

29th May 2015

Securities and Futures Commission
35/F, Cheung Kong Center
2 Queen's Road Central
Hong Kong

Sent via email to: ResponsibleOwnership@sfc.hk

Re: Consultation Paper on the Principles of Responsible Ownership

We are writing to you concerning the aforementioned consultation paper. Aberdeen Asset Management Asia Ltd is a long-term investor in Hong Kong, and we welcome the opportunity to respond to the consultation. We are broadly supportive of the Principles of Responsible Ownership, and are of the view that, were they to be adopted, capital markets in Hong Kong would be stronger, healthier, and more stable, to the benefit of companies and of the whole economy.

We do not provide feedback on all questions, but please find our views overleaf. Moreover, we would like to make one comment in relation to Principle 5, and the notion of investors acting collectively. Whilst we support the sentiment, we believe that clarity from SFC on what is acceptable in terms of collective action would be of benefit to signatories, and the market more broadly (including companies). There is a natural reticence on the part of many market participants given rules around concert parties, and so clarity from SFC on what is acceptable within the realms of engagement (and, by extension, encouraged by the Principles) would assuage such concerns.

We hope that you will consider our comments and will take them as constructive input to the continuing development of corporate governance in Hong Kong.

Yours sincerely,

Aberdeen Asset Management Asia Ltd

Question

Aberdeen Asset Management Asia Ltd. (AAMAL) response

Do you agree with the approach (paragraphs 49 to 50) to aim the Principles at all investors and not just institutional investors? If the scope of the Principles is too broad which investors should be excluded or, alternatively, which investors should be included?

Whilst the notion that all investors should behave responsibly with regard to their investments is laudable, in practicality the application of the Principles to all investors may present a logistical challenge (both for investors and those charged with monitoring the implementation of the Principles). We would suggest that the Principles be aimed at institutional investors, and specifically asset owners and asset managers with equity holdings in Hong Kong-listed companies. We would also suggest that the Principles encourage institutions to consider applying a responsible ownership approach to other asset classes.

Given that the Principles will not achieve their objectives unless listed companies welcome both the Principles and the greater engagement from shareholders that will follow, do listed companies and their representatives have any suggestions for the Principles that are likely to encourage the appropriate level of shareholder engagement?

We make no comment on this.

What do institutional shareholders active in investing in Hong Kong companies expect will be the likely costs and benefits arising from their compliance with the proposed Principles?

We cannot comment on the costs that other investors may incur. However, in the case of Aberdeen Asset Management PLC, and its subsidiaries, we actively seek to operate as good stewards throughout our activities and seek to live up to stewardship codes and/or principles of responsible investment that have been established around the world. We take a long term view of investments, integrating corporate governance into our investment processes. We would therefore believe that we already live up to the aspirations of the proposed Principles, and as such incremental costs would be marginal, administrative in nature, and for the most part one-off (e.g. the preparation and presentation of a statement of compliance).

While the costs are minimal, the benefits are clear and substantial: companies with active and involved owners are more likely to perform better, and so to add and preserve value over time. Hong Kong's market could benefit from the stability that comes from responsible long-term institutional investors delivering long-term ownership and encouraging a move away from short-term noise and volatility.

Whilst we do not wish to encourage a close-ended list of the type of institutions which will qualify as "institutional investors" and their agents, we would encourage views from the market as to their understanding of the types of institutions which may well fall within or outside of such a broad characterisation.

We believe that the list presented in a subsequent question would cover all entities that should be classed as institutional investor, i.e.:

- (i) institutions authorized and regulated by the HKMA;
- (ii) approved trustees of MPF schemes, trustees of ORSO schemes and trustees of pooled

- (iii) investment schemes approved for MPF purposes; Insurers, insurance intermediaries and MPF intermediaries authorized and/or regulated by the OCI; and
- (iv) entities licensed and regulated by the SFC.

Some of these entities will delegate investment management responsibilities to an external asset manager, and there should be an understanding that there is a distinction between the expectations in the Principles with regard to asset owners and fund managers. It would be useful for the market as a whole for such asset owners to consider the extent to which an external asset manager lives up to the aspirations of the Principles.

Should institutional investors be encouraged or obliged to apply the Principles on a "comply-or-explain" basis and, if so, which institutional investors and what should they be asked to disclose and to whom?

We believe that investors covered by one of the four categories presented above should be required to disclose their compliance with, or deviation from, the Principles. This should be disclosed on the covered entity's website where possible. For the avoidance of doubt, we do not believe that living up to the aspirations of the Principles should be mandatory. However, we do favour mandatory disclosure of the extent to which they live up to the aspirations of the Principles on a 'comply or explain' basis. Some managers will choose not to aspire to the Principles, and should be transparent about this; others may seek to apply aspects of the Principles which fit with their investment style. The key is transparency of each investor's approach to the Principles, and a comply or explain model seems best placed to deliver this.

Will individual or retail investors find the Principles useful? We welcome views on whether there are any particular aspects of the Principles that individual or retail investors would like further guidance on.

We make no comment on this.

