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December 2017

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

2017 AGM season review

ESG reporting
Hacking risks
Paul Chan interview

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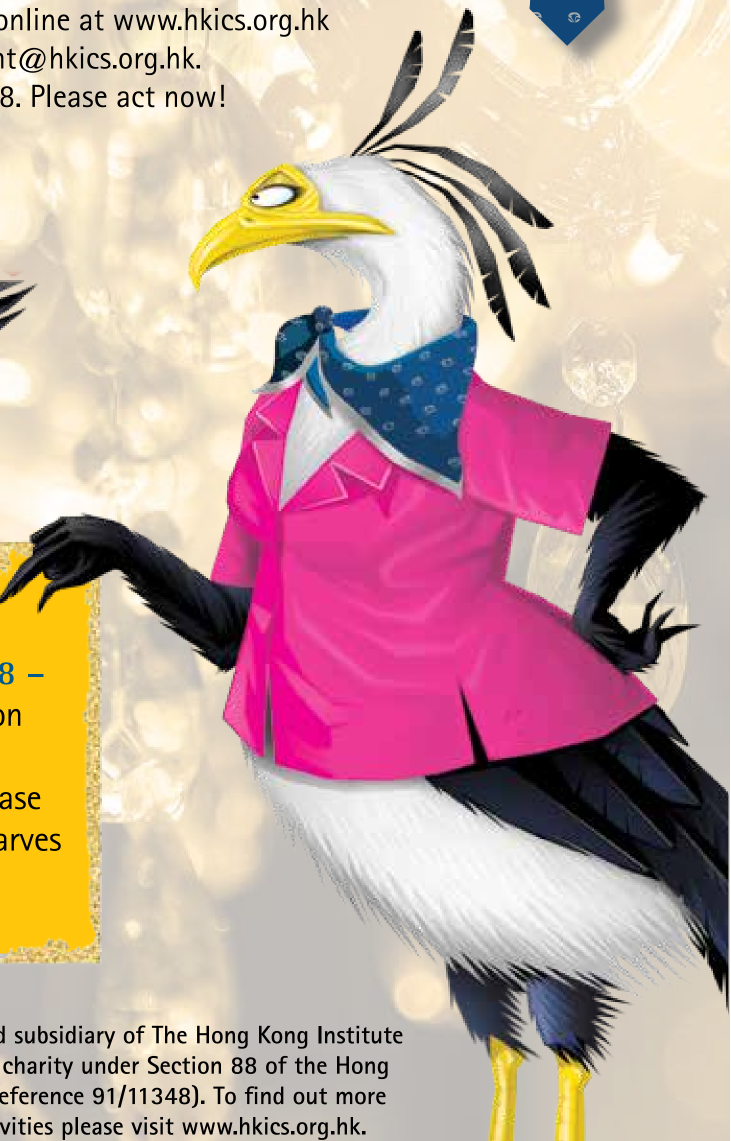

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CHARTERED SECRETARIES
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Good governance comes with membership

About The Hong Kong Institute of Chartered Secretaries

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, as well as the development of the profession of the Chartered Secretary in Hong Kong and throughout Mainland China. 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 was a branch of ICSA in 1990 before gaining local status in 1994 and has also been ICSA's China/Hong Kong Division since 2005. HKICS is a founder member of Corporate Secretaries International Association (CSIA) which was established in March 2010 in Geneva, Switzerland. In 2017, CSIA was relocated to Hong Kong in which it operates as a company limited by guarantee. CSIA aims to give a global voice for corporate secretaries and governance professionals. HKICS has over 5,800 members and 3,200 students.

Membership statistics update

As of 31 October 2017 membership statistics were as follows:
Students: 3,324
Graduates: 536
Associates: 5,208
Fellows: 622

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Contents

Correction

Due to an editorial error, contributor amendments to the cover story in *CSj* October 2017 ('Not for profit: a company secretarial perspective' pages 6–9) were omitted. These have been added to the online version of the article, which now supercedes the print version.

The future of the AGM

On 20 and 21 November 2017, together with my colleagues Past President Dr Maurice Ngai FCIS FCS(PE), Council Member Bernard Wu FCIS FCS, Chief Executive Samantha Suen FCIS FCS(PE) and Chief Representative of our Beijing Representative Office Kenneth Jiang FCIS FCS(PE), I paid our annual visit to the China Securities Regulatory Commission, State-owned Assets Supervision and Administration Commission of the State Council, Ministry of Finance and Insurance Association of China in Beijing. They all acknowledged the important role board secretaries and company secretaries are playing in enhancing governance standards in corporations. We are grateful for their support. We also held a dinner meeting with our fellows and students. The Institute's 45th AP ECPD seminars were also held during our visit to Beijing on 22 to 24 November with over 200 participants.

More information on these developments will be available in the January edition of *CSj*. This month's journal addresses the value and future trajectory of annual general meetings (AGMs). Our annual review of the latest AGM season (see this month's cover story on pages 6–10) provides much food for thought on the current trends in AGMs and more broadly in shareholder engagement not only here in Hong Kong and Mainland China, but around the world.

This year the differences between the various jurisdictions covered in the Computershare survey of AGMs globally are once again in evidence. In the US and Europe, the chief concern is shareholder activism. Here in Hong Kong and Mainland China, activism continues to be relatively rare – this year only nine resolutions were voted down across only five companies, all concerning the re-election of directors. Our main concern locally is more about encouraging the active participation of shareholders, in particular retail shareholders, in the governance and AGM voting process. While attendance is on the increase at AGMs in Hong Kong and Mainland China, voting levels among retail shareholders continue to be low. The majority of votes cast at these AGMs were those of the major and institutional shareholders. Moreover, Computershare estimates that more than 55% of questions asked at AGMs related to trivial things rather than the business of the meeting itself.

So how do we ensure that AGMs retain their relevance? Will emerging technologies be able to get the AGM back on track? Data analytical tools have enabled a better understanding of shareholders and stakeholders. These tools sift through public data sources to highlight relevant information – such as shareholders' information needs and voting habits – so that companies can better target their communications strategies. Perhaps of even more significance is the way technology has been improving communication channels between companies and a wider audience of retail shareholders and stakeholders. Companies have tended to focus their engagement efforts on major and institutional shareholders, while communication with their broader audience has been relegated to occasional posts on the company website and taking questions at the AGM. Increasingly companies are seeing the value of ensuring that they effectively get their message across to all relevant parties, particularly via their websites and social media channels.

In tandem with this trend, technology has also broadened access to the AGM itself – chiefly via the increased use of virtual and hybrid meetings. In this context I believe the prognosis is good – technology is returning the AGM to its original purpose as a lively exchange of views among relevant parties on the future direction of the organisation.

As to our own AGM, it will be held on Friday 15 December 2017 at 6.30pm at Theatre A, 22/F, United Centre, 95 Queensway, Hong Kong. The links to all the AGM notices and documents, including our Annual Report 2017, can be easily accessed from the Institute's website: www.hkics.org.hk. I hope to see you all there.

This will be my last President's Message as I will be stepping down from the presidency of the Institute at the end of this year. It has been indeed a fruitful, eventful and momentous period of time during which we have witnessed many key milestones in the Institute's history and together we shared many success stories. Taking this opportunity, I would like to convey my sincere gratitude to our regulators, counterparts as well as our members for their kind support all along. I would also like to thank members of our Council, committees, panels, working groups and in particular, the secretariat for their contribution and support over the past two years. I am very honoured to have worked with them to push forward various strategic initiatives and propel the profession to greater heights. In the days to come, I will continue to contribute to the Institute in other capacities, and I look forward to giving my full support to our next President.

Lastly, may I wish you all a joyous Christmas and a prosperous New Year 2018.

Ivan Tam FCIS FCS

周年股东大会未来展望

2017年11月20及21日，我联同前会长魏伟峰博士FCIS FCS(PE)、理事会成员吴德龙FCIS FCS、总裁孙佩仪FCIS FCS(PE)及北京代表处首席代表姜国梁FCIS FCS(PE)前往北京，拜会中国证券监督管理委员会、国务院国有资产监督管理委员会、财政部及中国保险行业协会。此行是一年一度的拜访，各单位均肯定董事会秘书和公司秘书在提升公司治理水平方面担当的重要角色，我们十分感谢他们的支持。我们亦与公会资深会士和学员举行晚宴聚会。公会第45期联席成员强化持续专业发展讲座，也在我们往访北京期间，于11月22至24日举行，有逾200人参加。

这些活动的详情，将于1月份的月刊报道。今期月刊的专题，探讨周年股东大会的价值和未来发展趋势。公会每年一度就周年股东大会的回顾（见第6至10页的封面故事），对香港、中国内地以至全球各地周年股东大会的现今趋势，以及更广阔层面的股东参与工作的新发展有不少观察，很值得参考。

Computershare今年的周年股东大会回顾，再度显示各地区的不同之处。在欧美地区，股东激进主义是主要的关注点。在香港和中国内地，激进主义依然罕见，今年只有5家公司的9项决议案遭否决，全都涉及重选董事。这里主要的关注点，是如何鼓励股东（尤其是散户）积极参与公司治理及周年股东大会投票。香港和中国内地周年股东大会的出席人数有所增加，但散户股东的投票率仍然偏低，在周年股东大会中投票的多是大股东及机构股东。此外，据Computershare的统计，在周年股东大会中的提问，超过55%是关于琐碎的小事，而非会议本身需要处理的事项。

那么，我们如何确保周年股东大会继续发挥其应有作用？科技可以把周年股东大会纳回正轨吗？资料分析工具让我们对股东和利益相关方有更深入的认识。这些工具从公开的资料来源中筛选资料，突显有用的资讯，例如股东需要什么资料、投票习惯等，让公司得以采取相应的沟通策略。更重要的，也许是科技改善了公司与散户股东和利益相关方的沟通途径。以往公司往往集中于接触大股东及机构投资者，与其余股东及利益相关方的沟通，则只限于间中在公司网站发放消息，以及在周年股东大会中解答问题。现在公司日渐认识到需要有效地向所有相关方传达讯息，特别是透过公司网站和社交媒体等途径。

同时，透过虚拟技术，以及虚拟与实体结合的会议，科技也方便更多人参与周年股东大会。就这方面而言，我相信日后发展会朝好的方向走：科技协助周年股东大会达到原有目的，让各相关方就公司的未来发展方向积极交换意见。

至于公会本身的周年会员大会，则订于2017年12月15日星期五下午6.30，在香港金钟道95号统一中心22楼A演讲厅举行；大会通告及会议文件，包括公会2017年的年报，均可在公会网站www.hkics.org.hk取阅。希望在周年会员大会见到大家。

这是本人最后一次发表会长的话。在本年年尾，我将退任公会会长。这两年期间有许多重要发展，成果丰硕，见证了公会历史上的多个里程碑，我们共同参与了许多成功的经历。本人藉此机会向各监管机构、专业团体及公会会员衷心致谢，感谢他们一直以来的支持。我亦感谢理事会、各委员会、专责小组和工作小组成员，特别是秘书处的同事，他们在过去两年鼎力支持，贡献良多，我很荣幸与他们并肩作战，推行多项策略工作，把特许秘书专业提升至更高境界。在未来的日子，我将以其他身分继续贡献公会，并全力支持下任会长。

最后，祝各位圣诞快乐，新年进步。

谭国荣 FCIS FCS

AGM review 2017

Lucy Newcombe, Director, Global Corporate Communications, Computershare, takes us on a tour of the 2017 Annual General Meeting (AGM) season, locally and internationally.

After several years where shareholder activism has been the major point of change and contention during the yearly AGM ritual; this year developments around the globe have been more in the realm of technology and legislation. Last month I helped run our own AGM in Melbourne, Australia, as a hybrid meeting for the first time. We've made this change in response to the demand we're seeing from shareholders located in a variety of locations with demands on their time meaning that the ability to attend virtually rather than in person is increasingly appealing; as well as showing our clients what is possible now that legislation to enable hybrid or fully virtual meetings is in place in many countries.

