIs designated should be relevant to the business, fairly comparable throughout an extended period of time and comparable with other similar organisations.

Carbon footprint disclosure: sample roles

Role	Responsible officer	Responsibilities
Project manager	Corporate sustainability manager	ESG report editor
		
Analyst	Assistant manager, property management	Consolidate data from all offices of the company and determine carbon footprint
		
Recorder	Administrative assistant of the Hong Kong office	Keep record of electricity and paper consumed, and air mileage travelled

Of course, the need to disclose KPIs will mean that you will need to know where your data will be coming from within your organisation. Very likely, this is where first-time reporters hit a hard wall because this process involves different departments within the organisation and the collection of ESG data is a new thing for them. As many parties are going to be involved, you may not get the expected results even where you are backed up by your senior managers. The key is to provide clear instructions and offer instant support if any of your colleagues encounter difficulties. Data collection manuals and spreadsheet tools can be prepared to help different departments submit the information regularly. The graphic (above) illustrates how carbon footprint data can be consolidated for reporting.

If you are confident that the data and information you obtain is accurate and complete, you can start putting together

your ESG report. In order to enhance the credibility of the report content and the data presented, some companies seek for independent assurance by a third party. The assurer would give an opinion that the ESG report is prepared based on appropriate processes in defining the report content and managing data. It is common for companies in Mainland China and Japan to attach a third party 'comment' to the report. Once the content is assured, the management can be confident about the data disclosed and make use of the data to inform ESG management decisions. Also, as the company's ESG risks are disclosed in the ESG report, investors can take the report into account when making investment decisions.

It is important for the management team to set specific goals to ensure improvement takes place. Stakeholders can also provide feedback to the management on how the company can

perform better. This feedback helps to define the scope of the report in the next reporting cycle.

Conclusion

Disclosing ESG performance is a global trend and will increasingly become a survival issue for companies. ESG disclosure is only a means to an end, once you start reporting you begin the process of continually improving your ESG performance and responding to the demands of stakeholders through appropriate sustainability programmes.

Ivan Tong, Richard Chou and Brian Ho
Climate Change and Sustainability Services, Ernst & Young

The views reflected in this article are the views of the authors and do not necessarily reflect the views of the global EY organisation or its member firms.

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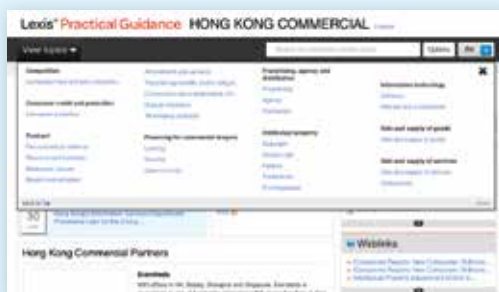
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环境、社会及管治(ESG) 投资与信息披露

香港联合交易所计划于12个月内对《环境、社会及治理报告指引》的主要披露要求提升为不遵守就解释。安永的唐嘉欣、俞景珪和何智权就如何有效地披露ESG信息和管理ESG表现提供意见。



近年来，环境、社会及治理（Environment, Social and Governance, 简称ESG；香港一般称「治理」为「管治」）是一个新兴的话题，不管是政府、监管机构、投资者及消费者都在这概念上对企业提出了不同的要求，希望企业在经营过程中披露与ESG相关信息，以及提升自身表现。香港联合交易所亦在2012年出台了《环境、社会及管治报告指引》，并在刚过去的七月开展了有关建议修订《环境、社会及管治报告指引》的咨询，以建议将此指引大部分条文的责任要求提升为不遵守就解释（comply or explain）。这代表着上市公司必须为将来在ESG信息上的披露作好准备，提升自身的透明度。本文希望通过描述国际上ESG发展的方向以及ESG的内容，向读者简单解释ESG信息披露的要求和情况。

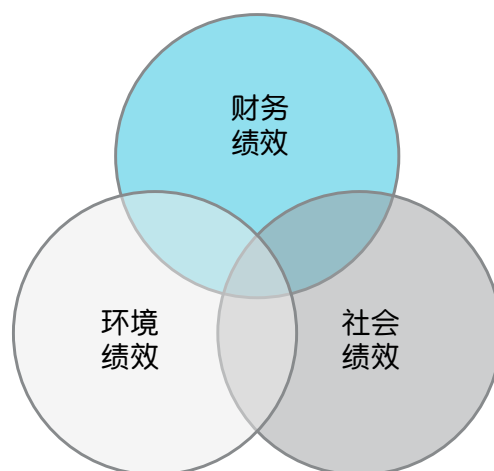
ESG的基本理念

ESG和有些字词类似，例如企业社会责任（Corporate Social Responsibility）、企业可持续发展（Corporate Sustainability）、企业责任（Corporate Responsibility）及企业公民（Corporate Citizenship）等，它的着重点在于企业如何在经营过程中管理好非财务风险，达到自身的可持续发展。

企业传统的三大类风险管理，即经济、技术和政治，这些风险管理模块通常已纳入企业的常规管理当中。但由于企业经营模式的转变导致了市场力量的变化，企业需要满足的不只是消费者和传统的投资者，而且还包括愈来愈重要的利益关联方群体，例如社区、员工、政府、供货商、非政府组织甚至媒体。这些与新的市场环境和企业网络化经营相关的风险，我们可称之为“ESG风险”。

在大部分企业中，ESG风险既不容易被理解，也不存在有效的管理。这些社会风险在环保、人权、劳工标准、环境标准和可持续发展等领域的存在尤为显著。在大部分情况下，ESG风险就是不

完善的企业管治



同的利益关联方通过识别到易损性从而施加压力，令企业做出行为上的改变。现在很多人都认为ESG是一种企业账，履行企业社会责任就是去做公益活动，但这种认知会令企业对ESG的价值减低。一个企业在运作过程中，首先会和客户、政府、竞争者以及其他利益关联方接触，去平衡各方的利益；其次是企业自身在运作过程中要注重内部的结构优化以及外部环境的保护，最终达到经济、环境、社会的平衡以及企业和社会的可持续发展。实现这个可持续发展的过程其实就是履行社会责任的过程。

企业面对来自多方的ESG要求

由于诸多利益关联方的压力，使得ESG

“
由于诸多利益关联方的压力，企业必须认真面对、妥善处理自身在ESG表现和信息披露上的情况
”

