

Part B Consultation Questions

Please indicate your preference by checking the appropriate boxes. Please reply to the questions below on the proposed change discussed in the Consultation Paper downloadable from the HKEx website at: <http://www.hkex.com.hk/eng/newsconsul/mktconsul/Documents/cp201406.pdf>

Where there is insufficient space provided for your comments, please attach additional pages.

1. Do you agree with our proposal to amend the title of Section C.2 of the Code to “Risk management and internal control”?

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Yes

☐

No

Please give reasons for your views.

Internal control is an integrated part of risk management. Risk is the possibility of an event occurring that will have an impact on the achievement of objectives. Proper internal control design and implementation may mitigate the existing and potential risk.

2. Do you agree with the proposed amendments to Principle C.2 to define the roles of the board and the management, and state that the management should provide assurance to the board on the effectiveness of the risk management systems? Is the intention of the proposed wording sufficiently clear?

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Yes

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No

Please give reasons for your views.

The proposed amendments clarify the board and management of an issuer's role to play in respect of an issuer's risk management and internal control systems. The proposed wording is clear enough.

3. Do you agree with our proposal to introduce an amended RBP (C.2.6) to provide that the board may disclose in the Corporate Governance Report that it has received assurance from management on the effectiveness of the issuer's risk management and internal control systems? Is the intention of the proposed wording sufficiently clear?



Yes



No

Please give reasons for your views.

We are in the opinion the C.2.6 should subsequently transfer to a CP. The proposed wording is clear enough.

4. Do you agree with the proposed amendments to CP C.2.1 to state that the board should oversee the issuer's risk management and internal control systems on an ongoing basis? Is the intention of the proposed wording sufficiently clear?



Yes



No

Please give reasons for your views.

The proposed amendments do not clear enough on how often the board should review the systems. Quarterly or monthly review is suggested to add into the CP.

5. Do you agree with our proposal to upgrade to a CP the existing RBP C.2.3, which sets out the matters that the board's annual review should consider?



Yes



No

Please give reasons for your views.

The proposal improves how board should consider in their annual review.

6. Do you agree with our proposal to upgrade to a CP the existing RBP C.2.4, which sets out the particular disclosures that issuers should make in their Corporate Governance Reports in relation to how they have complied with the internal control CPs during the reporting period?



Yes



No

Please give reasons for your views.

The proposal improves disclosures on Corporate Governance Reports in relation to how issuers have complied with the internal control CPs during the reporting period.

7. Do you agree with our proposal to amend the wording of proposed CP C.2.4 to simplify the requirements and remove ambiguous language, and to make clear that the risk management and internal control systems are designed to manage rather than eliminate risks? Is the intention of the proposed wording sufficiently clear?



Yes



No

Please give reasons for your views.

The proposal improves and makes clear that the risk management and internal control system are designed to manage rather than eliminate risks. The proposed wording is clear enough.

8. In relation to proposed CP C.2.4, do you agree with our proposal to upgrade the existing recommendation that issuers disclose their procedures and internal controls for handling and disseminating inside information (Section S., paragraph (a)(ii)), and amend it to include the handling of “other regulatory compliance risks”?



Yes



No

Please give reasons for your views.

The proposed CP improves disclosure on procedures and internal controls for handling and disseminating inside information.

9. Do you agree with our proposal to upgrade to Mandatory Disclosures the following existing Recommended Disclosures in relation to internal controls (Section S.):

- (a) whether the issuer has an internal audit function;
- (b) how often the risk management and internal control systems are reviewed, the period covered, and where an issuer has not conducted a review during the year, an explanation why not;
- (c) a statement that a review of the effectiveness of the risk management and internal control systems has been conducted and whether the issuer considers them effective and adequate; and
- (d) significant views or proposals put forward by the audit committee?



Yes



No

Please give reasons for your views.

The proposed mandatory disclosures improves meaningful and comparable detail regarding issuers' internal control function.

10. Do you agree with our proposal to move the existing recommendation that issuers disclose details of any significant areas of concern (Section S., paragraph (a)(ix)) to a new RBP C.2.7, and to amend the provision to widen its application by removing the reference to areas of concern “which may affect shareholders”?



Yes



No

Please give reasons for your views.

We are in the opinion that this mandatory disclosures should be more specific on which areas and how to evaluate the significance.

11. Do you agree with our proposal to remove RBP C.2.5, which states that issuers should ensure their disclosures provide meaningful information and do not give a misleading impression?



Yes



No

Please give reasons for your views.

The RBP C.2.5 does not provide sufficient guidance for issuers.

12. Do you agree with our proposals to remove the recommendations that issuers include in their Corporate Governance Reports:

- (a) an explanation of how the internal control system has been defined for them (Section S., paragraph (a)(i)); and
- (b) the directors' criteria for assessing the effectiveness of the internal control system (Section S., paragraph (a)(vii))?



Yes



No

Please give reasons for your views.

The meaning of internal control system should not defined by the issuers themselves.

13. Do you agree with our proposal to upgrade RBP C.2.6 to a CP (re-numbered C.2.5) and amend it to state that an issuer should have an internal audit function, and issuers without an internal audit function should review the need for one on an annual basis and disclose the reasons for the absence of such function in the Corporate Governance Report? Is the intention of the proposed wording sufficiently clear?



Yes



No

Please give reasons for your views.

The issuers should consider having an internal audit function on an annual basis. The proposed wording is clear enough.

14. Do you agree with our proposal to introduce new Notes to the proposed CP C.2.5 to clarify that:

- (a) the role of the internal audit function is to carry out the analysis and independent appraisal of the adequacy and effectiveness of an issuer's risk management and internal control systems; and
- (b) a group with multiple listed issuers may share group resources of the holding company to carry out the internal audit function for members of the group?

☒ Yes

☐ No

Is the intention of the proposed wording sufficiently clear? Please give reasons for your views.

We are in the opinion that one more note should be added to clarify that the issuers may outsource of the internal audit function to external consultant to enhance the independence.

15. Do you agree with our proposal to amend the existing CP C.2.2 to state that the board's annual review should ensure the adequacy of resources, staff qualifications and experience, training programmes and budget of the issuer's internal audit function (in addition to its accounting and financial reporting functions)?

☒ Yes

☐ No

Please give reasons for your views.

The board should ensure rather than consider the adequacy of resources, staff qualifications and experience, training programmes and budget of the issuer's accounting, internal audit and financial reporting functions.

16. Do you agree with our proposal to amend Principle C.3 in respect of audit committees and CP C.3.3 in respect of their terms of reference to incorporate “risk management” where appropriate?



Yes



No

Please give reasons for your views.

It in line with the overall proposals to emphasise that internal control is an integrated part of risk management.

17. Do you agree that the matter of establishing a separate board risk committee should be left to issuers to decide in accordance with their own circumstances?



Yes



No

Please give reasons for your views.

Issuers should decide in accordance with their own circumstances which committee should be set up, for example, risk committee, internal control committee or corporate governance committee where appropriate.

18. What would be an appropriate period of time between the publication of the consultation conclusions and the implementation of the amendments set out in the Consultation Paper?



Six months



Nine months



12 months



Others (please specify:)

Please give reasons for your views.

The internal control practice and corporate governance disclosure in Hong Kong market is far behind other jurisdictions including the UK, Australia, Singapore, the US and even our Mainland China. As global financial centre, we have to catch up with the global development in this area.

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