First, however, to the ultimate source of truth – the numbers.

Hong Kong and Mainland China

Computershare attended or managed 565 AGMs in Hong Kong and Mainland China from April to June 2017. This sample indicates that Hong Kong and Mainland China continue to buck the global trend in terms of attendance with a 8.27% increase in attendance over meetings with over 100 attendees Computershare attended in 2016. 12 AGMs had more than 1,000 attendees, with four, all banks, seeing more than 4,000 show up at their venue.

65% of companies with more than 100 people attending their meeting had an increase in attendance this year; while, of those where there was a decrease, the meeting was either held on a day with a severe weather warning in place or the date and time conflicted with at least one other major meeting.

For the first time in more than five years, in spite of seeing a 35% increase in footfall to 6,821 people, Bank of China was overtaken in the attendance stakes by Industrial and Commercial Bank of China, with 7,109 attendees eligible to vote for their AGM held at the Grand Hyatt in Wan Chai. This was a year-on-year increase of more than 42%. As in previous years though, the actual voting rate did not match attendance – just 26% of those present actually voted.

As usual, in spite of high retail attendance, voting papers submitted by Hong Kong Securities Clearing Company Ltd (HKSCC) and major shareholders represented the majority of votes cast across the AGM season, taking the overall percentage of

Highlights

- the trend towards the use of virtual and hybrid meetings is likely to continue as familiarity and comfort with digital interactions grows amongst the shareholder population
- companies and investors need to find common ground on best practice to ensure that all stakeholders benefit from the technology
- in Hong Kong 18 meetings took place under bad weather warnings – however only three of the companies affected had included details of arrangements for bad weather in their Notice of Meeting

issued share capital voted across meetings Computershare attended to 70.10%.

Analysis of the questions asked at this year's AGMs supports the fact that companies are paying for attendance, not for support or governance – based on our estimates, more than 55% of questions asked at AGMs related to gifts and souvenirs rather than the business of the meeting itself. We also saw that where companies with a large shareholder base make use of multiple rooms at the same venue, with the chairman and management attending the meeting in the largest room and real-time video-conferencing provided in the smaller rooms, shareholders are not keen on the arrangement and instead often choose to leave as soon as they have collected their gift.

Having your cake... and someone else's

Due to the practice of handing out a gift/souvenir per voting paper, rather than per individual, we continue to see people splitting their shareholding into smaller chunks and nominating other shareholders as proxies. In the most extreme cases we have seen this year, one single attendee walked away with 49 gift coupons from an AGM, each valued over HK$150; and a family of three walked away with more than 60 coupons, each valued at $200.

In addition, shareholders often hassle us as administrator to register them faster for meetings where cake coupons are given once attendees are registered. Shareholders tell us that they are very busy attending multiple meetings on the same day and need to get to them all before the cake coupons run out. These attendees typically do not vote.

Some companies have changed their gift policy, and now state that they will give only one souvenir to each physical attendee, no matter how many other shareholders they are representing and we have also seen instances where companies have altered their souvenir from a cash equivalent to a physical gift, making it less attractive for shareholders.

Location, location, location

Hong Kong Island continues to host the vast majority of AGMs, with 295 taking place on Hong Kong Island, 71 on the Kowloon Peninsula and 11 in the New Territories. Beijing, Shanghai and Guangdong are the most popular locations in Mainland China, but we see meetings dispersed across the country.

In 2016, 10 companies experienced a total of 31 resolutions being voted down, while in 2017, that number was just nine resolutions across only five companies, all concerning the re-election of directors. Overall, this indicates both a better state of preparedness for the AGM, though it should be noted that throughout the year the number of companies experiencing activism issues has held broadly steady and shows no sign of abating.

June remains the most popular month for holding AGMs, and Friday is by far the preferred day, perhaps to give hard-working company secretaries the weekend to recover.

18 meetings took place under bad weather warnings: however only three of the companies affected had included details of arrangements for bad weather in their Notice of Meeting. Daily media reported on one AGM that went ahead under a typhoon signal 10 – something meeting administrators would strongly recommend against. It is best practice to include bad weather arrangements in the Notice of Meeting, to make a decision about the meeting proceeding early on the day it's being held and to use pre-arranged channels to notify shareholders of the decision. In addition, with the use of hybrid meetings now being permitted in Hong Kong and Mainland China, the option of offering online attendance instead of shareholders having to turn up in person is something that companies

Average voting rate at AGMs in Hong Kong and Mainland China

70.10%
Average voting rate in terms of shares represented

→

42.21%
Average voting rate in terms of number of voting papers collected

→

Reasons
Voting papers submitted by HKSCC and major shareholders represented majority of votes

> across the board... the biggest change this year is quite simply the proliferation of virtual-only or hybrid AGMs

should be considering in order to mitigate the problems experienced when weather impacts a meeting.

Around the globe

Australia

The recent meeting season was a significant year for 'strikes' at AGMs with the highest percentage ever recorded in the ASX 50. This process requires the board of a company to stand for re-election if 25% or more of votes are cast against remuneration two years in a row and was designed to give shareholders more power. Five companies in the ASX 50 received a first strike this season and there was a 13% increase in strikes in the ASX 300, where 17 first strikes were recorded.

South Africa

A Supreme Court ruling issued in March 2016 stated that there will no longer be a cut-off date for proxy submissions and that proxies must be accepted up until the start time of meetings. This poses a huge risk for the scrutineer in terms of processing votes and providing accurate results at the meeting, but the necessary controls have been put in place to mitigate the risks. While issuers were concerned about a potential inability to understand the status of resolutions ahead of their meetings, in practice no last-minute voting instructions were received during this AGM season.

Continental Europe

Across Europe, protest votes related to pay were a common theme.

The number of pay-related proposals contested at the AGMs of listed French companies was more than three times higher in 2017 than the previous year. French companies experienced a 205% increase in remuneration-related proposals that faced more than 10% opposition at CAC 40 company AGMs.

Similarly in Germany, three of the four board proposals rejected by shareholders of DAX companies were remuneration-related and, for the second consecutive year, 88% of those put forward were contested by more than 10% of those voting.

Across the border in Switzerland (SMI), advisory remuneration report votes continue to be widely contentious, with four companies receiving less than 60% support in 2017.

Further north in the Netherlands (AEX and AMX), there was a 17% increase year on year in the number of remuneration-related resolutions contested by more than 10% of those voting, up 133% when compared to 2015.

Down south in Italy (FTSE MIB), there was a 50% increase in the number of remuneration report resolutions contested by more than 10% of those voting in 2017 compared to last year.

In Denmark the biggest change was the introduction of electronic admission cards – with more than 50% of Computershare's 20 CAP clients moving from physical admission cards to electronic access for this year's AGMs.

The future of shareholder meetings is virtually here

Across the board, however, the biggest change this year is quite simply the proliferation of virtual-only or hybrid AGMs.

The move toward online shareholder meetings is gaining increasing attention among companies, investors and corporate regulators. Although companies

Global regulation of virtual and hybrid AGMs

Country	Virtual AGMs permitted?	Hybrid AGMs permitted?
Australia	No	Yes
Canada	Yes	Yes
Denmark	Yes	Yes
Germany	No	Yes
Hong Kong	No	Yes
Ireland	Yes	Yes
Italy	No	Yes
Mainland China	No	No
Netherlands	No	Yes
New Zealand	Yes	Yes
South Africa	Yes	Yes
Spain	Yes	Yes
Sweden	No	Yes
UK	Yes	Yes
USA	Yes	Yes

in the US have been leading in the adoption of virtual meetings in the past couple of years (over 170 companies in the US hosting a virtual-only or hybrid meeting in the 2017 proxy season), international interest is also growing and companies in more markets are starting to move in this direction. As more virtual meetings take place, companies and investors need to find common ground on best practice to ensure that all stakeholders benefit from the technology, and that virtual meetings replicate the benefits of 'in-person' meetings.

Communication has become increasingly digital – from emails to texts and social media channels and beyond. Given the proliferation of mobile phone ownership amongst millennials and Gen Xers and the trend towards digital banking, it is therefore not surprising that virtual and hybrid meetings have been gaining interest across global markets in recent years. Outside of Asia, around the globe we are seeing a trend towards reduced physical attendance at shareholder meetings. Yet, in line with the trend towards increased digital communication, there is often an increase in voting when shareholders are provided with easy-to-use digital solutions. Virtual and hybrid meetings are a logical progression from digital onsite meeting services, such as use of smartphone apps that produce electronic admission 'cards' to gain entrance to meetings (in place of paper admission cards) and apps used for voting in the meeting room itself.

"there is often an increase in voting when shareholders are provided with easy-to-use digital solutions"

The trend towards the use of virtual and hybrid meetings is likely to continue as familiarity and comfort with digital interactions grows amongst the shareholder population, and as each market develops appropriate protocols that will engender confidence in the conduct of the online meeting and shareholder voting processes. In Hong Kong, while we have not yet seen a company use the hybrid meeting structure, we believe that the use of online participation could be considered in order to negate bad weather challenges or to better manage the number of physical attendees.

Lucy Newcombe

Director, Global Corporate Communications, Computershare

You can find out more about virtual and hybrid meetings in Computershare's recently published white paper, which is available at https://www.computershare.com/hk/en/agm-review-2017.

Strategies for staying competitive

CSj talks to HKSAR Financial Secretary Paul Mo-Po Chan GBM GBS JP FCIS FCS about his aspirations for maintaining Hong Kong's competitive edge in the rapidly changing political, business and social environment, and about the role that professional practitioners such as company secretaries can play in this endeavour.

Thanks for giving us this interview. Could we start by discussing your priorities for developing Hong Kong as a regional innovation and technology (I&T) hub?

'As you probably know, the last administration launched the Innovation and Technology Bureau (ITB) in November 2015, so it has been going for just two years. We have been a late starter, but we can catch up very fast. Ever since the establishment of the ITB, the last government set aside HK$18 billion – mainly to build the infrastructure, the hardware and to create the ecosystem needed to develop the I&T sector.

In the first budget after I took office in January this year, I set aside another $10 billion for I&T but I didn't specify how the money should be spent. The idea is to allow the ITB to work with industry to work out how best to spend that money. That is a demonstration of our commitment in terms of resource provision.

But, to answer your question, I think that there are a few areas that we need to look at and work on. The first is that, over the past decades, our input into research and development (R&D) has been small compared to that of many other jurisdictions. So we need to increase the resources available for R&D. Our new super tax deduction for R&D expenditure is one of the measures that we are going to implement. This will mean that the first $2 million of eligible R&D expenditure will enjoy a 300% tax deduction, with the remainder at 200% – this is quite generous when compared internationally.

However, promoting I&T development is not only about money. We need to create the ecosystem that will attract more I&T companies and talent to Hong Kong. The Science Park and Cyberport are part of this, as is our 'Smart City' initiative. This initiative is in fact one of the four areas we are prioritising in our bid to develop Hong Kong's I&T sector – the other three are: fintech, artificial intelligence and biotech – in particular in the area of healthy ageing.

There are other initiatives that we believe will help create the necessary ecosystem. For example, we have been reviewing government procurement policies with a view to encouraging government departments, as well as non-profit organisations (NPOs) supported by the government, to use more products and services of the I&T sector. Already, government departments can apply to a fund we set up under the ITB when they want to roll out initiatives in this area. We are also encouraging NPOs and small and medium-sized enterprises (SMEs) to upgrade their efficiency and competitiveness through I&T products and services. As you probably know, we have launched a 'Technology Voucher Programme' under which SMEs can apply for a subsidy of up to $200,000 to spend on I&T products and services.'

Are you also looking at legislative amendments to promote I&T? One issue that we have been following in CSj is whether the current regulations relating to peer-to-peer lending and crowdfunding should be liberalised?

