

## **From Conformance to Performance: Governance as a Driver for Long-term Listing Market Growth**

### **Keynote speech at The 2nd Hong Kong Capital Markets Forum 2025**

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#### **Overview of Hong Kong's listing market and its regulation in 2024**

Honourable guests, ladies and gentlemen, good morning.

Despite facing multiple challenges, 2024 proved to be rewarding and fruitful for Hong Kong's capital markets, which made significant strides across various fronts.

Our broad and deep listing market continued to develop in a healthy, resilient, and sustainable manner. The Securities and Futures Commission (SFC) undertook tremendous efforts to facilitate vibrant market growth in collaboration with the China Securities Regulatory Commission (CSRC), other regulatory counterparts, and Hong Kong Exchanges and Clearing Limited, while also ensuring effective communication with stakeholders. We are now poised to embrace the new challenges and opportunities that 2025 will bring.

As we begin this new year, I would like to reflect on our achievements from the past year.

First, regarding initial public offerings (IPOs), Hong Kong's market welcomed 71 new listings in 2024, raising a total of HK\$87 billion. This positions us fourth in the global league table for IPO funds raised, up from the sixth place in 2023.

Notably, following the CSRC's announcement of the "Five Measures" to support our city last April, the Hong Kong market witnessed 59 new listings that raised HK\$83 billion by the end of 2024. These figures accounted for over 80% of the total IPOs and more than 90% of the funds raised last year, underscoring Hong Kong's role as a premier fundraising platform for Mainland corporates. We are grateful for the CSRC's continued support.

Second, the SFC and the Stock Exchange of Hong Kong Limited (SEHK) have focused on enhancing market liquidity and efficiency, ensuring that our equity market remains globally competitive. As a result of our concerted efforts, SEHK has announced a two-phase approach to reduce trading spreads for stocks across different price bands by mid-2025 and mid-2026.

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Note: This is the text of the speech as drafted, which may differ from the delivered version.

Third, we launched a regime governing treasury shares in mid-2024, allowing listed companies to better align their share price with their intrinsic value by holding repurchased shares in treasury for future resale. This measure facilitates better communication between listed companies and investors regarding market valuation of company shares. From 11 June to end-December 2024, 80 companies adopted this new regime.

Looking ahead, one of the SFC's priorities is to enhance capital efficiency and lower transaction costs. We are collaborating with SEHK on further improvements to the listing market, including a review of board lot size requirements and existing trading and clearing infrastructure.

### **Focusing on corporate governance (CG) and CG Code Enhancements**

Market integrity, transparency, and resilience are critical to the sustainable development of our listing market, all of which are anchored in strong corporate governance.

Strengthening corporate governance is vital for Hong Kong as an international financial centre (IFC). Jurisdictions with robust governance systems effectively manage risks and protect investors while empowering boards and management teams to drive corporate performance. In today's dynamic and competitive financial markets, only the fittest will thrive, and companies with sound corporate governance will attract investors.

An effective board of directors can navigate economic fluctuations with expertise, integrity, and foresight, acting diligently and honestly for the benefit of the company and its shareholders.

The roles of company secretaries and governance professionals are equally crucial; they inform and advise the board, facilitating its members' duties and engaging with stakeholders.

Audit committees and external auditors serve as strong pillars of corporate governance, safeguarding the integrity of financial reporting and fostering a culture of independence.

In recent years, we have witnessed encouraging progress in Hong Kong's corporate governance. According to the 2023 Hong Kong Spencer Stuart Board Index, constituent companies of the Hang Seng Index (HSI) improved in several governance metrics from 2018 to 2023, including the separation of Chief Executive Officer and Chairman roles, board diversity, director tenures, and board evaluations.

The SFC is committed to elevating the quality of Hong Kong's market and its listed companies by enhancing corporate governance. This will increase the market's appeal to global investors and drive market multiple re-rating by reducing the governance discount. If stakeholders remain steadfast in improving the quality of our listed companies and capital markets, as well as promoting good corporate governance, we will undoubtedly see greater returns and satisfaction for shareholders.

The SFC is collaborating with SEHK to raise corporate governance standards through market education, best practices, and regulation. Just before the end of 2024, SEHK concluded its consultation on CG Code enhancements, which will be implemented in phases.

This achievement reflects decades of effort. The Code on Corporate Governance, which began as a set of short, general, and voluntary guidelines for corporate directors in 1993, was renamed in 2004 and adopted the "comply or explain" approach. Over the past two decades, the code has evolved through comprehensive enhancements.

