

## Upholding Governance, Integrity and Audit Excellence in Hong Kong's Capital Markets

### Keynote speech at Deloitte's Hong Kong CFO Forum

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Ladies and gentlemen, good afternoon.

It is a great pleasure to join you today at the Deloitte CFO Forum, among the key stewards of Hong Kong's financial ecosystem—Chief Financial Officers (CFOs), Independent Non-Executive Directors (INEDs) and auditors. Let me start with a clear purpose today: to reaffirm our shared roles and responsibilities for safeguarding the quality, credibility and resilience of Hong Kong's capital markets.

Sound financial reporting is the lifeblood of our economy. It underpins market confidence, supports efficient capital allocation and sustains public trust. As an international financial centre (IFC), Hong Kong can only thrive with a regulatory regime that is internationally aligned, protects investors, demands transparency, and expects directors and auditors to uphold the highest standards of integrity.

This afternoon, I would like to focus on one central idea: governance must move beyond box-ticking conformance to become a driver of performance, accountability and trust.

#### **Navigating a more demanding era**

We are operating in an age of persistent uncertainty. Geopolitical tensions, uneven economic growth, demographic shifts, technological disruption, talent shortages, ESG<sup>1</sup> pressures, and cross-border risks are all testing the resilience of businesses and markets.

These challenges are not isolated, and they cannot be managed by regulators alone. They require collective action from boards, management, finance leaders, auditors and regulators alike.

That is why governance is no longer box-ticking. It must be rethought. It must become a framework for making better decisions, managing risk earlier and creating long-term value.

#### **Governance as economic value**

Let me turn to the economic logic of strong governance.

Governance is sometimes seen as a regulatory burden. In reality, it is an economic necessity. Good governance reduces friction and costs inside an organisation. It limits inefficiency, duplication, internal conflict and, in the worst cases, misconduct and fraud.

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<sup>1</sup> Environmental, social and governance.

Note: This is the text of the speech as drafted, which may differ from the delivered version.

Poor governance creates hidden costs on the balance sheet and weakens a company's ability to perform. Strong governance, by contrast, improves the quality of decision-making, lowers risk and strengthens corporate value over time.

Capital does not reward appearances for long. It flows to companies that genuinely perform, not merely to those that look compliant. As CFOs and directors, you are central to leading that shift inside your organisations.

Leadership and trust are therefore non-negotiable. Rules matter, but they are not enough. Effective governance also depends on judgment, courage, tone from the top and the willingness to act when something is not right.

### **Why governance fails**

Most governance failures do not begin with a lack of rules. They begin with familiar human weaknesses—greed, fear, deference to authority and the tendency to stay silent when others should speak up.

History's worst accounting scandals involved successful companies before their collapse. The root cause was human nature: greed by those seeking improper gain, and fear among CFOs, directors and auditors who followed orders instead of speaking up for what is right.

That is why governance failure is rarely the failure of one group alone. It is too easy to ask only, "Where were the auditors?" We must also ask: where were the CFOs, the directors, the INEDs, the internal auditors and the company secretaries? Governance is a shared discipline, and it succeeds only when every line of defence does its job.

### **Culture is the real safeguard**

If governance fails through human weakness, then culture is the first line of defence. Ethical behaviour is not shaped by policies alone. It is shaped by the environment people work in every day.

In cultures that tolerate shortcuts, reward blind obedience or treat compliance as symbolic, even principled professionals can be pressured into silence or compromise. In cultures that value integrity, challenge and accountability, people are far more likely to do the right thing—even when it is uncomfortable.

For CFOs and auditors, culture is not a soft issue. It is a hard control. It may be the most important risk-management tool you have. You are not just managing numbers or reviewing records; you are shaping the ethical climate in which decisions get made.

A simple question is often revealing: in your organisation, is it genuinely safe to raise concerns when the numbers do not look right? If the answer is uncertain, then the culture agenda is not finished.

### **Hong Kong's market reality**

While a strong ethical culture mitigates human risks, we must also address the distinct structural feature of Hong Kong's listed market: concentrated ownership.

As of March 2026, among 2,708 listed companies:

- 40% have a single largest shareholder holding 50% or more (absolute control);
- 24% hold between 30% and 50%;
- 36% hold below 30%.

That matters because concentrated ownership creates governance risks that differ from those in markets with dispersed shareholding. Controlling shareholders often have

substantial influence over boards, strategy and disclosures, while minority investors may have limited ability to exercise stewardship in practice.