'We will be reviewing our legislation and practices to see whether changes should be made to facilitate I&T development. Regarding peer-to-peer lending and crowdfunding, I can see the merit of liberalising the rules, but we also have to look at consumer protection. At this stage the government has not taken a final view.

One area also being explored as part of our review of legislation is the need for open data. We would like to improve access to government data, making it available to the private sector to the full extent possible. This will facilitate not only our 'Smart City' initiative, but also facilitate the development of solutions in quite a number of different areas – such as the development of different kinds of applications.'

What's your view on the best way to attract the necessary human resources talent for the I&T sector?

'At the moment we do not have enough expertise and talent. If we want to attract I&T companies to come to Hong Kong, we need to ensure that they can source sufficient talent locally, or bring the necessary talent into Hong Kong. We would like to encourage the recruitment and training our own people of course, so that these companies are bringing

Highlights

- Hong Kong needs to be multicultural and genuinely international in outlook
- professionals and professional institutions should get involved in public debates – not only about professional issues but about social issues as well
- company secretaries need to recognise the bigger picture, including keeping up to date with developments in innovation and technology

> "it seems to me that the overall sentiment of the community is less confrontational, less polarised and this should lead to a more conducive environment for rational discussion"

opportunities to develop local talent. In the longer term, I think we need to review our curriculum and invest more in relevant educational programmes.'

Can we turn to the role of professional practitioners, in particular corporate secretaries – do you have any advice for them?

'The main thing I would emphasise is the need to see the bigger picture. The role of the company secretary used to be focused on compliance but things are changing very quickly – the I&T sector is a good example of how new technology can disrupt business models. So I think company secretaries need to recognise the bigger picture, including keeping up to date with developments in I&T, which can affect the survival of their companies.

Another thing I would emphasise is the need for integrity. I think this is far more important these days because things are changing so fast and that sometimes leads to 'grey areas'. In those unclear waters, the guiding principles should always be ethics and integrity.'

What's your view of the recent proposals by Hong Kong Exchanges and Clearing Ltd (the Exchange) to create two new boards – the 'New Board PREMIUM' and the 'New Board PRO'. In particular, both of these new boards would allow, for the first time, companies with weighted voting rights (WVR) to list in Hong Kong – do you think Hong Kong should stand by the principle of 'one share one vote'?

'The way I see it is that WVR is a growing trend among new economy companies and this is understandable in terms of the ecosystem and business model of those companies. In the start-up phase they have innovative ideas but they need funding. We have already discussed some of our plans to help them get seed money, but going forward these companies must be able to raise funds from the private sector. This can be through angel investors, private equity or venture capital funds at first, but if they grow further they will need to go to the market for funding. During this process the founder's shareholding will usually be diluted and further diluted. This is not the case for traditional companies listing on the Exchange. A successful manufacturer, for example, might open 30%-40% of its shares on the Exchange ensuring that the owners still maintain a very substantial control. But the successive phases of fundraising by a typical new economy company means that the founder's shareholding probably becomes very diluted.

Founders are often the 'soul' of their companies, they represent the core competitive advantage of the business, so WVR is a major trend for new economy companies. As an international financial centre we need to embrace these companies, though we need of course to do so with caution – there have to be adequate safeguards for investors. We have to strike a balance between investor protection and acceptance of these companies. My inclination is that we should allow these companies to list, but we should put in place a set of safeguards for investors. We have asked the Exchange and the Securities and Futures Commission (SFC) to sit down and work out a set of safeguards. Obviously, any solution will need to be acceptable to the regulators, so the Exchange and the SFC are discussing these issues and there will probably be a consultation with the market soon.'

What's your view of the SFC's proposals last year to increase its participation in listing decisions? The proposals put forward in 2016 would have created two new committees – the Listing Policy Committee and the Listing Regulatory Committee – but these proposals were watered down this year following opposition.

'I think the final outcome, announced in September this year, is a pragmatic solution. After extensive discussion between the SFC, the Exchange and the government, we have agreed to set up a Listing Policy Panel as an advisory body to centralise discussion of listing policies with broader regulatory or market implications. It seems to me that this outcome is pragmatic, sensible and is accepted by the market.

You may also know that we have set up a Financial Leaders Forum, chaired by myself and comprising the Secretary for Financial Services and the Treasury, the Chairman and the Chief Executive Officer of the SFC, the Chairmen of the Exchange, the Insurance Authority and the Mandatory Provident Fund Schemes Authority, as well as the Chief Executive of the Hong Kong Monetary Authority. We also have Mr Joseph Yam, Mr Bernard Chan and Mrs Laura Cha on the forum. The idea is to get regulators and market experts together to ensure that there are no regulatory gaps and to look at ways to develop our international financial centre (IFC) status and make ourselves more competitive. We should be cautious about systemic risks, but on the other hand we are keen to enhance our competitiveness and our leading status as an IFC.'

Are you optimistic about Hong Kong's future? Political issues have been very much in the news and, as we have been discussing, the business environment is changing very rapidly – what are your feelings about how all these trends are going to impact Hong Kong in the future?

'I am still very optimistic, but the road ahead could be bumpy. First of all, under the new term of government, I think the relationship between the administration and the legislature has improved. Actually, it seems to me that the overall sentiment of the community is less confrontational, less polarised and this should lead to a more conducive environment for rational discussion.

The chief executive has put livelihood issues first in terms of our short-term priority. This means tackling Hong Kong's housing issues and making further investments in education. I hope these areas, which top the agenda in many people's minds, will be less controversial and less divisive. Luckily we are in a strong financial position which allows us to spend more in these areas to invest in Hong Kong's future.

We still have a lot to do, however. We need to further develop our economy, particularly on a diverse and sustainable basis. On the financial services side, we have a competitive edge over our neighbouring cities but we have to stay ahead of the curve. Competition is very keen so we will have to work very hard.

Hong Kong is such an open society with many different civic bodies representing different sectors of the community. That means that, when we are facing difficult issues and trying to find solutions, we are bound to have different and at times conflicting views in the community about the way forward. This is understandable and good, because through this kind of debate we can come up with the best way forward.

In that process, I believe we need to have the participation of professional institutions – professionals need to speak out and speak up. Their views might not always be popular but I do encourage professionals, and professional institutions, to speak up – and not only on professional issues but also social issues. For example, we are all concerned about the high cost of housing. To solve this problem we need to have land, but when it comes to finding sources of land supply we need to make choices, sometimes hard choices. Are there any marine areas that we can reclaim? Are there fringe areas of the country parks, without ecological sensitivity considerations, that could be used for housing land supply? The community needs to debate the issues and make a choice and move on.

In these kind of issues, I think professional institutions' views carry a lot of weight. Not only those professionals in relevant sectors, for example the construction, engineering and urban planning sectors. This is a community's rights issue and all professional bodies and professionals carry a lot of credibility in the community. If we can engage in this kind of debate, it will help society to move forward. If professional bodies speak out, over time they will build their own credibility and their standing in the community.'

Do you have any advice for young people?

'For young people in Hong Kong I think the border should not be a limit. Please do not confine yourselves to Hong Kong. I am not saying that people should leave Hong Kong, or that Hong Kong is not the best place to live – what I am saying is that Hong Kong is a hub and our services cover a much bigger area than our local jurisdiction. People in Singapore do not just serve Singapore, they serve the neighbouring region. For us likewise, I think our horizon should be beyond Hong Kong. We need to be multicultural and genuinely international in our outlook. An important part of this is to have the understanding and the ability to engage with people from different cultures and work together.'

Finally, how do you juggle your workload with your daily life?

'That is a question of balance. I am not suggesting that I am doing it well, but I think it's a bit like being a juggler in the circus – you have only two hands but you have three or four balls. My advice to company secretaries would be to remember to set aside time for exercise. Good health is the foundation of everything and you should not take it for granted even when you are young.' CSj

Paul Mo-Po Chan GBM GBS JP FCIS FCS was interviewed on 24 October 2017 at the Central Government Offices by Samantha Suen FCIS FCS(PE), the Institute's Chief Executive; Mohan Datwani FCIS FCS(PE), Senior Director and Head of Technical & Research; Lawrence Wong, Senior Manager, Marketing & Communications; and Kieran Colvert, Editor, CSj.

Trends in ESG reporting: are you prepared?

John Sayer, Director, Carbon Care Asia, highlights the latest trends in environmental, social and governance (ESG) reporting and offers advice on how to ensure you gain first-mover benefits rather than face the catch-up penalties of a laggard.

It is clear that ESG reporting – sometimes called sustainability reporting – is set to become as familiar a part of company life as financial reporting. The requirement for non-financial reports is spreading to jurisdictions around the world. The Singapore Exchange will begin requiring sustainability reports from members at the end of this year, and ESG reporting requirements are already in place in Shanghai, Shenzhen and Taiwan, with movement in a similar direction in Malaysia and Korea. Such reporting often begins as a voluntary exercise, then moves on to 'comply or explain'. It is likely this evolution will continue with a clearer scope for what is to be reported and more rigorous standards on the format of that information.

Advocates of ESG reporting have always argued the business case that 'doing good is good for business'. This gained impetus this year when the Financial Stability Board's Task Force on Climate-related Financial Disclosure released its final report listing a range of environmental risks and opportunities which they suggest are important from a financial perspective.

Investors, lenders and insurers are warned that they may face problems related to due diligence if they don't seek information from a client company regarding the vulnerability or resilience of the company's assets, the security of its supply chain in the face of extreme weather, readiness for transition to more efficient energy technologies, or compliance with new regulations on emissions as a consequence of the climate change Paris Agreement targets.

So from the point of view of corporate development, comprehensive environmental reporting is much more than a compliance exercise; it becomes an indicator of business prospects and future resilience. In this era of internet vigilance, the same applies to reporting on social conduct in the face of cases of reputational damage resulting from a poor records on equal opportunities, child labour or corrupt practices.

So where is ESG reporting likely to go in the near future? Some interesting trends can be seen.

More accurate and comparable information

First, more accurate and comparable standards will make the reporting more valuable. Although there are a variety of organisations offering reporting guidelines, there does not seem to be a dangerous divergence of standards. Different leaders in the field, such as the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB), and the International Integrated Reporting Council are all talking to each other about common ground and differentiated roles.

The move towards online reporting may improve the spread of common standards and shared terminology. Organisations such as extensible business reporting language (XBRL) are working on standard language which can be authoritatively defined to enable financial statements and other kinds of compliance, performance and business reports to be moved between organisations, aggregated and analysed rapidly, accurately and digitally. Although those developing the taxonomy currently focus on financial reporting, there is discussion about how ESG information can be covered within this initiative.

Also on the near horizon is the extension of blockchain technology to new areas beyond its initial role in mediating cryptocurrencies. There is work going

Highlights

- one trend to watch is the increasing demand for common standards and shared terminology in ESG reporting
- one of the greatest challenges for any business reporting on environmental and social impacts concerns putting information on performance in proper context
- referencing the UN sustainable development goals in ESG reporting can provide that essential contextual background, while also demonstrating that your business is well-positioned within the global agenda for change

on to apply blockchain technology to energy supply, consumer products as well as legal and compliance documents. Reports created with blockchain contain transparent, unalterable and traceable data. This traceability could be valuable for ESG reporting where the component data is assembled from multiple sources, such as workforce or emissions statistics from different subsidiaries or worksites of a corporation.

The need for small data – reporting in the 'post-truth' era

In addition to the need for greater amounts of accurate, comparable data, there is also a converse need for simpler, more approachable information. It is true that regulators, investors, lenders and insurers require more detailed and verifiable information. But ESG reports are also of interest to a larger circle of stakeholders including consumers, the public, popular media and critics of our entire economic system.

