



Hong Kong Exchanges and Clearing Limited

16 August 2024

Dear Sir/Madam,

Re: Consultation Paper dated 14 June 2024 on “Review of Corporate Governance Code and Related Listing Rules” (“Consultation Paper”)

This is a joint submission prepared by the **Association of Women Accountants (Hong Kong) Limited (“AWAHK”)** and **Shenzhen Hong Kong Macau Women Directors Alliance Limited (“SHMWDA”)**.

AWAHK is an accounting professional body of qualified accountants (both practising and non-practising accountants) set up to advance professionalism in the accountancy service by promoting development and diversity through a broad-based network and to promote work-life integration and social responsibilities. **SHMWDA** aims to promote board and senior management diversity as well as inclusivity in its broadest sense, especially in terms of gender diversity, to foster optimal leadership and corporate governance.

AWAHK and SHMWDA are actively participating in promoting good corporate governance. We submitted our reply to HKEX’s consultation paper dated April 2021 and were pleased to observe most of our recommendations were taken into consideration in the conclusive paper. A pool of professional talents is also available in our **Board Talent Hub** for organizations (both public issuers and private entities including NGOs) which are interested in recruiting. Please refer to our website <https://www.awahk.hk/en/talent-pool/> for further details.

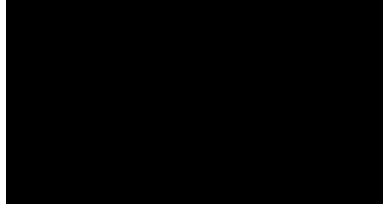
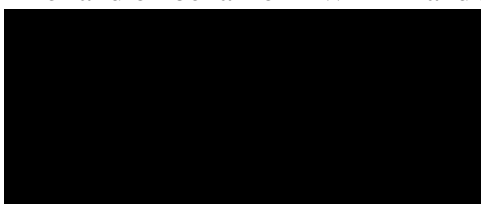
A discussion forum on this 2024 Consultation Paper was jointly organized by AWAHK and SHMWDA on 30 July 2024 with guest speaker, Ms Kelly Lee of HKEX, and a panel with diverse background. We are grateful for HKEX’s support to this forum as well as our members and guests’ participation in sharing their invaluable view on this important matter. Please refer to our website <https://www.awahk.hk/en/events/563/> for further details on this forum. Polling and survey results on key areas of the Consultation Paper took place and their feedback/comments are included in our responses in Appendix enclosed.

Generally speaking, we welcome the direction put forward in this Consultation Paper for the five major areas, namely (A) Board Effectiveness, (B) Independence of INEDs, (C) Board and workforce diversity, (D) Risk Management and Internal Control, as well as (E) Capital Management. Nevertheless, further factors are suggested to be taken into consideration before confirming relevant changes. Please refer to specific comments and concerns in Appendix on each of these areas.

Should you have any questions, please do not hesitate to contact us at info@awahk.hk or (852) 6229 9628.

Yours faithfully,

For and on behalf of AWAHK and SHMWDA



Submitted via Qualtrics

Association of Women Accountants (Hong Kong) Ltd & Shenzhen Hong Kong Macau Women Directors Alliance Ltd

Company/Organisation view

Professional Body / Industry Association

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?

No

Please provide reasons for your views.

This proposal is generally not supported by respondents of our survey taken place in end July to early August. 85% of the respondents do not agree with the proposal to introducing a new CP requiring designation of a Lead INED. Below are some specific comments/recommendations noted:

- The requirement for a Lead INED to engage with investors and shareholders appears to conflict with the purpose of their independence role
- Current practice of many issuers is that committee chairmen are empowered to respond to / engage with investors or shareholders on enquiries and matters relating to their respective committee. It may not be advisable to appoint a Lead INED to take over the roles and responsibilities of the committee chairmen.

While not all members are non-supportive, it is important to consider potential challenges. The introduction of this role may alter the dynamics within the board.

