



November 28, 2014

The Hon C Y Leung, GBM, GBS, JP
Chief Executive
Hong Kong Special Administrative Region of the
People's Republic of China
Chief Executive's Office
Tamar, Hong Kong

By email ceo@ceo.gov.hk and post

Dear Mr. Leung,

I had the pleasure of hearing you speak at the recent Amcham Thanksgiving luncheon in your honor on Friday, November 21, 2014. The ongoing, positive relationship between the Hong Kong Government and AmCham is a credit to your administration.

If I may, I would like to take the liberty of following up on the points I made on corporate governance during the lunch conversation. If you recall, I mentioned that I was Chairman of AmCham during the historic 1997 year. While our first memories of that year are of the ceremonies surrounding the Handover, the same month marked the beginning of the Asian Financial Crisis, which many economists now recognize was in large part a failure of corporate governance. At that time, for example, there were no requirements in Asia for listed companies to have standards as basic as independent directors and audit committees.

You mentioned in your introductory comments at our luncheon that Hong Kong aspired not only to be a regional financial center, but a global one as well. Following on that theme, and endorsing fully such a vision, we discussed the need for Hong Kong to embrace world standards of corporate governance and not be satisfied with being only among the best in Asia. Unfortunately, no Asian economy can be graded today at better than a "C" on a scale of global corporate governance best practice, with many well below that level.

With this in mind, I made three specific suggestions:

1. We would encourage the Hong Kong Government to elucidate clearly its long-term strategy for enhancing corporate governance in Hong Kong's capital market and strengthening investor trust. Many countries in Asia have developed "corporate governance blueprints", or are in the process of doing so, and Hong Kong's lack of such a policy is glaring. Further, and consistent with the aforementioned aspiration for a global standard, we



recommend this new policy be one of a world-class standard. (In 2003, the Corporate Governance Action Plan initiated by the Hong Kong Government led to the implementation of the Hong Kong Corporate Governance Code in 2005. We would welcome renewed interest and initiative by the Government in this area.)

2. Hong Kong shares with only India and the Philippines an absence of a truly independent oversight body for public-company auditors, one that has the authority to sanction both firms and individual auditors guilty of lax practices or outright wrongdoing. Hong Kong's current oversight regime is inadequate because inspection and sanctioning powers still lie with the accounting industry institute itself, and the latter body lacks sufficient authority and independence. We are aware that the Financial Services and The Treasury Bureau has recently conducted a public consultation on this issue, and we urge you to pursue an independent audit regulatory regime for Hong Kong as a priority.

3. Finally, the Hong Kong Exchange has issued a concept paper proposing that Hong Kong adopt a policy allowing shares to be listed with "weighted voting rights" (more commonly called dual-class shares). There are few acts that could be more damaging to the Hong Kong market than to allow such listings -- it directly contradicts the world-class standards that Hong Kong aspires to achieve; and in exchange for a short-term, one-off gain, such listings would permanently weaken the stock market's credibility. (As I mentioned, estimates are that investors would over time discount the entire market by around 13%—as happens in other markets such as Korea—were such poor strategies to be adopted.)

There are myriad other points related to the third point above. Rather than write about all of them, I am attaching a letter from the Asian Corporate Governance Association to HKEx that outlines the major reasons to reject such a proposal.

Thank you for the opportunity to present such a specific issue.

Sincerely yours,

A handwritten signature in blue ink, appearing to read 'D. Henck', is written over a horizontal line.

Douglas C. Henck
1997 Past Chairman, American Chamber of Commerce in Hong Kong

Chairman and CEO, AEGON Asia, Hong Kong
Chairman, Asian Corporate Governance Association, Hong Kong

cc: Peter Levesque, Chairman, American Chamber of Commerce in Hong Kong