Issue 3 I August 2021

Listing Newsletter

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Welcome to the third edition of HKEX's bi-annual Listing Newsletter!

As frontline regulator of the more than 2,500 companies listed on our markets, we promote market quality through listing rules and ongoing education. Since January, we have published two important papers on enhancing the quality of our markets. In April we asked for feedback on enhancing standards in corporate culture, director independence and diversity[1] and in May we concluded on measures to strengthen the Exchange's powers to hold accountable, and impose appropriate sanctions on, individuals responsible for misconduct.[2]

Corporate governance can play a pivotal role in aligning an issuer's culture with its purpose, values and strategy. And, that culture comes from the top. In this newsletter we take the opportunity to focus on the role of a director in a listed company in driving an organisation towards its goals, whilst acting lawfully, ethically and responsibly.

I hope you find this newsletter useful and informative. If you have any feedback or suggestions for future issues, please email us **here**.

Bonnie Y Chan
Head of Listing

[1] Consultation Paper on Review of Corporate Governance Code and Related Listing Rules

[2] Consultation Conclusions on Review of Listing Rules Relating to Disciplinary Powers and Sanctions

The role of a director

Before we look at how a director can drive change in the governance of an organisation (see "Corporate Governance – more than compliance" section that follows), let's look at the wide-ranging duties and significant responsibilities of a director of a listed issuer. Here are five areas directors should always keep in mind:

Significant transactions

Take care to reduce exposure to undue risk (particularly for transactions involving substantial financial obligations or outflows of money), through: robust controls; limiting any individual's power over assets; rule compliant disclosure and commensurate due diligence.

Monitoring financial information

Directors must ensure they receive sufficient information to enable them to discharge their obligations. They should review this information critically, with an enquiring mind, and with particular care taken around monies being paid out of the issuer, and assets or line items which appear, or change, unexpectedly over time.

Do not overlook the subsidiaries

The importance of controls and oversight does not stop with the listed issuer. Several of the Exchange's disciplinary cases involve issuers that had a more lax control environment at the subsidiary level, or paid insufficient attention to a subsidiary's affairs.

Understanding the roles played by each director

Certain directors (e.g. independent non-executive directors (INEDs), or members of the audit committee) have particular responsibilities but it is incumbent on all directors to pay attention to the board's work, and to understand and confirm for themselves that any delegated tasks are being properly performed.

Good documentation and record-keeping

If directors have no evidence to support assertions they have performed certain steps, then there is a significant risk that those assertions will be viewed by us with doubt.

By giving thought and attention to the above areas – before anything goes wrong – a director will be on the right track towards fulfilling their responsibilities. Further guidance on directors' duties can be found in the Corporate Governance code, and the **e-Learning** available on the HKEX website.

Corporate governance – more than compliance

Good governance comes from the top. Directors must be equipped with the right skills and competencies, and show independence of mind and perspectives. Boards with the right skills and diverse backgrounds will enable corporates to enhance risk management and drive profitability in the long run.

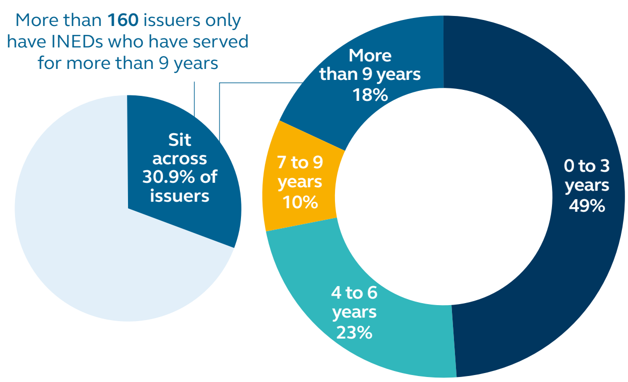
Directors' independence, board refreshment and succession planning

The boardroom should be a place for robust debate, new ideas and teamwork. Board composition should change in line with evolving business environment and shifting challenges. INEDs play a key role.

