



Governance and Management

HKEx's Commitment

As an exchange controller governed by the SFO, HKEx is committed to playing a pivotal role in promoting and enhancing corporate governance in Hong Kong. This is being done by continuously taking steps to bring the local corporate governance regime on a par with the best and most updated international standards and practices so as to ensure fair, transparent and orderly markets for trading securities and futures contracts, as well as Hong Kong's competitiveness as an international financial centre.

As a listed company, HKEx is committed to pursuing the best corporate governance practices by adopting and complying, where appropriate, with the established rules, codes, guidelines and recommendations to safeguard our stakeholders' interests, including to protect and facilitate the exercise of shareholders' rights. HKEx's established corporate governance structure provides a framework to enhance our accountability, transparency, fairness and integrity, and to ensure that an appropriate management structure and effective systems of control are in place.

Recognising our dual responsibilities and the potential conflicts of interest that may arise, a number of conflict management measures  have been undertaken, including, inter alia, the entering into an MOU with the SFC, the addition of Chapter 30 to the Main Board Listing Rules, and the establishment of a Conflict Committee.

This section contains brief information on HKEx's corporate governance principles and practices as a listed company and the 'Marketplace' section includes our efforts in promoting corporate governance in the marketplace. More details are available on the HKEx website  and in the Corporate Governance Report of HKEx's 2010 Annual Report.

Governance Structure



The unitary Board is the highest governance body which bears the ultimate responsibility for HKEx's performance. The composition of the Board, which consists of only 1 executive director, who is also the Chief Executive, and 12 INEDs, including the Chairman, as governed by Article 90 of HKEx's Articles of Association and Section 77 of the SFO, is designed to ensure that there is a proper balance between public and corporate interests, and to avoid concentration of power and control.

A total of 8 advisory committees have been established by the Board to perform specific roles and responsibilities, namely, the Audit Committee, CSR Committee, Executive Committee, Investment Advisory Committee, Nomination Committee, Panel Member Nomination Committee, Remuneration Committee and Risk Management Committee (a statutory committee). In addition, the Senior Management Committee decides on operational matters under authority delegated by the Board.

□ □ "In October 2010, HKEx, in line with the international best practice, commissioned an external consultant to carry out an independent Board Performance Evaluation (BPE) with the aim of assessing whether the Board, the committees and their members have performed their roles effectively and fulfilled their responsibilities, and identify areas for improvement. Moreover, BPE is included in the SEHK's consultation paper on proposed changes to the CG Code and certain Listing Rules relating to corporate governance as a recommended best practice. Our decision to conduct a BPE demonstrates the Board's accountability towards shareholders and our commitment to pursue best corporate governance practices and set an example to other listed companies in Hong Kong."

– MAU Kam Shing, Joseph, Company Secretary and member of the CSR Committee


Responsible Conduct

The Guidelines on Conduct as set out in the Director's Handbook  and the Code of Conduct as set out in the Human Resources Manual  provide guidance on the ethical and legal responsibilities of HKEx's Directors and employees respectively. All Directors are obliged to observe all the relevant requirements of the Main Board Listing Rules and applicable laws and regulations. With regard to the conduct on securities dealings, HKEx has adopted the Model Code and requires all Directors to confirm their compliance with the Model Code throughout each financial year. The Code of Conduct is no less stringent than the Model Code and is periodically updated to reflect the prevailing statutory and regulatory requirements. Any non-compliance with the Code of Conduct may result in summary dismissal. The Human Resources Manual sets out our whistle-blowing policy which aims to facilitate internal reporting of employees' misconduct. No whistle-blowing incidents were reported in 2010.



All HKEx's employees (including the INEDs) are regarded as public servants and are subject to the Prevention of Bribery Ordinance as HKEx is one of the Public Bodies governed by the Ordinance. Seminars on integrity and corruption prevention conducted by the ICAC are organised regularly to ensure that all employees, particularly new joiners, are familiar with the relevant laws and regulatory requirements, and other requirements specific to HKEx as set out in the Code of Conduct. During 2010, 12% of management employees and 12% of non-management employees received training on anti-corruption (as at 31 December 2010, 80% of management employees and 74% of non-management employees had received such training).

The Code of Conduct contains guidelines on personal data protection in compliance with the Personal Data (Privacy) Ordinance. HKEx's Personal Information Collection and Privacy Policy Statement, which upholds the principles of the Personal Data (Privacy) Ordinance, is issued to external parties from whom we collect personal data.

