

Submitted via Qualtrics

Impax Asset Management

Company/Organisation view

Investment Manager

Question 1

Do you agree with our proposal to introduce a new Code Provision (CP) under the Corporate Governance Code (CG Code) requiring issuers without an independent board chair to designate one independent non-executive director (INED) as a Lead INED to enhance engagement with investors and shareholders?

Yes

Please provide reasons for your views.

Impax has been promoting a lead independent non-executive director in our invested companies for years as we believe it is important to improve the independence of the board of directors. This is even more so for markets like HK in which still quite a few companies have a consolidated ownership structure and chaired by a non-independent director.

Question 2(a)

Regarding continuous professional development for directors, do you agree with our proposal to make continuous professional development mandatory for all existing directors, without specifying a minimum number of training hours?

Yes

Please provide reasons for your views.

We agree it is important to make continuous professional development mandatory for all existing directors in this changing business environment. We understand that the quality of such professional development could not be only measured by the number of hours. However, we do encourage the HKEX to ask issuers to make detailed disclosures around the trainings provided for investors to make better decisions.

Question 2(b)

Regarding continuous professional development for directors, do you agree with our proposal to require First-time Directors to complete a minimum of 24 hours of training within 18 months following their appointment?

Yes

Please provide reasons for your views.

It has been a long-standing request from us to ask first-time directors to complete some trainings to make sure they are qualified. While we understood many directors are busy, we hope the HKEX could encourage the first-time directors to complete 24 hours of training (equivalent to three full working days) within 12 months following their appointment.

Question 2(c)

Regarding continuous professional development for directors, do you agree with our proposal to define “First-time Directors” to mean directors who (i) are appointed as a director of an issuer listed on the Exchange for the first time; or (ii) have not served as a director of an issuer listed on the Exchange for a period of three years or more prior to their appointment?

Yes

Please provide reasons for your views.

We agree with the definition.

Question 2(d)

Regarding continuous professional development for directors, do you agree with our proposal to specify the specific topics that must be covered under the continuous professional development requirement?

Yes

Please provide reasons for your views.

We were often asked by our invested companies as what trainings they should provide to their directors. So, we believe that specific topics to cover from the Exchange would be appropriated.

Question 3

Do you agree with the proposed consequential changes to Principle C.1 and CP C.1.1 of the CG Code?

Yes

Please provide reasons for your views.

Relevant changes to the last question.

Question 4

Do you agree with our proposal to upgrade the current Recommended Best Practice (RBP) in the CG Code to a CP requiring issuers to conduct regular board performance reviews at least every two years and make disclosure as set out in CP B.1.4?

Yes

Please provide reasons for your views.

Board performance review is important for us outsiders to understand how the board has been making decisions and to assess its effectiveness. We believe the frequency of once every two years is reasonable and will not put too much pressure on the issuers. This amendment will also make the rules in HK consistent with those in the UK, Singapore and Australia.

Question 5

Do you agree with our proposal to introduce a new CP requiring issuers to maintain a board skills matrix and make disclosure set out in CP B.1.5?

Yes

Please give reasons for your views.

This is another disclosure that Impax has been asking our invested companies to make for many years as we believe the board skills matrix could help us better understand how each director could contribute to the strategy/decision-making process using their specific background/knowledge.

Question 6(a)

In relation to our proposal to introduce a “hard cap” of six listed issuer directorships that INEDs may hold, do you agree with the hard cap to ensure that INEDs are able to devote sufficient time to carry out the work of the listed issuers?

Yes

Please provide reasons for your views.

Overboarding is an issue that we have been engaging with our invested companies in Hong Kong for over a decade. As of the end of December 2023, there were 23 overboarding INEDs at 181 issuers, representing around 7% of all issuers. There were five overboarding INEDs holding ten or more issuer directorships.

