



香港交易所

**Annual Dinner of the Hong Kong Society of Accountants
26th October 2000**

**Speech by Kwong Ki-chi, Chief Executive
Hong Kong Exchanges and Clearing Limited**

Introductory remarks

Good evening, ladies and gentlemen.

I am honoured to have been invited here this evening to speak to you at the Society's annual dinner.

The Challenge of Globalisation

I would like to begin with the theme of globalisation. For the region's capital markets, including our own, globalisation presents a formidable challenge. Long gone are the days when the world's securities and derivatives exchanges primarily served the needs of domestic companies and investors. The reality of the twenty-first century could not be more different. Today, institutional investors are managing an increasing volume of investors' savings and are diversifying those funds across markets. This has stimulated increasing cross-border portfolio investment. And in response, many governments and regulatory bodies are lifting restrictions on foreign ownership of shares in their domestic companies and opening up their markets to international participation. The aim is to enlarge and diversify their investor base and increase the liquidity of their markets.

Globalisation, however, presents opportunities as well as threats. It is redefining the relationship between exchanges within and across time zones. While globalisation is increasing the competition between different exchanges, it is also providing a coherent strategic rationale for the formation of alliances and other cooperative arrangements between exchanges. Such alliances and cooperation offer the prospect of further broadening of the range of securities available for trading and enabling such trading to be conducted round the clock around the world.

Proposed acceptance of International Accounting Standards and US GAAP

Globalisation of the world's capital markets has, however, been hindered by, amongst other factors, differences in accounting practices in different countries. Such differences continue to distort the comparability of financial information across national boundaries.

I would therefore like to take this opportunity to talk about the accounting standards accepted under the listing rules of our Main Board. I believe this will be of particular interest to members of the Society gathered here this evening.

Earlier this week we have announced the details of two proposed amendments to the listing rules of the Main Board with the aim of consulting the market on the relevant accounting standards acceptable for listing purposes.

The first of the proposed amendments would allow companies, which have or are seeking a primary listing on the Stock Exchange of HKEx, to adopt International Accounting Standards (IAS). The second proposed amendment would allow overseas-incorporated companies, which have or are seeking a secondary listing on the Stock Exchange, to adopt US GAAP.

Let me deal with the background to each of the proposed amendments in a little more detail.

International Accounting Standards

Although our Growth Enterprise Market already permits companies to adopt IAS, our Main Board at present generally requires companies with or seeking a primary listing to use Hong Kong GAAP. On the Main Board, IAS can only be used by overseas-incorporated companies with a secondary listing or by H-share companies.

Going forward, however, we believe that companies, irrespective of whether their primary listing is on HKEx or on another stock exchange, should be allowed to use IAS for the following reasons.

1. Increasing recognition and use of IAS

The first is the increasing importance of IAS world-wide. Since it was founded in 1973, the International Accounting Standards Committee (“IASC”) has gained enormous credibility and respect for its efforts in promoting uniformity of accounting principles and consistency of accounting practices by businesses and other organisations around the world. International Accounting Standards have done a great deal to both improve and harmonise financial reporting around the world. IAS are used :-

- as a basis for national accounting requirements in many countries;
- as an international benchmark by certain countries which develop their own requirements; and
- by a growing number of companies.

IAS are now recognised by many of the world's leading stock exchanges. Furthermore, the endorsement of the core set of international accounting standards by the International Organisation of Securities Commissions (“IOSCO”) for cross-border listings testifies to the credibility of the IASB as an authoritative body in the area of financial reporting.

In view of the growing recognition and use of IAS, HKEx believes that some companies, if given the option of using IAS, may prefer to do so as this would enhance the accessibility of their financial statements to international investors.

2. Convergence of IAS and Hong Kong GAAP

The second reason for HKEx’s proposed acceptance of IAS for primary listings is the increasing convergence of International Accounting Standards and Hong Kong GAAP. In this, I should commend the Hong Kong Society of Accountants for its vision and foresight in initiating the adoption or adaptation of appropriate IAS under Hong Kong’s financial reporting framework. I am particularly encouraged by the fact that many of the accounting standards issued by the Society in recent years have been modeled on their IAS equivalents.