Compliance with the CG Code

A compliance checklist  summarises HKEx's compliance with the provisions under the CG Code and highlights some practices that exceed the CG Code requirements. In 2010, HKEx fully complied with the CG Code, except that the Government Appointed Directors and the Chief Executive in his capacity as a Director are not subject to the election or re-election by shareholders as their appointments are respectively governed by Section 77 of the SFO and HKEx's Articles of Association.

Risk Management



Risk management is an essential part of our corporate governance process. The Risk Management Committee , a statutory committee established by the Board pursuant to the SFO, has the responsibility to oversee the policies on risk management matters relating to HKEx, SEHK and HKFE and their respective clearing houses. The Risk Management Division  is responsible for supervising the risk management functions concerning the cash clearing and derivatives clearing services, as well as enterprise risk management and market surveillance. HKEx has an established Enterprise Risk Management Framework to address risks of varying nature.

The framework comprises processes for the identification, assessment, scoring and management of risks that are embedded into the operations across the organisation, as well as a comprehensive risk governance structure. Risk identification is conducted regularly to reflect possible changes in business objectives and the operating environment. Identified risks will be assessed and scored based on the likelihood of occurrence and severity of the potential impact. Assessment of potential impact is not only from a financial perspective but also from others such as legal/compliance, operational, reputational and strategic. With reference to the risk score, the appropriate risk response will be determined based on predefined risk scoring scales applicable to likelihood and impact assessments by management. Risk governance is underpinned by a comprehensive risk oversight structure that establishes different levels of reporting and escalation procedures commensurate with the risk scores.

More details of HKEx's risk management initiatives in 2010 are available in the Business Review section of HKEx's 2010 Annual Report.

The Internal Audit Department performs assessment of the risks inherent in particular business or functional areas, including fraud or corruption risk, and conducts reviews or audits to provide reasonable assurance that adequate governance and controls are in place to address such risks.

CSR Governance

At HKEx, CSR is overseen by the CSR Committee , which is authorised by the Board to formulate advices on CSR policies, plans and practices and to decide on CSR-related matters. The CSR Committee comprises senior executives from various functions and is chaired by the Chief Executive, who reports HKEx's CSR performance to the Board on a monthly basis and presents CSR issues for consideration at Board meetings where appropriate. A CSR Policy  was established in January 2010 to guide our business and operational decisions to take into account our responsibility to the marketplace, workplace, community and environment. The CSR Working Group, which was also established in January 2010 and comprises CSR Coordinators from each Division and Department within HKEx, is primarily responsible for operating and maintaining the CSRMS and promoting CSR awareness within their respective Divisions or Departments.

CSR Management System

Building on our CSR governance structure, a CSRMS comprising implementation procedures, CSR guidelines and management system documents was developed and adopted during 2010 to further strengthen our management of CSR performance and CSR impacts arising from our business operations. The CSRMS was developed with reference to ISO 26000:2010 Guidance on Social Responsibility and ISO 14001:2004 Environmental Management Systems standard, and comprises a supply chain management system to address the significant social and environmental impacts arising from HKEx's key suppliers. Accordingly, a CSR Manual which defines the CSRMS and provides managerial direction and technical guidance for the implementation of CSR best practices was established and made available on the HKEx Intranet. The CSR Manual will be reviewed and revised by the CSR Working Group where and when necessary to support the on-going development of HKEx's CSR commitment and initiatives in the changing business environment. Specific training on the implementation of the CSRMS was provided to the CSR Working Group and other representatives of each Division and Department.

Supply Chain Management

Based on the location and nature of our business, we acquire the majority of goods and services from suppliers and service providers in Hong Kong except when the goods and services are not available locally, eg, trading and clearing systems developed specifically for exchanges and clearing houses and the related license and maintenance fees. We do not have a policy of preferring locally-based suppliers but our procurement guidelines stipulate that the selection of suppliers should take consideration of, but not limited to, price competitiveness, quality, fulfilment of specifications and logistics services.

During the year, we developed a set of guidelines for SCM which form part of the CSRMS to help address CSR issues in our supply chain more systematically and engage our key suppliers to promote socially responsible behaviour. The guidelines advocate the collection of CSR information from potential suppliers during the tendering process, including environmental specifications for products and services in the tender invitation documents whenever applicable and economically viable, and require our key suppliers to comply with basic CSR requirements according to our Corporate Suppliers Policy Statement and Supplier CSR Code of Conduct where possible and appropriate when doing business with HKEx. A CSR briefing was organised in February 2011 for HKEx's key suppliers to facilitate the implementation of the SCM system.