

**Submitted via Qualtrics**

**Company/Organisation view**

**Question 1**

**Do you agree with the proposal to amend Chapter 17 to also govern share award schemes involving the grant of new shares of listed issuers?**

Yes

**Please provide reasons for your views.**

Status of waivers:

As an LSE and HKSE dual listed company, HSBC has in the past been granted numerous waivers (including consents and confirmations) from strict compliance with Chapter 17, many of which have already become HSBC's long-established practice and have shaped the expectation of the market on HSBC.

We would appreciate confirmation that any waivers from Chapter 17 requirements granted by the Hong Kong Stock Exchange to date will remain fully effective notwithstanding any changes to Chapter 17, This will help to maintain continuity and stability for all stakeholders (including UK and HK based shareholders, HSBC management team and global employees, as well as service providers) about HSBC's schemes and their operation which we view as key given that the schemes are vital for retaining our most important talent.

**Question 2**

**Do you agree with the proposed definition of eligible participants to include directors and employees of the issuer and its subsidiaries (including persons who are granted shares or options under the scheme as an inducement to enter into employment contracts with these companies)?**

Yes

**Please provide reasons for your views.**

**Question 3**

**Do you agree with the proposal that eligible participants shall include Service Providers, subject to additional disclosure and approval by the remuneration committee?**

Yes

**Please provide reasons for your views.**

**Question 4**

**Do you agree with the proposal that eligible participants shall include Related Entity Participants, subject to additional disclosure and approval by the remuneration committee?**

Yes

**Please provide reasons for your views.**

**Question 5**

**Do you agree with the proposal to allow the scheme mandate to be refreshed once every three years by obtaining shareholders' approval?**

Yes

**Please provide reasons for your views.**

**Question 6**

**Do you agree with the proposal to allow the scheme mandate to be refreshed within three years from the date of the last shareholders' approval by obtaining independent shareholders' approval?**

Yes

**Please provide reasons for your views.**

**Question 7**

**Do you agree with the proposal to remove the 30% limit on outstanding options?**

**Please provide reasons for your views.**

**Question 8**

**Do you agree with the proposal to require a sublimit on Share Grants to Service Providers?**

**Please provide reasons for your views.**

**Question 9**

**Do you agree with the proposal to require a minimum of 12-month vesting period?**

Yes

**Please provide reasons for your views.**

**Question 10**

**Do you agree with the proposal that Share Grants to Employee Participants specifically identified by the issuer may vest within a shorter period or immediately if they are approved by the remuneration committee with the reasons and details disclosed?**

**Please provide reasons for your views.**

**Question 11a**

**Do you agree with the proposed disclosure requirements relating to performance targets?**

No

**Please provide reasons for your views.**

We have some concerns about the scope of the schemes to which the proposed disclosure requirements relating to (a) performance targets and (b) clawback mechanism would apply.

For awards where performance targets and clawback apply, we would not see an issue with disclosure in grant announcements giving a description of the targets and confirmation of the clawback mechanism. However, the proposal is that disclosure should also be provided in grant announcements for awards where performance targets and clawback do not apply to explain the remuneration committees' view of the rationale for this and the reasons why the grant satisfies the purposes of the scheme in question.

As will be the case for many issuers, HSBC has a number of share schemes that either do not require performance targets and/or clawback to apply as a matter of market practice or corporate governance rules or, in some cases, cannot be subject to performance targets and/or clawback as this would prevent the schemes from meeting the conditions of certain tax legislation. The particular schemes that we have in mind are:

1) deferred bonus schemes: These schemes involve annual bonus being deferred into an award over the issuer's shares. As is common practice in the financial services sector, the bonus when declared and deferred, would not be subject to further performance targets; and

2) all-employee share schemes: These schemes will not have performance targets or be subject to clawback. In the case of HSBC and a number of other issuers, this is for two different reasons (i) it not being appropriate for broad-based schemes which are voluntary for employees to join and are designed to encourage employee share ownership to have these features and (ii) due to the schemes being set up to comply with UK tax legislation which does not allow the schemes to have performance targets or clawback as features.

To avoid grant announcements for deferred bonus schemes and all-employee share schemes regularly needing to explain the absence of performance targets and/or clawback, our proposal would be that these types of scheme are excluded from the requirement to disclose information on the lack of targets/clawback considering (i) deferred bonus schemes are intended to compensate employees for cash compensation they would otherwise receive and (ii) all-employee share schemes do not have these features as a matter out course for issuers because they are voluntary schemes looking to encourage share ownership as mentioned above.

We do not think that this exclusion should impact shareholders' ability to assess how the awards serve to promote the interests of issuers since, as the Hong Kong Stock Exchange would recognise, issuers will often be disclosing information on the schemes (including whether they have performance targets and/or clawback) in their annual report disclosures on directors' remuneration or elsewhere in the annual report. This would certainly be the case for HSBC, for example. The exclusion would, however, reduce the information needed in grant announcements which is an additional obligation for issuers and is not, in our view, information that shareholders need in those announcements given the annual report disclosures.