The CG Code enhancements in 2024 aim to improve board effectiveness, strengthen corporate decision-making abilities, and align with heightened global investor expectations regarding governance standards. These improvements aim to foster better financial and stock price performance for listed companies, equip them for new challenges and opportunities in 2025. Multiple stakeholders, including corporates, shareholders and intermediaries, will benefit from these enhancements.

### **Conformance driving performance – aligning with global developments**

To instill confidence in Hong Kong's listed companies, we must continue to strengthen our status as an IFC by ensuring a commensurate level of corporate governance.

Let us look to Japan as an example of how improved corporate governance enhances market performance. The Japanese stock market has performed strongly in recent years, primarily driven by earnings growth resulting from corporate governance reforms in early 2023. The Nikkei Index increased by 19% to a record high in 2024 and gained over 60% in the past five years.

A survey by the Asian Corporate Governance Association (ACGA) revealed that Japan's corporate governance ranking surged from fifth in 2020 to second in 2023, marking the most significant change in over two decades.

This shift occurred in the context of the government's CG Action Program launched in 2023, alongside efforts by the Tokyo Stock Exchange to enhance shareholder value and improve gender diversity. As a result, Japanese listed companies have demonstrated improvements in governance, leading investors to engage more actively and make shareholder proposals. Additionally, more companies are increasing shareholder returns through buybacks and dividends.

Globally, corporate governance initiatives are gaining momentum. Mainland China and South Korea have introduced measures to enhance listed companies' capital efficiency and encourage disclosures regarding corporate value and investor returns. Singapore implemented tenure limits for independent directors in 2023.

Beyond Asia, the UK has strengthened requirements for directors to report on board decisions and their outcomes concerning the company's strategy and internal control environment. These measures have increased the accountability of boards of directors.

### **Conformance driving performance – how CG facilitates corporate growth**

At the corporate level, strong corporate governance underpins effective risk management and strategic decision-making, leading to long-term sustainable growth. It also helps prevent false accounting, fraud, mismanagement, and conflicts of interest, which are vital for regulatory compliance and financial performance.

Moreover, good governance practices promote the timely disclosure of accurate and complete operational and financial information, reducing information asymmetry—crucial for earning investors' trust. High transparency levels are essential for attracting capital and enhancing the liquidity and valuation of individual stocks.

According to the December 2023 CG Watch report by ACGA and CLSA, Asian companies with higher corporate governance scores generally deliver better shareholder returns. The top 20% of companies with high scores recorded five-year annualised stock returns of nearly 10%, outperforming the bottom 20% by 6 percentage points.

### **Poor governance outcomes and cases of internal control deficiencies**

Conversely, poor governance often leads to negative outcomes, necessitating regulatory intervention and sometimes resulting in significant shareholder losses. Cases of corporate misconduct reported to the SFC often stem from lax internal controls and directors' failures to fulfill their duties.

For instance, the SFC's recent report on the Review of the Exchange's Performance in Its Regulation of Listing Matters, published in December, indicated that in 2022 and 2023, SEHK identified nearly 400 instances of listed issuers failing to comply with the Listing Rules regarding timely disclosure of material information. Most of these failures were linked to announcements, circulars, and shareholder approval requirements for notifiable or connected transactions.

Additionally, from 2020 to June 2024, approximately 170 cases involving various conduct issues, including unauthorised loan or fund transfers and misappropriation of company assets, were referred to the SFC for investigation. Many of these cases involved loan transactions that were subsequently impaired, leading to substantial shareholder losses.

The SFC firmly believes that regulation and development are complementary. Effective corporate governance can prevent misconduct. To protect Hong Kong's reputation as a listing hub, all listed companies must work together to develop and effectively implement sound corporate governance frameworks, minimising incidents of non-compliance and misconduct.

### **Conclusion: Aspirations for the New Year**

In conclusion, I want to emphasise that corporate governance and market development measures complement one another. These development measures focus on liquidity, connectivity, innovation, and ESG.

Enhancing corporate governance to support market integrity relies on our collective effort, including regulators, corporate directors, governance professionals and auditors, to create a healthy and vibrant financial market ecosystem.

As the regulator, the SFC is ready to partner with all of you to foster better governance in Hong Kong, strengthening the city's IFC status and preparing for the new challenges and opportunities that 2025 will bring.



Finally, as the Chinese New Year approaches, I wish you all an "Exuberant and Prosperous Year of the Golden Snake!"