For an INED serving on a board for a long period, their knowledge of, and familiarity with, the issuer's affairs may be valuable. However, it is also important for them to remain independent and for an issuer to keep the board refreshed through succession planning. We found 18% of INED directorships are occupied by INEDs who have served for more than nine years (Long Serving INEDs). These Long Serving INEDs sit across 30.9% of issuers listed on the Exchange.

Chart 1: INEDs by length of tenure and issuers with Long Serving INEDs (as of 16 June 2021)

INEDs by length of tenure

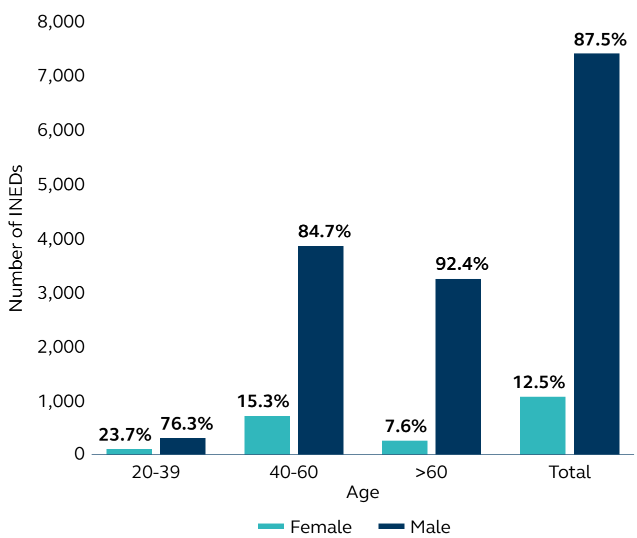


Board diversity

Board diversity has become a critical factor in business resiliency, sustainability and long term financial performance. It improves a company's ability to listen to and understand its stakeholders.

However, despite this almost one-third of our issuers still do not have a female director on their boards.

Chart 2: INED directorships by gender and by age group (as of 16 June 2021)



Key aims of our diversity proposals

- End single gender boards within three years
- Set targets and timelines for gender diversity (board level and workforce level)
- Review issuer's board diversity policy annually

Please look out for our conclusions on the **HKEX website**.

Recent listing developments

Other than the two papers mentioned in the introduction, we also published the following in the first half of 2021, to help increase the attractiveness and competitiveness of HKEX as a listing regime:

Enhancement of listing regime for overseas issuers

In March, we sought market views on enhancements to our listing regime for overseas issuers to streamline, expand, and provide flexibility to those that have, or are seeking, a listing in Hong Kong.

Main Board profit requirement conclusions

After careful consideration of all feedback, the Exchange adopted a 60% increase in the profit an applicant must demonstrate to list on the Main Board. We will implement the changes on 1 January 2022.

Modernising Hong Kong's IPO settlement process

In July, HKEX announced that it will proceed with introducing a new platform, FINI (Fast Interface for New Issuance), to reduce the current T+5 settlement cycle to a T+2 settlement cycle after receiving overwhelming market support. We expect FINI to be rolled out in the fourth quarter of 2022, at the earliest.

Looking forward

Enhancing our listing regime – SPACs

A Special Purpose Acquisition Company (“SPAC”) is a type of shell company that raises funds through an IPO for the purpose of acquiring an operating company within a pre-defined time period after listing (typically two years). At the time of IPO, SPACs do not have business operations and do not have assets other than the proceeds from their IPO and the funds required to pay for their expenses.

Issuance of US-listed SPACs dramatically surged in 2020. The proceeds raised from SPAC IPOs increased from US$10.0 billion in 2017 to US$82.6 billion in 2020. In the first half of 2021, US-listed SPAC IPO proceeds exceeded the whole of 2020, amounting to US$109.4 billion from 358 IPOs.

As Asia’s premier global listing market, HKEX is always looking for ways to enhance its listing framework, striking the right balance between delivering appropriate investor protections, market quality and market attractiveness. We are currently studying the feasibility of a Hong Kong SPAC framework, and we look forward to consulting the market on this in the third quarter of 2021.

Contact Us

If you would like to share your feedback with us,
please email to **listingnews@hkex.com.hk**.