



Hong Kong Investment Funds Association

1505 Tak Shing House, 20 Des Voeux Road Central, Hong Kong

Tel: (852) 2537 9912 Fax: (852) 2877 8827, 2877 2368

Website: <http://www.hkifa.org.hk> E-mail: hkifa@hkifa.org.hk

F039

November 5, 2007

Corporate Communications Department
Hong Kong Exchanges and Clearing Limited
12th Floor, One International Finance Centre
1 Harbour View Street, Central
Hong Kong

Dear Sir/madam,

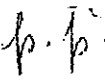
Re: Consultation Paper on Periodic Financial Reporting

On behalf of the Hong Kong Investment Funds Association ("HKIFA" – Note 1), I would like to welcome the HKEx's proposals as outlined in the captioned Paper. However, we do have some reservations re the proposal on quarterly reporting ("QR").

While we fully subscribe to QR's merits as outlined in the Paper, we believe that, on balance, the merits may be outweighed by the demerits. We are in particular concerned that QR may result in companies pursuing short-term performance at the expense of long-term strategies. Pension fund investors and other institutional investors generally encourage value proposition and strategies that emphasis long-term management. We believe having a long-term focus is critical to long-term value creation; and these views are clearly encapsulated in the guiding principles issued by Aspen Institute - Note 2 - which point out that QR is against the principle of long-term management. (I attach the Aspen's principles for your reference.)

We welcome opportunities to discuss the above, and I can be reached on

Yours sincerely,

 Sally Wong
Executive Director

Encl.

Notes

1. The Hong Kong Investment Funds Association is a professional body that represents the investment management industry of Hong Kong. We have 44 fund management companies as members, managing about 1,120 SFC-authorized funds with assets of about US\$721 billion, as at the end of September 2007. We also have 54 affiliate and associate members (www.hkifa.org.hk).
2. The Aspen Institute, founded in 1950, is an international nonprofit organization dedicated to fostering enlightened leadership and open-minded dialogue. (www.aspeninstitute.org).



LONG-TERM VALUE CREATION: GUIDING PRINCIPLES FOR CORPORATIONS AND INVESTORS





LONG-TERM VALUE CREATION: GUIDING PRINCIPLES FOR CORPORATIONS AND INVESTORS

The **Aspen Principles** represent an unprecedented consensus among companies, investors, and corporate governance professionals. In subscribing to these principles, and moving to implement them in their own organizations, subscribers are leading by example and taking a stand that a long-term focus is critical to long-term value creation.

As operating companies and institutional investors, we agree to:

- Work together and with others in the spirit of continuous improvement and ongoing communication, dedicating real resources to identifying and testing best practices for creating long-term value at our own firms;
- Support each other's efforts to promote metrics, communications, and executive compensation that create long-term value; and
- Support each other even in the face of internal and external pressures to compromise on these principles and default to short-term thinking.

We issue these principles as a call to action, and urge adoption of the Principles among other operating companies and investors. We believe the Aspen Principles, broadly adopted, can quite literally transform our capital markets – reinvigorating the ability of business to serve as the driver of long-term economic growth on a national scale, and to more fully serve the public good.

We particularly encourage boards of directors to consider the appropriate means to implement these principles.

Current Subscribers (as of August 2007)

AFL-CIO
Apache Corporation
Business Roundtable*
California Public Employees' Retirement System (CalPERS)
California State Teachers' Retirement System (CalSTRS)
Center for Audit Quality
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Council of Institutional Investors*
Henry B. Schacht, Warburg Pincus LLC
Ira Millstein, Weil, Gotshal & Manges LLP
John Olson, Gibson, Dunn & Crutcher LLP
New York State Common Retirement Fund
Office Depot

Patrick W. Gross, The Lovell Group
PepsiCo, Inc.
Pfizer Inc
TIAA-CREF
Universities Superannuation Scheme
William H. Donaldson, Donaldson Enterprises, Inc.
Xerox Corporation

* *Co-convenor of the Principles Drafting Committee*

The Aspen Institute’s Corporate Values Strategy Group (CVSG) is dedicated to re-asserting long-term orientation in business decision-making and investing. Members of the CVSG share concern about excessive short-term pressures in today’s capital markets that result from intense focus on quarterly earnings and incentive structures that encourage corporations and investors to pursue short-term gain with inadequate regard to long-term effects. Short-termism constrains the ability of business to do what it does best – create valuable goods and services, invest in innovation, take risks, and develop human capital. CVSG members believe that favoring a long-term perspective will result in better business outcomes and a greater business contribution to the public good.

