

# Corporate Governance Report

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## Corporate Governance Practices

The missions of the Corporation are to promote:

- stability of the banking sector
- wider home ownership
- development of the local debt market

The Corporation operates on prudent commercial principles and is committed to ensuring a high standard of corporate governance to improve the overall accountability, transparency and long-term sustainability of its operations. The Corporation's corporate governance practices are set out in the "Corporate Governance Code" (the **Code**) approved by the Board. The Code is premised on the principles of fairness, transparency, accountability and responsibility to all stakeholders and has been issued to the shareholders, Directors and staff members. The Code is also available on the Corporation's website and accessible to the public.

Monitoring of compliance with the Code starts with self-assessment by each department. An annual compliance report will then be submitted for review by the Board. The Board is empowered to require that appropriate action be taken in relation to any non-compliance. The Chief Internal Auditor, based on the audit findings on the Corporation's internal control systems and the Control Self-assessment Forms for 2013, was of the opinion that there was no material breach of the Code in 2013.

## Enhancements to the Corporate Governance Code

Maintaining a robust and sensible framework of corporate governance for the effective and prudent management of the Corporation is always a top corporate priority. To ensure that the Corporation's corporate governance practices commensurate with the best standards, the Corporation will review the Code from time to time and will take on board any relevant development in the corporate governance practices.

## Shareholders

All the shares of the Corporation are beneficially owned by the Financial Secretary of Hong Kong as Controller of the Exchange Fund.

## The Board

The Board is responsible for leading the Corporation and promoting its success in an accountable and effective manner. To provide strategic leadership and effective control of the Corporation, the Board meets in person at least four times a year to oversee the Corporation's business strategy and policies, budgeting and planning, organisational and financial performance, risk management, human resources as well as community relations. In order to ensure that well-balanced decisions are made by the Board, the composition of the Board includes officials from the Government, representatives from political parties, banking sector, insurance sector, relevant industry associations, the accounting and legal professions, and also the Consumer Council. Directors are encouraged to attend meetings to ensure that issues are properly discussed.

The Code also requires that Directors are provided with appropriate information before such Board meetings to enable them to be updated on the affairs of the Corporation and make informed decisions at the meetings. During the year under review, four Board meetings were held.

Directors are requested, under the Code, to declare their direct or indirect interests, if any, in any transactions to be considered at Board meetings and to withdraw from the meetings, as appropriate. Any Director who may have a conflict of interest in a matter to be considered by the Board will abstain from voting on such matter. In respect of each financial reporting period, the Corporation will seek confirmation from the Directors in respect of their material interests in transactions involving the Corporation or its subsidiaries. Material related party transactions between the Corporation and its counterparties will be identified and disclosed in the notes to the financial statements every year in accordance with the Hong Kong Financial Reporting Standards.

As at 31 December 2013, there were 18 Directors, all of whom were duly appointed by the Financial Secretary in his capacity as shareholder of the Corporation. Information about the Directors is set out in the Report of the Directors published in the Annual Report and on the Corporation's website ([www.hkmc.com.hk](http://www.hkmc.com.hk)). All Directors, other than the four Executive Directors, are non-executive and are not actively involved in the day-to-day management of the Corporation. Non-Executive Directors, however, do play an important role in bringing their independent judgment, considerable knowledge and diverse expertise to the Board's deliberations, which in turn provide effective steer to Management in pursuit of the Corporation's policies. The Corporation does not remunerate its Directors.

For newly appointed Directors, the Corporation will provide an induction briefing on the business activities, strategies and objectives of the Corporation.

The term of a Non-Executive Director is one year, and Non-Executive Directors are typically appointed at an Annual General Meeting. Under the Articles of Association of the Corporation, all Non-Executive Directors will retire at the next Annual General Meeting following their appointment but are eligible for re-election.

The Corporation maintains a directors' and officers' liability insurance policy for its Directors and officers against legal proceedings and other claims arising in the course of discharge of their duties.

### Chairman and Chief Executive Officer

During 2013, Mr John C. Tsang was the Chairman and Mr Raymond Li Ling Cheung was the Chief Executive Officer. The roles of Chairman and Chief Executive Officer were separate and not performed by the same individual, which ensured a clear division of responsibilities between the Board and the executive functions of the Corporation's Management. The Board is responsible for laying down strategic direction and business guidelines, approving financial objectives and closely monitoring the Corporation's performance on an on-going basis. The Chief Executive Officer, who is accountable to the Board, is responsible for leading Management in implementing the

Board's decisions in a proper and efficient manner. The Chief Executive Officer also ensures that adequate information relating to the Corporation's business is reported to the Board on a regular basis.