信息披露和管理成为企业必须认真面对、妥善处理的议题。ESG信息披露可以说是由几方面的压力而造成：

首先是政府和监管机构的要求。由于社会对于企业的定位和期望有所改变，希望企业在经营过程中履行社会责任，故此政府和监管机构正在要求和鼓励企业在ESG上提升自身的透明度。根据安永的研究，截至2012年，33个国家的政府或证券交易所要求或鼓励企业进行某种程度的ESG信息披露，其中包括大部分欧洲国家、美国、日本、新加坡、马来亚西等。而在我国，在国资委的指引下，所有央企都必须发布社会责任报告，故此截

摘要

- 董事会及管理团队如何看待社会责任的治理，是企业是否能真正推行社会责任策略的关键
- 愈来愈多投资者，尤其是追求长期回报的投资者，例如退休金信托人、主权基金、家族基金等，以环境、社会及治理表现为基础，评价并选择企业进行投资
- ESG披露是一个工具，而不是一个目的，藉由向利益关联方公开ESG绩效信息，企业能得知如何改善ESG表现及响应利益关联方要求

至2012年底，所有央企都已发布企业社会责任报告；而上海证券交易所和深圳证券交易所都已经在2009年前发布相关的指引，对上市公司社会责任报告的发布提出了要求。这亦是香港联交所2012年正式发布ESG报告指引的动机，希望通过指引鼓励所有香港上市公司从2012年12月31日之后的财政年度起自愿通过报告或其他方式披露ESG信息。

其次是资本市场对企业期望的转变。愈来愈多投资者发现企业的CSR绩效与其财务表现的稳定性具有一定关联，尤其是在欧洲和美国，责任投资概念的兴起令更多投资者在关注传统的财务指标之外，以环境、社会及治理表现为基础，评价并选择企业进行投资。投资者视非财务信息为评估企业将面对风险的重要指标，他们认为拥有良好ESG管理的企业往往会更有效率，具更强的生产力及创新能力，以及更良好的内控水平。联合国于2006年正式颁布了“责任投资原则”，一组给投资者采用的自愿性标准，将特定投资组合中与投资表现相关的ESG因素纳入考虑范围中，它鼓励投资者初始投资时，不仅要分析传统的风险和机遇指标，而且要分析ESG元素。当投资完成后，投资者成为推动企业及

其管理层关注ESG风险和机遇的重要力量。责任投资原则指出的ESG因素对一家机构的投资过程的影响是动态的，不论任何企业、行业、区域、资产类别，ESG因素都会影响投资组合的表现。根据责任投资原则的数据显示，截至目前，全球共有超过1200家投资机构已经签署了责任投资原则，他们代表着超过34兆美元的资产管理，或者说全球可投资资产的15%。

我们亦不难看到，在欧美市场，责任投资的资产总额在过去十年出现倍增的情况（见下图）。因此，关注ESG表现的投资者主要是追求长期回报的投资者，例如退休金信托人、主权基金、家族基金等。社会责任投资正在成为新的投资理念，而具有社会/环境效益的产品/服务正在成为投资重点，如企业没有对ESG风险作识别及管理，投资者或会认为企业价值被高估，因为因ESG风险而产生的外部成本并未有被考虑。

第三是社会及公众对企业的要求提高。由于现在的社会及环境问题的突出，例如气候变化、环境污染等问题，促进公众对企业在ESG和可持续发展上的意识有所提升，他们对于大

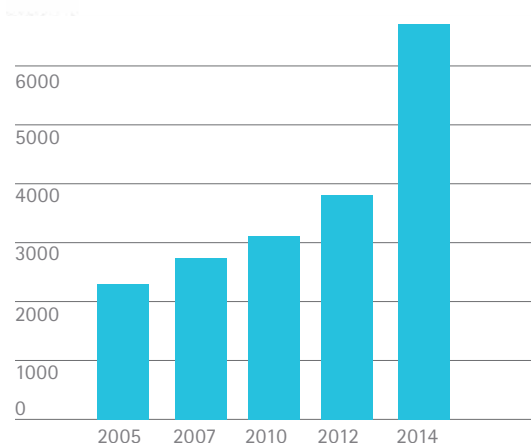
型企业承担起责任有更高的期望，例如企业如何协助解决社会和环境问题等，而由于信息科技的发达，社会上的压力团体如环保组织和劳工组织等亦愈来愈专业和有针对性，他们通过社交媒体将企业在社会责任上的丑闻曝光，这样加强了对企业的监督，令企业不得不回应他们的要求。

最后是客户及消费者可对企业的ESG表现通过市场的力量进行监督。由于频频出现的企业丑闻如食品安全等，消费者对企业的产品和服务有着新的期望，他们会选择一些具有负责任的形象以及提供优质产品和服务的企业，在面对愈来愈大的市场竞争的环境中，消费者的「议价力」正在增加，比如欧美消费者的环保意识提升，他们会要求企业改变其环境政策，生产更绿色环保的产品。故此消费者的要求令责任供应链和绿色供应链的要求成为新的贸易规则，企业为了满足市场的要求从而提升在ESG上的表现和透明度。由于以上种种原因，企业必须认真面对、妥善处理自身在ESG表现和信息披露上的情况。

国际间的ESG相关指引及内容

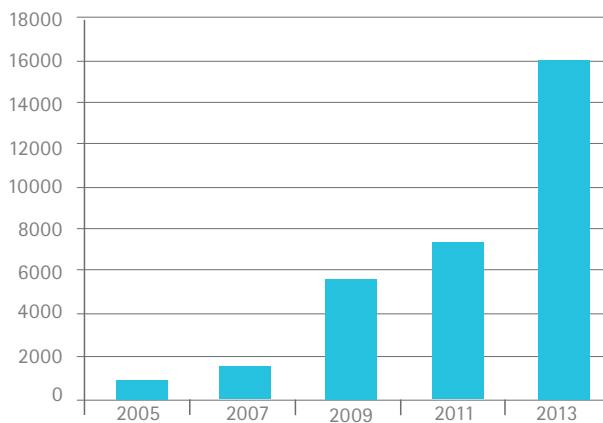
有读者会问“ESG的内容听起来很广，

美国责任投资资产（十亿美元）



来源: 美国可持续与责任型投资基金会

欧洲责任投资资产（十亿欧元）



来源: 欧洲可持续投资论坛

到底有没有一些通用的指引可以让企业参考？”其实国际上对ESG、企业可持续发展及企业社会责任等已经有相关的通用框架可供企业参考，例如国际标准化组织的ISO26000 社会责任指引、全球报告倡议组织(GRI) 的可持续发展报告指引，还有知名社会责任组织Accountability的AA1000准则等，亦有在联合国下的全球契约以及OECD多国企业指导纲领。故此企业如有需要建立ESG相关体系及信息披露，可以参考以上的框架。当然如果读者是在香港的上市公司的话，亦可以参考联交所的ESG报告指引进行披露。