We live in a time rife with claims of 'false news'. The Oxford English Dictionary 2016 Word of the Year was 'post-truth'. Studies have shown that when those sceptical of the facts about climate change are presented with more evidence, rather than change their minds, they harden their original, sceptical position. Most worrying, the group least willing to change their views are those with more, not less, education.

A recent article in the *Financial Times* (FT) suggested 'the beginnings of a backlash against data obsessionalism'. Another FT piece from an economist argued: 'we don't need to explain ourselves better. We need to ignite in people this curiosity, this sense of wonder, the sense that the economy is a thing that is a mystery to be unravelled'.

For those involved in corporate reporting, whose job includes the clear presentation of economic, social and environmental information, the challenge is how to overcome a lack of trust in information and ignite this sense of curiosity in people. Three approaches can help.

1. **The message.** We need to frame reports in ways that resonate with people's values, beliefs and identities.

2. **The medium.** We need to use more graphics, social media, more personal stories and more interactive reports that mirror the information styles and sources the great majority of people prefer today.

3. **Online disclosure.** Online reports can be more attractive and approachable and reduce fact bombardment. Smart design can help those who want to dive deeper to click through to find what they are looking for without wading through too many pages. Online reports also encourage more current data in the form of dashboards rather than backward-facing reports of past years.

Materiality across all of society – do our efforts count?

One of the greatest challenges for any business reporting on environmental and social impacts concerns putting information about performance in proper context. The context debate challenges all of those setting reporting standards without any targets, including the Hong Kong Stock Exchange. The Exchange asks for figures on energy use, on emissions of greenhouse gases and waste products, but they offer no guidance on what norms, standards or thresholds are good, indifferent, or suicidal in the context of Hong Kong's sustainability.

Contextual reporting on the environment asks: 'Does our carbon emission target meet, or exceed, a fair contribution to Hong Kong greenhouse gas reduction targets, the nationally determined contribution of China under the Paris Agreement, or ultimately an appropriate contribution to global efforts to hold warming below catastrophic levels?' In other words, environmental impacts should eventually be reported relative to the very real planetary boundaries beyond which our society is not sustainable.

Contextual reporting on social issues should include the question: 'Does our supply chain screening ensure workers in our suppliers earn a living wage and can maintain a decent life for their families and children? How can we link measures to poverty lines, minimum wage levels, or national wages averages?'

Social impacts should be reported relative to the accepted needs of all people to live a decent life, including food, water, shelter, health, education, equal opportunities and also a voice in society.

Reporting environmental and social performance without context is like reporting financial information without including expenses.

Linking company ESG actions to the United Nations (UN) sustainable development goals

One answer to the question of context is afforded by the increasing number of companies linking their sustainability reports to the global agenda for change. All around the world we are seeing sustainability, Corporate Social

> comprehensive environmental reporting is much more than a compliance exercise; it becomes an indicator of business prospects and future resilience

Responsibility or ESG reports referencing the UN sustainable development goals (SDGs), a set of 17 goals agreed by 193 governments in 2015 which set global targets on poverty reduction, environmental action and human rights standards in what is known as the 2030 Agenda for Sustainable Development.

Analysis of 100 blue-chip company reports for 2016 by the UN Global Sustainability Index Institute Foundation found that over 80% of such companies were already either mentioning the SDGs (58%) or actually referencing them in their own sustainability plans (24%). Some companies demonstrate links between their ESG reporting Key Performance Indicators and the SDGs. Others select certain SDGs, such as health, education or gender, and focus on how they make a concerted contribution to progress in these areas of the global goals.

While it is true that few companies can be expected to actively contribute to all 17 SDGs, no business can fail to address those goals which are directly impacted by their core business activities. For example, a company requiring large amounts of water or producing waste water in its manufacturing operations cannot reasonably ignore SDG 6 (promoting clean water and sanitation for all). Power companies need to explain their relationship to SDG 7 (promoting affordable and clean energy), while many manufacturing and retail businesses will have to take a look at SDG 12 (promoting responsible production and consumption).

Conclusion: preparing for the future

The growing demand for all companies to be active corporate citizens on issues beyond their core business – to play a positive role in environmental and social agendas – can take a business outside areas that it feels it has the know-how and the confidence. To prepare for this future, I would advise business to look at the following areas.

1. Keep abreast of trends on reporting standards. Stay in touch with developments and debates in order to ensure you end up using Video Home System and not Betamax. Enable your reporting system to deliver first-mover benefits and not face the catch-up penalties of a laggard.

2. As demand for non-financial disclosure grows, prepare to respond to differing needs:
   - more accurate and comparable information is needed by lenders, investors, insurers and regulators, and
   - more accessible information is needed for other stakeholders – a challenge of message, medium and framing.

3. Understand the context of your reporting. Set your disclosure in the context of social and environmental agreements, targets and debates which are likely to lead to changes in regulations and consumer expectations on environmental and social issues.

4. Link your report to the SDGs to demonstrate that your business is well-positioned within the global agenda for change. These are environmental and social targets against which all countries will be measured over the next 12 years.

John Sayer
Director, Carbon Care Asia

John Sayer is also a Stakeholder Council Member of the Global Reporting Initiative.

ESG reporting

Connecting the disconnect for investors

Disclosing just performance metrics does not constitute effective environmental, social and governance (ESG) reporting. Dr Glenn Frommer and Theodora Thunder, Principals, Sustainability Partnership, give some practical advice on how companies can structure a connected narrative about their management of ESG risks and opportunities.

The new Hong Kong Stock Exchange rules for ESG performance disclosures (as set out in the *ESG Reporting Guide* – Appendix 27 of the listing rules) signals the local regulatory catch up with the international financial community on the reporting of non-financial risks that impact corporate performance.

Appendix 27 suggests a series of environmental and social performance indicators in which the reporter is asked to identify material ESG issues (including those not included amongst the stated Key Performance Indicators) and present the performance data quantitatively and consistently. A key component of disclosure is the suggested management discussions of performance in the business review section, cautionary of an unbiased and balanced approach. The underlying challenge in these discussions is not box ticking but, rather, reporting performance in a concise and connected narrative that enables investors to make intelligent investment decisions, while guiding internal decision making for future sustainable development.

Follow the money

Recent public studies point to three core expectations from investors (and stakeholders) when reporting ESG risks: what are the material issues, how is risk managed and what is the value to the business? Management should have these same expectations of internal operations when formulating and implementing business strategy. More specifically, transparency is needed in the following areas.

Good risk governance

Is there a clear and coherent understanding of the risks to the broader social, economic and environmental context in which the company is operating? Is there the demonstrated ability by the board and senior management to not only steward the organisation in managing such risks but also to leverage ESG factors for competitive advantage?

Management of opportunities and risks

Does management understand the ESG risks and opportunities that have significant financial influence on operations, supply chain and end products/services? Are the appropriate management systems in place to address and monitor such risks? Are timely and effective actions being undertaken to manage the allocation of internal resources (capitals) to mitigate risks and benefit from the potential opportunities? How is successful risk/opportunity management rewarded?

Creating value for the business

Are the decisions and actions to manage ESG issues supporting the ambitions and business strategy envisioned by the board? How are the outcomes of such actions being measured, monitored and translated into the balance sheet?

Structuring the connected narrative

Communicating non-financial issue management is a challenge to reporters

> “creating a report that is of value to both investors and the company is an investment in and of itself”

as it is dependent on the filter of materiality, which can often be subject to vested or arbitrary decisions. A helpful, more objective architecture for the reporting narrative follows the classical management method known as the 'Deming Cycle' or 'PDCA' – which is based on four steps: plan, do, check and act. This transforms to the ESG reporting framework of: governance, strategy, risk management, metrics/targets, treatment and evaluation. This should not be viewed as a linear process but rather an interconnected framework in which a particular issue is present at each stage and is influenced by and influences the other stages, signalling a significant business impact. By using this framework, ESG issues are progressively filtered for priority and take on a disciplined

Highlights

- managing ESG risks and opportunities requires an understanding of the wider commercial, social and environmental context in which the company operates
- investors and stakeholders rely on the ESG disclosures to assess whether the board and senior management are effectively managing non-financial risks and leveraging ESG factors for competitive advantage
- boardrooms and companies now run a greater reputation risk if they do not address ESG factors at the governance level

> "the narrative should not just focus on the data itself, but rather on how management is using the data to advance the company along a sustainable pathway"

management cycle that is measurable for efficacy and outcome.

Governance is the foundation. The board leads by defining the ESG challenges (material risks) and recommends with senior management the strategy and treatment with which to navigate for sustainable development. With far more at stake today in mandatory ESG reporting and with the spotlight of social media, boardrooms and companies run a far greater reputation risk by not addressing ESG factors at the governance level.

It is the responsibility of senior management to manage the identified challenges through business strategy development and implementation. Decisions are made, actions initiated and risks managed (effectively or not so effectively). Management's duty is to report the results (supported by valid data) and consequently, improve or change to achieve stated goals.

Metrics and evaluation are the hard outcomes of strategy in action. They are the progress signposts that point to integration of ESG factors into corporate development and serve to inform future performance decisions. It is important to use a standard and the metrics that are relevant, consistent and comparable for year-on-year reporting. These can include the Global Reporting Initiative, Sunstainability Accounting Standards Board and other sector/industry-specific standards. Specifically for Appendix 27, the ESG Dashboard (www.esgdashboard.com) has been recently introduced to facilitate compiling and presenting the required information and data. However, the narrative should not just focus on the data itself, but rather on how management is using the data to advance the company along a sustainable pathway.

Mining for Value

Investors mine for environmental and social (E&S) data/information that is relevant to their investment modelling. This includes analysing risks and balance sheet impact, industry and market trends and comparisons, and importantly, the potential for future growth opportunities through the E&S advantage. Smart management engages investors on this subject on a regular basis in addition to annual ESG reporting.

A similar case can be presented for internal value delivery. Strategic business decision-making in the context of sustainable development starts with management's grasp of industry trends and direction, and the commercial, social and environmental context in which the company operates. A performance review aids in formulating the internal pathway that transforms the organisation and its products/services guided by material ESG assessment, managed risk, cost efficiencies and the leveraging of potential growth opportunities.

Creating a report that is of value to both investors and the company is an investment in and of itself. It requires commitment and leadership of the board and senior management, the internal competencies to manage expectations and the social and business systems to deliver envisioned goals. A report that seeks such coordinated participation from its people and systems, clearly is positioned to connect the disconnect between expectations and reporting.

Dr Glenn Frommer and Theodora Thunder

Principals, Sustainability Partnership

The Sustainability Partnership advises companies on the end-to-end management of ESG issues and their reporting. Materiality assessments, reporting strategy and fulfilment and the comparative analysis to industry and peer ESG performance are amongst the services provided. For further information contact: Thunder@streeter.com.hk.

Hacking risks related to internet trading

Herbert Smith Freehills looks at the latest guidance from the Securities and Futures Commission which sets out minimum standards to enhance cybersecurity resilience and reduce and mitigate hacking risks related to internet trading.

On 27 October 2017, the Securities and Futures Commission (SFC) issued a circular and *Guidelines for Reducing and Mitigating Hacking Risks Associated with Internet Trading* (Guidelines), which require all licensed or registered persons engaged in internet trading to implement 20 baseline requirements to enhance their cybersecurity resilience and reduce and mitigate hacking risks. The Guidelines were issued following the SFC's publication of their conclusions on the related consultation on the same day.

The SFC has also issued:

- FAQs providing further guidance and practical examples for implementing the Guidelines, and
- a circular attaching *Good Industry Practices for IT Risk Management and Cybersecurity* (Good Industry Practices) which internet brokers may wish to incorporate into their information technology and cybersecurity risk management frameworks.

The implementation of two-factor authentication (2FA) for clients' system login will take effect on Friday 27 April 2018, while all other requirements will take effect on Friday 27 July 2018.

