

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/cp201209q.doc>.

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

1. Do you agree that the Exchange should promote board diversity?

Yes

No

Please give reasons for your views.

F&C believes that high-performing, effective boards are needed to oversee and challenge executive management and tackle "group-think". This requires effective chairing as well as a strong, diverse and balanced board, and means that each board appointment should enhance the combination of talent, experiences and perspectives on the board. Boards should therefore appoint directors whose individual expertise and contribution to the collective diversity of skills and perspectives (which may include diversity of gender, ethnicity and national background, and professional experience) add value to the company's strategy by enhancing the quality of board debate.

2. If your answer to Q.1 is "yes", do you agree that our Corporate Governance Code and Corporate Governance Report is the appropriate place for the new measures on board diversity?

Yes

No

Please give reasons for your views.

F&C believes that a process driven by companies and investors, rather than purely by regulation, is more likely to be effective in addressing not just the symptoms but most importantly the underlying causes of company-specific diversity challenges.

Our extensive experience of engagement with the boards of listed companies suggests that insufficient board diversity often stems from either a poor understanding of the benefits it can bring or the perceived unavailability of candidates of suitable calibre. The former can be addressed by a strong message on the value of diversity in corporate governance code of best practice and by shareholder engagement. The latter will require positive efforts to broaden the pool of eligible applicants so as to include candidates from non-traditional backgrounds, experienced professionals at sub-board level and candidates from overseas markets.

We therefore believe that best-practice guidance on board diversity, such as inclusion of recommendations on the board diversity in the Code, would be a useful aid to enabling boards to seek out the best available talent and manage the transition to a more diverse board without compromising board effectiveness and cohesion.

3. Do you agree with our proposal to introduce CP A.5.6 (*the nomination committee or the board should have a policy concerning diversity of board members, and should disclose the policy or a summary of the policy in the corporate governance report*)? Please give reasons for your views.

Yes

No

Please give reasons for your views.

F&C agrees that for companies to access and benefit from the full available talent pool, they should articulate, publish and actively implement a diversity policy.

The board as a whole, or the nomination committee, should oversee the implementation of the company's diversity policy and report its assessment of progress in the corporate governance report. The nomination committee should report on any gaps in skills, experience, expertise or personal attributes on the board, as well as steps taken to close those gaps while ensuring that candidates are identified and selected from a diverse pool of talent.

The nomination committee should also provide an explanation of positive efforts taken to broaden the pool of eligible applicants so as to ensure access to the full talent pool available. (e.g. to the extent that the committee makes use of external search consultants to fill board roles, a key dimension of the search consultant's mandate should be to encourage board diversity).

It is equally important to note that while board-level leadership through appropriately balanced board composition is a necessary first step, this matter must be addressed at all levels within the organisation, not least as challenges in identifying suitably-qualified board candidates begin with investing today in the "pipeline" of tomorrow.

4. Do you agree (i) with our proposal to introduce a note under CP A.5.6 to clarify what we mean by diversity; and (ii) with the content of the note? Please give reasons for your views.

(i)

Yes

No

(ii)

Yes

No

Please give reasons for your views.

Comments for (ii):

We would also encourage HKEx to include a sentence on the value of board diversity under Principle A.3. For example, the UK Financial Reporting Council's Guidance on Board Effectiveness of March 2011 helpfully states: *Diversity in board composition is an important driver of a board's effectiveness, creating a breadth of perspective among directors, and breaking down a tendency towards 'group think'.*

5. Do you agree with our proposal to introduce a new mandatory disclosure provision in the Code stating that if the issuer has a policy concerning diversity, it should disclose details of the board's policy or a summary of the policy on board diversity, including any measurable objectives that it has set for implementing the policy, and progress on achieving the objectives? Please give reasons for your views.

Yes

No

Please give reasons for your views.

F&C agrees that requiring corporate boards to disclose their board diversity policies, practices, targets and progress as a standard part of corporate governance reporting will play a significant role in underpinning corporate commitment and driving accountability.

In addition, companies should be disclosing corporate policies and practices related to recruitment, training, mentoring and promotion of employees, so as to demonstrate evidence of practical effort in building an underlying executive "pipeline" with desired diversity characteristics.

A strong emphasis on policies to address recruitment, talent development, retention and workplace practices, in combination with clear and stretching standards on disclosure of policies, targets and progress achieved would enable boards and management to address company-specific diversity challenges by seeking out and developing the best available talent within the timeframe deemed appropriate for their companies.

6. Which of the following would you prefer as the implementation date of the amendments set out in this paper?

1 January 2013

- 1 April 2013
- 1 June 2013
- 1 September 2013
- Other, please specify and give reasons.

In our view, 1 January 2014 would be a more appropriate implementation date, as it would allow sufficient time for companies to develop necessary policies, objectives and implementation plans.

- End -