This structure can amplify information asymmetry, connected transaction risks and the potential for minority shareholder abuse. In such a market, Hong Kong cannot rely on market discipline alone. Targeted, robust regulation is essential to preserve fairness, confidence and trust.

### **Audit quality and accountability**

Let me turn to audit, which remains a cornerstone of market confidence.

#### *Positive progress in audit quality*

There is clear and encouraging progress. Since the Accounting and Financial Reporting Council (AFRC) became the independent financial regulator of the auditing profession, the proportion of high-risk audit ratings has fallen significantly. This points to meaningful improvement in audit quality. That progress matters. Better audit quality strengthens the reliability of financial reporting, improves market confidence and supports Hong Kong's standing as an IFC.

#### *New requirement: auditor resignation and removal*

At the same time, new safeguards are being introduced. A critical new rule now governs auditor changes to curb opinion shopping and hasty resignations. Published in April 2026, the Securities and Futures Commission's (SFC) review of the Stock Exchange of Hong Kong's (SEHK) performance recommended that SEHK strengthen the framework for auditor resignation and removal.

Last Friday, Hong Kong Exchanges and Clearing Limited (HKEX) issued updated FAQs, mandating that any removal or dismissal of an auditor must be approved by shareholders. This closes loopholes where issuers pressure auditors to resign without shareholder oversight, curbs opinion shopping and helps prevent fee disputes from being misused as a pretext for changing auditors.

I am hopeful this new mandate will support fair audit remuneration that reflects the work, expertise and risks auditors undertake.

#### *SFO Section 277: accountability for all*

I would like to briefly mention Section 277 of the Securities and Futures Ordinance (SFO). It is a powerful provision that imposes clear accountability on everyone involved in financial disclosures. The SFC uses this pivotal tool to tackle market misconduct arising from the dissemination of false or misleading financial information by listed companies.

While this provision targets directors, senior management and shareholders of listed companies, it also has far-reaching implications for auditors and other professional advisors in Hong Kong. These professionals are frequently "concerned in" – that is, involved in – the preparation and verification of financial information disclosed to investors.

Auditors, in particular, can be held liable for investor losses if they are found to be "concerned in" the dissemination of false or misleading information in documents such as audited financial statements. Section 277 underscores the critical importance of robust due diligence: auditors must ensure that their work papers can fully support the conclusions made in public disclosures and that no material facts are omitted.

The legislative intent is clear: accountability extends not only to listed companies themselves but also to all parties responsible for upholding the integrity of financial statements – including auditors and advisors.

### Enforcement and improvement

Recent enforcement actions by the SFC and the AFRC imposed substantial penalties, a practice restriction and a major compensation fund for harmed minority shareholders following serious audit failures. These failures included a lack of independence, insufficient professional scepticism, failure to challenge improper revenue recognition, inadequate verification procedures, and breakdowns in internal quality controls.

But fairness requires us to remember: “One swallow does not make a summer.” An isolated case does not define a firm’s overall standard, nor negate the industry’s improving audit quality ratings trend shown in the AFRC’s recent inspection reports. Instead, it should serve as a constructive wake-up call to strengthen independence, professional scepticism and quality controls across the profession.

### ICAC’s Integrity Compliance Management System (ICMS)

Beyond enforcement, we must empower you with proactive tools. HKEX integrated the Independent Commission Against Corruption’s (ICAC) Integrity Compliance Management System (ICMS) into its Corporate Governance Guide in May 2025, establishing a framework for boards to oversee high-level integrity policies and risk controls.

In 2026, the ICAC will launch Phase 2, providing a comprehensive playbook and various digital tools—including risk assessment templates and training resources—to help CFOs and auditors move beyond paper compliance to practical, embedded integrity systems.

### **Closing: Our role as stewards of tomorrow**

Before I conclude, let me recap my five messages today.

First, governance must move from compliance to performance – it is not a cost centre; it is a value driver.

Second, culture matters as much as rules. Ethical behaviour is nurtured, and leaders set the tone.

Third, Hong Kong’s concentrated ownership structure makes robust governance and minority shareholder protection especially important.

Fourth, audit quality is improving, but vigilance must remain high. New rules and existing legal obligations will continue to raise expectations for everyone involved in financial reporting. You are all accountable.

Fifth, enforcement is a wake-up call, not a verdict. One failure does not define the entire profession.

Finally, integrity is a shared mission. We must stand and act together. No one can discharge that responsibility alone.

Hong Kong’s future as an IFC will not be secured by rules on paper alone. It will be secured by the quality of leadership, the strength of culture and the courage of professionals to do the right thing when it matters most.

Thank you.