Scope of application

Currently, paragraph 18 and Schedule 7 of the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (Code of Conduct) only apply to all persons engaged in internet trading and licensed by the SFC as securities dealers, futures dealers, leveraged foreign exchange trading and fund managers, regardless of whether the securities and futures contracts are listed or traded on an exchange. As a result of the consultation, the SFC has expanded the scope of application so that the provisions also apply to securities not listed or traded on an exchange.

The additional controls in the Guidelines are to be read in conjunction with the relevant provisions of the Code of Conduct. The Guidelines confirm that 'internet trading' is to have the same meaning as in paragraph 18.2(f) of the Code of Conduct, as amended to include internet-based trading facilities 'accessed through a computer, mobile device or other electronic device'.

Protection of clients' internet trading accounts

Two-factor authentication

One of the key additional controls in the Guidelines is the requirement that clients use 2FA to access their internet-trading accounts. Instead of relying on a simple password, 2FA is an authentication mechanism that utilises a combination of two factors specific to an individual client.

This proposed requirement was met with widespread support during the consultation although respondents were clear that an individual assessment of the appropriate 2FA solution was necessary, due to the diverse size and financial capabilities of internet brokers. Accordingly, the Guidelines allow internet brokers to assess and implement a 2FA solution that is appropriate to their business model.

Prompt notification of clients

The Guidelines require clients be notified promptly after certain client activities have taken place in their internet trading accounts. The Guidelines list the activities that should be included and state that notification can occur via email, short message service or other push notifications, although the method of notification must be different from the one used for system login.

The SFC maintains that prompt notification to clients can complement 2FA as an effective detective control, although clients may choose to opt out of trade execution notifications, provided that they have received adequate risk disclosures from the internet broker and the client has acknowledged that they understand the risks involved in doing so.

Respondents to the consultation suggested that if 2FA is mandatory for

Highlights

- the Guidelines are to be read in conjunction with the relevant provisions of the Code of Conduct for Persons Licensed by or Registered with the SFC
- the implementation of two-factor authentication for clients' system login will take effect on Friday 27 April 2018, while all other requirements will take effect on Friday 27 July 2018
- impacted firms should promptly review their existing cybersecurity systems and policies and make appropriate amendments to ensure timely compliance with the requirements

system login, it may be unnecessary to provide an additional notification of each system login. In response, the SFC has suggested in the Frequently Asked Questions (FAQs) that internet brokers can allow clients to opt-out of notifications of each system login provided that:

- the internet broker has the capability to identify irregular logins and promptly notify clients of irregular logins
- the internet broker has provided adequate risk disclosures to clients who have acknowledged that they understand the risks involved in opting-out from notifications of each system login, and
- the clients have not opted out from trade execution notifications.

Monitoring and surveillance mechanisms

While no respondents opposed the proposed requirement to implement an effective monitoring and surveillance mechanism to detect unauthorised access to clients' internet trading accounts, a number of respondents commented on the operational challenges of monitoring internet protocol (IP) addresses. The SFC has clarified that while monitoring IP address is a useful tool, it was merely an example included for illustration and has accordingly been removed from the Guidelines.

Stringent password policies and session timeout controls

All respondents acknowledged that there was a need to establish stringent password policies and session timeout controls. A number of respondents queried the effectiveness of the 'maximum password age' in the proposed Guidelines and the SFC has accordingly revised the Guidelines to replace this proposed requirement with a policy focused on periodic reminders for clients who have not changed their password for a long time.

In response to the consultation, the SFC has also amended the requirement in relation to invalid login attempts, so that internet brokers have flexibility as to the appropriate controls they put in place. The SFC has, however, set out in their FAQs that the following controls may be implemented on invalid login attempts:

- account lock-out
- exponential back-off between successive failed login attempts, and
- brute-force attacks detection with appropriate responses.

Other control practices in this section include those relating to data encryption and protection of client login passwords.

Infrastructure security management

Security controls to help prevent against unauthorised intrusion and cyber-attacks

The proposed Guidelines included two new preventative requirements in relation to updating anti-virus and anti-malware solutions and establishing physical security policies at facilities hosting the internet trading system. These proposals received minimal feedback from respondents and have therefore been included in the Guidelines.

In relation to the requirement for internet brokers to implement the latest security patches or hotfixes released by software providers, respondents suggested that the timeframe of one month was not sufficient and instead favoured a more flexible approach. The SFC maintains that time is of the essence for effective patch management and that security patches and hotfixes should be implemented within one month of the necessary testing. The Guidelines provide, however, for internet brokers to evaluate the impact of the security patches and hotfixes and so internet brokers are free to set their implementation schedule based on evaluation results.

Management of third-party service providers

The proposal that internet brokers should enter into a formal service agreement with a third-party service provider which specifies the terms of service and responsibilities of the provider was widely supported by respondents. The SFC has clarified that this requirement only covers outsourcing arrangements associated with the internet-based trading facility used to send order instructions to the internet broker.

> "hacking of internet trading accounts is the most serious cybersecurity risk faced by internet brokers in Hong Kong"
>
> Ashley Alder JP, Chief Executive Officer, SFC

Other control practices under this section include those relating to the deployment of a secure network infrastructure, user access management, security controls over remote connection, prevention of unauthorised installation of hardware and software, system and data back-up and contingency planning.

Cybersecurity management and supervision

The proposed Guidelines in relation to cybersecurity management, incident reporting and awareness training received minimal feedback from respondents and have therefore been included in the Guidelines.

Implementation of the guidelines

The SFC initially proposed a six-month implementation deadline for the proposed Guidelines. Respondents to the consultation indicated that this may be insufficient for some internet brokers to implement all of the required controls. Therefore the Guidelines and the amendments to the Code of Conduct will become effective on Friday 27 July 2018, nine months after publication of the Guidelines, with the exception of the 2FA requirement which will become effective on Friday 27 April 2018, six months after publication of the Guidelines.

Good industry practices and HKMA's circular

As additional guidance, the SFC has published the *Good Industry Practices* which internet brokers may wish to consider incorporating into their cybersecurity risk management frameworks. The list is by no means exhaustive and internet brokers should always take into account their own circumstances, as well as current and emerging cybersecurity threats when adopting these practices.

The Hong Kong Monetary Authority has also published a circular (attaching the Guidelines) reiterating the significance of implementing the requirements according to the stipulated timeline and highlighting that the requirements will be incorporated in the Supervisory Policy Manual module TM-E-1 on 'Risk Management of E-banking'.

Conclusions and next steps

As commented by Ashley Alder JP, the SFC's Chief Executive Officer, 'hacking of internet trading accounts is the most serious cybersecurity risk faced by internet brokers in Hong Kong'. The publication of the Guidelines therefore illustrates the SFC's continued commitment to ensuring that cybersecurity management remains a top priority. Impacted firms should promptly review their existing cybersecurity systems and policies and make appropriate amendments to ensure timely compliance with the requirements.

Given that the Guidelines only set out the minimum standards required and are by no means exhaustive, senior management should also ensure that all systems and controls are commensurate with the firm's business needs and operations and that additional cybersecurity controls are implemented where necessary.

William Hallatt, Partner; Hannah Cassidy, Partner; and Rebecca Hui, Senior Associate

Herbert Smith Freehills

Governance and sustainability: recommendations for Chinese family-controlled firms

The winning paper in the Institute's latest Corporate Governance Paper Competition suggests ways for both companies and government policy makers to improve the governance and sustainability of Chinese family-controlled firms.

Although the concepts of corporate governance and business sustainability are understood to be crucially important, the correlation and relationship between them still needs to be defined and be better accounted for. Companies increasingly recognise their critical part in the transition to a more sustainable society and economic environment, and corporate governance monitoring is increasingly applied to broader elements of corporate activities, including the organisation's impact on the natural environment and society. The additional responsibilities that corporations are taking on mainly result from stakeholders' requirements and demands.

This suggests a general picture of how important corporate governance is to organisations and how it can affect their sustainability, but most of the studies and research in relation to these issues are global and mainly concentrate on public corporations that are not owned by one family. With an Asian perspective in mind, this paper pulls the issue back to East Asian countries, especially China, which is undergoing huge development and transformation, to generate some suggestions on ways to improve the governance practices of Chinese family-controlled companies thereby increasing their sustainability.

In the late 1970s, China began its opening up and economic restructuring process and these reforms continue today. China has moved towards a free-enterprise system via the privatisation of state-owned enterprises and the development of modern stock markets. Subsequently, private enterprises have provided the strongest driver of the nation's economic growth. According to a report released at the 12th International Forum on Entrepreneurship and Family Business, held in Zhejiang University, more than 90% of private enterprises in China have been established by one family. Despite the prominent position of these Chinese family companies, poor governance was found to constrain their performance and sustained development.

By comparing China to countries which are pioneers and leaders in promoting better governance among family businesses, this paper sets out the problems and constraints of Chinese family-controlled firms and seeks solutions to these challenges.

Theoretical background

China's ownership and governance structure

It is generally acknowledged that the legal environment of a country influences the corporate governance standards and performance of its companies. To analyse Chinese firms, we should therefore first place ourselves in the centre of the Chinese legal and economic environment. China has its unique ownership characteristics and governance structures. The mixed-ownership structure in China is dominated by three major groups of shareholders: the state (central government), legal entities (institutions) and individuals. A paper published in the *Journal of Corporate Finance* ('Ownership structure, corporate governance, and fraud: Evidence from China', Chen, Firth, Gao & Rui, 2006) estimated that on average about 40% of shares are held by private individuals and private institutions. The inference can be drawn that the ownership structure in China is highly concentrated.

China adopted its reform strategy to restructure the economy in 1978. A series of policies were carried out to help the country transition from a centrally planned economy to a mixed economy. The reform process was designed to assign higher autonomy to board directors and managers so they could run firms

Highlights

- Chinese family-controlled businesses should seek a balance between the family's ownership over the company and managerial authority
- governments are responsible for ensuring the effectiveness of the infrastructure within which companies operate
- the relatively short lifespan of Chinese private firms can be boosted via better awareness of basic corporate governance principles

> a lack of awareness of corporate governance principles and an inability to engage in sustained development are the main constraints on the prosperity of Chinese family-controlled businesses

with less intervention from the state. At the start of the reform process, there were few commercial laws and almost no laws in relation to property rights, which led to inconsistent decisions made by the regulators and put the reform progress in peril. To remedy this situation, the China Securities and Regulatory Commission (CSRC) was established as the main regulator of China's securities market. The CSRC is responsible for several key areas – such as formulating regulations and supervising companies, investment institutions, stock exchanges and other professional entities. It is also responsible for reviewing the supervisory board report in listed companies' annual reports.

Chinese family-controlled businesses

In Taiwan, Hong Kong and some Southeast Asian countries, family-controlled businesses are generally considered to be the engine that drives societies ahead. Although state ownership or public ownership is still the mainstream in China, the role of private businesses, especially small and medium-sized family-owned businesses, should not be neglected. Nowadays in China, owing to the strong emphasis on entrepreneurship, more and more people prefer to start their own business and become their own boss, and this has led to a proliferation of family-controlled businesses in many Chinese cities. Family business has served as one of the key factors fueling the economic takeoff in East and Southeast Asia since the 1960s.

PricewaterhouseCooper's *Global Family-Controlled Businesses Report 2016* interviewed 100 senior corporate executives of family-controlled enterprises (48 from Mainland China and 52 from Hong Kong) and revealed that family business is contributing to much of the increase in the employment rate, as well as to Gross Domestic Product (GDP) growth. Furthermore, according to *Tharawat* magazine, an Indian publication aiming at inspiring entrepreneurs and family enterprises, 84.5% of privately owned businesses in China are family businesses. These family-controlled businesses help to employ 65% of all the working population and contribute more than 65% of China's GDP.