### Company Secretary

The Company Secretary is accountable to the Board and her main duty is to ensure that all company secretarial procedures are followed by the Corporation and the Board. In addition, the Company Secretary also ensures that Board papers are provided to Directors in a timely and comprehensive manner prior to each Board meeting. Directors have free access to the advice and services of the Company Secretary concerning corporate governance matters, and the Company Secretary provides guidance to Directors for making appropriate declarations to avoid conflicts of interest.

The schedule for 2013 Board meetings was provided to Directors in advance to facilitate Directors' attendance at Board meetings. The Code requires that Board papers should generally be sent to Directors at least seven days before the relevant Board meeting so that Directors could be properly briefed before the Board meeting. Board papers typically contain comprehensive background and/or explanatory information about the subject matters and include supporting documents, analyses, research findings, projections, budgets and forecasts, where appropriate. However, any Director adjudged to have a conflict of interest in the subject matter with respect to an agenda item for the Board meeting will not be provided with the relevant Board paper.

All the minutes of Board meetings and Audit Committee meetings are generally taken in sufficient detail, including the matters considered, decisions reached, concerns raised by Directors and dissenting views expressed at the meetings. All minutes of Board meetings and Audit Committee meetings are kept by the Company Secretary and made available for inspection by any Director, except as regards any materials with respect to an agenda item in which that Director is perceived to have a conflict of interest, in such case, the relevant papers and minutes would be withheld from such Director.



*Audit Committee Meeting*

## **Audit Committee**

During the year under review, the Audit Committee comprised the following members:

- Dr David Li, Non-Executive Director (Chairman of the Audit Committee)
- Mr Peter Pang, Executive Director
- Mr Eddie Yue, Executive Director
- Mr Eddy Fong, Non-Executive Director
- Mr Andrew Leung, Non-Executive Director
- Mr Abraham Shek, Non-Executive Director

The Audit Committee is responsible for reviewing the Corporation's financial statements, the composition and accounting principles adopted in such statements, the results of the financial audits and the Corporation's management procedures to ensure the adequacy and effectiveness of internal control systems. The Terms of Reference of the Audit Committee are published on the Corporation's website.

The Audit Committee holds regular meetings with Management, the Chief Internal Auditor and external auditor. The Audit Committee also meets on an ad hoc basis to consider special issues requiring its attention. The Chairman of the Audit Committee summarises the reviews conducted by the Audit Committee and highlights the major issues in a report for submission to the Board for Directors' consideration. In 2013, the Audit Committee held two meetings.

## **Internal Auditor**

The Corporation has an Internal Audit Department which operates independently of Management and plays a major role in monitoring the internal control systems of the Corporation. The Internal Audit Department is led by the Chief Internal Auditor who reports directly to the Chairman of the Audit Committee on all matters relating to the internal control systems. The Chief Internal Auditor also reports to the Chief Executive Officer on the day-to-day administrative functions of the Internal Audit Department, and has authority to communicate directly with the Chairman of the Audit Committee without reference to Management.

Each year, the Audit Committee formally approves the annual Internal Audit Plan drawn up by the Chief Internal Auditor based on his independent risk assessment and other risk management issues observed by him at the regular Operational Risk Committee and Corporate Risk Management Committee meetings. In accordance with the annual Internal Audit Plan, the Internal Audit Department adopts a risk-based audit approach in conducting its periodic independent reviews of the Corporation's internal control systems. After each review, the Internal Audit Department discusses the audit findings and recommendations with the relevant department heads, Senior Management and Executive Directors. Internal audit reports are submitted to the Audit Committee for review and, thereafter, to the Board for information.

Over the years, Management has adopted an active approach in considering the audit findings and recommendations made by the Chief Internal Auditor and closely monitored their due implementations. In 2013, the Internal Audit Department conducted 14 reviews and two consultancy projects.

### External Auditor

The Corporation's external auditor is PricewaterhouseCoopers. Detailed information in respect of the auditor's remuneration is disclosed in the Corporation's financial statements. The auditor is allowed to communicate freely with the Audit Committee and the Chief Internal Auditor. To ensure its independence with respect to the Corporation, the auditor would issue a letter, on an annual basis, to the Audit Committee to confirm its independence based on the requirements set out in Section 290 of the Code of Ethics for Professional Accountants of the Hong Kong Institute of Certified Public Accountants. For the purpose of the audit of the Corporation's financial statements for the year ended 31 December 2013, PricewaterhouseCoopers has confirmed its independence to the Audit Committee.