In our past engagements, we have found cases where directors hold more than five directorships at HK-listed companies could not make it to all the

board meetings, so we believe a hard cap at six is needed if not less. It is also worth noting that Malaysia has a limit of five INED directorships, while in Taiwan the cap is four and in mainland China, three. So, we encourage the HKEX to catching up on this standard with peer markets when issuers are ready.

Question 6(b)

In relation to our proposal to introduce a “hard cap” of six listed issuer directorships that INEDs may hold, do you agree with the proposed three-year transition period to implement the hard cap?

Yes

Please provide reasons for your views.

This is not ideal, but we understand that the term of many directors in HK are three years, so this transition window will make sure all issuers have sufficient time to comply with the new rules.

Question 7

Do you agree with the proposal to introduce a new Mandatory Disclosure Requirement (MDR) in the CG Code to require the nomination committee to annually assess and disclose its assessment of each director’s time commitment and contribution to the board?

Yes

Please provide reasons for your views.

This will be material information for us investors to decided on our votes to individual directors upon re-election. It is only fair if the directors who are not spending enough time and making required contributions to the board would be voted out and directors who had performed their fiduciary duties could stay. We reckon this will help to build a healthy market environment over the long term. We would also like to reiterate concerns over independence of NCs which can still be chaired by a non-independent member. We believe this sets Hong Kong well behind the curve in the region.

Question 8(a)

In relation to our proposal to introduce a “hard cap” of nine years on the tenure of INEDs, beyond which an INED will no longer be considered to be independent, do you agree with the proposed hard cap to strengthen board independence?

Yes

Please give reasons for your views.

The long tenure of independent directors is another long-standing issue that we have engaged with many invested companies in HK. As of the end of December 2023 there were 1500 directorships held by long serving INEDs at 810 issuers, representing around 31% of all companies. There are 30 issuers where all INEDs are long serving. We think this is one of the core reasons why some boards of HK-listed companies are stagnated. The 'nine-year' cap will also make the HKEX rules aligned with the SGX rules which as amended last year.

Question 8(b)

In relation to our proposal to introduce a “hard cap” of nine years on the tenure of INEDs, beyond which an INED will no longer be considered to be independent, do you agree that a person can be re-considered as an INED of the same issuer after a two-year cooling-off period?

No

Please provide reasons for your views.

Given the close connections within the business community in HK, we do not believe that a two-year cooling-off period would be adequate to make a long-serving director independent again. We suggest the HKEX reconsider this proposal by either extending the cooling-off period to be at least five years or abort it.

Question 8(c)

In relation to our proposal to introduce a “hard cap” of nine years on the tenure of INEDs, beyond which an INED will no longer be considered to be independent, do you agree with the proposed three-year transition period in respect of the implementation of the hard cap?

Yes

Please provide reasons for your views.

This is not ideal, but we understand that the term of many directors in HK are three years, so this transition window will make sure all issuers have sufficient time to comply with the new rules.

Question 9

Do you agree with the proposal to require all issuers to disclose the length of tenure of each director in the CG Report?

Yes

Please provide reasons for your views.

We are in favour of more transparency on this.

Question 10

Do you agree with our proposal to introduce a CP requiring issuers to have at least one director of a different gender on the nomination committee?

Yes

Please provide reasons for your views.

We strongly support this new requirement. As the report published by the Asian Corporate Governance Association in January 2022, "Old school mentality in the new economy", has found that appointing a woman to chair the nomination committee leads to a greater ratio (on average 25% women on boards compared to the average 16% for the top 100 companies) of females on the board.

Question 11

Do you agree with our proposal to introduce a Listing Rule to require issuers to have and disclose a diversity policy for their workforce (including senior management)?

Yes

Please provide reasons for your views.

After years of engaging on this issue, we think it is time for HK to introduce a Listing Rule on this matter.

Question 12

Do you agree with our proposal to upgrade from a CP to a MDR the requirement on the annual review of the implementation of an issuer's board diversity policy?

Yes

Please provide reasons for your views.

A new rule requiring mandatory disclosure of how diversity policies are being implemented would be great.