一般来说，ESG的管理包含了企业在经营过程中不同层面的元素，这些元素和外部利益关联方有着重大的关系。笔者在这里列举一些例子，供各位读者参考（见右图）。

ESG包含的元素

（一）企业治理

董事会及管理团队如何看待社会责任的治理，是企业是否能真正推行社会责任策略的关键。包括社会责任治理架构的组成，例如谁在企业内主管经济、环境、社会风险治理的事务；他的决策权限是否足够；他为何胜任这个职务；董事会及管理团队的薪酬会否和企业的经济、环境、社会绩效挂钩等。

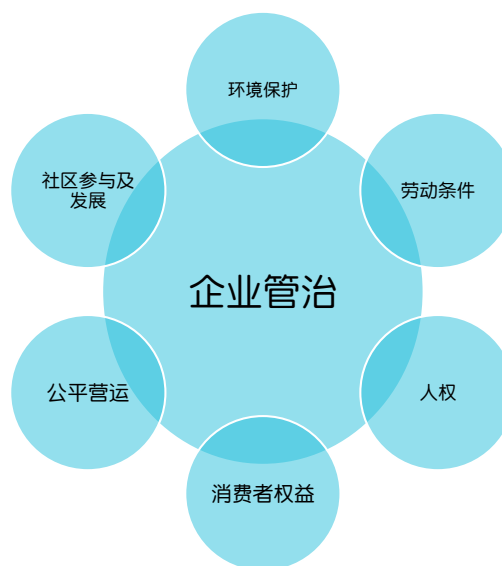
（二）环境保护

大自然和人类生存和繁衍密不可分。所有企业对自然环境均有不同程度的影响，企业应负起环境责任，了解所有对环保的可能影响，并制定减缓措施。一般企业在环保问题上需要考虑的元素包括碳排放、气候变化应对、污染防治、可持续的资源运用方式及生态环境保护等。

（三）劳动条件

企业依靠劳动力为其创造经济价值，另一方面企业与员工的日常生活和生

ESG包含的元素



计息息相关。企业需要留意其决策对员工的影响，了解员工的士气和业绩的正面关系。需要关注的元素包括雇佣关系、工作条件与社会保护、和员工有持续的双向沟通途径、工作的健康与安全及发展与培训等。

（四）人权

企业的价值链的各个部分都有机会出现违反人权的风险。人权按照《世界人权宣言》，分为公民权与政治权，以及经济、社会与文化的权利。企业容易出现侵犯人权的情况包括供应链中有童工工作或有强逼劳动的情况、企业在发展土地上影响原居民的生活、企业制度上员工受歧视、产品及服务的设计令部分消费者受歧视、市场推广上涉及歧视意识，以及企业或供货商直接侵犯人权，企业需要防范这些风险出现。

（五）消费者权益

消费者在选购企业的产品和服务之余，亦非常依赖企业公开与他们切身相关的信息。企业不应只考虑直接付费的客户，更应留意产品最终用户的期望，例如公平的营销、信息与

契约、保护消费者的健康与安全、推广可持续消费、消费者的服务、争端处理、消费者的数据保护与隐私、以及有责任给予消费者产品的健康、安全、环保等信息等。

（六）公平营运

企业在商业上和不同的机构或个人建立关系，在处理这些商业关系的时候，企业要注意是否有违反道德或公平原则的风险，企业需要考虑的包括反贪腐、公平竞争、防止集体定价行为、促进价值链的社会责任、尊重知识产权、为供货商提供ESG指引等。

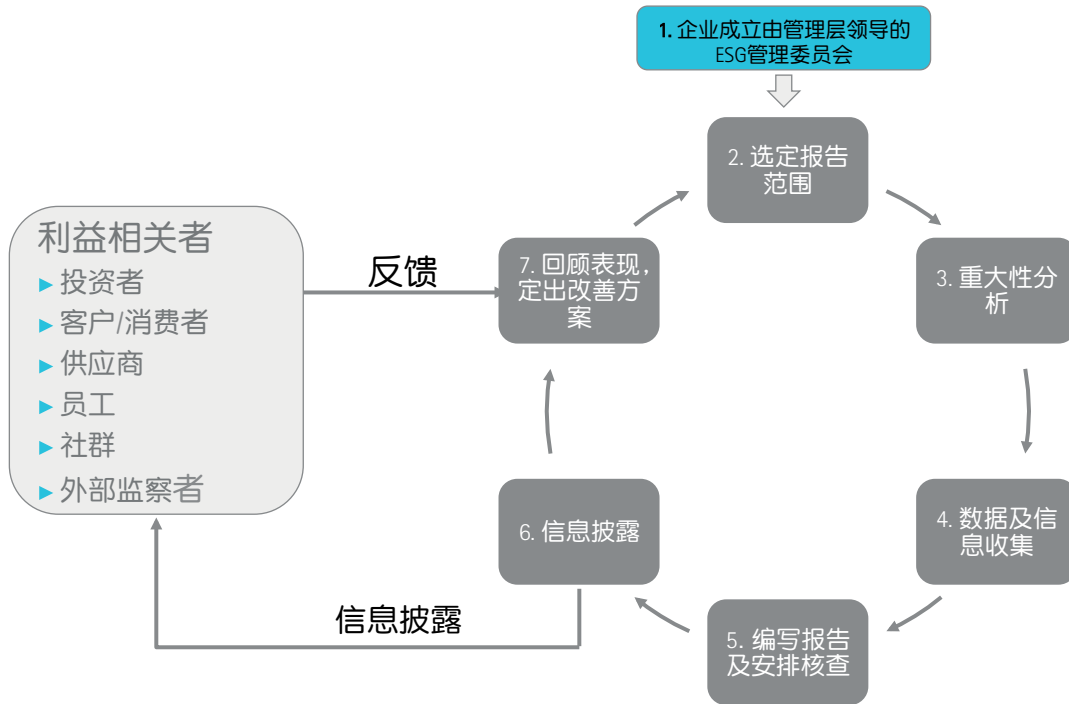
（七）社区参与及发展

慈善事业只是社区参与的一小部分。企业有能力可以直接改善邻近社群的生活。只要公益策略得宜，企业便可透过社区投资直接获益，例如社区参与去增强与社区互动、教育与文化、创造就业机会及传授技术、创造本地财富及收入以及改善健康状况等。

