

8 November 2012

Corporate Communications Department
Hong Kong Exchanges and Clearing Limited
12th Floor, One International Finance Centre
1 Harbour View Street
Central
Hong Kong

Re: Consultation Paper on Board Diversity

Dear Sir/Madam

We welcome the opportunity to provide our feedback on the HKEx consultation paper on Board Diversity.

By way of background, Hermes is one of the leading asset managers in the City of London. As part of our Equity Ownership Service (Hermes EOS), we also respond to consultations on behalf of many clients from around the world, including British Coal Staff Superannuation Scheme, Mineworkers Pension Scheme, Lothian Pension Fund and BT Pension Scheme Management Limited from the UK, PNO Media (Netherlands) VicSuper of Australia and Canada's Public Sector Pension Investment Board (only those clients which have expressly given their support to this response are listed here). In all, EOS advises clients with regard to assets worth a total of US\$140 billion (as at 30 June 2012).

Hermes takes a close interest in matters of company law and regulation because they set the context for the exercise of our clients' rights as part owners of the companies in which they invest. We seek to safeguard our clients' current rights and also to enhance the transparency and accountability of companies and their directors to their long-term owners.

Board diversity is a key issue for HEOS. We believe that company boards will be most effective if they reflect the diversity of their businesses and their stakeholders. We encourage companies to embrace diversity in its widest sense including gender, ethnicity, a range of professional backgrounds and specialist skills, geographic perspectives and other attributes important for a company's particular business situation and plans.

We welcome these proposals and strongly encourage HKEx to finalise its proposals on board diversity promptly.

We answer the specific questions below.



We hope that you find our comments helpful. If you would like to further discuss any specific issues or exchange views, please do not hesitate to contact [REDACTED]
[REDACTED]

Yours sincerely,

[REDACTED]

[REDACTED]
Hermes Equity Ownership Services
Hermes Fund Managers Limited

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.

There is a growing body of evidence that board diversity really does matter from the perspective of company performance. In saying this, we are not referring solely to gender but also to diversity of ethnicity, background, age, tenure and skills and attributes appropriate for a company's particular situation. We encourage companies to consider diversity in every sense as part of their nominations process; we believe that every company will benefit from ongoing careful consideration of the composition of their boards. We support HKEx actively promoting board diversity in all listed companies in Hong Kong. This could also potentially establish best practice for listed companies in mainland China.

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.

We support Corporate Governance Code and Corporate Governance Report as the best routes to develop best practice on board diversity. We would strongly prefer that the board diversity should be addressed through best practice initiatives. However, we understand that should a best practice or self-regulatory approach fail then the introduction of a mandatory approach with specific targets may be necessary.

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.

We encourage companies to have effective policies. We expect that boards will set their own objectives and targets regarding diversity according to their business circumstances and will seek to implement necessary changes as part of the process of board renewal. We also encourage boards to undertake a regular and thorough analysis of their composition to ensure that the board operates effectively and the interests of all relevant stakeholders are effectively represented. A board diversity policy is one of the essential parts of the proper annual board evaluation process. Where boards appear to lack sufficient diversity, we will question the extent to which the success of their board diversity policies and such evaluations are being properly carried out.

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) (ii)

Yes

Yes

No

No

Please give reasons for your views.

We believe that companies can benefit from the inclusion of a variety of experience and perspectives around the boardroom table to assist in the process of guiding and challenging executives and in generating constructive debate and discussion. We therefore believe such diversity should include not only gender but also ethnicity and other attributes important for a company's particular situation such as a range of professional backgrounds, geographical knowledge and specialist skills. In order to ensure that sufficient high quality candidates with diverse backgrounds are available to serve on boards, companies should also take steps to ensure that in considering internal promotion or external appointments their human resources policies do not inadvertently discriminate against certain groups. We strongly support the drafting of the note to A5.6 because of its broad understanding of the concept of diversity.

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.

We encourage a recommendation-based, comply-or-explain approach to the introduction of a new mandatory disclosure provision in the Code. We welcome companies' action to establish a board diversity policy as a first step. However, effective implementation of such policies is equally important so that changes to board diversity are actually and appropriately made. Therefore, transparent measuring of progress and reporting against measurable objectives and targets are crucial for the HKEx and shareholders to understand the progress made by companies. We encourage boards to undertake a regular and thorough analysis of their composition to ensure that the interests of all relevant stakeholders are effectively represented. This should be part of the annual board evaluation process.

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.

- End -