3. Consistency of practice with Growth Enterprise Market

The third reason for HKEx's proposed rule amendment is a desire to achieve consistency between the Main Board and the Growth Enterprise Market. As the GEM Listing Rules already permit companies to use IAS and this has been well received by the market, we believe that it would be desirable for the Listing Rules of the Main Board to be aligned with those of GEM in this regard.

US GAAP

I would now like to move on to the second of the proposed listing rule amendments. This would allow overseas-incorporated companies, which have or are seeking a secondary listing on the Exchange, to adopt US GAAP.

At present, US GAAP is not given specific recognition in the Listing Rules of the Main Board. Use of US GAAP would not be permitted except in the case of overseas listing applicants, which are seeking a secondary listing on the Exchange and to which the Exchange might grant a waiver from the normal requirement to use Hong Kong GAAP or IAS.

The Exchange proposes to accept US GAAP for financial reporting by overseas-incorporated companies with a secondary listing for the following reasons :-

1. Financial reporting standards of US GAAP

First, HKEx believes that the financial reporting requirements of US GAAP are at least as stringent as those of Hong Kong GAAP and IAS. Indeed, many of you, as accountants, may agree that, in many areas of financial statements, US GAAP requires more detailed disclosures and is more comprehensive than Hong Kong GAAP and IAS.

2. International recognition of US GAAP

Secondly, like IAS, US GAAP has widespread international recognition. It has provided a clear, coherent and comprehensive set of accounting standards on which many other developed and developing countries have sought to model their own financial requirements of US GAAP. Many leading international stock exchanges outside the US, such as the London Stock Exchange, already recognise US GAAP for financial reporting purposes.

3. Future Development of HKEx as an International Capital Market

Thirdly, by accepting US GAAP for secondary listings, we would be facilitating secondary listings on the Exchange for companies, which already compile their financial statements under US GAAP. In view of the widespread familiarity of international investors with US GAAP and the increasing globalisation of capital markets, greater recognition by the Exchange of US GAAP would enhance the status and credibility of the Exchange and be beneficial for its long-term development as an international capital market.

Market consultation

In the consultation which we have just initiated, we would welcome comments on the proposed rule amendments and on the particular areas set out in the announcement which was published by the Exchange on 23rd October 2000. The consultation paper can also be viewed and downloaded from the Exchange's web-site.

The consultation will continue until 17th November 2000. We will carefully consider comments from the market before the proposed rule amendments are finalised.

Concluding remarks

As I come to the concluding part of my address, I would like to talk briefly about China. Some commentators have expressed fears that China's imminent accession to WTO will lead to a diminution of Hong Kong's role as a "middle-man" between China and the rest of the world. Moreover, as China develops its own capital markets, Hong Kong's continued role as a leading international fund-raising centre for mainland enterprises could also dwindle.

I believe that while those fears might be exaggerated, we cannot be complacent. We must all be proactive and continue our efforts to raise the quality of our services if we are to successfully confront

the challenges ahead. At the end of the day, quality is the ultimate benchmark for distinguishing Hong Kong FROM any other Chinese city in the race to be the leading international financial centre for China. And the international financial community will judge our capital markets on the extent to which we meet the best international practices and standards of investor protection, corporate governance and financial reporting and disclosure.

Whether you run your own practice, or work in business or in other organisations, your credibility as accountants will be founded upon the diligent and original application of your financial expertise, and upon your ongoing commitment to the highest standards of financial reporting. Your expertise, professionalism and integrity are fundamental attributes that guarantee the quality of our financial services.

In these challenging and exciting times, I am confident that the Hong Kong Society of Accountants will continue to provide effective leadership and support to the accounting profession in Hong Kong. I wish the Society and its Members every success in their endeavours in the coming years.

Thank you very much.

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