The Aspen Principles offer guidelines for long-term value creation for both operating companies and institutional investors. The Principles were created in dialogue with CVSG members who—as leaders in both investment and business—sought to identify common ground from many sources, including the Business Roundtable, Council of Institutional Investors, CalPERS, CED, TIAA-CREF and others. To fully understand the spirit and nature of the Principles, it should be noted that:

1. The Principles are not intended to address every issue of contemporary corporate governance, but instead are designed to drive quickly to action in areas that *all parties* agree are critically important. CVSG members share a deep concern about the quality of corporate governance and favor effective communication between and among executives, boards, auditors, and investors. CVSG members will continue to engage in independent activities related to corporate governance issues not addressed here.
2. In drafting these Principles, members of the CVSG sought consensus and agreed that an overly-prescriptive approach would slow progress. The Principles are thus offered as guidelines, and are not detailed at a tactical level. Investors and companies, especially boards of directors, have the opportunity to innovate and adapt them to meet individual and evolving circumstances.

The Aspen Principles address three equally important factors in sustainable long-term value creation: metrics, communications, and compensation.¹

1. DEFINE METRICS OF LONG-TERM VALUE CREATION

Companies and investors oriented for the long-term use forward-looking incentives and measures of performance that are linked to a robust and credible business strategy. Long-term oriented firms are ‘built to last,’ and expect to create value over five years and beyond, although individual metrics may have shorter time horizons. The goal of such metrics is to maximize future value (even at the expense of lower near-term earnings) and to provide the investment community and other key stakeholders the information they need to make better decisions about long-term value.

In pursuit of long-term value creation, companies and investors should...

- 1.1 Understand the firm-specific issues that drive long-term value creation.
- 1.2 Recognize that firms have multiple constituencies and many types of investors, and seek to balance these interests for long-term success.
- 1.3 Use industry best practices to develop forward-looking strategic metrics of corporate health, with a focus on:
 - enhancing and sustaining the value of corporate assets,
 - recruiting, motivating, and retaining high-performing employees,
 - developing innovative products,

- managing relationships with customers, regulators, employees, suppliers, and other constituents, and
- maintaining the highest standards of ethics and legal compliance.

- 1.4 De-emphasize short-term financial metrics such as quarterly EPS and emphasize specific forward-looking metrics that the board of directors determines are appropriate to the long-term, strategic goals of the firm and that are consistent with the core principles of long-term sustainable growth, and long-term value creation for investors.

2. FOCUS CORPORATE-INVESTOR COMMUNICATION AROUND LONG-TERM METRICS

Long-term oriented companies and investors are vigilant about aligning communications with long-term performance metrics. They find appropriate ways to support an amplified voice for long-term investors and make explicit efforts to communicate with long-term investors.²

In pursuit of long-term value creation, companies and investors should...

- 2.1 Communicate on a frequent and regular basis about business strategy, the outlook for sustainable growth and performance against metrics of long-term success.
- 2.2 Avoid both the provision of, and response to, estimates of quarterly earnings and other overly short-term financial targets.
- 2.3 Neither support nor collaborate with consensus earnings programs that encourage an overly short-term outlook.

3. **ALIGN COMPANY AND INVESTOR COMPENSATION POLICIES WITH LONG-TERM METRICS**

Compensation at long-term oriented firms is based on long-term performance, is principled, and is understandable. *Operating companies* align senior executives' compensation and incentives with business strategy and long-term metrics. *Institutional investors* assure that performance measures and compensation policies for their executives and investment managers emphasize long-term value creation.

In pursuit of long-term value creation, companies and investors should implement compensation policies and plans, including all performance-based elements of compensation such as annual bonuses, long-term incentives, and retirement plans, in accordance with the following principles...

3.1 *How are Compensation Plans Determined and Approved?*

Executive compensation is properly overseen by a compensation committee of the board of directors. The board recognizes that...

- a) The compensation committee is comprised solely of independent directors with relevant expertise and experience, and is supported by independent, conflict-free compensation consultants and negotiators.
- b) The compensation committee calculates and fully understands total payout levels under various scenarios.
- c) Boards and long-term oriented investors should communicate on significant corporate governance and executive compensation policies and procedures.
- d) Careful strategic planning, including planning for executive succession, helps the board retain a strong negotiating position in structuring long-term compensation. The succession planning process is disclosed to investors.

3.2 *What are Executives Compensated For?*

Corporate and investor executives and portfolio managers are compensated largely for the results of actions and decisions within their control, and compensated based on metrics of long-term value creation [see Principle #1].

3.3 *What is the Appropriate Structure of Compensation?*

Compensation that supports long-term value creation...

- a) Promotes the long-term, sustainable growth of the firm rather than exclusively short-term tax or accounting advantages to either the firm or employee.
- b) Requires a meaningful proportion of executive compensation to be in an equity-based form.
- c) Requires that senior executives hold a significant portion of their equity-based compensation for a period beyond their tenure.³
- d) Prohibits executives from taking advantage of hedging techniques that offset the risk of stock options or other long-term oriented compensation.⁴
- e) Provides for appropriate "clawbacks" in the event of a restatement of relevant metrics.
- f) Requires equity awards to be made at preset times each year to avoid the appearance of market timing.
- g) Ensures that all retirement benefits and deferred compensation conform to the general goals of the compensation plan.