Nevertheless, Chinese family-controlled businesses still face severe problems that constrain their sustainability and further expansion. Traditionally, family-controlled enterprises are less aware of the principles of corporate governance and more governance problems are reported in these companies. Hence it has been found that family businesses are less efficient at generating profits. Moreover, the average lifespan of Chinese private firms is 2.9 years; only 3% of all firms are able to last for more than eight years. A lack of awareness of corporate governance principles and an inability to engage in sustained development are the main constraints on the prosperity of Chinese family-controlled businesses.

Corporate governance

Corporate governance is typically applied as an essential way of balancing stakeholders' interests, where stakeholders include shareholders, customers, suppliers, government and community. The main corporate governance issue has tended to be the need to balance the relationship between shareholders, especially big shareholders and management, but it is generally recognised that principles of corporate governance go beyond this.

Aras and Crowther, in their 2008 paper *Governance and sustainability: An investigation into the relationship between corporate governance and corporate sustainability*, highlight four principles of good corporate governance:

1. fair treatment of all stakeholders
2. ethical behaviour and integrity
3. responsibility of the board of directors, and
4. transparency and accountability of information.

In conclusion, corporate governance is concerned with balancing the company's economic goals and its corporate behaviour in the social environment. Implementing good corporate governance should help foster the sustainability of a company.

Business Sustainability

As discussed above, the principles of corporate governance are related to balancing economic goals with the

Nancy Bao Shiyao receiving her Champion Paper award

sustainability of organisations. In other words, corporate governance is concerned with a firm's corporate social responsibility, utilising resources, accountability of power usage and appropriate corporate behaviour in society.

The World Commission on Environment and Development (2017) defines sustainability as 'meeting the needs of the present without compromising the ability of future generations to meet their own needs'. Applying the same logic to business sustainability, shareholders and managers want their business to generate as much profit as it did in the past while building a solid foundation for future profit growth. Business sustainability could be defined as a firm's ability to meet short-term needs without compromising its ability to meet future needs.

Recommendations

Rationalise ownership and management structures

In Chinese traditional culture the family head has absolute power over the whole family and it is very common for the founder (usually also the parent of a family) of a Chinese family-controlled enterprise to have the highest authority and the power to make the final decisions. However the drawbacks of this kind of ownership structure have increasingly been recognised.

In particular, a lack of internal and external corporate governance brings a higher risk of uncertainty associated with decisions on strategic issues, for example, the company's direction of development. A study published in the *International Review of Finance* ('Family control and corporate governance: Evidence from Taiwan', Yeh, Lee & Woidtke, 2001) investigated 208 Taiwanese family-controlled businesses and found that those with the highest relative performance usually had a high level of control over the company but relatively lower levels of board representation. The study concluded that high levels of ownership and low levels of family board representation help to mitigate the conflict between majority and minority shareholders and hence results in higher performance. Following the Taiwanese firms' experience, Chinese family-controlled businesses should seek a balance between the family's ownership over the company and managerial authority.

In the US, where family businesses are well-developed, the owners of the company usually exercise real control but are not involved in daily operation and management. The stock price responds to the fair value of a company, which provides a reference for the family business owner to evaluate the performance of management. It is very common in the US for professional executives to be responsible for the company's daily operations, and for ownership and management to remain relatively separate. Such a structure helps to enhance management efficiency

> "in a modern market economy, government control and management of economic affairs guards against systemic risks"

and promote the long-term stable development of the company.

Establish a business sustainability framework and integrated management system

A company's business sustainability framework must be supported by an integrated management system. It is very common nowadays for companies to apply an internal quality management system such as ISO 9001. Using an integrated management system could help the organisation increase efficiency and effectiveness and reduce costs, while at the same time minimising the disruption of an external audit.

An integrated management system should focus on the processes of doing business instead of management procedures. This is especially important for Chinese family-controlled firms, where bureaucracy and formalism have been a custom since ancient times.

Improve the legal environment and economic regulations

The government should provide a strong and powerful guarantee for the development of family businesses. According to Japan's Corporate Governance Code, the mission and vision of Japanese companies is to seek sustainable corporate growth and increase corporate value over the medium to long term. The Code clearly sets out the general principles of corporate governance; shareholders' rights and equal treatment; cooperation with other stakeholders; transparency and disclosure of appropriate information; board responsibilities; and dialogue with shareholders. By releasing this Code, the government is playing an important role in effecting related policies and providing guidelines for companies.

In a modern market economy, government control and management of economic affairs guards against systemic risks. It is necessary to gradually change from governing the country by policy to systemic governance. Systemic governance means ensuring the effectiveness of the infrastructure within which companies operate.

Conclusion

Family businesses play an important role in both developed and developing countries. It is suggested that family businesses are one of the most important ingredients in the economy and their key economic role should not be ignored. Family businesses are also the main driving force for promoting entrepreneurship and innovation. This paper aims to provide some guidance for Chinese family-controlled companies to help them survive in the current fiercely competitive environment. Business sustainability has become an emerging field in recent years, but it is still a relatively young topic. This paper discusses the relationship between business sustainability and corporate governance. By putting the issue in the context Chinese family-controlled business, the paper elaborates on the constraints and challenges that restrict further development and expansion of Chinese family enterprises. By comparing Chinese family-controlled enterprises with those in Japan and the US, where family business has a long history, the paper explores the differences and provides many suggestions for both Chinese government and Chinese firms to improve the current situation.

Nancy Bao Shiyao

BBA (Hons) in Management, The Hong Kong Polytechnic University

CHARTERED SECRETARIES
特許秘書

A Sparkling Night

HKICS Annual Dinner 2018

Guest of Honour

Chan Mo-Po, Paul
GBM GBS JP FCIS FCS

Financial Secretary
the Government of the Hong Kong SAR

Thursday 18 January 2018 6.30pm Cocktail reception 7.30pm Dinner	Ballroom JW Marriott Hotel Hong Kong

Fees: HK$790 per student | HK1,090 per member/graduate | HK$1,290 per non-member
HK$13,080 per table of 12 seats

Attire: Lounge suit

For enquiries, please contact Vicky Lui at 2830 6088 or Vincy Wong at 2830 6048 or member@hkics.org.hk.

The Hong Kong Institute of Chartered Secretaries 香港特許秘書公會 (Incorporated in Hong Kong with limited liability by guarantee)

Professional Development

Seminars: October 2017

10 October
Tax controversy workshop 3 – know more about the IRD

Chair: Arthur Lee FCIS FCS, Institute Audit Committee member, and Assistant President, Company Secretary and General Manager of Investor Relations, CGN New Energy Holdings Co Ltd
Speaker: Wilson Cheng, Partner, Tax & Business Advisory Services, EY

11 October
ESG reporting: first-year lessons and what to do next?

Chair: Stella Lo FCIS FCS, Institute Council member, and Group Company Secretary, Guoco Group Ltd
Speakers: John Sayer, Director; Chloe Mok, Director of Sustainability Services; Edith Yiu, Senior Sustainability Consultant; Carbon Care Asia Ltd; and Tony Wines, CEO and Founder, Turnkey Group

12 October
Duties of directors of listed companies, market misconduct and recent enforcement action against directors and company secretaries

Chair: Richard Leung FCIS FCS, Institute Past President, and Barrister-at-Law, Des Voeux Chambers
Speakers: Mark Johnson, Partner; and Ralph Sellar, Associate; Debevoise & Plimpton LLP

16 October
Competition law – directors' duties, liabilities and other issues

Chair: David Simmonds FCIS FCS, Institute Company Secretaries Panel member and Technical Consultation Panel member, and Group General Counsel, Chief Administrative Officer & Company Secretary, CLP Holdings Ltd
Speakers: Brian Kennelly QC, Barrister-at-Law; Timothy ED Parker, Barrister-at-Law; Blackstone Chambers; Neil Carabine, Partner, King & Wood Mallesons; and Mike Thomas, Partner, The Lantau Group (HK) Ltd

24 October
BVI and Cayman law – general corporate governance, directors' duties and the period before insolvency – what directors need to know

Chair: Richard Law FCIS FCS, Institute Education Committee member, and Company Secretary, Global Brands Group Holding Ltd
Speakers: Shaun Folpp, Partner; and Jennifer Maughan, Senior Associate; Mourant Ozannes

26 October
Tax controversy workshop 4 – how to deal with negotiation and settlement

Chair: Alberta Sie FCIS FCS(PE), Institute Professional Services Panel member, and Company Secretary & Director, Reanda EFA Secretarial Ltd
Speaker: Wilson Cheng, Partner, Tax & Business Advisory Services, EY

31 October

Managing risks in mergers and acquisitions

Chair: Michelle Hung FCIS FCS, Institute Membership Committee member and Technical Consultation Panel member, and General Counsel and Company Secretary, COSCO Shipping Ports Ltd
Speakers: Vincent Pang, Managing Director; and Ricky Ho, Director, Risk Advisory Services; Avista Group

Seminar fee discount for HKICS registered students

Effective from 1 January 2017, registered students of the Institute can enjoy a 30% discount on the Institute's regular ECPD seminars.

Seminar duration	Regular seminar rate	Discounted rate for registered students
1.5 hours	HK$320	HK$230
2 hours	HK$400	HK$280
2.5 hours	HK$480	HK$340

ECPD forthcoming seminars

Date	Time	Topic	ECPD points
9 January 2018	2.30pm – 4.30pm	Company secretarial practical training series: due diligence in an IPO from senior management perspective	2
11 January 2018	6.45pm – 8.15pm	The development of AEOI and CRS in Hong Kong	1.5
19 January 2018	6.30pm – 8.50pm	Governance for innovation; innovation in governance	2
23 January 2018	6.45pm – 8.15pm	Legality and regulation of cryptocurrencies and other digital tokens	1.5
25 January 2018	6.45pm – 8.45pm	Directors and senior executives liabilities – SFC's new regulatory approach	2
31 January 2018	3.00pm – 5.45pm	New connected transactions rules	2.5

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

Online CPD (e-CPD) seminars

The Institute has launched a series of e-CPD seminars in collaboration with The Open University of Hong Kong (OUHK). Through the online learning platform of OUHK, members, graduates and students are able to easily access selected video-recorded seminars with any smart device anytime, anywhere. The launch of e-CPD seminars enables members, graduates and students to schedule their professional learning more flexibly.

Details and registration are available at the CPD courses section of the OUHK website: http://ecentre.ouhk.edu.hk. For enquiries, please contact the Institute's Professional Development section at: 2830 6011, or email: ecpd@hkics.org.hk.

Professional Development (continued)

CPD requirements

All members and graduates are reminded to observe the deadlines set out below. Failing to comply with the CPD requirements may incur an administrative penalty of HK$3,000 payable upon the Institute's demand and constitute grounds for disciplinary action by the Institute's Disciplinary Tribunal as specified in Article 27 of the Institute's Articles of Association.

CPD year	Members and graduates who qualified on or before	CPD or ECPD points required	Point accumulation deadline	Declaration deadline
2017/2018	30 June 2017	15 (at least 3 ECPD points from the Institute's ECPD seminars)	30 June 2018	31 July 2018

Key update on the revised CPD Policy (effective from 1 July 2017)

	Revised CPD Policy
Basic CPD requirements	All members/graduates are required to fulfil the minimum CPD requirements of at least 15 CPD hours per CPD year, at least 3 ECPD hours should be from the Institute's ECPD seminars.
Accredited providers of ECPD seminars	The accredited providers of ECPD seminars are listed below. • Companies Registry • Hong Kong Exchanges and Clearing Ltd • Hong Kong Institute of Certified Public Accountants • Hong Kong Monetary Authority • Independent Commission Against Corruption • Office of the Privacy Commissioner for Personal Data • Official Receiver's Office • Security Bureau • The Law Society of Hong Kong • The Securities and Futures Commission • Other organisations considered appropriate by the Professional Development Committee
Administrative penalty	Where a relevant person: a. fails to file the declaration under Clause 6.2 of the CPD Policy within one month of the end of the previous CPD year; and/or b. fails to supply to the Institute's satisfaction the requisite information required under any random check referred to under Clause 6.3 of the CPD Policy with the declaration; and/or c. fails, based on other grounds identified by the Institute, as otherwise not having complied with the CPD Policy; the relevant person shall incur an administrative penalty of HK$3,000 payable upon the Institute's demand should the failure subsist as at the end of 90 days from the end of the previous CPD year, without prejudice to the right of the Institute to refer the matter to the Institute's Investigation Group in accordance with Clause 3 of the CPD Policy for commencement of discipline.