### **Question 11b**

**Do you agree with the proposed disclosure requirements relating to clawback mechanism?**

No

**Please provide reasons for your views.**

We have some concerns about the scope of the schemes to which the proposed disclosure requirements relating to (a) performance targets and (b) clawback mechanism would apply.

For awards where performance targets and clawback apply, we would not see an issue with disclosure in grant announcements giving a description of the targets and confirmation of the clawback mechanism. However, the proposal is that disclosure should also be provided in grant announcements for awards where performance targets and clawback do not apply to explain the remuneration committees' view of the rationale for this and the reasons why the grant satisfies the purposes of the scheme in question.

As will be the case for many issuers, HSBC has a number of share schemes that either do not require performance targets and/or clawback to apply as a matter of market practice or corporate governance rules or, in some cases, cannot be subject to performance targets and/or clawback as this would prevent the schemes from meeting the conditions of certain tax legislation. The particular schemes that we have in mind are:

1) deferred bonus schemes: These schemes involve annual bonus being deferred into an award over the issuer's shares. As is common practice in the financial services sector, the bonus when declared and deferred, would not be subject to further performance targets; and

2) all-employee share schemes: These schemes will not have performance targets or be subject to clawback. In the case of HSBC and a number of other issuers, this is for two different reasons (i) it not being appropriate for broad-based schemes which are voluntary for employees to join and are designed to encourage employee share ownership to have these features and (ii) due to the schemes being set up to comply with UK tax legislation which does not allow the schemes to have performance targets or clawback as features.

To avoid grant announcements for deferred bonus schemes and all-employee share schemes regularly needing to explain the absence of performance targets and/or clawback, our proposal would be that these types of scheme are excluded from the requirement to disclose information on the lack of targets/clawback considering (i) deferred bonus schemes are intended to compensate employees for cash compensation they would otherwise receive and (ii) all-employee share schemes do not have these features as a matter of course for issuers because they are voluntary schemes looking to encourage share ownership as mentioned above.

We do not think that this exclusion should impact shareholders' ability to assess how the awards serve to promote the interests of issuers since, as the Hong Kong Stock Exchange would recognise, issuers will often be disclosing information on the schemes (including whether they have performance targets and/or clawback) in their annual report disclosures on directors' remuneration or elsewhere in the annual report. This would certainly be the case for HSBC, for example. The exclusion would, however, reduce the information needed in grant announcements which is an additional obligation for issuers and is not, in our view, information that shareholders need in those announcements given the annual report disclosures.

**Question 12**

**Do you agree that it is not necessary to impose a restriction on the grant price of shares under share award schemes?**

**Please provide reasons for your views.**

**Question 13**

**Do you agree with the proposal to apply the 1% Individual Limit to Share Grants (including grants of shares awards and share options) to an individual participant?**

**Please provide reasons for your views.**

**Question 14**

**Do you agree with the proposal to require approval from the remuneration committee instead of INEDs for all Share Grants to Connected Persons?**

**Please provide reasons for your views.**

**Question 15**

**Do you agree with the proposal to relax the current shareholder approval requirement for grants of share awards to a director (who is not an INED) or a chief executive set out in paragraph 65 of the Consultation Paper?**

**Please provide reasons for your views.**

**Question 16**

**Do you agree with the proposal to also relax the current shareholder approval requirement for grants of share awards to an INED or substantial shareholder of the issuer set out in paragraph 68 of the Consultation Paper?**

**Please provide reasons for your views.**

**Question 17**

**Do you agree with the proposal to relax the current shareholder approval requirement for grants of share awards to a controlling shareholder of the issuer set out in paragraph 69 of the Consultation Paper?**

**Please provide reasons for your views.**

**Question 18**

**Do you agree with the proposal to remove the HK\$5 million de minimis threshold for grants of options to an INED or substantial shareholder of the issuer?**

**Please provide reasons for your views.**

**Question 19**

**Do you agree with the proposals to require disclosure of Share Grants to Related Entity Participants or Service Providers on an individual basis if the grants to an individual Related Entity Participant or Service Provider exceed 0.1% of the issuer's issued shares over any 12-month period?**

Yes

**Please provide reasons for your views.**

We agree with the proposals to require disclosure on an individual basis of share awards for Connected Persons and those individuals whose grants exceed the limits mentioned. This would bring the requirements for share awards into line with those that already apply for share options for Connected Persons and we would not expect, in HSBC's case, to have any individuals whose grants exceeded the proposed thresholds. (If we did, we would have no issue with disclosing those grants).

We are, however, concerned about the proposal that share award grants to other categories of recipient should be disclosed in grant announcements, even on an aggregated basis, as soon as possible after grant, as such disclosure requirement is proposed to be extended to share awards. In common with many issuers, HSBC has very regular grants of share awards. Being required to disclose those awards as soon as possible after grant would involve a great deal of additional work and administration. We would propose instead that issuers should be permitted to disclose grants for "other" recipients on a monthly basis, preferably on the same timetable as the monthly return that we currently make. This would ensure that the grants were disclosed for full transparency to the market but on a timeline that would be more practical for issuers to manage.