ESG如何披露及管理

ESG信息披露属于非财务披露，就是企业在财务和治理的披露之外，亦会披

ESG披露及管理



露企业对环境及社会影响的定质及定量信息；与财报不一样，ESG报告的主要读者为利益关联方，故此企业需要披露对广大利益关联方造成影响的信息，例如营运对环境的影响等。

对于首次计划披露ESG信息的企业，笔者建议进行ESG信息整理五部曲（见上图）：

首先是管理层的支持和投入。这是建立ESG信息披露和管理的大前提，国外很多企业都已经在董事会层面设立相关的可持续发展和社会责任委员会，专门指导和监督企业在ESG上的表现，这做法对很多在亚洲的企业来说比较新，在一开始时亦比较困难，但如果不设立的话，亦至少有个别董事或由审核委员会负责将ESG日程提到企业的营运中，令企业的前线人员了解企业对ESG的重视和资源投入，其次是将ESG的管理架构搭建，指定专门的部门

（如公司秘书、投资关系或企业传播部门）负责ESG相关事宜，到架构成熟后可专门建立ESG相关的部门。

其次是识别重大的ESG议题以及要量度的KPI。包括业务边界定义，描述每个相关议题（即潜在的实质性方面）的影响范围。在设定边界时，企业应考虑企业内和企业外的影响，而报告的主题的边界因具体情况而异。其次是利益关联方识别，包括企业要鉴定企业的营运对哪些人造成直接或间接的影响，以及哪些利益关联方有力量为企业的营运造成直接或间接的影响？一般的企业识别的利益关联方包括雇员、客户、供货商、投资者 / 银行、公众人士、政府以及环保团体等。企业通过与利益关联方进行对话，把他们的期望和要求进行整理，并纳入ESG信息披露的具体计划中，以预防相关的风险。最后是管理层重大性议题判定，在完成前两部分后得出的重大性议题列表，以及这些议题入选的

原因，管理层需要研讨其对这些议题的理解，并分析这些议题是否属利益关联方的合理要求，以及和企业战略是否相关。

第三步是ESG信息的日常管理及数据收集。当企业清楚了解自身需要披露的ESG信息后，他们需要建立内控流程管理，如果企业是第一年准备ESG报告的话，企业内部需要评估各个重大议题的管理现状，在总部层面明确相关ESG议题所属的部门，并确定每个部门对各个议题对应指标的管理范围，建立ESG信息披露指标清单，评估和分析现有相关管理体系（ISO9000、ISO14001等），根据相关的披露要求，明确总部各个部门在ESG方面的主要职能。企业可根据自身情况建立相关的信息收集手册和系统，让不同的部门定期递交相关的信息，以碳排放数据为例，右页的流程图说明收集和整理数据的过程。



“
现在很多人都认为ESG是一种企业账，履行企业社会责任就是去做公益活动，但这种认知会令企业对ESG的价值减低
 ”

总结：ESG信息披露是大潮流

总括而言，无论从投资者的角度还是社会的大环境，ESG披露已成为国际趋势，它在商界中的地位日渐增加。但读者需要谨慎的一点是：ESG披露是一个工具，而不是一个目的，ESG报告可以作为ESG管理的重要的第一步。藉由向利益关联方公开ESG绩效信息，企业能得知如何改善ESG表现及响应利益关联方要求。企业透过利益关联方的参与和内部讨论决定具实质性的ESG议题，订立短、中、长期目标加以监控管理，而良好的ESG报告的认证可以大幅提高报告内容的可信性及让报告更具权威性。如果您的企业还没有发布ESG报告的话，笔者建议可以根据此文尽早作好准备。

如对本文内容有兴趣或希望进一步探讨，请联络我们。

唐嘉欣、俞景珪、何智权
 安永
 气候变化与可持续发展服务

(本文仅反映作者的个人见解，不一定代表安永全球机构或其成员机构的意见。)

第四步是ESG报告的撰写及验证，负责的相关部门在收集足够的数据后可以根据自身的需求撰写报告，一般来说企业会将ESG信息放在年度报告中，或独立发布企业社会责任报告，而发布时间亦与发布年报的时间大致相同。有些企业为了提高报告内容和所列数据的可信性，以及提高企业可持续发展举措的认受性，他们会寻找独立第三方对报告及其所含信息（无论是定性还是定量信息）的质量发表结论，第三方亦会对系统或流程（如界定报告内容的流程，包括运用实质

性原则或利益关联方参与）发表结论，这可以使管理层更放心地参考已鉴定的数据制定可持续发展政策，而因ESG风险已经尽可能地披露，责任投资者可以放心为企业评价并作投资决定，并可以让利益关联方认为企业经已充分地在报告编写过程中咨询利益关联方。

当这个流程完成后，ESG相关信息及报告会提交给董事会作决策参考，并根据发现的结果及差距提出改正意见，就此建立一套完整的ESG管理体系。

例子：碳排放数据披露

角色	负责人	职责
上报层	总部传讯部经理	负责统筹报告编写事宜
统计层	物业管理部助理经理	收集各办公室传回数据，按指引把数据转化为碳排放量
记录层	香港办公室行政助理	记录每个月的用电、用纸、差旅记录

China's live stress test



In the wake of China's stock market losses, Andrew Sheng and Xiao Geng at the Asia Global Institute of the University of Hong Kong, argue that the lessons of this current 'stress test' should be used to drive the next phase of economic reform in China.

The plunge in China's stock markets, which has sent shockwaves reverberating around the world, has amounted to a real-time stress test for the country. The bears, who have been predicting the Chinese economy's downfall, are now consumed with *schadenfreude*. The bulls hold that, no matter how violent the stock-market gyrations may be, China's economic success story remains intact. But, at this point, no outcome is certain.

It should be noted, first and foremost, that the current volatility, though not necessarily desirable, represents a natural market correction. Before dropping 30% from its 12 June peak of 5,166, the Shanghai Composite Index had climbed 150% over 12 months. An unprecedented intervention by the authorities – including allowing about 1,300 firms to suspend trading – stopped the slide, and the index closed on 14 July at 4,159.

Though the blame game is ongoing, the historian Charles Kindleberger's 1978 book *Manias, Panics and Crashes* offers the perfect explanation for what China is experiencing. The economy has undergone a standard cycle of displacement, overtrading, monetary expansion, discredit, and revulsion, all in a matter of less than 12 months.

The Chinese displacement factor was the emergence of the country's own internet economy. With the spectacular success of companies like Alibaba, millions of Chinese investors became convinced that tech stocks would make them rich overnight.

