

Frequently Asked Questions Series 21 (Released on 27 March 2013)

Questions relating to the Corporate Governance Code and Associated Listing Rules

(Withdrawn in December 2018; superseded by FAQ Series 17)

The following frequently asked questions (FAQs) are designed to help issuers to understand and comply with the Listing Rules, particularly in situations not explicitly set out in the Rules or where further clarification may be desirable.

Users of the FAQs should refer to the Rules themselves and, if necessary, seek qualified professional advice. The FAQs are not substitutes for the Rules. If there is any discrepancy between the FAQs and the Rules, the Rules prevail.

In formulating our “answers”, we may have assumed certain underlying facts, selectively summarised the Rules or concentrated on one particular aspect of the question. They are not definitive and do not apply to all cases where the scenario may at first appear similar. In any given case, regard must be had to all the relevant facts and circumstances.

The Listing Division may be consulted on a confidential basis. Contact the Listing Division at the earliest opportunity with any queries.

No.	Main Board Rules	GEM Rules	Query	Response
<u>Corporate Governance Code</u>				
1.	Appendix 14 Code Provision A.1.8	Appendix 15 Code Provision A.1.8	What are the requirements for the insurance cover that an issuer should provide in respect of legal action against its directors?	Issuers should take out appropriate insurance cover in respect of the possible legal liabilities that directors may face. What is appropriate is up to the individual issuer. For example, directors of a large multi-national company may need a higher degree of insurance cover than an issuer based locally. It also depends on other factors such as the nature of the issuer's business. The board of each issuer should consider its own risks and take out appropriate directors' liability insurance accordingly.
2.	Appendix 14 Code Provision A.5.1	Appendix 15 Code Provision A.5.1	If an issuer's nomination committee is not chaired by an independent non-executive director or the chairman of the board, what might the Exchange consider an acceptable explanation for this deviation from the Code Provision?	The issuer should explain in its Corporate Governance Report the reason(s) for the deviation. The Exchange does not judge whether an explanation is acceptable. The judges of the explanation are the investors and stakeholders who read the Corporate Governance Report.
3.	Appendix 14 Code Provision A.6.7	Appendix 15 Code Provision A.6.7	Code Provision A.6.7 states that the independent non-executive directors and other non-executive directors " <i>should also attend general meetings and develop a balanced understanding of the views of shareholders</i> ". Is it a deviation from the Code Provision if one or more of an issuer's independent non-executive directors and non-executive directors did not attend a general meeting?	We would not consider the absence of one or more of an issuer's independent non-executive directors and non-executive directors from a general meeting as a deviation from Code Provision A.6.7. This is because the new Mandatory Disclosure Requirement under Paragraph I (c) serves the regulatory objective of encouraging all directors (not just independent non-executive director and non-executive directors) to attend general meetings. The Exchange will review the wording of this Code Provision in due

				course.
4.	Appendix 14 Mandatory Disclosure Requirements Paragraph L(a)	Appendix 15 Mandatory Disclosure Requirements Paragraph L(a)	It is a Mandatory Disclosure Requirement for an issuer to disclose in their Corporate Governance Report the role and function of the board committees. Could the issuer refer to their board committees' Terms of References published on their website rather than re-producing the information in the Corporate Governance Report?	The issuer should be able to refer to the Terms of References that they have published on the website as these documents are now readily available.
<u>Associated Listing Rules</u>				
5.	Rules 3.22 and 3.26	Rules 5.29 and 5.35	Are board resolutions sufficient for amending the terms of reference of an issuer's audit and remuneration committees? Or are shareholder resolutions required?	The board should decide on and amend the terms of reference of the audit and remuneration committees (and indeed of all other board committees). Shareholder approval is not required.
6.	Rule 13.51D	Rule 17.50C	If the procedures for shareholders to propose a person for election as a director are set out in an issuer's constitutional documents (which are already required to be published on its website and the Exchange's website), does the issuer need to separately publish these procedures on its website?	We would expect the issuer to publish the procedures separately on its website. This is because, first, the constitutional documents are usually very lengthy and investors may find it difficult to locate the procedures (especially if they are unaware that these procedures are set out in the constitutional documents). Second, publishing the procedures on the issuer's website should not be onerous and doing so will enhance transparency.