3.4 *How Much Are Corporate and Investor Executives Compensated?*

Corporations and society both benefit when the public has a high degree of trust in the fairness and integrity of business. To maintain that trust, the board of directors...

- a) Ensures that the total value of compensation, including severance payments, is fair, rational and effective given the pay scales within the organization, as well as the firm's size, strategic position, and industry.
- b) Remains sensitive to the practical reality that compensation packages can create reputation risk and reduce trust among key constituencies and the investing public.

3.5 *How is Compensation Disclosed?*⁵

Public disclosure, fully in compliance with SEC rules, includes, in clear language...

- a) Individual and aggregate dollar amount of all compensation afforded to senior executives, under various scenarios of executive tenure and firm performance.
- b) The compensation philosophy of the board and the specific performance targets that promote the creation of sustainable value in the long-term.

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1. As this document is a reflection of existing sources, the greatest level of detail is offered on executive compensation. See the Appendix for a full list of organizations and sources of these principles.

2. In accordance with the SEC's Regulation Fair Disclosure

3. However, there may be circumstances in which boards should allow the sale or transfer of an executive's equity to accomplish purposes that do not alter the long-term incentive nature of the compensation.

4. In situations where senior executives are permitted to make personal equity trades that relate to their compensation, such trades should be fully disclosed ahead of time.

5. The new Compensation Discussion and Analysis requirements address disclosure requirements of the SEC.

Appendix

Sources of the Aspen Principles

1. Business Roundtable Institute for Corporate Ethics and CFA Centre, *Breaking the Short Term Cycle*
2. Business Roundtable, *Principles of Executive Compensation*
3. CalPERS, *Corporate Governance Core Principles and Guidelines*
4. Committee for Economic Development, *Built to Last: Focusing Corporations on Long-term Performance*
5. Council of Institutional Investors, *Corporate Governance Policies*
6. Financial Economists Roundtable, *Statement on Executive Compensation*
7. The Conference Board, *Report of the Commission on Public Trust and Private Enterprise*
8. TIAA-CREF, *Executive Compensation Policy*

Other Resources

9. Buffett, *2005 Letter to the Shareholders of Berkshire Hathaway, Inc*
10. Caux Roundtable, *Principles for Business*
11. Davis / McKinsey Quarterly, *How to Escape the Short-Term Trap*
12. EBR Consortium, *Enhanced Business Reporting Framework*
13. Gordon, *If There's a Problem, What's the Remedy?*
14. Hodak, *Letting Go of Norm*
15. Jensen, Murphy and Wruck, *Executive Remuneration*
16. Kaplan and Norton, *Alignment*
17. Koller, Hsieh & Rajan / McKinsey Quarterly, *The Misguided Practice of Earnings Guidance*
18. Monks, *Corporate Governance in the Twenty-First Century*
19. Rappaport, *Ten Ways to Create Shareholder Value*
20. The Aspen Institute, *Corporate Values Strategy Group working groups*
21. The Conference Board, *Revisiting Stock Market Short-Termism*
22. United Nations, *Principles for Responsible Investment*
23. Wachtell, Lipton, Rosen & Katz, *Compensation Committee Guide and Best Practices*
24. Weil, Gotshal & Manges, *Seven Things Shareholders Want Directors to Understand in 2007*

THE CORPORATE VALUES STRATEGY GROUP

The following individuals played an instrumental role in developing these Aspen Principles. While all contributed to discussions and/or document revisions, the listing of their name should not be construed as an endorsement of the final Principles on behalf of either themselves or their organization.

Herb M. Allison, Jr., TIAA-CREF

Beth A. Brooke, Ernst & Young

Fred Buenrostro, CalPERS

John J. Castellani, Business Roundtable

Shelley J. Dropkin, Citigroup, Inc.

J. Michael Farren, Xerox Corporation (*retired*)

Margaret M. Foran, Pfizer Inc.

Abe Friedman, Barclays Global Investors

Richard Goodman, PepsiCo, Inc.

Julie M. Gresham, New York State Common Retirement Fund

Patrick W. Gross, The Lovell Group

Consuelo Hitchcock, Deloitte & Touche

Suzanne Nora Johnson, Goldman Sachs & Company

Jeffrey B. Kindler, Pfizer Inc.

Robert Kueppers, Deloitte & Touche USA LLP

David Langstaff, Olive Group

Thomas J. Lehner, Business Roundtable

Ira Millstein, Weil, Gotshal & Manges LLP

Steve Odland, Office Depot

John F. Olson, Gibson, Dunn & Crutcher LLP

William Patterson, Change to Win

Charles Prince, Citigroup, Inc.

James H. Quigley, Deloitte & Touche USA LLP

Judith Samuelson, Aspen Institute

Henry B. Schacht, Warburg Pincus

Damon Silvers, AFL-CIO

John C. Wilcox, TIAA-CREF

Christianna Wood, CalPERS

Ann Yerger, Council of Institutional Investors



THE ASPEN INSTITUTE

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