### **Question 20**

**Do you agree with the proposed disclosure requirement for the grant announcement?**

Yes

**Please provide reasons for your views.**

We agree with the proposals to require disclosure on an individual basis of share awards for Connected Persons and those individuals whose grants exceed the limits mentioned. This would bring the requirements for share awards into line with those that already apply for share options for Connected Persons and we would not expect, in HSBC's case, to have any individuals whose grants exceeded the proposed thresholds. (If we did, we would have no issue with disclosing those grants).

We are, however, concerned about the proposal that share award grants to other categories of recipient should be disclosed in grant announcements, even on an aggregated basis, as soon as possible after grant, as such disclosure requirement is proposed to be extended to share awards. In common with many issuers, HSBC has very regular grants of share awards. Being required to disclose those awards as soon as possible after grant would involve a great deal of additional work and administration. We would propose instead that issuers should be permitted to disclose grants for "other" recipients on a monthly basis, preferably on the same timetable as the monthly return that we currently make. This would ensure that the grants were disclosed for full transparency to the market but on a timeline that would be more practical for issuers to manage.

### **Question 21**

**Do you agree with the proposed disclosure requirements for Share Grants in an issuer's interim reports and annual reports?**

Yes

**Please provide reasons for your views.**



We are largely comfortable with the proposed disclosure requirements. However, in relation to the proposed new requirement mentioned at paragraph 79(b) of the consultation to disclose the grant fair value of options and awards on a mandatory basis, we think that the requirement should be explicit that issuers need only disclose information required to be disclosed by relevant accounting standards as far as share awards and share options are concerned and in line with their current practice and should not be asked to go beyond this. We are conscious that issuers already provide fair value disclosure in interim and annual reports and we believe that this should be sufficient.

#### **Question 22**

**Do you agree with the proposal to require disclosure of matters reviewed by the remuneration committee during the reporting period in the Corporate Governance Report?**

No

**Please provide reasons for your views.**

We do not have an issue with the level of disclosure around remuneration committee matters that is currently required, not least as this is in summary form. We do though have concerns around the proposal in paragraph 82 that disclosure should be made of all share scheme matters that the remuneration committee reviewed. In practice, a remuneration committee will review a multitude of share scheme matters during a year and it would be not only unduly onerous but also in some cases commercially sensitive to disclose all of the points under committee consideration. It would also go beyond the requirements to which HSBC is subject in the UK under remuneration disclosure requirements which only ask for a summary of committee considerations. Our suggestion would be that the disclosure of a summary of material remuneration committee matters should suffice and the listed issuers should be allowed some degree of discretion in disclosing material remuneration committee matters in light of the different competitive environment to which the listed issuers may be subject.

#### **Question 23**

**Do you agree with the proposal to require changes to the terms of share award or option granted be approved by the remuneration committee and/or shareholders of the issuer if the initial grant of the award or option requires such approval?**

**Please provide reasons for your views.**

#### **Question 24**

**Do you agree with the proposal to provide a waiver for a transfer of share awards or options granted under Share Schemes as described in paragraph 86 of the Consultation Paper?**

Please provide reasons for your views.

**Question 25**

Do you agree with the proposal to restrict the voting rights of unvested shares held by the trustee of a Share Scheme and require disclosure of the number of such unvested shares in monthly returns?

Please provide reasons for your views.

**Question 26**

Do you agree with the proposed disclosure requirements for Share Schemes funded by existing shares of listed issuers?

Please provide reasons for your views.

**Question 27**

Do you agree with the proposal to restrict the voting rights of unvested shares held by the trustee of a Share Scheme and require disclosure of the number of such unvested shares in monthly returns?

Please provide reasons for your views.

**Question 28**

Do you agree with our proposal to amend Chapter 17 to also govern share award schemes funded by new or existing shares of subsidiaries of listed issuers?

Please provide reasons for your views.

**Question 29**

Do you agree with the proposed exemption for Share Schemes of Insignificant Subsidiaries?

Yes

**Please provide reasons for your views.**

We support the exemption for share schemes of Insignificant Subsidiaries and fully agree it will reduce compliance burdens without compromising shareholders protection. We would also appreciate confirmation that any schemes of Insignificant Subsidiaries that have, prior to the implementation of any new rules, been granted a full exemption or waiver from Chapter 17 requirements by the Hong Kong Stock Exchange will remain outside the scope of Chapter 17 (as amended) such that the ongoing requirements on exempted Insignificant Subsidiaries pursuant to the proposed amendments would nonetheless not be applicable to schemes that have been adopted prior to the implementation of the new rules. It was not clear to us from the consultation that this would be the case and it is relevant to one of HSBC's schemes in an Insignificant Subsidiary.

**Question 30**

**Do you agree with our proposal to amend Chapter 17 to also govern Share Schemes involving grants of shares or options through trust or similar arrangements for the benefit of specified participants?**

**Please provide reasons for your views.**

**Question 31**

**Do you agree with our proposal to remove the recommended disclosure requirement for the fair value of options as if they have been granted prior to the approval of the scheme?**

**Please provide reasons for your views.**

**Question 32**

**Do you agree with our proposals to amend the Rules described in paragraph 100 of the Consultation Paper?**

**Please provide reasons for your views.**