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 are supportive of the above proposals regarding director training to cope with the evolving market and changing regulatory requirements from time to time. Topics below are suggested to be included in the continuous professional development:

- Accounting and tax regulation updates
- Listing rule updates
- Internal control, Compliance and risk management

- ESG reporting, regulatory requirements and practices
- Review of financial statements
- Cybersecurity
- Corporate governance & ethics
- Strategic planning & leadership
- Emerging Trends & Innovation

Note that professional bodies such as AWAHK and SHMWDA have regular trainings/seminars provided on a wide variety of topics (including the above-mentioned) for members' professional development. We strongly recommend that HKEX consider expanding the number of qualified training and professional bodies whose training sessions can be recognised as relevant training for directors.

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.

This is an appropriate requirement that we believe will enhance the effectiveness of newly appointed directors. It is a prudent step towards global best practices.

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.

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.

Topics below are suggested to be included in the continuous professional development:

- Accounting and tax regulation updates
- Listing rule updates
- Internal control, Compliance and risk management

- ESG reporting, regulatory requirements and practices
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- Cybersecurity
- Corporate governance & ethics
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Note that professional bodies such as AWAHK and SHMWDA have regular trainings/seminars provided on a wide variety of topics (including the above-mentioned) for members' professional development. We strongly recommend that HKEX consider expanding the number of qualified training and professional bodies whose training sessions can be recognised as relevant training for directors.

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.

By implementing these changes, the GC Code will further strengthen the corporate governance framework in Hong Kong, enhance transparency and accountability, and promote more effective risk oversight by boards of listed companies.

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.

We are supportive of the proposal to elevate the importance of board performance review by codifying the requirements. This would drive continuous improvement in the governance practices of listed companies and would benefit the companies and their shareholders.

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?

No

Please give reasons for your views.

We agree with the importance of skills set diversity in the board and alignment of relevant skills/ experience with the issuer's strategic objectives and desired culture. However, we reckon that in doing so, the current talent pool available in taking up these roles is not mature enough at this stage. Hence, we suggest this requirement to be proposed as a RBP instead of a CP at this stage due to potential talent shortage in the market.

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.

(a) Yes, but with modification. Our survey respondents are generally in favour of preventive measures on overboarding situation for INEDs. 40% of our survey respondents are supportive of hard cap of six listed issuer directorships that INEDs may hold. 17% of the respondents do not support the hard cap. Meanwhile, 43% of the respondents suggested more flexibility, taking into consideration of factors below:

- Director's background including whether they have other full-time work and his/her expertise;
- Financial year of the listed issuers;
- Scale and nature of the listed issuers

Some respondents opined that the current requirement for an INED with the seventh (or more) listed issuer directorship seems to be effective. In June 2020, 42 overboarding directors in 288 issuers. It has reduced by 45% to 23 directors in 181 issuers as of December 2023. Hence, some recommended the relevant requirement regarding over boarding INED remain unchanged.

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.

As for the transition period, 52% of survey respondents are supportive of the proposed 3-year transition if the hard cap is to be implemented. Meanwhile, there is still almost half (i.e. 48%) of the respondents prefer longer period (i.e. 4 years, 5 years or longer) in view of practical difficulties that the issuers may be facing in replacing current overboarding ones due to lack of potential talents.

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?

No

Please provide reasons for your views.

While the implementation of this new MDR may require additional time and effort from the nomination committee, the benefits in terms of enhanced board effectiveness, transparency, and accountability may outweigh the potential additional workload.

We are supportive of enhancing the role of nomination committee in ensuring directors' time commitment and contribution. However, we suggest this particular proposal to be a RBP instead of MDR to allow sufficient transition time and resources for issuers and committee members in pursuing this requirement.

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.

