

**Statement by Richard Williams,
Head of Listing, Hong Kong Exchanges and Clearing Limited
To the Legislative Council Panel on Financial Affairs**

Mr Chairman, Honourable Members of the Panel, Ladies and Gentlemen, the first and most significant project for me to comment on is the finalisation and implementation of the proposed Corporate Governance Rule changes that the Stock Exchange consulted upon last year.

This is a major undertaking and one to which the Executive and Listing Committee have devoted significant effort. The direction of this work was set out in the Conclusions Report published in January this year. Since then the scope of the undertaking has been modified and expanded in several dimensions.

First, the transformation of the policy outline into draft Rules gave rise to a number of issues, some complex, as the detail of each draft Rule was considered. Further legal advice and analysis was necessary in many cases and further policy directions were sought from the Listing Committee.

Second, in conjunction with the SFC (Securities and Futures Commission), we decided to completely overhaul the chapters of the Main Board Rules that deal with notifiable and connected transactions.

These chapters are more frequently referred to than other parts of the Rules. In our view it is important that these Rules are drafted so as to be accessible and user-friendly to a wider audience than professional compliance experts.

Where possible we aim to express the Rules in simple terms. Whilst simplicity is easy to espouse it is harder to achieve in practice. It would be na-ve to imagine that all parts of these Rules will be free from complexity, since some of the complexities are an unavoidable consequence of regulating complex and diverse activities.

Third, corporate governance standards in other markets have moved forward and we have considered the impact of those developments on standards in Hong Kong. For example, the UK Combined Code which has existed in a more substantive state than its Hong Kong equivalent for a number of years was revised in July this year. I will make further comments on this topic in a moment.

Fourth, the Listing Committee was re-constituted in May 2003. In some areas of policy and in light of new developments, the Committee has reconsidered the consultation conclusions published in January. It would be premature for me to comment on these areas of policy until

the Commission has had the opportunity to fully consider these matters and reach its own conclusions.

We have made substantial progress through the year and I think it is appropriate for me to briefly comment on the extent and scope of activities which have contributed to the very thoughtful and careful progress of this project.

A new system of Quarterly Policy Meetings has been introduced to encourage maximum participation by Committee members in deliberations on matters of policy. This approach reinforces the process disciplines applied in developing listing rule policy and helps to ensure that thorough, careful and thoughtful consideration is given to the complex issues put before the Listing Committee.

In total the Listing Committee has held six lengthy policy meetings at which policy directions were given. At each of these meetings issues relating to the proposed Rule amendments on corporate governance issues were considered. For each meeting, Listing Committee members were provided with detailed and voluminous reports. They ranged from between 175 pages to 550 pages. Four meetings of a sub-committee of the Committee were held to consider draft materials.

On the Code on Corporate Governance Practices we set up a working group to express views on the practical aspects of the draft Code provisions having regard to Hong Kong's own circumstances. Membership of the working group was widely drawn to ensure a broad representation of views. Two meetings of the working group were held and a number of drafts of the Code were circulated for comment.

In drafting the Code extensive reference was made to the revised UK Combined Code and to the proposals set out in the consultation paper issued by the Standing Committee on Company Law Reform in June 2003. We consider that the draft Code holds up well to international comparison and is a worthy benchmark to which listed issuers in Hong Kong should aspire.

That said the draft Code represents a significant enhancement of the existing Code of Best Practice. These enhancements will, in many cases, have a material impact on the disclosures and corporate governance practices of listed issuers. In the light of this, the Listing Committee considers that the views of the market should be sought on the proposed phased implementation of the Code and to ensure that the language adopted in the Code is clear, concise and free from ambiguity. The Executive is drafting a short paper to accompany the exposure of the Code. We aim to publish the draft Code by the end of the year.

The policy directions of the Listing Committee have been reflected in draft Rules. Given the volume of material involved and out of a desire to ensure that the final version of the Rules properly reflects the intended policy, the Listing Committee has requested the draft Rules should be reviewed on a confidential basis by a small number of external parties. Such a confidential review is now underway and should be complete later this month. We aim to

seek the Listing Committee's approval of the Rules in December.

The further policy issues arising from the proposed Rule amendments will then need to be considered for final approval by the Commission before they can be released to the market. The Exchange expects the new Rules to be promulgated in Quarter One, 2004. At that stage, the Exchange will organise a series of education and training events including presentations to help proper dissemination and comprehension of the revised standards. We will work alongside other organisations such as the Hong Kong Institute of Directors and the Hong Kong Institute of Company Secretaries to promote a practical understanding of our Rules, the Code and corporate governance in general as well as enhancing the training available for directors of listed companies.

As I am sure you will recognise there has been a considerable amount of thoughtful and careful input in the process from all parties concerned - Listing Committee members, market participants, the SFC on policy input and, not least, our executives. In particular we are extremely grateful to Listing Committee members for their valuable input and are confident that the policy directions given by the Listing Committee are a step in the right direction.

An update on other projects in hand is incorporated within the Bureau's briefing note so I will limit my final remarks to the joint Exchange and SFC project in relation to proposals to reinforce the regulatory regime for sponsors, underwriters and independent financial advisers.

The consultation period ended on 31 July and drew 129 responses. We have analysed the responses received, some of which were lengthy. Further discussions have been held with some respondents to clarify aspects of their submissions and to seek further comments on aspects of the proposals on which commentary was not provided in their initial submissions.

The Exchange and the SFC also invited views and suggestions on viable alternatives to our proposals. Whilst the proposals have drawn a strong adverse response from some market practitioners, they also drew suggestions for alternative solutions and we are grateful to those respondents for their constructive approach to addressing the very real concerns identified in the consultation paper and discussed by Honourable Panel Members in November last year.

The Exchange and the SFC are now in the process of considering how to proceed in the light of the responses. Certain of the proposals and responses to those proposals have highlighted complex issues which will require further careful consideration by the Exchange and the SFC before proposals are put to the Listing Committee for consideration. We aim to do this in December 2003. However, as some of these proposals involve complex issues and it will take time to study them and develop balanced solutions this timetable may prove ambitious and it would certainly be premature for me to give a definite timetable to final implementation at this stage.

In conclusion the Exchange remains fully committed to the initiatives in the Corporate Governance Action Plan and we look forward to a continuing dialogue with the market and working with the market to overcome the challenge of putting Hong Kong's listing regulations on a par with global standards.

Thank you.

Hong Kong Exchanges and Clearing Limited
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