The Hong Kong Institute of Directors
Annual Dinner cum Presentation of Directors of the Year Awards 2009
Keynote Address

Dr Eddy Fong
Chairman

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Chairman Mr Kelvin Wong, Dr Carlye Tsui, Distinguished Guests, Ladies and Gentlemen.

It is my honour and pleasure to be a guest at the annual dinner of the Hong Kong Institute Directors. I am delighted to see such a distinguished list of awardees who will be receiving their well-deserved honours when the prestigious Directors of the Year Awards are presented this evening. My congratulations to all of you!

The world one year on

As the year draws to a close, it is a good time to reflect on the achievements of 2009, and plan for the challenges in the year ahead. On 24 November 2008, a year ago today, the HSI stood at 12,458. Today the index closed at 22,423, which represents an increase of 80%. The index fell to a low of 11,016 on 27 October 2008, shortly after the failure of Lehman. Many markets around the world had a similar roller-coaster experience. The market's rebound has been stunning, surprising both optimists and pessimists.

You may remember that a year ago, the mood was pretty much doom and gloom. Major financial markets had seized up, resulting in massive deleveraging and a credit crunch. In early November last year, the IMF expected the global economic downturn to be much deeper and prolonged than it had originally anticipated.

Today, the mood is much more upbeat and optimistic. The US has returned to growth in the third quarter, after the longest period of economic contraction since the Great Depression. Stock markets in Brazil, Turkey, South Africa, and South Korea had a fantastic rally, and returns in dollar terms have been even higher, particularly as the dollar has depreciated.

Emerging markets and Asia withstood the tsunami relatively well. Asia emerged much stronger after the Asian Financial Crisis. So far this year, emerging market equity funds received a net inflow of US$64 billion[1]. However, there are growing concerns of asset bubbles forming in emerging markets, and of the impact when these capital flows reverse and leave. There are also doubts on the sustainability of the current recovery. It is clear that some uncertainty remains. Optimism is to be welcomed, but it is equally important to be prudent and moderate.

[1] Source: EPFR Global in Financial Times, 11 November, Feeble dollar amplifies emerging market returns

The road ahead

The world has turned the corner, but the road ahead is long and may be a bit tortuous, with a few bumps along the way. The crisis has clearly demonstrated how interdependent and interconnected the world is today. There is a need for collective thinking and collective action on how we can strengthen the resilience of the financial system. The international community, led by the G20 leaders, are busy hammering out the greatest financial reform since the Second World War.

There are calls for more regulations on hedge funds, short selling and credit rating agencies. Another initiative relates to standardised OTC derivative contracts, which are required to be traded on exchanges or electronic trading platforms, where appropriate, and cleared through central counterparties. The G20 Leaders also endorsed the Principles for Sound Compensation Practices developed by the Financial Stability Board (FSB). Members of the FSB, which includes Hong Kong, have agreed to strengthen adherence to prudential regulatory and supervisory standards, through a process of peer reviews, and cooperation and information sharing among members.

In Hong Kong, we will continue to monitor the development of regulatory issues under G20. The local lesson has brought to light the need for better regulation of the sale of unlisted structured products. Many other jurisdictions are also facing similar challenges. To improve regulation in this area, the SFC is consulting the market on various proposals to enhance investor protection. The establishment of the proposed Financial Ombudsman and the Investor Education Council would also be good for investors.

As the guardian of shareholders, the task for directors is to regain credibility, and the trust of investors. Directors need to strengthen risk management. Suggestions include appointing a special risk officer or a chief risk officer who reports directly to the board of directors, and the establishment of a risk committee. Risk management has to be more forward looking, which might include scenario analysis and stress tests, instead of the backward looking approach of audit committees.

There are also calls for shareholders to take greater ownership and responsibility for the well-being of their corporations. Shareholders were also caught up in chasing short-term gains, and did not question the compensation and bonuses awarded. Investors also must seek to understand the risks of their investments and satisfy themselves that they know what the risks are, and are able and willing to take on the risks for a given level of return. Investors need to appreciate this principle of investment and practice it, just as the financial system must "go back to basics" and provide useful products and services that best serve the needs of their customers.

Around the world, there is a clear call for better governance and regulations, and everybody has a stake and role in this: regulators, policymakers, market intermediaries, market practitioners and professionals, directors, shareholders, investors, and the general public. To ensure the success of any financial market, all stakeholders need to be in a partnership. No single party can do it alone. As champions of leading corporates, you have an important role to play and we look forward to your share of contributions.

Concluding remarks

On this note, it is time for me to conclude my remarks. Once again, congratulations to the winners and wish you all a very pleasant evening!