

Corporate governance matters



Photo: Colin Beere

Dear members,

The stock exchange has been busy over the past several years, creating tools to improve our markets and to reflect our flourishing culture of corporate governance.

Right now market participants are hotly debating the blackout period proposed a year ago and embraced by the Securities and Futures Commission. The stock exchange has also proposed that listed companies shorten their reporting periods in the year 2010 and it is continuing to suggest that these companies adopt some form of quarterly reporting.

Each of these measures is intended to fix perceived shortcomings in the way our capital markets operate. Extending the blackout period, for example, is aimed at curtailing insider dealing by limiting the time directors have access to proprietary information that could be used to advantage in trading company shares in Hong Kong.

Many directors of listed companies have been opposing the proposal, saying it is unfair to them.

As a regulator, the exchange is working with the market – it has

nothing to gain by punishing the companies or the executives of those companies listed with it. It is the same for the SFC as it champions the move. Boosting the market is also the motive behind the shortened reporting period scheduled for 2010 and for quarterly reporting. We can agree to disagree whether these tools taken individually will achieve what they are intended to achieve, but we must agree that the motive is sound.

We need better tools to make our markets more attractive to a broader range of investors, which in turn of course lowers the cost of capital for companies and improves returns – something that is good for companies, their executives and investors. Companies who think the blackout period is too long can choose to invest in people and technology to gather the data to report more quickly to shorten their reporting periods. By doing so, the blackout period can be as short as they wish.

Hong Kong regulators – including the Institute – have shown their willingness to find practical rules that don't strangle the market while at the same time, these regulators are serious about the ideals of good corporate

governance. We are looking to create a balanced toolbox to make a well-run market for Hong Kong while keeping the business friendly environment for which we are known.

The exchange, the SFC and the Institute are committed to making our market a quality market and a fair one.

We look forward to the outcome of the debate on all of these mechanisms.

Each regulator must do its part to improve our market's machinery. To that end, we announced in January the consultation period, concluding at the end of this month, for the change in the way we award practising certificates. We have already seen some public debate and have received some comments, but we need as many views as possible on what we on council regard as a balanced set of proposals that will retain and modernize the quality of our auditing profession.

Your comments matter. Please take the time to send them to us.

A handwritten signature in black ink, reading "Paul F. Winkelmann". The signature is written in a cursive, flowing style.

Paul F. Winkelmann
President