For details of the revised CPD Policy, please visit CPD Policy under the CPD section of the Institute's website: www.hkics.org.hk.

Membership

Forthcoming membership activities

Date	Time	Event
16 December 2017	10.00am – 12.30pm	Community Service – 关爱独居长者行动 (行动 2)
18 January 2018	6.30pm – 10.00pm	HKICS Annual Dinner 2018

For details of forthcoming membership activities, please visit the Events section of the Institute's website: www.hkics.org.hk.

Members' activities highlights: November 2017

3 November
Members' Networking –《易经》职场养生术

11 November
Community Service – 关爱独居长者行动 (行动 1)

17 November
Members' Networking – dialogue: career paths of Chartered Secretaries

18 and 25 November
Young Group – 掌中宝摄影工作坊

Membership (continued)

New graduates

Congratulations to our new graduates listed below.

Bai Yang	Cheung Hoi Man	Ho Wai Kuen	Leung Wing Chi	Tong Ho Fai
Chan Ching Man	Cheung Hong Ting	Ko Wing Yu	Li Wing Wah	Tsang Siu Kit
Chan Chu Ho	Cheung Yan Ting	Kwok Chun Yu	Lo Wai Sum	Wan Wing Yi, Carol
Chan Ka Yan	Chow Kai Yu	Kwok Po King	Lui Suet Ching	Wong Chun Sek, Edmund
Chan Mei Ping	Chow Shu Ting	Kwong Chung In	Ng Kim Hung	Wong Hei Ching
Chan Ming Yin	Chow Wing Kei	Kwong Hiu Woon, Corwin	Ng Pak Hiu	Wong Man Pui
Chan On Yee	Chu Lok Lai	Lai Mei Ki	Peng Sisi	Wong Sze Man
Chan Wai Yee	Chui Nga Lem	Lam Ho Kuen	Po Ka Wai	Wu Man Ki, Maggie
Chan Yip Keung	Chung Chor Wai	Lam Man Fung	Shing Wai Kwan	Yuen Sin Hang
Chan Yuen Sze	Fong Yuen Yuen	Lam Wai Ying, Patricia	Shum Yick Chun	Yuen Yee Tak
Cheng Ka Man	Ho Chiu Yee	Lau Chau Suen	So Hiu Wa	
Cheung Hing Lung, Raphael	Ho Ka Ki, Vicki	Leong Kai Weng, Subrina	Tam Agnes Nga Sze	

Advocacy

Interview with Financial Secretary

On 24 October 2017, an interview with Financial Secretary of the Government of the Hong Kong SAR The Honourable Paul Mo-Po Chan, GBM GBS JP FCIS FCS was arranged by Institute Chief Executive Samantha Suen FCIS FCS(PE), Senior Director and Head of Technical & Research Mohan Datwani FCIS FCS(PE), Senior Manager, Marketing & Communications Lawrence Wong and *CSj* Editor Kieran Colvert at the Central Government Offices. Mr Chan talked about his aspirations for maintaining Hong Kong's competitive edge in the rapidly changing political, business and social environment, and about the role that professional practitioners such as company secretaries can play in this endeavour. Please see this month's In Profile on pages 12-15 for the full interview.

From left to right: Kieran Colvert, Lawrence Wong, Samantha Suen, The Honourable Chan Mo-Po, Paul, Mohan Datwani and Press Secretary to Financial Secretary of the Financial Secretary Private Office of the Government of the Hong Kong SAR, Kirk Yip

Advocacy (continued)

Obituary – Paul Moyes

We are deeply saddened by the loss of Paul Moyes, former Council member and fellow of the Institute. The Institute and Council extend our deepest condolences to his family.

Mr Moyes was elected as a fellow of The Institute of Chartered Secretaries and Administrators (ICSA) and the Institute in 2010. He was first elected as a Council member in 2012 and resigned from Council in May 2017 due to personal reasons. Prior to his resignation, he was the Chairman of the Professional Services Panel and AML/CFT Work Group. He was also the Chairman of the Technical Consultation Panel's Company Law Interest Group in 2016, and a member in 2017 until his passing. In 2012 and 2016, he served on the Audit Committee as a member and as the Chairman in 2015. He was a member of the Membership Committee in 2007 and 2012.

Mr Moyes will always be remembered for his smiles, his wisdom, his depth of technical knowledge, and his great achievements. Mr Moyes will be lovingly remembered and deeply missed.

Lunch meeting with BOC representatives

On 6 November 2017, Institute President Ivan Tam FCIS FCS, Treasurer Dr Eva Chan FCIS FCS(PE), Council members David Fu FCIS FCS(PE) and Ernest Lee FCIS FCS(PE), Chief Executive Samantha Suen FCIS FCS(PE) and other Institute representatives, attended a lunch meeting organised by Bank of China (Hong Kong) Ltd (BOC). At the lunch meeting, they discussed the compliance regime under the Institute's AML/CFT Charter and opening of bank accounts in Hong Kong.

For details of the Institute's AML/CFT Charter and guideline, please visit the 'HKICS AML/CFT Charter' section of the Institute's website: www.hkics.org.hk.

HKICS supports Pink campaigns

Pink Walk

The Institute's walkathon team, which consists of 29 Institute members, graduates and students, the Secretariat, and 12 volunteers joined the '2017 Pink Walk for Breast Health' fundraising event organised by the Hong Kong Breast Cancer Foundation (HKBCF) on 22 October 2017. A total of HK$56,750 was raised for HKBCF from this walkathon.

Dress Pink Day

27 October 2017 was the Dress Pink Day of the Hong Kong Cancer Fund. In support of this Pink revolution, the Institute's Secretariat dressed in pink and donated HK$5,200 to support the Pink Recovery Pack, to be distributed to breast cancer patients who have undergone surgery.

At the Pink Walk

On Dress Pink Day

Luncheon talk organised by HKCPS

On 10 November 2017, The Hong Kong Coalition of Professional Services (HKCPS) organised a luncheon talk on the Policy Address with Chief Secretary for Administration of the Government of the Hong Kong SAR Cheung Kin-chung, Matthew GBM GBS JP as the Guest of Honour. Due to unforeseen circumstances, the Secretary for Financial Services and the Treasury of the Government of the Hong Kong SAR James Lau Jr JP attended and spoke on behalf of Mr Cheung by sharing his insights on artificial intelligence, fintech, tax reform, and Hong Kong's future development. Institute President Ivan Tam FCIS FCS and 12 Institute representatives attended the luncheon.

James Lau with Ivan Tam and Institute representatives

Meeting with the Liaison Office of the Central People's Government in HKSAR

On 13 November 2017, Institute Chief Executive Samantha Suen FCIS FCS(PE) and Registrar Louisa Lau FCIS FCS(PE) attended a meeting with accounting professional bodies in Hong Kong organised by the Liaison Office of the Central People's Government in the Hong Kong SAR. During the meeting, Deputy Director of the Liaison Office Dr Tan Tieniu (谭铁牛副主任), discussed the future development of the Hong Kong accounting profession with the participants.

Group photo

The Fourth ACSN board meeting and conference in Jakarta

The ASEAN Corporate Secretaries Network (ACSN), which brings together the Institute and four other professional and industry bodies from Indonesia, Malaysia, Singapore and Thailand, held its fourth board meeting in Jakarta, Indonesia on 1 November 2017. Institute President Ivan Tam FCIS FCS and Chief Executive Samantha Suen FCIS FCS(PE) attended the meeting with the other ACSN representatives. They reviewed ACSN achievements and discussed action plans for the next two years. A networking dinner hosted by the Indonesian Corporate Secretary Association (Indonesian CSA) for ACSN representatives and Indonesian CSA Council members, was arranged after the meeting.

Institute President Ivan Tam FCIS FCS, Chief Executive Samantha Suen FCIS FCS(PE), and Senior Director and Head of Technical & Research Mohan Datwani FCIS FCS(PE), attended the Indonesian CSA's '1st International Conference on Good Corporate Governance – Key Challenges in Good Corporate Governance for the Year 2017 and What's Next in 2018' in Jakarta, Indonesia from 2 to 3 November 2017.

On 2 November, Dr Hardijanto Saroso, Chairman of Indonesian CSA, and Katharine Grace, SH, Chairwoman of the Conference, welcomed over 140 delegates, including Hoesen, Commissioner of

Advocacy (continued)

the Authority of Financial Services (OJK)/Head of Capital Market, and Samsul Hidayat, Director of Indonesian Stock Exchange (IDX), along with other international experts and sizeable businesses from the ASEAN region brought together by the desire to learn and understand from each other key corporate governance challenges and developments in the region.

Ivan Tam shared in a speech Hong Kong's experiences over the last few years on diversity, risk management, ESG reporting and other governance issues and participated in an interactive panel discussion. The conference also saw discussions on the governance challenges relating to family businesses, social media, and countries around the region including Singapore, Thailand and Vietnam. The delegates were then invited to open trading at IDX and to engage in a dialogue with Indonesian regulators on 3 November 2017.

The ASEAN/Indonesian audience was passionate as to corporate governance developments and, as a hub of activity, Indonesia is seeking to attract international listings. The conference was useful and practical for the Institute's regional cooperation, and development of mutual business opportunities.

At the 4th ACSN board meeting

At the networking dinner

Ivan Tam presenting at the conference

ACSN study tour at IDX

International Qualifying Scheme (IQS) examinations

IQS study packs go green

The Institute has launched online versions of four IQS study packs. This service, which is free to all registered students, enables students to schedule their professional learning and studies more flexibly, economically and in an environment-friendly manner. Students are highly encouraged to activate their online account and obtain access to the study packs for examination revision as soon as possible. For details of the account activation, please select Education under the News section of the Institute's website: www.hkics.org.hk, or refer to the Student Handbook of the Institute.

For further information regarding the online study packs, please contact Ally Cheung at: 2830 6031, or Ruby Ng at: 2830 6006, or email: student@hkics.org.hk. For technical questions regarding the PrimeLaw account, please contact Wolter Kluwer's customer service: HK-Prime@wolterskluwer.com.

December 2017 diet reminder

Candidates who are absent from a scheduled IQS examination due to illness must submit a satisfactory medical certificate to apply for examination postponement. Such applications must be submitted to the Institute within three calendar weeks from the end of the December examination diet, that is, on or before Friday 29 December 2017.

June 2018 diet schedule

	Tuesday 5 June 2018	Wednesday 6 June 2018	Thursday 7 June 2018	Friday 8 June 2018
9.30am – 12.30pm	Hong Kong Financial Accounting	Hong Kong Corporate Law	Strategic and Operations Management	Corporate Financial Management
2.00pm – 5.00pm	Hong Kong Taxation	Corporate Governance	Corporate Administration	Corporate Secretaryship

Please enrol between 1 and 31 March 2018.

Studentship

IQS information session

At the IQS information session held on 20 November 2017, Eric Chan FCIS FCS(PE), Chief Consultant, Reachtop Consulting Ltd, shared his professional work experience with the attendees interested in pursuing a career in the Chartered Secretarial profession. Information on the IQS examinations and career prospects for Chartered Secretaries was also provided.

At the information session

Institute members Tak Wong ACIS ACS and Jenny Choi FCIS FCS(PE) were interviewed by *JobMarket* of Sing Tao News Corporation Ltd (Sing Tao). The interviews, which were published in *JobMarket* on 10 and 17 November 2017, introduced the Institute, IQS examinations, as well as the Chartered Secretarial profession.