### Financial Reporting

The Corporation aims to present a clear, balanced and comprehensible assessment of its performance, financial position and prospects to its stakeholders and the general public. Directors are responsible for the preparation of the financial statements, and there is a statement by the auditor about its reporting responsibilities in the Auditor's Report on the Financial Statements. Directors are to ensure that financial statements are prepared so as to give a true and fair view of the financial status of the Corporation. The annual and interim results of the Corporation are announced in a timely manner after the end of each relevant period.

### Internal Control

The Board has the overall responsibility for the Corporation's internal control systems and, through the Audit Committee, conducts periodic reviews on the effectiveness and efficiency of the systems.

Various committees have been established to ensure the efficient operation and prudent risk management of the Corporation. These include the Corporate Risk Management Committee which is chaired by an Executive Director to oversee the financial and non-financial risks of the Corporation from an enterprise-wide perspective; whilst the Operational Risk Committee, the Credit Committee, the Transaction Approval Committee and the Asset and Liability Committee are management committees chaired by the Chief Executive Officer. Detailed description of these four management committees and the risk management framework of the Corporation are set out in the Business Overview section in the Annual Report. The internal control systems are designed to provide reasonable assurance against material misstatement or loss, manage risks of failure in the operational systems and the attainment of business objectives, safeguard assets against unauthorised use, ensure the maintenance of proper accounting records for internal use and publication and ensure compliance with applicable legislation and regulations.

In February 2014, the Chief Internal Auditor duly conducted an independent review of the Control Self-assessment Forms provided by each Department in relation to compliance with the Code for 2013. Based on the audit findings on the Corporation's internal control systems and the Control Self-assessment Forms for the year, the Chief Internal Auditor was of the opinion that there was no material breach of the Code in 2013.

In view of the increasing complexity of the Corporation's products and developments in the external regulatory environment, Management decided, in 2013, to establish a dedicated Compliance Function within the Legal Office for the better management of the legal, regulatory and compliance risks.

The Compliance Function within Legal Office undertook the planning work for the roll-out of the Corporation's compliance programme. The Compliance Function also worked with the General Counsel to prepare the key compliance documentation to put in place a framework for the operation of the Compliance Function. Such compliance documentation include a compliance policy setting out the general principles governing the organisation of the Compliance Function as well as a compliance manual incorporating internal rules on matters such as, amongst others, conflicts of interests, privacy and competition. The Compliance Function's support services would be rolled-out in phases and elements of the training programme would be rolled out first in early 2014. Over the course of 2014 and early 2015, the Compliance Function would work closely with the relevant departments to update and, where necessary, expand their internal procedures and rules to cover key areas of compliance risks.

## Code of Conduct

The Corporation requires the highest standards of integrity and conduct from its staff members. The requirements and the relevant legal obligations are clearly set out in a code of conduct (**Code of Conduct**) incorporated into the Staff Handbook. The Code of Conduct also sets out, in particular, provisions as regards potential conflicts of interest which may arise between staff members and the Corporation in respect of which staff members should be aware, and other provisions designed to ensure that they carry out their work properly, ethically, impartially and free from suggestion of improper influence.

A copy of the Code of Conduct is made available on the Corporation's intranet to all staff members.

Staff members are required to give written confirmation of their compliance with the Code of Conduct on an annual basis. Based on the confirmation received from the staff members, Management was satisfied that staff members have complied with the Code of Conduct in 2013.

## Communication

The Corporation attaches great importance to communications with the public at large. The Annual Report of the Corporation contains comprehensive information on its business strategies and developments. The Corporation's website ([www.hkmc.com.hk](http://www.hkmc.com.hk)) offers timely access to the Corporation's press releases and its other business information. The Corporation also maintains a hotline telephone system to service enquiries from the public.

## Corporate Social Responsibility

The Corporation is committed to fulfil its responsibilities to its staff members and its corporate social responsibility (**CSR**). In recognition of the Corporation's contribution to the community and its commitment to corporate social responsibility in the past years, the Corporation has been awarded the Caring Organisation Logo by the Hong Kong Council of Social Service since 2008 and has now stepped into the sixth year of CSR participation. In 2013, the Corporation joined the Government's Web Accessibility Campaign with a view to providing access support for people with disabilities such as blindness and deafness to the Corporation's public website. The project was scheduled for completion in early 2014.

## Conclusion

The Board was satisfied with the corporate governance practices of the Corporation during 2013. In 2014, the Corporation will continue to review its corporate governance framework and improve those practices in light of ongoing experience, regulatory changes, international trends and developments in order to enhance the Corporation's efficiency and effective management in pursuit of its business objectives.