Should certain types of organisations be required to disclose whether or not they comply with the Principles and, if not, why they do not do so (ie, on a "comply-or-explain" basis)? For example, should the following be required to comply with the Principles on a "comply-or-explain" basis: (i) institutions authorized and regulated by the HKMA, (ii) approved trustees of MPF schemes, trustees of ORSO20 schemes and trustees of pooled investment schemes approved for MPF purposes, (iii) insurers, insurance intermediaries and MPF intermediaries authorized and/or regulated by the OCI and (iv) entities licensed and regulated by the SFC?

We believe that investors covered by one of the four categories discussed should be required to disclose the extent to which they live up to the aspirations of the Principles. This should be disclosed on the covered entity's website where possible. As highlighted above, the expectations of asset owners and fund managers in respect of the Principles will be different.

Should entities such as voting services agencies and investment consultants

We believe that voting services agencies and investment consultants should commit to the spirit of

be encouraged to commit to the spirit of the Principles, and if so how this should be facilitated?

the Principles and should disclose the extent to which they live up to the aspirations of the Principles.

As all Hong Kong institutional investors will be encouraged to apply the Principles, are there any hurdles or other reasons that would prevent or discourage them from doing so?

We see no hurdles that would prevent a Hong Kong institutional investor from disclosing the extent to which it lives up to the Principles. The Principles do not specify a course of action, and as such should not require changes in investment process; indeed, the key disclosures should be around how the stewardship approach fits with the investment approach, or that it does not do so. Discussing the extent to which each manager's investment approach enables it to deliver on the aspirations of the Principles should not prove onerous.

The Principles are aimed at investors of Hong Kong listed companies and are not intended to apply extraterritorially. Should investors based in Hong Kong be encouraged to abide by the codes or principles of other jurisdictions relating to their foreign investment?

We believe that the Principles should, as other Stewardship Codes do, encourage signatories to apply the Principles to their overseas holdings on a best efforts basis.

How can foreign investors in Hong Kong listed companies be encouraged to commit to the spirit of the Principles in respect of their holdings in Hong Kong companies? Do foreign investors foresee any barriers or difficulties in doing so?

It is challenging to require disclosure by overseas investors. Nonetheless, we believe that the Principles should encourage a statement by investors into Hong Kong, based outside of Hong Kong, of the extent to which they live up to the aspirations of the Principles. We note that many of these investors, and in particular large International investors, would already be signatories to similar stewardship codes and/or principles of responsible investment elsewhere.

Do investors who operate on a cross-border basis envisage any potential conflicts which might arise between requirements or codes in place in other countries and the proposed Principles?

We see no material conflicts – Appendix B highlights the consistencies between the Principles and similar documents elsewhere. The aspirations of these documents are the same.

What are institutional investors' current practices on disclosing information on their engagement policy, including any national or international standards they follow?

We cannot comment on the practices of other investors. However, in the case of Aberdeen Asset Management PLC, and its subsidiaries, we currently live up to the aspirations of various stewardship codes and/or similar principles of responsible investment in other jurisdictions. For example, we are signatories to the UK Stewardship Code, the Malaysian Code for Institutional Investors, and the Principles for Responsible Institutional Investors in Japan.

We disclose our compliance with each of the codes and principles, and also disclose a) our voting practices, and b) a review of our engagement practices.

Our voting records are disclosed here: <http://www.aberdeen-asset.com/aam.nsf/aboutus/governancevoting>

Our most recent engagement report can be found here: <http://www.aberdeen-asset.com/doc.nsf/Lit/CorporateGovernanceGroupEquityEngagementReport20140930>

For more on our governance and stewardship disclosures, see here: <http://www.aberdeen-asset.com/aam.nsf/aboutus/governancestewardship>

We would also welcome views on the policy objectives against which the SFC should judge its approach to the Principles. The proposed objectives are to:

- promote a sense of ownership amongst institutional investors in order to encourage Hong Kong and foreign shareholders to voluntarily apply and report against the Principles;
- ensure that engagement is closely linked to the investment process;
- contribute towards improved communication between shareholders and the boards of the companies in which they invest;
- secure sufficient disclosure to enable institutional shareholders' prospective clients to assess how those managers are acting in relation to the Principles so that this can be taken into account when awarding and monitoring management mandates.

We agree with the policy objectives as stated, and welcome them. We look forward to their integration into Hong Kong capital markets.

Should compliance with the Principles be monitored? If so, which regulator should be responsible for doing so? For example, should it be the SFC or should it be the primary regulator in each respective industry?

We believe that the SFC should play a role in monitoring the extent to which signatories disclose their compliance with, or deviation from, the Principles. One area that should be of particular focus is the extent to which deviations from, or non-compliance with, the Principles are explained in a meaningful way. Anodyne statements of non-compliance should be avoided.

We also believe that the SFC should establish a webpage that aggregates the compliance statements of signatories in a central repository (in addition to signatories making the disclosure on their own websites).

Although monitoring compliance with the Principles is logistically challenging, we believe that if any entity were to be responsible for monitoring compliance the SFC is best placed to do so. Nonetheless, to the extent that asset managers are the entities involved in decision-making with respect to investment and stewardship on a day-to-day basis, we believe that asset owners should play a role in holding asset managers to account for their stewardship activities