For other archived interviews of Institute members, please visit Press Clippings under the Publications section of the Institute's website: www.hkics.org.hk.

Studentship (continued)

Corporate Governance Paper Competition and Presentation Award 2017

To promote the awareness of good governance among local undergraduates, the Institute has been running its 'Corporate Governance Paper Competition and Presentation Award' since 2006. This year's topic was 'Corporate Governance and Business Sustainability'. The six finalist teams of the Paper Competition attended the Presentation Competition on 21 October 2017. The Institute congratulates the winners listed below.

Paper Writing Competition	Paper Presentation
Champion Bao Shiyao, Nancy, The Hong Kong Polytechnic University	**Best Presenter Award** Kwok Tsz Wing, Nicole, Hong Kong Baptist University; Law Pui Ying, Velma, The Chinese University of Hong Kong; and Wong Shun Kit, Charles, Hong Kong University of Science and Technology
First runner-up Chan Po Kei and Yen Hiu Lui, Hong Kong Shue Yan University; and Yau Tsz Kwan, Cecilia, Hang Seng Management College	**First runner-up** Li Tsz Lok, Lin Ching Hsuan and Phen Hok Hei, Hong Kong University of Science and Technology
Second runner-up Li Tsz Lok, Lin Ching Hsuan and Phen Hok Hei, Hong Kong University of Science and Technology	**Second runner-up** Cheung Tsz Ying and Kan Kwan Yi, Hang Seng Management College

(From left, front row) Tony Chan, Dr Eden Chow, Dr Raymond Wong, Professor Kevin Lam, Dr Mark Ng, Robin Healy FCIS, Polly Wong FCIS FCS(PE), Arthur Lee FCIS FCS, Winnie Li FCIS FCS, Samantha Suen FCIS FCS(PE), Anna Sum FCIS FCS, Dr Linsey Chen and Dr Tommy Leung; (from left, back row) the presentation competition participants and Candy Wong

The Institute would like to thank the following individuals and organisations (listed in alphabetical order) for their contribution and support.

Reviewers

- Dr Linsey Chen, Assistant Professor, Department of Accountancy, Hang Seng Management College
- Professor David Donald, Professor, Faculty of Law, The Chinese University of Hong Kong
- David Lai, Lecturer, Department of Accounting, Hong Kong University of Science and Technology
- Dr Candy Liu, Assistant Professor, Lee Shau Kee School of Business and Administration, The Open University of Hong Kong
- Dr Lu Haitian, Associate Head and Associate Professor in Law, School of Accounting and Finance, The Hong Kong Polytechnic University
- Dr Mark Ng, Assistant Professor, Associate Head and Programme Leader (MSMCP), Department of Business Administration, Hong Kong Shue Yan University
- Professor Richard Simmons, Professor of Teaching, Department of Accountancy, Lingnan University
- Dr Raymond Wong, Associate Head and Associate Professor, Department of Accountancy, City University of Hong Kong
- Dr Davy Wu, Senior Lecturer, Department of Accounting & Law, Hong Kong Baptist University

Papers Panel Judges

- Joseph Mau FCIS FCS(PE), Managing Director-Listing & Regulatory Affairs & Company Secretary, Hong Kong Exchanges and Clearing Ltd
- Professor James Pong FCIS FCS, Executive Director, Sundart Holdings Ltd
- Paul Yeung, Commission Secretary, Commission Secretariat, the Securities and Futures Commission

Papers Presentation Judges

- Arthur Lee FCIS FCS, Assistant President, Company Secretary & General Manager of Investor Relations, CGN New Energy Holdings Co Ltd
- Winnie Li FCIS FCS, Director, CWCC
- Polly Wong FCIS FCS(PE), Company Secretary/Financial Controller, Dynamic Holdings Ltd
- Robin Healy FCIS, Assistant Group Secretary, Statutory & Regulatory Reporting, HSBC Holdings plc

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Student Ambassadors Programme visits

The Institute organised two visits for a group of local undergraduates under its Student Ambassadors Programme.

Visit to SFC

On 10 November 2017, a visit to the Securities and Futures Commission (SFC) was arranged under this programme. During the visit, the SFC's organisation history and structure, its statutory responsibilities and role in corporate governance were shared with the participants.

At SFC

Studentship (continued)

Visit to ICAC's Hong Kong Business Ethics Development Centre

On 17 November 2017, a visit to the Hong Kong Business Ethics Development Centre of the Hong Kong Independent of Commission Against Corruption (ICAC) was arranged. During the visit, the ICAC's organisation history and operating functions, as well as the spirit of the Prevention of Bribery Ordinance were shared with the participants.

The Institute would like to thank SFC and the Hong Kong Business Ethics Development Centre of ICAC for their continued support of the Programme.

At ICAC

HKICS professional seminars and guest lectures

The Institute organised two professional seminars and a guest lecture at the following educational institutions to introduce the role of company secretary and corporate governance to undergraduates in Hong Kong.

HKSYU

On 8 November 2017, a professional seminar was held at the Hong Kong Shue Yan University (HKSYU) with the participation of about 200 final-year undergraduates of its BBA Programme. Institute Education Committee member Rachel Ng ACIS ACS gave a presentation on the roles of directors and company secretaries in enhancing ethics and corporate governance.

HSMC

On 9 November 2017, a guest lecture for the undergraduates of the BBA in Corporate Governance Programme was held at the Hang Seng Management College (HSMC). Institute Past President Dr Davy Lee FCIS FCS gave a presentation on corporate governance and market misconduct.

CIHE

On 17 November 2017, a professional seminar was held at the Caritas Institute of Higher Education (CIHE) with the participation of about 70 undergraduates. Institute member Angus Pang FCIS FCS gave a presentation on the role and daily operation of company secretaries.

At HKSYU

At HSMC

Dr Susana Yuen ACIS ACS, Dean of the School of Business and Hospitality Management, CIHE (right) presenting a souvenir to Angus Pang (left)

Policy – payment reminder

Studentship renewal

Students whose studentship expired in October 2017 are reminded to settle the renewal payment by Wednesday 27 December 2017.

Exemption fees

Students whose exemption was approved via confirmation letter in September 2017 are reminded to settle the exemption fee by Saturday 23 December 2017.

Court of Appeal upholds SFC's insider dealing case

Last month the Court of Appeal upheld the decision of the Court of First Instance (CFI) which had ruled in favour of an insider dealing and fraud case brought by the Securities and Futures Commission (SFC) against two solicitors – Betty Young Bik Fung and Eric Lee Kwok Wa – and Lee's two sisters. On 15 January 2016, the CFI found Young, Lee and his sister Patsy Lee Siu Ying had contravened the Securities and Futures Ordinance (SFO) by insider dealing in the shares of Asia Satellite Telecommunications Holdings Ltd and Section 300 of the SFO by engaging in fraud or deception in transactions involving the shares of Taiwan-listed Hsinchu International Bank Company Ltd. The CFI also made restoration orders against Lee's other sister, Stella Lee Siu Fan, under Section 213 of the SFO in respect of the same transactions.

In February 2016, all four defendants appealed against the CFI's decision, but Young withdrew her appeal shortly before the September 2017 hearing in the Court of Appeal. The trio argued that Section 300 was not applicable to their conduct in relation to the Hsinchu Bank shares because, among other reasons, the Hong Kong courts have no jurisdiction over trading activities carried out on the Taiwanese Stock Exchange. The Court of Appeal disagreed and held that Hong Kong courts had jurisdiction to hear this case because a substantial measure of activities constituting the contravention took place in Hong Kong.

More information is available on the SFC website: www.sfc.hk.

SFC fully implements Manager-In-Charge regime

The Securities and Futures Commission (SFC) has fully implemented its Manager-In-Charge (MIC) regime – designed to heighten the accountability of the senior management of firms licensed by the SFC – following a six-month transition period which ended on 16 October 2017.

The SFC introduced the MIC regime on 16 December 2016. During the transition period, about 10,000 individuals were appointed by licensed corporations as MICs responsible for managing important functions. Under the regime, MICs of overall management oversight and key business line functions are expected to be responsible officers (ROs). The vast majority of these MICs are already ROs. At present, the SFC is handling RO applications from about 500 MICs of these two core functions.

On 16 October 2017, the Hong Kong Monetary Authority (HKMA) issued a circular requiring registered institutions (RIs) (authorised institutions under the Banking Ordinance which are registered with the SFC to conduct regulated activities) to submit their up-to-date management structure information and organisational charts via email to both the HKMA and the SFC. To allow sufficient time for preparatory work, RIs are expected to report the required information starting from Friday 16 March 2018 and not later than Monday 16 April 2018.

More information is available on the SFC website: www.sfc.hk.

Fintech Supervisory Chatroom

The Hong Kong Monetary Authority (HKMA) launched its Fintech Supervisory Chatroom last month. The Chatroom is a new feature of the Fintech Supervisory Sandbox 2.0. It seeks to provide supervisory feedback to authorised institutions and technology firms at an early stage when new technology applications are being contemplated, thereby reducing abortive work and expediting the rollout of new technology applications. Firms may access the Chatroom through emails, video conferences or face-to-face meetings with the HKMA.

More information is available on the HKMA website: www.hkma.gov.hk.

Corporate Governance Code changes

The consultations launched by the Stock Exchange of Hong Kong Ltd (the Exchange), a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Ltd (HKEX), proposing, among other things, changes to Hong Kong's Corporate Governance Code, close this month. The consultations sought public views and comments on:

1. proposed changes to the Corporate Governance Code (the Code) and Corporate Governance Report, as well as related amendments to its listing rules, and

2. proposed changes to documentary requirements relating to listed issuers and other minor listing rule amendments.

Review of the Code and related listing rules

Independent directors

The Exchange proposes to revise a Code Provision to require issuers to explain why they consider proposed independent non-executive directors (INEDs) holding a seventh (or more) directorships can still devote sufficient time for the new appointment, and issue guidance on factors affecting an INED's time commitments. The Exchange also proposes to revise a Code Provision to require the disclosure of the process used for identifying the proposed INED, as well as the selection process for the proposed INED and reasons for nomination.

In addition, the Exchange proposes to:

i. revise the relevant listing rule to extend the cooling off periods of former professional advisors and individuals with material interests in the issuer's business activities

ii. introduce a new note to the relevant listing rule to encourage inclusion of an INED's immediate family members in the assessment of the director's independence

iii. introduce a new Recommended Best Practice to encourage disclosure of INEDs' cross-directorships or significant links with other directors, and

iv. revise the relevant Code Provision to recommend INEDs meet with the chairman in the absence of other directors at least annually.

Board diversity

The Exchange proposes to upgrade a current Code Provision on board diversity policy to a listing rule requiring the issuer to have a board diversity policy and to disclose the policy or provide a summary, and issue guidance on the factors to be included in the board diversity policy. The Exchange also proposes to revise a Code Provision to require the disclosure of how a proposed INED may contribute to the board in terms of perspectives, skills and experience and also to board diversity.

Other changes

The listing rules require listed issuers to submit documents to the Exchange from time to time. The Exchange proposes to simplify and streamline the administrative procedures involved in the submission and collection of documents to enhance procedural efficiency. The consultation paper also sets out other proposed minor listing rule amendments and a number of housekeeping listing rule amendments that involve no change in policy direction.

More information is available on the HKEX website: www.hkex.com.hk.

Companies Registry update

The Companies Registry (CR) has launched five new e-forms for its 'CR eFiling' mobile app. Registered users of the e-Registry can now submit Annual Returns (Form NAR1) and four other e-forms relating to changes of company particulars (Forms ND5, ND7, ND8 and NSC1) via the 'CR eFiling' app using smartphones and mobile devices.

More information is available on the CR website: www.cr.gov.hk.


go Big


or
go home