

# Corporate Governance

HSBC   
The world's local bank

# What is Corporate Governance

- ✦ **Corporate Governance is the system by which companies are directed and managed. It influences how the objectives of the company are set and achieved, how risk is monitored and assessed, and how performance is optimised.**
- ✦ **Good corporate governance structures encourage companies to create value (through entrepreneurship, innovation, development and exploration) and provide accountability and control systems commensurate with the risks involved. (ASX Corporate Governance Council: “Principles of Good Corporate Governance and Best Practice Recommendations”, March 2003)**

# Corporate Governance Essentials

- ↖ High level of integrity
- ↖ Timely and accurate disclosure of information
- ↖ Establishing high standards of accountability
- ↖ Management effectively monitored by the Board
- ↖ High regard for shareholder value and equitable treatment of shareholders
- ↖ Key Business Values

# HSBC's Key Business Values

- ↖ The highest personal standards of integrity at all levels
- ↖ Commitment to truth and fair dealing
- ↖ Hands-on management at all levels
- ↖ A minimum of bureaucracy
- ↖ Fast decisions and implementation
- ↖ Putting the team's interests ahead of the individual's
- ↖ The appropriate delegation of authority with accountability
- ↖ Contained in Instruction Manuals. Communicated
- ↖ Integrity
- ↖ Minimal use of Committees to approve matters

## HSBC's Key Business Values (cont'd)

- ↖ A Commitment to Complying With the Spirit and Letter of All Laws and Regulations Wherever We Conduct Our Business
- ↖ Reputation Is Essential
- ↖ Integrity, leads to reputation
- ↖ Years to build. Easy to lose. Reputation risk

# HSBC's Business principles

- ↖ Outstanding customer service
- ↖ Effective and efficient operations
- ↖ Strong capital and liquidity
- ↖ A prudent lending policy
- ↖ Strict expense discipline

## HSBC - some key facts

- ↖ Listed on London, Hong Kong, New York, Paris and Bermuda stock exchanges. Dual Primary listings in Hong Kong and London. Committed to comply with whichever is the more onerous provision
- ↖ Subject to the Combined Code on Corporate Governance (UK) and the Code on Corporate Governance Practice (HK)
- ↖ Owned by more than 200,000 shareholders in some 100 countries and territories
- ↖ US\$128 billion of shareholders' funds
- ↖ Market capitalisation of over US\$177.6 billion
- ↖ Total assets of US\$2,354 billion
- ↖ More than 128 million customers
- ↖ Over 10,000 offices in 84 countries and territories
- ↖ 510 regulators around the world

## Structure of HSBC Holdings plc

- ↖ HSBC Holdings plc is a public company incorporated under UK company legislation
- ↖ Operations are carried out by different operating subsidiaries, including HSBC Bank plc, HSBC Bank USA, HSBC Latin America, HSBC Mexico and The Hongkong and Shanghai Banking Corporation

# Structure of the Board (from 1 June 2006)

## Balance of executive and non-executive Directors

- HSBC Holdings has 19 Directors
- 6 executive Directors, 13 Non-Executive Directors
- The majority are independent non-executive Directors

## Independence of Directors

- 12 non-executive Directors are independent

- Not employed within the Group
- No material business relationship
- no close family ties with Directors, employees or advisers
- no remuneration from the Company other than board and committee fees
- not representing a significant shareholder
- not having served on the Board for more than 9 years

# Role and powers of the Board

The Board is responsible to shareholders for the management of the Company's business and the stewardship of its assets

- All Directors are subject to election by shareholders at the Annual General Meeting following their appointment and to re-election at least every three years
- Board acts collectively as a single unit
- The Board cannot itself implement the policy it has set or the decisions it has made. It must execute its policy and decisions through individuals (ie executives)
- Annual evaluation of Board and individual Director's performance
- The Board can delegate to Committees

# Committees of the Board

- ↖ Committees derive their authority from and are answerable to the Board which retains responsibility for matters delegated to the Committees
  
- ↖ HSBC's Board Committees are:
  - Group Management Board
  - Group Audit Committee
  - Remuneration Committee
  - Nomination Committee
  - Corporate Sustainability Committee

# Reports to the Board

## EXAMPLES OF REGULAR REPORTS TO THE BOARD

### Reports to each Meeting

- ✦ Chairman of the Group Audit Committee
- ✦ Chairman of the Remuneration Committee
- ✦ Chairman of the CSR Committee
- ✦ Share Performance
- ✦ Business Developments and Acquisitions
- ✦ Chief Executive's Business
- ✦ Minutes of all Committee Meetings
- ✦ Senior Appointments

### Quarterly

- ✦ Consolidated Results

### Half-yearly

- ✦ Substantial Litigation
- ✦ Large Exposures
- ✦ Peer Group Comparison
- ✦ Auditor's Letter and Management Response

### Special Reports to the Board

- ✦ IT Report
- ✦ Credit & Risk Report
- ✦ Large Exposure Policy
- ✦ Investment Banking & Treasury Report
- ✦ Internet Banking Report

## Reports to the Board - cont

### EXAMPLES OF REGULAR REPORTS TO THE BOARD

- ↖ 5 year Strategic Plan
- ↖ Annual Operating Plan
- ↖ Capital Financing Plan
- ↖ Annual and Interim Accounts
- ↖ Financial Results Announcements
- ↖ Notices of Shareholders' Meetings
- ↖ Major Policy Decisions
- ↖ Customer Group Reports
- ↖ Geographic Regional Reports

# Directors' roles

## Non-executive directors and directors as executives

### All Directors

- Authority of a director to act is confined to Board meetings, where the Board of directors acts as a single unit

### Non-Executive Directors

- Non-executive directors do not participate in daily business management but do have the power to seek information from operational managers outside the Board meetings

### Executive Directors

- Executive directors act, outside Board meetings, as the senior business managers, not as Board members
- Senior business managers act under the delegated authority of the Board

# Directors' duties (based on HK requirements)

## Duty of good faith

- Primary duty of a director - to act in good faith in the interests of the company
- Duty owed to all shareholders, both present and future, but not owed to individual shareholders

## Duty of diligence

- A director is required to exercise the degree of skill and care to be reasonably expected from a person with that director's knowledge and experience

## Duty of honesty

- Highest standard of honesty is expected. Directors must exercise the company's powers in the company's interest and not for personal gain or any other purpose
- A director must not place himself in a position where his ability to discharge his duty of honesty is restricted or where a conflict arises/may arise between his duty and his personal interest
- A director must not take advantage of his position for personal financial gain or in any other way which could be detrimental to the company's interests

## Directors' duties - cont

### Duty to employees

- ↖ The Directors have a duty to take account of the interests of employees in general

### Duty to disclose personal particulars

- ↖ Directors are required to notify the company - and the company is required to notify the relevant authorities - of the following particulars:
  - basic personal particulars (name, address, other directorships etc)
  - details of any holdings of, or dealings in the securities of the Company or its subsidiaries
  - Directors must obtain prior approval before dealing in the Company's or its subsidiaries' securities
  - details of any material benefits the Director may receive from any significant contracts the Company and its subsidiaries undertake

## Regulation of HSBC

- ↖ HSBC Group has some 490 different regulators globally
- ↖ The UK Financial Services Authority (FSA) acts as the Group's lead regulator but defers to local regulatory authority in respect of offices outside UK
- ↖ FSA acts as a single regulator for UK financial services industry
- ↖ HSBC Group has a strong control culture. The key control functions being Finance, Credit and Risk, Compliance and Audit