



ICGN

International Corporate Governance Network

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

By Email: response@hkex.com.hk

9th November 2012

Dear Sirs,

Re: Consultation Paper on Board Diversity – HKEx.

We are writing on behalf of the International Corporate Governance Network (ICGN), a global membership organisation of over 600 institutional and private investors, corporations and advisors from 50 countries. Our investor members are responsible for global assets of US\$18 trillion.

We welcome the Hong Kong Exchange to amend the Corporate Governance Code to enhance the effectiveness of the board and corporate governance which includes the following proposals:

- i) Introduction to Code Provision (i.e. subject to “comply or explain”) stating that the nomination committee (or the board) should have a policy concerning diversity in the boardroom and to disclose a summary of the policy in the corporate governance report.
- ii) Any measurable objectives that it has set for implementing the policy, and progress on achieving the objectives.
- iii) Diversity being defined broadly, including but not limited to gender, age, cultural/background or professional experience.
- iv) Each company should take into account factors based on its business model and needs, form its own policy, and disclose the rationale for the factor used.

In a concentrated ownership environment, it would be important to facilitate the engagement of all shareholders in the board nomination and election process. This includes policies that ensure the shareholder meeting is a legitimate platform for all shareholders to select and election directors. Also, remove barriers to facilitate shareholders’ communication such that they can discuss and evaluate candidates before the shareholders meeting. Encourage institutional investors to be more active in the process as well as more transparent in disclosing their voting policies. Companies can be encouraged to allow sufficient time for shareholders to present nominees to the board/nomination committee.

We are pleased to respond to your consultation questions regarding Board Diversity which we have appended. The ICGN recently canvassed its membership to contribute to a survey on board diversity, the key findings of which are summarized in the attached Annex 1. Around 15% of the ICGN membership responded to the

survey, from 21 different countries. We provide ICGN's position on this matter as follows:-

- i) ICGN supports board diversity policies including gender diversity in the Codes of Corporate Governance.
- ii) ICGN supports a principle-based approach to diversity including gender diversity on a "comply or explain" approach according to the requirement for each company. A total of 93% of respondents to the ICGN survey asserted that it is the Board's role to oversee a human capital management strategy that sets out clearly how diversity (and inclusivity) are promoted within the company and embedded within the corporate culture. Furthermore, 76% of respondents felt that the Board should explain its approach to incorporating diversity within the company on a "comply or explain" basis.
- iii) ICGN encourages transparency around company selection procedures for board nomination and election.
- iv) ICGN encourages clarification around the role and influence of recruitment consultants in putting forward board candidates for consideration of companies. It was notable that 72% of the ICGN survey respondents advocated the need for improved standards of transparency.

If you have questions or comments on our submissions, please feel free to contact

[Redacted]

Yours faithfully,

[Redacted]

[Redacted]
Responsibilities Committee

[Redacted]

[Redacted]
Responsibilities Committee

[Redacted]

[Redacted]
ICGN Board of Governors

Cc: ICGN Board Members
ICGN Shareholder Responsibilities Committee

Annex 1: Highlights on the ICGN Board Gender Diversity survey

1. A total of 93% of respondents advocated that it is the Board's role to oversee a human capital management strategy that sets out clearly how diversity (and inclusivity) are promoted within the company and embedded within the corporate culture.
2. 76% of respondents thought that the Board should explain its approach to incorporating diversity within the company on a comply-or-explain basis.
3. The ICGN does not support the implementation of binding quotas to improve gender diversity on corporate boards. This is reflected in our survey response with 66% of respondents opposed, 26% in favour and 8% uncertain.
4. In the event that a binding quota is introduced, 63% of respondents asserted that it should be applicable to the board as a whole – i.e. both non-executives and executives combined.
5. Of those respondents who favoured an alternative approach to binding quotas, 49% preferred a comply-or-explain or self-regulatory approach.
6. The following activities were ranked in order of perceived effectiveness in helping to increase the representation of women on boards:
 - a. Commitment by investors to encourage companies to include women in their recruitment activities.
 - b. Commitment by male directors to identify, mentor and support women candidates for board membership.
 - c. The 'comply or explain' approach.
 - d. Creation of databases of board-ready women coupled with a "support and mentoring network".
 - e. The creation of quotas.
7. In terms of the role of investors in helping to encourage more gender balance on corporate boards, we asked which of the following activities by investors would be most effective in helping to ensure that diversity is properly embedded and the results are again shown below in order of popularity:
 - a. Regular dialogues on governance policies with the boards of investee companies.
 - b. Advocating high corporate governance standards, including those involving diversity.
 - c. Seeking development and implementation of diversity policies.
 - d. Developing voting guidelines on the appointment and re-election of board members for investee companies.
 - e. Using voting rights to effect improvements at the boards of investee companies.

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.

The ICGN welcomes HKex's proposed Consultation Paper on Board Diversity. Promoting board diversity will improve the competitiveness and the strength of business infrastructure, hence ensuring sustainability in the long run. We are in favour of the introduction of a board diversity policy as this is in line with the principle of good governance and best practices.

We believe that diversity is essential for increasing the organization's ability to cope with changes, responding to increasingly diverse customers and keeping up with a rapidly evolving environment. It is one aspect of corporate governance which results in the increase of shareholder value in the long term. Diversity of views at the highest decision-making echelon of the company have positive impact. A diverse board has a wider and richer base of experience to strategically approach problems. However, we emphasize that we do not promote diversity for the sake of diversity itself. The definition of diversity includes not only demographic factors, such as diversity in terms of gender, age, ethnicity and geography, but also takes into account corporate performance drivers, such as skills, business acumen and qualifications that are required to fulfil business objectives and missions as well.

In addition, we believe that it is timely to push the gender balance agenda as the representation of women on boards is low in most parts of the world. We further believe that gender diversity is an essential part of Board Diversity. Women constitute half the population, customer base and purchasing power so their inclusion to boards makes business sense. As per the result of the survey conducted by ICGN of its members, 75% of respondents favoured the "comply or explain" approach for the inclusion of gender diversity. Majority members also support the idea of increasing

the number of women on boards by including women in recruitment activities.

Lastly, we recommend that companies disclose targets with regard to board diversity and consequently report on the efforts taken to achieve it.

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.

The Corporate Governance Code is the appropriate place to introduce measures on board diversity as it is the Code of all listed companies for best practices and provides a principle-based approach to corporate governance.

The Corporate Governance Report is the right place for disclosing the company policies and objectives on diversity. This can ensure that Shareholders and broader stakeholders would be able to refer to issues expediently, thus promoting transparency.

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*)?

Yes
 No

Please give reasons for your views.

Disclosure of policy in Corporate Governance Reports promotes transparency and accountability.

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)
<input checked="" type="checkbox"/> Yes	<input checked="" type="checkbox"/> Yes
<input type="checkbox"/> No	<input type="checkbox"/> No

Please give reasons for your views.

Interpretation of board diversity has already created strong opinions from various sectors. It is important that it is clearly defined to ensure that companies have a clear understanding of the said term.

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.

See above.

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

Please give reasons for your views.

No Comments

- End -