香港董事學會
The Hong Kong Institute of Directors
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HKIoD’s Response to the 2020-21 Budget

Note: The response first appeared in Chinese on 26 February 2020

“Bring the economy back to life”

The Hog Kong Institute of Directors made the following statement in response to the 2020-21 Government Budget.

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(26 February 2020, Hong Kong) In the view of HKIoD, the Budget delivered today understandably seeks to “support enterprises, safeguard jobs and stimulate the economy.” The relief measures that rolled out since the latter part of last year may have nonetheless overlooked some sectors of the economy. Frontline workers may also not see direct benefits. On “relieving people’s burden”, the cash payout of $10,000 to Hong Kong permanent residents aged 18 or above replies to the many pleas in society. The earlier it can be disbursed, the quicker the money will go to help people. The other relief measures tend to repeat old tunes. Grass root families will probably need more help.

Counter-cyclical measures to bring economy back to life
The Budget Speech mentioned that, in view of the tough economic environment, the Government will adopt an expansionary fiscal stance and make optimal use of fiscal reserves to implement counter-cyclical measures. As a result, the budget will show a record high deficit of $139.1 billion, and budget deficits are expected for the next five years as well.

The Financial Secretary also emphasised that, a large portion of the budget deficit is due to one-off relief measures. Netting out such amounts, the deficit would be about $59 billion, about 2% of GDP.

The Financial Secretary is optimistic, that Hong Kong’s economic fundamentals remain solid and core competitiveness not shaken, and that the economy should recover once the epidemic is over.

The economy had suffered gravely from the social unrest since the second half of last year and the coronavirus situation since the turn of the year. The impact on the economy and on people’s livelihood would exceed that of the SARS outbreak in 2003. We support the Government’s move to tap fiscal reserves at appropriate times to bring the economy back to life. We believe the fiscal reserves are at a level where we can afford the relief measures. The key is whether the economy can do what the Financial Secretary wishes for – be competitive and add value. On this, we need effective policies.

Financial reporting amidst the coronavirus outbreak
The financial sector must be a pillar to the Hong Kong economy. The Financial Secretary mentioned that the Government seeks to fulfil the dual role of facilitator and regulator, and while consolidating strengths and further developing the market, will ensure a regulatory

framework that keeps pace with the times, manage systemic risks and provide protection for investors.

Enhancing the regulatory regime is to serve as least one objective – to maintain a stable and orderly financial market.

The coronavirus outbreak will likely affect some issuers' plan and progress in preparing financial information for their results announcements. Many of our fellow directors are facing a difficult situation. On 4 February, the Securities and Futures Commission and the Stock Exchange of Hong Kong issued a Joint Statement in relation to results announcements in light of travel restrictions related to the severe respiratory disease associated with a novel infectious agent. HKIoD stepped up and engaged in a detailed discussion on aspects of the Joint Statement via teleconference with teams from the SFC, the Stock Exchange and the Financial Reporting Council.

The very purpose of the Joint Statement is to keep as much as possible the orderly and continuous running of the Hong Kong financial market. To the regulators, a blanket delay for financial reporting can have serious detrimental effect on the credibility of the Hong Kong market. We tend to agree.

Under the Joint Statement, an issuer's board may have to release financial information before the auditor can perform work. In this light, the notion that directors need to be mindful of their duties and to exercise due care, skill and diligence manifests itself. Independent non-executive directors of listed companies serve an important corporate governance purpose. They are not there to merely rubber stamp things. We believe listed companies should raise the fees for outside directors, but at the same time require them to have acquired and attained training on directors' roles and responsibilities. Directors who are already on boards should also strive to keep up with continuing professional development.

Quick to react, be agile

Six months of lingering social unrest, adding on top the coronavirus outbreak, whether businesses, non-profits, public agencies or even government departments will have been made to reassess their ability and plans to respond to incidents. Worsening business environment would also have required adjustments to business strategy.

Opportunities often arise from dangers and difficulties. We recommend board members and management to embrace the inter-relations between risk management and strategy setting, to capture opportunities with agility. HKIoD offers open courses and customised training programmes on these aspects.

Rescue the businesses that are going under, and save jobs

With a harsh winter of an economy setting in, and despite several rounds of relief measures, some number of businesses will run into serious difficulties. When a business fails the jobs go away. People's livelihood becomes an issue. Social stability is threatened. To save businesses from going under is to save the jobs. Hong Kong should need a flexible corporate rescue regime that gives company directors much leeway to explore restructuring options. Corporate rescue legislations have dragged on for some years. We think the Government should push this along in earnest.

Long term plans to increase land supply
The Financial Secretary reported that a new land forecast will be released in the second quarter. Incorporating the land reserve concept, the forecast will be the blueprint for land search and land creation. We think Hong Kong People will look out for that with much interest. The vision of a Lantau Tomorrow still raises doubts among many. Though the Institute can see the reasons for concern, we believe the concept could make good grounds to sustain Hong Kong's development for decades to come and should be taken up for consideration. We maintain our views.

Imposing a global minimum tax rate will hurt Hong Kong's competitiveness
Near the end of his speech, the Financial Secretary explained that there is some hinting at making rules on a new global minimum tax rate. Such would inevitably make Hong Kong less attractive for multinational companies to locate in Hong Kong. To devise corresponding measures, the Financial Secretary intends to invite scholars, experts and the business sector to advise on the matter.

There have been calls to enhance the function of the Tax Policy Unit and to have a comprehensive review of the Hong Kong tax system. To consider tax planning is a part of a board's task in setting strategy. The Financial Secretary should consider the views of the director community.

Better economy for better livelihood
The Financial Secretary pointed out that a main reason for the budget deficit is due to government revenue not keeping up with the rise in spending.

We agree with the Financial Secretary when he said the significant increase in spending was to play catch up in enhancing public services, and going forward, there is a need to consolidate and to ensure optimal use of the money.

The more important point must be to spur economic development to add resources and capacity. The Institute believes economic growth remains our best friend when it comes to finding new monies to tackle livelihood issues. With sustained economic growth, all walks of life are that much more able to share in that prosperity.

No peace, no progress
In recent times, Hong Kong society has become ever more divided, the chasm widened. If there is not a peaceful stable environment, policy initiatives however good will not flourish. That will just make a bounce back that much harder. As the Financial Secretary laments, that even if Hong Kong remains a fertile piece of land it is a matter of what and how we cultivate.

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