



香港華人會計師公會
The Society of Chinese Accountants & Auditors

(在香港註冊成立之有限公司)
(Incorporated in Hong Kong as a company limited by guarantee)

16th August 2024

BY EMAIL <response@hkex.com.hk> AND BY HAND

The Stock Exchange of Hong Kong Limited
8/F, Two Exchange Square,
8 Connaught Place, Central,
Hong Kong

Dear Sirs

Consultation Paper on Review of Corporate Governance Code and Related Listing Rules
("The Paper")

The Society of Chinese Accountants and Auditors ("SCAA") is an incorporated body of professional accountants in Hong Kong established since 1913. Our members are practising accountants and representing a significant number of practising firms of accountants. Since all our members are practising certificate holders and mostly are owners of CPA firms, they have more freedom to allocate their time to other related accountancy work, like INED, and very often act as the chairman of audit committee of a listed issuer.

The SCAA's primary objectives include:

- To alert members of critical issues when there are new laws, standards or regulations which might have impact on members' practice and submit our views to regulatory authorities in Hong Kong SAR, China or international.
- To provide a professional development for our members and focus on training for practising members' technical knowledge and updates.
- To assist members to maintain high standards of professional conduct.
- To promote work life balance and community service among the members.

We realise that the "Review of Corporate Governance Code and Related Listing Rules" may have a significant impact on our members, in particular, those serving as INEDs of listed issuers. In view of this, our INED Concerned Group held a member forum on 31st July 2024 ("the Forum") to seek our members' view on the Consultation Paper and go through the questions as raised in the Consultation Paper.

On behalf of SCAA, we would like to provide our views on the captioned subject which are based on the discussion in the Forum and feedbacks of survey from participants of the Forum.

The majority view was supportive to the proposals and agreeable to the consultation questions except for the following four:-

Question 1 - Designation of lead INED

We are **against** the proposed new CP requiring issuers without an independent board chair to designate one INED as a Lead INED.

.../2



香港華人會計師公會

The Society of Chinese Accountants & Auditors

(在香港註冊成立之有限公司)
(Incorporated in Hong Kong as a company limited by guarantee)

-2-

The general views are set out below:

- The limited authority of the Lead INED would not enhance the engagement with investors and shareholders. Paragraph 29 of the Paper says **“As INEDs are not responsible for the day-to-day management of the company, we would not expect a Lead INED to discuss the issuer’s results and operational matters with potential investors or shareholders”**. As such, there would be likely an expectation gap between the Lead INED and the potential investors or shareholders. It would not achieve the objective that the Paper anticipates.
- There would be potential conflict and lead to more liability issues. Paragraph 30 of the Paper says, **“The role of Lead INED is also not intended to duplicate other existing board roles, for example the chairs of board committees. The duties of the three mandatory board committees under the Listing Rules and the Lead INED would remain separately set out in the CG Code.”**
- It is not clear why the duties of the Lead INED could not be done by a new committee for that purpose. Paragraph 33 of the Paper says **“Issuers that do not have a designated Lead INED may provide reasoned explanations as to why they do not have one based on their individual circumstance. For example, they may set out the alternative shareholder communication channels that they have in place to address the investor concerns underpinning the Lead INED proposal.”** This may be a more effective alternative.

Question 8 - Independence of INEDs

8 (a) - a “hard cap” of nine years on the tenure of INEDs

We are **against** a “hard cap” of nine years on the tenure of INEDs.

The general view is that there are many factors that would have impact on the independence of INED rather than solely on the tenure of the INED directorship. The quality and expertise of the INED would be more important. In particular, CPAs who are INED’s are also required to observe independence and are already governed by the ethical rules of the Hong Kong Institute of Certified Public Accountants.

8 (C) - three-year transition period in respect of the implementation of the hard cap

We are **against** a three-year transition period.

The general view is that for listed issuers, if all their INEDs have been serving for over 9 years, the short transition period of 3 years may bring disruption to the issuers’ operation. There will be a complete change over of all INEDs. Therefore, we suggest the transition period in respect of the implementation of the hard cap of nine years on the tenure of INEDs be extended to a longer period say six years so that the issuers are allowed more reasonable time to find suitable INEDs. The new INEDs can have more time to familiarize with the issuers’ operations when the hard cap of nine years is initially implemented.

.../3



創於1913年
Founded in 1913

香港華人會計師公會
The Society of Chinese Accountants & Auditors

(在香港註冊成立之有限公司)

(Incorporated in Hong Kong as a company limited by guarantee)

- 3 -

Question 19 – to codify the recommended disclosures in respect of issuers’ modified auditors’ opinions into the Listing Rules;

We are **against** question 19.

The general views are that the proposal would render undue burden on time and resources on the management and directors, especially the INEDs of the Audit Committee.

Other than the above 4 questions which our members have concerns. In general, we are supportive of the Hong Kong Exchange to improve the Corporate Governance of the listed issuers and appreciate its effort in publishing the consultation paper. We will be happy to answer any further questions that you may have. Should you require more information, please do not hesitate to contact the undersigned.

Yours faithfully