Question 13

Do you agree with our proposal to require as a revised MDR separate disclosure of the gender ratio of: (i) senior management; and (ii) the workforce (excluding senior management) in the CG Report?

Yes

Please provide reasons for your views.

We would like to have more visibility on gender ratios among senior management and the greater workforce. We also encourage the HKEX to ask issuers to set targets on gender ratios among senior management and the greater workforce.

Question 14

Do you agree with our proposal to codify the arrangements during temporary deviations from the requirement for issuers to have directors of different genders on the board as set out in draft Main Board Listing Rule 13.92(2) in Appendix I?

Yes

Please provide reasons for your views.

We agree with the proposal during the transition period.

Question 15(a)

Do you agree with our proposal to emphasise in Principle D.2 the board's responsibility for the issuer's risk management and internal controls and for the (at least) annual reviews of the effectiveness of the risk management and internal control systems?

Yes

Please provide reasons for your views.

We agree for this annual review approach. We would also encourage more disclosures around the roles played by the management and internal audit (if any) in implementing and reviewing risk management and internal control systems.

Question 15(b)

Do you agree with our proposal to upgrade the requirement to conduct (at least) annual reviews of the effectiveness of the issuer's risk management and internal control systems to mandatory and require the disclosures set out in MDR paragraph H?

Yes

Please provide reasons for your views.

The same as above.

Question 16

Do you agree with our proposal to refine the existing CPs in section D.2 of the CG Code setting out the scope of the (at least) annual reviews of the risk management and internal control systems?

Yes

Please provide reasons for your views.

This would help issuers to better conduct their yearly reviews.

Question 17

Do you agree with our proposal to introduce a new MDR requiring specific disclosure of the issuer's policy on payment of dividends and the board's dividend decisions during the reporting period?

Yes

Please provide reasons for your views.

We strongly agree with this proposal. We believe it is important for investors to have a better visibility around issuers' dividend policy and how the payout ratios and payment decisions are decided/made. Comparing with peer markets such as Japan, Korea and mainland China that have all enhanced the standards on dividend policies in the past year to improve capital efficiency, we think HK is behind the curve in this regard. In general, we would also like to see the HKEX ask for disclosures around the capital allocation decisions made by companies listed in HK. Over the longer term, we hope the HKEX could make this MDR into a Listing Rule.

Question 18

Do you agree with our proposal to introduce a Listing Rule requirement for issuers to set a record date to determine the identity of security holders eligible to attend and vote at a general meeting or to receive entitlements?

Yes

Please provide reasons for your views.

We believe being able to attend and vote at general meetings or receive entitlements are the core of shareholder rights. As we have incurred some obstacles in doing these in Asian markets, including HK, in the past due to the confusion around the custodian bank registrations, we think setting a record date will help to streamline the procedure before the actual events.

Question 19

Do you agree with our proposal to codify our recommended disclosures in respect of issuers' modified auditors' opinions into the Listing Rules?

Yes

Please provide reasons for your views.

We agree as this would provide more transparency when there is a modified auditors' opinion.

Question 20

Do you agree with our proposal to clarify our expectation of the provision of monthly updates in CP D.1.2 and the note thereto?

Yes

Please provide reasons for your views.

This will help issuers to prepare the monthly updates to meet the HKEX's expectations.

Question 21

Do you agree with our proposal to align requirements for the nomination committee, the audit committee and the remuneration committee on establishing written terms of reference for the committee and the arrangements during temporary deviations from requirements as set out in draft Main Board Listing Rules 3.23, 3.27, 3.27B, 3.27C and 8A.28A in Appendix I?

Yes

Please provide reasons for your views.

We agree with the proposal during the transition period.

Question 22

Do you agree with the proposed implementation date of financial years commencing on or after 1 January 2025, with transitional arrangements as set out in paragraphs 182 to 183 of the Consultation Paper?

Yes

Please provide reasons for your views.

Since we are already at mid-2024, we believe this proposed commencing date is as earliest as it can be for the proposals.