The second and third phases – overtrading and monetary expansion – are intertwined. Both licensed securities brokers and unlicensed lenders were offering increasing amounts of margin financing, which fuelled mutually reinforcing surges in prices and turnover. The government began to crack down on such lending in April.

Moreover, in order to adjust to slower GDP growth, the central bank cut interest rates, effectively engaging in monetary expansion. Unable to gain much return from deposits, and faced with high property prices, Chinese savers viewed the protracted growth in domestic share prices as an opportunity to boost yield.

Discredit emerged when some discerning investors noticed the discrepancy between prices and fundamentals, and began to sell their shares. On 12 June, this gave way to revulsion, with the decline in prices triggering stop-losses and spurring a large share of investors to liquidate

margin positions – all of which resulted in severe losses for both borrowers and lenders, especially in illiquid stocks.

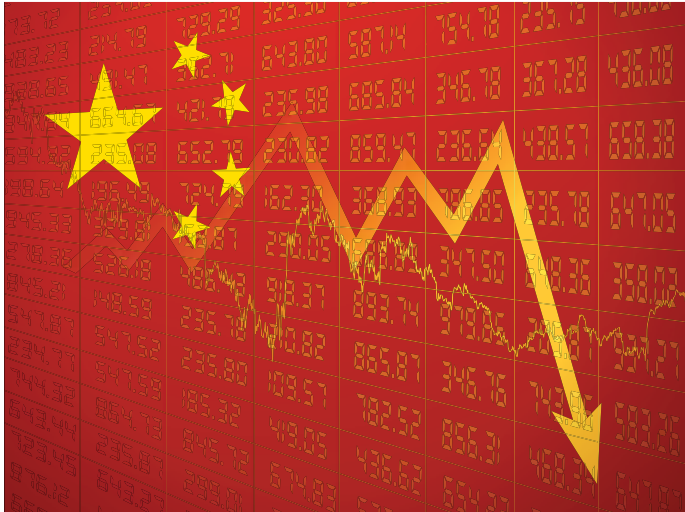
This episode proved, once again, that highly leveraged markets are unstable and unsustainable. Financial crises have repeatedly been spawned by inadequately regulated financial innovation, with the combination of market greed and regulatory silos and blind spots enabling booms and busts.

In China's case, the government interventionist approach is exacerbating the problem. Though market intervention may limit the scope of losses in the short term, it undermines markets' ability to self-correct, not to mention the credibility of the Chinese authorities as neutral regulators.

On a static level, secondary stock markets are fundamentally a zero-sum game: those who sell during the boom are winners, and those who buy too late (and

Highlights

- Chinese stock markets may have lost nearly US\$3 trillion since their June 2015 peak, but they also created more than \$4.6 trillion in value over the last year
- the problem was that retail investors were not equipped to judge the valuation of listed companies, yet they could use margin loans to engage in speculation
- the government's intervention in the market may have limited the scope of losses in the short term, but it undermines the markets' ability to self-correct and the credibility of the Chinese authorities as neutral regulators



“
 this episode proved,
 once again, that highly
 leveraged markets are
 unstable and unsustainable
 ”

with borrowed money) are the losers. In China, the winners were companies' majority owners (including the state) who sold while the Shanghai index was rising toward 5,000, and the losers were the retail investors who bought above 4,000.

On a dynamic level, however, the creative destruction that occurs in a bust does not eliminate the capital that was created during the boom. Chinese stock markets may have lost nearly US\$3 trillion since their June peak, but they also created more than \$4.6 trillion in value over the last year – over half of which accrued to the state.

The fact is that markets progress only through experimentation and, inevitably, mistakes. Indeed, it was statistically unlikely that the Chinese economy and stock markets could have developed so rapidly, without some spectacular stumbles along the way.

Allowing the stock market to develop was not the wrong move. At the end of 2013, when the Shanghai index was 2,116, the Chinese debt market amounted to 256% of GDP, and stock-market capitalisation was 36% of GDP, implying

an unsustainable crude leverage ratio of 7.2:1. When the stock market rose to its peak of 100% of GDP, the leverage ratio fell to 2.6:1, closer to the ratio of 2.2:1 in the US, where stock-market capitalisation was 132% of GDP.

Similarly, retail investors' desire to invest in companies like Alibaba was not wrong. On the contrary, it made a lot of sense to engage in markets.

The problem was that retail investors were not equipped to judge the valuation of listed companies like Alibaba, yet they could use margin loans to engage in speculation. This was a dangerous combination – one that would have led to socially unacceptable losses to the retail sectors had the government not intervened.

China's economy has succeeded through trial and error, and the lessons of its current stress test should be viewed as part of that process, to be used to drive the next phase of economic reform. One key lesson is that Chinese stock markets remain structurally biased toward state ownership and guidance, even as the

country builds a more entrepreneurial economy. This is fundamentally problematic, because it is the market (not the state) that will identify and support the unicorns.

Nonetheless, China has already begun to build a more innovative manufacturing sector and an internet-driven retail sector, and the state can still play a role in fostering innovation. But, as the government determines how to offload its massive holdings of shares in an orderly manner, it must ensure that such efforts are funded by equity, not leverage, thereby enhancing market balance and resilience.

Andrew Sheng, Distinguished Fellow and Xiao Geng, Senior Fellow

Asia Global Institute, University of Hong Kong

Andrew Sheng is a member of the UNEP Advisory Council on Sustainable Finance, and Xiao Geng is Director of the IFF Institute, International Finance Forum.

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A bird's eye view

Company secretaries need to be proficient in a wide range of practice areas. *CSj*, the journal of The Hong Kong Institute of Chartered Secretaries, is the only journal in Hong Kong dedicated to covering these areas, keeping readers informed of the latest developments in company secretarial practice while also providing an engaging and entertaining read. Topics covered regularly in the journal include:

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CHARTERED
SECRETARIES
特許秘書

Professional Development

Seminars: June 2015

9 June
Emotional health
of leaders



Chair: Susie Cheung FCIS FCS(PE), Institute Membership Committee Chairman, and General Counsel and Company Secretary, The Hong Kong Mortgage Corporation Ltd

Speaker: Jacquelin Cheung, Senior Consultant, Insight Unlimited

17 June
International integrated
reporting framework/ESG
reporting guide – sharing
from CLP



Chair: Ernest Lee FCIS FCS, Institute Professional Development Committee Member, and Partner, Assurance, Professional Practice, Ernst & Young

Speaker: April Chan FCIS FCS(PE), Institute Past President, and Company Secretary, CLP Holdings Ltd