Yes, but with modification

We are supportive of strengthening board independence. However, there may be practical difficulties for listed issuers in fulfilling the required proposal even with the transition period, due to talent shortage in the market. Only 27%

of our survey respondents agreed with the “hard cap” of nine years on the tenure of INEDs. 56% of the survey respondents proposed to allow flexibility for exemptions/exceptions due to talent shortage in the market which will take some time to develop.

It is recommended that one-third of the INEDs of the board can be long serving directors. Allowing existing long-serving INEDs to gradually step down and be replaced can avoid potential abrupt disruptions to board composition and continuity. By providing sufficient time for listed issuers to identify and onboard suitable replacement INEDs can help to maintain an appropriate balance of experience and fresh perspectives on the board. A good source for board candidates is available from our Board Talent Hub (<https://www.awahk.hk/en/talent-pool>).

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?

Yes

Please provide reasons for your views.

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.

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.

Disclosure of director tenure in the CG Report is a positive step that will strengthen corporate governance and support more informed decision-making by shareholders and other stakeholders.

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.

Although some issuers may initially face challenges in meeting the gender diversity requirement on the nomination committee, the benefits of this proposal in terms of promoting diversity, enhancing decision-making, and aligning with international best practices outweigh the potential implementation challenges. A good source for board/committee candidates is available from our Board Talent Hub (<https://www.awahk.hk/en/talent-pool>).

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.

The implementation of a workforce diversity policy may require additional resources and efforts from some issuers. However, the benefits of promoting a more diverse and inclusive workforce may help meet societal expectations and enhance business performance.

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.

This is a positive and necessary step to further strengthen the focus on board diversity within the corporate governance framework.

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.

The proposal to require separate disclosure of gender ratios for senior management and the broader workforce is a positive step.

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.

Yes, but with modification

This would be a meaningful progress on diversity within the corporate landscape. However, we would like to recommend that the temporary transition period be extended to at least six months (instead of three months proposed). This will ensure sufficient time for the issuer to fill the vacancies with appropriate candidates with high calibre, experience and expertise. A good source for such candidates is available from our Board Talent Hub (<https://www.awahk.hk/en/talent-pool>).

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.

These proposals represent positive and necessary steps to further strengthen corporate governance standards in the capital markets.

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.

These proposals represent positive and necessary steps to further strengthen corporate governance standards in the capital markets.

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.

The proposed refinements to the CPs in section D.2 of the CG Code is a good step forward to further enhance investor confidence and help assure investors that issuers are placing appropriate emphasis on critical governance and control functions.

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.

This would enhance transparency and accountability for the board's decision-making process in relation to dividend distribution.

Detailed disclosure of the issuer's dividend policy and the board's dividend decisions can help investors better understand the company's capital allocation strategy and the factors influencing its dividend payout. This information can help investors in making more informed investment decisions and aligning their dividend generating policies and preferences.

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.

This is a well-considered and necessary measure to further enhance shareholder rights, improved voting integrity, and more efficient corporate actions.

Question 19

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

No

Please provide reasons for your views.

We recommend this requirement to be a RBP instead of CP to maintain flexibility and in view of relevant disclosures are already regulated in auditing standards.

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.

The clarification of the monthly update requirement can assist market participants in monitoring the disclosure practices of issuers and identifying any potential non-compliance. This would help further improve the corporate communications and governance in the capital markets.

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.

The alignment of the requirements across the different board committees can instil greater confidence among investors in the robustness and consistency of the corporate governance practices of Hong Kong-listed companies. This can ultimately enhance the attractiveness and competitiveness of Hong Kong's capital markets.

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.

Yes, but with modification.

The proposed implementation timeline will be rather challenging for issuers to accelerate their compliance efforts in fulfilling relevant requirements proposed in this consultation paper. We suggest an additional extension of 6 to 12 months on top of the proposed timeline to ensure proper implementation with quality. For instance, if Lead INEDs is confirmed to proceed, it will be challenging for issuers to have relevant persons to be appointed by 1 January 2025.