

Frequently Asked Questions Series 30 (Released on 19 December 2014) (Updated on 14 July 2015)

Questions relating to the Risk Management and Internal Control section of the Corporate Governance Code

Status of “Frequently Asked Questions”

The following frequently asked questions (FAQs) are designed to help issuers 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 “responses”, 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. Please contact the Listing Division at the earliest opportunity with any queries.

No.	Main Board Rules	GEM Rules	Query	Response
1.	Appendix 14, Sections C.2, C.3, L and Q	Appendix 15, Sections C.2, C.3, L and Q	What is the implementation date of the amendments to the Corporate Governance Code and Corporate Governance Report (“revised Code”) in relation to internal controls?	<p>The revised Code will apply to accounting periods beginning on or after 1 January 2016.</p> <p>An issuer must state in its first interim or annual report covering a period beginning on or after 1 January 2016 whether it has, for that period, complied with the new Code Provisions (“CP”) in the revised Code.</p> <p>For example, an issuer with a 30 September financial year end must disclose in its interim report covering the period from 1 October 2015 to 31 March 2016 as follows:—</p> <ul style="list-style-type: none"> • report on the old Code during the period from 1 October to 31 December 2015; and— • report on the revised Code from 1 January to 31 March 2016.— <p>An issuer with a 31 December financial year end must report on the revised Code in its interim report covering the period from 1 January to 30 June 2016.—</p> <p><u>Example A:</u> <u>An issuer with a 31 December financial year-end must implement and report on the revised Code from 1 January 2016.</u></p>

				<p><u>Example B:</u> <u>An issuer with a 30 June financial year-end must report on the old Code up to 30 June 2016, and implement and report on the revised Code from 1 July 2016.</u></p> <p><u>Example C:</u> <u>An issuer with a 30 September financial year-end must report on the old Code up to 30 September 2016, and implement and report on the revised Code from 1 October 2016.</u></p> <p><u>(Updated on 14 July 2015)</u></p>
2.	Appendix 14, Principle C.2	Appendix 15, Principle C.2	Principle C.2 of the Code states that the management should provide a confirmation to the board on the effectiveness of the risk management and internal control systems. Is there a definition for the term “management”?	“Management” is a commonly understood term; each company may have its own definition of “management”. We consider the “management” of an issuer should be determined by the issuer.
3.	Appendix 14, Principle C.2 and	Appendix 15, Principle C.2	For the management to provide a confirmation to	We intended the term “confirmation” to mean that the management should inspire confidence in the board on the

	RBP C.2.6	and RBP C.2.6	the board on the effectiveness of the issuer's risk management and internal control systems, is it necessary for the management to first obtain a confirmation from an independent third party?	effectiveness of the systems, as opposed to requiring assurance given by independent third parties.
4.	Appendix 14, CP C.2.1	Appendix 15, CP C.2.1	The board is required to oversee the issuer's risk management and internal control systems " <i>on an ongoing basis</i> ". Is this a day-to-day responsibility of the board?	It is the role of management to implement and take day-to-day responsibility for board policies on risk management and internal control. However, the board needs to satisfy itself that management has understood the risks, has implemented and is monitoring appropriate policies and controls, and is providing the board with timely information so that it can discharge its own responsibilities.
5.	Appendix 14, CP C.2.5	Appendix 15, CP C.2.5	CP C.2.5 states that the issuer should have an internal audit function. Is it a deviation from the CP if an issuer outsources the	We understand that in practice it is common for issuers to engage external service providers to perform the internal audit function. We would not consider outsourcing the internal audit function to competent persons as a deviation from CP C.2.5.

			internal audit function?	
6.	Appendix 14, CP C.2.5	Appendix 15, CP C.2.5	What does the Exchange expect of an issuer's internal audit function?	<p>While the Exchange does not intend to prescribe the manner in which issuers carry out their internal audit function, we note that it may be helpful for issuers to refer to the Institute of Internal Auditors' International Professional Practices Framework ("IAIPPF") for guidance.</p> <p>The IAIPPF defines "internal auditing" as "an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes".</p>
7.	Appendix 14, CP C.2.5	Appendix 15, CP C.2.5	Note 2 to CP C.2.5 states that a group with multiple listed issuers may share group resources to carry out the internal audit function for members of the group. Which of the listed issuers in the group	We consider that a group should have the flexibility to decide which of its group companies, holding or subsidiaries, is best equipped to carry out the internal audit function for other members of the group, based on expertise and resources planning and allocation. However, it is not the case that a group should always share resources to carry out the internal audit function. In some cases, it may be more appropriate for issuers within a group to carry out the internal audit function separately. This is a matter

			should carry out the internal audit function?	for each issuer, or group of issuers, to consider and decide upon in the light of their individual circumstances.
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