22 June
Disclosure of inside
information and regulatory
investigations involving
listed companies



Chair: Susie Cheung FCIS FCS(PE), Institute Membership Committee Chairman, and General Counsel and Company Secretary, The Hong Kong Mortgage Corporation Ltd

Speakers: Olivia Wong, Counsel, and Viola Jing, Associate, Cadwalader's Corporate Group

25 June
The Competition
Ordinance of Hong Kong
(Cap 619)



Chair: Mohan Datwani FCIS FCS(PE), Institute Senior Director and Head of Technical & Research

Speakers: Richard Leung FCIS FCS(PE), Institute Past President, and Barrister-at-Law, Des Voeux Chambers, and Kelvin Kwok, Pupil Barrister and Assistant Professor, University of Hong Kong

26 June
The duty of confidentiality for registered agents of
BVI companies – the changing regulatory landscape
in a world of tax information exchange



Chair: Grace Wong FCIS FCS(PE), Institute Professional Development Committee Member, and Company Secretary and Deputy General Manager, Investor Relations Department, China Mobile Ltd

Speakers: Colin Riegels, Partner, Global Head of Banking and Finance – Hong Kong, and Ellie Crespi-McCarthy, Senior Associate, Corporate Finance Practice – Hong Kong, Harney Westwood & Riegels

ECPD

Forthcoming seminars

Date	Time	Topic	ECPD points
18 Aug 2015	6.45pm – 8.45pm	The listing rules – recent reforms (connected transactions and risk management)	2
21 Aug 2015	4.00pm – 5.30pm	Governance and risk management – the MTR way	1.5
25 Aug 2015	6.45pm – 8.45pm	Five completely ignored differences between Hong Kong and PRC company law	2
27 Aug 2015	6.45pm – 8.45pm	Practical guide on ESG report preparation in accordance with the HKEx guide	2
11 Sept 2015	12.00 noon – 1.30pm (light lunch will be provided)	Duty free? Think again. Directors' duties in BVI and Cayman	1.5

For details of forthcoming seminars, please visit the ECPD section of the Institute's website: www.hkics.org.hk.

MCPD requirements

Members are reminded to observe the MCPD deadlines set out below.

CPD year	Members who qualified between	MCPD or ECPD points required	Point accumulation deadline	Declaration deadline
2014/2015	1 January 2000 – 31 July 2014	15 (at least 3 ECPD points)	31 July 2015	15 August 2015
2015/2016	1 January 1995 – 31 July 2015	15 (at least 3 ECPD points)	31 July 2016	15 August 2016

MCPD requirement to extend to graduates

Effective from 1 August 2015, all graduates are required to comply with the Institute's MCPD requirements.

Advocacy

HKICS attends Hang Seng Management College Advisory Committee

Institute Chief Executive Samantha Suen FCIS FCS(PE) attended the first advisory committee meeting of Hang Seng Management College (HSMC) as its chair on 15 June 2015. Also attending were Frances Chan FCIS FCS, Director, Corporate Secretarial Services, TMF Group; Susan Lo FCIS FCS(PE), Executive Director, Tricor Services Ltd; Kevin Lau, Independent Non-Executive Director, Comba Telecom Systems Holdings Ltd; Dr Brossa Wong, Associate Dean, School of Business BBA-CG Programme Director; and representatives from HSMC.



Advocacy (continued)

HKICS president makes official visit to Beijing

On 16 July 2015, a delegation led by HKICS President Dr Maurice Ngai FCIS FCS(PE) visited the Ministry of Finance (MoF), China Securities Regulatory Commission (CSRC) and China Association for Public Companies (CAPCO) in Beijing. Other delegates were Institute Vice-President Dr Gao Wei FCIS FCS(PE), Vice-President Ivan Tam FCIS FCS, Treasurer Bernard Wu FCIS FCS, Council member Dr Eva Chan FCIS FCS(PE), Chief Executive Samantha Suen FCIS FCS(PE) and Chief Representative of the Beijing Representative Office Kenneth Jiang FCIS FCS(PE).

The delegation visited CSRC Vice-President Liu Xinhua and other officials. The HKICS delegates gave an update on the Institute's latest developments in Mainland China, Hong Kong and internationally. The two parties exchanged views on recent reforms of the Mainland capital markets and the professionalisation of the board secretarial role in the Mainland. At the meeting with the Deputy Director-General of the Accounting Department of MoF, Ouyang Zongshu, and other officials, HKICS delegates discussed and shared views on the practice and regulation of internal control and risk management in Hong Kong and the Mainland.



A delegation led by Dr Maurice Ngai visited CSRC Vice-President Liu Xinhua (right) and other officials

The HKICS delegates also visited CAPCO where they had a meeting with Executive Vice-President Yao Feng and other officials. The two parties agreed to strengthen and consolidate mutual collaboration in the areas of corporate governance research, training, professional knowledge and resource sharing, and signed a memorandum of understanding (details are provided opposite).

The visit concluded with a dinner gathering attended by 32 board secretaries and officials from CAPCO, the Beijing Representative Office of Hong Kong Exchanges and Clearing Ltd, the Insurance Association of China, MoF and the State-owned Assets Supervision and Administration Commission.

The Institute would like to thank the officials from MoF, CSRC and CAPCO for sharing their valuable views with the HKICS delegates during the visit, as well as the officials and board secretaries who attended the dinner gathering.



MoF officials and HKICS delegates

HKICS signs MoU with China Association for Public Companies

The Institute and the China Association for Public Companies (CAPCO) signed a Memorandum of Understanding (MoU) in Beijing on 16 July 2015. Institute President Dr Maurice Ngai FCIS FCS(PE) and CAPCO Executive Vice-President Yao Feng attended the signing ceremony. The signing was witnessed by HKICS representatives Vice-President Dr Gao Wei FCIS FCS(PE), Vice-President Ivan Tam FCIS FCS, Treasurer Bernard Wu FCIS FCS, Council member Dr Eva Chan FCIS FCS(PE), Chief Executive Samantha Suen FCIS FCS(PE) and Chief Representative of the Beijing Representative Office Kenneth Jiang FCIS FCS(PE); CAPCO representatives Vice-President Guo Runwei, Vice-President Bi Xiaoying and relevant department heads; as well as eight senior board secretaries of A+H share companies who are also HKICS affiliated persons.

The HKICS and CAPCO have developed and maintained a good working relationship since CAPCO's establishment in 2012. The

two associations have had regular exchanges of information and have established a solid foundation for long-term collaboration. The signing of the MoU marks an important milestone in the strategic working relationship and will strengthen collaboration between the two bodies in the areas of corporate governance research, training, professional knowledge and resource sharing.

