

HSBC Holdings plc

**Presentation to
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HSBC 

A grayscale world map is centered on the page, showing the outlines of continents and oceans. The map is rendered in a light gray tone against a dark gray background.

Corporate Governance

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

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**

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 200,000 shareholders in some 100 countries and territories
- US\$92 billion of shareholders' funds
- Market capitalisation of US\$182 billion
- Total assets of US\$1,502 billion
- More than 125 million customers
- Over 9,800 offices in 76 countries and territories
- 490 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 17 Directors
- 3 executive Directors, 14 non-executive directors (4 nationalities and 3 women)
- The majority should be 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 Social Responsibility Committee**

Role and Structure of the Committees

Group Management Board

- An executive Committee
- 3 Executive Directors and 7 Group Managing Directors CEO IS Chairman of the meetings
- Authorised by the Board to exercise all the powers, authorities and discretions of the Board for the Management and day to day running of the Company and its subsidiaries - in accordance with the policies and directions the Board may set from time to time. The Management Board has power to sub-delegate
- Meets monthly

Group Audit Committee

- 5 Independent non-executive Directors
- Responsible for overseeing financial reporting and the systems of internal control
- Meets regularly with senior financial, internal audit and compliance management and the external auditor to consider financial reporting, nature and scope of audit reviews and the effectiveness of the systems of internal control and compliance

Role and Structure of the Committees - cont

Remuneration Committee

- 4 Independent non-executive Directors
- Responsible for overseeing human resource issues, particularly terms and conditions of employment, remuneration policy, retirement benefits, incentive plans and development of high potential employees
- Specifically responsible for developing policy and for determining the remuneration packages for individual directors and other senior executives
- Meets 8 times each year

Nomination Committee

- 4 non-executive Directors; majority independent
- Responsible for identifying suitable candidates for election as Directors and for succession planning
- Meets at least twice each year

Role and Structure of the Committees - cont

Corporate Social Responsibility Committee

- 4 Independent non-executive Directors and 3 other independent members
- Oversees the Group's CSR and Philanthropic activities. Gives advice and guidance to the Board on matters relating to the environmental impact of the business, and on social and ethical matters
- Meets 4 times each year

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

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**

Regulation of HSBC

- The 490 regulators include central banks, banking, insurance and securities regulatory authorities. HSBC estimates the cost of regulation and supervision to be approximately USD635 million in 2005
- In Hong Kong, the HKMA is our regulator. It has issued its own corporate governance standards “Supervisory Policy Manual CG – 1: Corporate Governance of Locally Incorporated Authorised Institutions”

Regulation of HSBC (cont'd)

- **This sets minimum standards relating to composition and responsibilities of the board, obligations of directors, use of committees (including compulsory Audit Committee), and various specific requirements relating to risk management, connected lending, frequency of, and attendance at, board meetings and regular reviews by the HKMA**
- **The HK Insurance Authority have a similar guideline**
- **Marketing and dealing in securities are subject to the Securities and Futures Ordinance. The HKMA is the primarily regulator for banks involved in the securities business; the SFC is the regulator for non-banking entities**

Basel 2

- **Basel 2 requires Corporate Governance and Oversight of the Board and Senior Management**
- **The Board is responsible for setting the bank's tolerance for risk**
- **The Board (or a designated committee) must approve all material aspects of the rating and estimation processes of the bank and possess a general understanding of the bank's risk rating system and a detailed comprehension of its associated management reports**
- **The FSA has indicated that, across the industry, overall improvement is required in Senior Management's understanding of Basel 2**
- **HSBC has initiated training for Senior Management on the models rating system which will be an ongoing process**

Basel 2 (cont'd)

- Key issue is divergence of rules being adopted under Basel 2 framework. Different regulators are adopting different variations of the rules and different timetables
- The rules are complex. The UK FSA draft rules are some 1,300 pages.
- The HKMA have issued draft rules in good time for consultation, and are relatively easy to understand

HSBC's Subsidiaries

- Many of these procedures and practices are followed by major operating subsidiaries
- HSBC Hong Kong has a Board of 18 Directors, 12 of whom are non-executive Directors
- It also has an Audit Committee comprising three independent non-executive Directors, which meets 4 times a year and reports both to the Board and the Group Audit Committee
- Hang Seng Bank and HSBC Bank Australia have similar structures