'CAPCO plays a significant role in fostering good corporate governance among Mainland listed corporations while HKICS's mission is to be one of the world's leading professional bodies in corporate governance' said Dr Ngai. He believes that the closer collaboration with CAPCO will further enhance the development of corporate governance research and practices, as well as facilitate the professionalisation of Mainland board secretaries.



Dr Maurice Ngai and CAPCO Executive Vice-President Yao Feng signing the MoU



Group photo of CAPCO officials and HKICS representatives

HKICS offers internships

The Institute supports the growth of young people through a number of projects and internship opportunities.

The Institute, a member of the Hong Kong Coalition of Professional Services (HKCPS), once again supported HKCPS and arranged for two Form 5 students from Tin Shui Wai, New Territories, to work at the secretariat as summer interns for two weeks this July.

The Institute also offered a summer internship opportunity to a final-year student of Hang Seng Management College, Gigi Lau, under its Student Ambassadors Programme. 'This is my first time to work in an office environment. I found the exposure practical and valuable and would like to thank the Institute for this opportunity,' said Gigi.



Samantha Suen FCIS FCS(PE) with the three interns who worked at the secretariat this year

Membership

Membership renewal

The membership renewal notice for the financial year 2015/2016, together with a demand note, will be posted to members and graduates in August 2015. The 2015/2016 annual membership subscription fees remain at the same level as that of the past two financial years. Details of the fee structure was published in the July edition of *CSj* (page 40).

Please return your completed personal data update form, together with the subscription payment, to the Institute. The deadline for membership renewal is 31 January 2016. Failure to pay by the deadline will constitute a ground for membership removal. Reinstatement by the Institute is discretionary and subject to payment of the outstanding membership and re-election fees, together with levies determined by the Council.

Members and graduates who have not received the renewal notice by the end of August 2015 should contact the secretariat at: 2881 6177, or email: member@hkics.org.hk.

ICSA Annual General Meeting 2015

The Institute of Chartered Secretaries and Administrators (ICSA) will hold its Annual General Meeting 2015 on Thursday 10 September 2015 at 6:30pm (Kuala Lumpur time) at the Connexion@Nexus Auditorium, Level 3A, No 7 Jalan Kerinchi, Bangsar South City, 59200, Kuala Lumpur, Malaysia. The Notice of the AGM together with all related documents will be dispatched to ICSA members of the China Division in mid-August 2015.

Chartered Secretary Mentorship Programme

The HKICS invites members to join its Chartered Secretary Mentorship Programme. Mentorship is a personal development tool outside the formal training process which offers significant benefits to both mentors and mentees. It assists mentees to learn from experienced members of the profession, and it gives mentors the opportunity to 'give back' to the profession and society, and to stay in touch with the current trends of the younger generation.

Please refer to the details available at the Membership section of the Institute's website: www.hkics.org.hk.

Membership activities

Member Networking – visit to eco-fish farm

The Institute organised a guided tour to Asia's first large-scale indoor eco-fish farm in Lau Fau Shan on 13 June 2015. Bill Wang FCIS FCS, Membership Committee member and Allan Lee FCIS FCS, Members' Networking Sub-Group member, together with other participating members, was impressed by the advanced and sustainable aquaculture system in use at the farm. At the end of the tour, they enjoyed a tasty meal of giant grouper and other seafood.



Group photo

Happy Friday for Chartered Secretaries – office yoga

The Institute held a yoga-themed Happy Friday event on 26 June 2015. Guided by a registered yoga instructor, participating members had a two-hour workout with stretching and breathing exercises to alleviate work stress and muscle tension.



Members mastering basic yoga poses

Powering through the water

Dragon boating has been widely embraced both in Hong Kong and internationally as a fun and exciting team sport. The HKICS dragon boat team entered the Professional Bodies Invitational Race of the Hong Kong International Dragon Boat Races and won a merit prize on 4 July 2015. Their family members and the cheer group attended the event to support the team.

The HKICS dragon boat team participated in the Ap Lei Chau Dragon Boat Race held on 9 August 2015. Details will be included in the next edition of CSj.



The HKICS dragon boat team at the eastern Tsim Shai Tsui harbourside



Group photo

Correction

The annual subscription or new application fee for the Affiliated Persons Programme is HK\$2,200, not HK\$2,510 as stated in 'The Institute's fee structure 2015/2016' of the CSj July 2015 edition (page 40).

YCPG Youth Forum 2015

Institute President Dr Maurice Ngai and over 40 HKICS members and students participated at the Youth Forum organised by the Youth Coalition Professional Group (YCPG) under the Hong Kong Coalition of Professional Services (HKCPS) on 4 July 2015. At the forum, themed 'Succession to success: developing next generation leaders', a dialogue was held between the HKSAR Chief Executive CY Leung and the 11 professional bodies' young representatives.



Institute Membership Committee member Stella Lo FCIS FCS (fourth right) discussed the opportunities and challenges faced by young professionals during the dialogue with CY Leung (middle)



Institute Membership Committee member and HKICS representative at the YCPG, Edmond Chiu ACIS ACS (far left), joined the lively panel discussion of the finance, health care and legal sector



Dr Maurice Ngai (front row, fifth right) and other HKCPS representatives attending YCPG Youth Forum 2015

Forthcoming membership activities

Date	Time	Topic
14 August 2015	6.45pm – 8.30pm	Young Group talk series – corporate governance: recent trends in Hong Kong and Mainland China
15, 22 and 29 August 2015	11am – 1pm	Young Group sports and games series – badminton

The Institute thanks Ascent Partners and Lippo Group for supporting this year's membership activities. Updates will be provided regularly via emails and at the Events section of the Institute's website: www.hkics.org.hk.

International Qualifying Scheme (IQS) examinations

December 2015 examination timetable

	Tuesday 1 December 2015	Wednesday 2 December 2015	Thursday 3 December 2015	Friday 4 December 2015
9.30am - 12.30pm	Hong Kong Financial Accounting	Hong Kong Corporate Law	Strategic and Operations Management	Corporate Financial Management
2pm - 5pm	Hong Kong Taxation	Corporate Governance	Corporate Administration	Corporate Secretaryship

Notes:

- Students may enrol between 1 and 30 September 2015.
- It is mandatory for students who sign up for the following examination subjects to purchase the respective study packs:
 - Hong Kong Corporate Law
 - Corporate Administration
 - Corporate Secretaryship
 - Corporate Governance
- For enquiries relating to the purchase of the study packs, please contact Ruby Ng at: 2830 6006, or email: student@hkics.org.hk

Studentship

HKICS Corporate Governance Paper Competition and Presentation Award 2015

Launched in 2006, the HKICS Corporate Governance Paper Competition and Presentation Award aims to raise awareness of the importance of good governance among undergraduates in Hong Kong. Six finalist teams will present their papers and compete for the Best Presentation Award at this year's presentation contest to be held in October 2015 (see box opposite for details). Members and students are welcome to attend.

Date:	Saturday 31 October 2015
Time:	10am – 1pm
Venue:	United Conference Centre, 10/F United Centre, 95 Queen's Road, Admiralty
Fee:	Free of charge

Studentship (continued)

New students orientation

Date:	Tuesday 22 September 2015
Time:	7pm – 8.30pm
Venue:	Joint Professional Centre, Unit 1, G/F, The Center, 99 Queen's Road Central, Hong Kong

Students who have registered since March 2015 are invited to attend the New Students Orientation on Tuesday 22 September 2015. This event aims to provide new students with up-to-date information about the Institute and serves as a platform for them to meet with other students. The IQS examinations subject prize winners will also share their examination preparation tips at the event.

Recruitment of examiners

The Institute is recruiting examiners for the International Qualifying Scheme (IQS) examinations. The appointment covers four examination diets (spanning two years) with remuneration. Interested parties please email your full resume to: recruit@hkics.org.hk.

For recruitment details, please visit the News section of the Institute website: www.hkics.org.hk.

Recruitment of mentors

The Student Ambassadors Programme (SAP) was established to promote the Chartered Secretarial profession to local university undergraduates. One of its flagship projects is the mentoring programme which aims to connect the future leaders of the profession to company secretarial veterans in small-group mentoring relationships. Mentors are encouraged to share work experience and professional knowledge as well as to provide career guidance and advice.

Members who have signed up to be mentors will be invited to join the kick-off ceremony of the SAP 2015/2016 to meet with their mentees. The ceremony will be held on Saturday 12 September 2015 from 12.30pm to 2pm at Lily Vale Café (Baptist Oi Kwan Social Service, G/F, 36 Oi Kwan Road, Wan Chai, Hong Kong).

For enrolment and enquiries, please contact Carmen Wong at: 2830 6019, or email: student@hkics.org.hk.

AGM visit

The Institute arranged for its student ambassadors to attend the annual general meeting (AGM) of CK Hutchison Holdings Ltd on 23 June 2015. The Institute thanks CK Hutchison Holdings Ltd for its kind support of the programme.



(Second from left) Edith Shih FCIS FCS(PE), HKICS Immediate Past President and Head Group General Counsel and Company Secretary of CK Hutchison Holdings Ltd, with the student ambassadors

Payment reminders

Studentship renewal

Students whose studentship expired in June 2015 are reminded to settle the renewal payment by Saturday 22 August 2015.

Exemption fees

Students whose exemptions were approved via confirmation letter on 22 May 2015 are reminded to settle the exemption fee by Saturday 22 August 2015.

ESG reporting requirements

Hong Kong Exchanges and Clearing Ltd (the Exchange) has launched a three-month consultation, concluding on 18 September 2015, seeking views on proposed amendments to its *Environmental, Social and Governance Reporting Guide*. The guide was introduced in 2012 to help issuers get started with environmental, social and governance (ESG) reporting. Compliance with the guide is currently voluntary, but the new proposals under consultation would upgrade some of its recommended best practices to 'comply or explain'.

The consultation paper can be downloaded from the Exchange's website (www.hkex.com). If you have any views, please send them to: ask@hkics.org.hk, or directly to HKEx.

Financial reports review

Hong Kong Exchanges and Clearing Ltd (the Exchange) has issued its latest financial reports review outlining the key findings from its analysis of 100 periodic financial reports released by issuers between October 2013 and April 2015. The Exchange hopes that the review will help issuers improve their financial reporting systems. The review reminds issuers that the information provided in financial reports needs to be 'relevant and material' and issuers should avoid cluttering by reducing non-relevant and non-material disclosure so that their communication through financial reports is clear and concise.

The review also identifies key areas where issuers can improve their financial disclosure. These include recommendations for issuers to:

- pay attention to the recent listing rules amendments with reference to the new Companies Ordinance
- ensure that additional information is presented in annual and interim reports when there are significant events or material balances and transactions, and
- provide entity-specific information rather than boilerplate text in preparing financial risk information.

The Exchange's latest financial reports review is available on its website: www.hkex.com.

Insurance Companies (Amendment) Bill 2014

The Insurance Companies (Amendment) Bill 2014 was passed by LegCo last month. The new law will commence a three-stage transition from the current regulatory regime to the establishment of the Independent Insurance Authority (IIA), allowing time for the IIA to prepare the necessary tools for regulating insurance intermediaries in consultation with the industry and the general public. These will include subsidiary legislation, codes of conduct for insurance intermediaries, and regulatory guidelines. The third stage will see the commencement of a licensing regime for insurance intermediaries to replace the existing self-regulatory regime. It is expected that the whole process will take two to three years.

New regulatory regime for listed entity auditors

The government has released its conclusions to its public consultation on proposals to improve the regulatory regime for listed entity auditors. The government notes an overwhelming majority of support for the proposed reform to have the oversight of the regulation of listed entity auditors independent of the audit profession. Under the reform proposals, the Financial Reporting Council (FRC) will become the independent auditor oversight body vested with direct inspection, investigation and disciplinary powers with regard to listed entity auditors, while the Hong Kong Institute of Certified Public Accountants (HKICPA) will perform the statutory functions of registration, setting continuing professional development requirements and standards on professional ethics, auditing and assurance with respect to listed entity auditors under the new regime, subject to oversight by the FRC.

The government hopes to introduce an amendment bill into LegCo in the 2016-2017 legislative session. More information is available on the website of the Financial Services Branch of the Financial Services and the Treasury Bureau: www.fstb.gov.hk/fsb.

Rewarding the Extraordinary



The Hong Kong Institute of Chartered Secretaries Prize 2015


Call for Nominations

The Hong Kong Institute of Chartered Secretaries Prize will be awarded to a member or members who have made significant contributions to the Institute and the Chartered Secretarial profession over a substantial period.

Awardees are bestowed with the highest honour – recognition by their professional peers. We urge you to submit your nominations now!

The nomination deadline is Wednesday, 30 September 2015.
Please visit www.hkics.org.hk or contact Louisa Lau at 2830 6008 or email to member@hkics.org.hk for details.

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