Hong Kong Green Finance Association ESG Disclosure and Integration Working Group Members’ comments on HKEX Corporate Governance Code and related Listing Rules

The following is a summary of the views of GFA ESG WG members, which consists of representatives only from fund managers, service providers and industry institutions.

Specific comments on the proposed enhancements to the Corporate Governance Code and related Listing Rules –

1) Corporate Governance

(a) Director’s Independence:

- We endorse the proposal regarding re-election of Long Serving INEDs to require independent shareholders’ approval. Moreover, the Exchange should provide more clarification regarding (1) the cooling-off period in the calculation of director’s tenure and (2) the application of this provision to secondary listed issuers.
  - In the future, we suggest the Exchange consider a voting system where re-election of all INEDs are subject to a vote by independent shareholders, in order to hold INEDs accountable to independent shareholders.
  - India’s SEBI most recently started requiring INEDs to receive majority approval from (1) all shareholders and (2) all minority shareholders in order to be (re-)appointed. A two-tier voting structure has also been established in Singapore.

- We strongly encourage the Exchange to consider requiring the appointment of a lead independent director (lead INED) who will, as part of their responsibilities, engage with shareholders. This is already adopted in Singapore. Alternatively, issuers can designate an INED responsible for independent shareholder engagement, and INEDs can take turns to assume this role.
  - Otherwise, the Exchange should require an independent chair of the board, especially when independence level on the board is below majority.
We urge the Exchange to consider **requiring a majority independent board if the board chair is not independent.** Majority independent boards are becoming the norm in markets such as Malaysia, the Republic of Korea and Singapore.

We support the proposal that an issuer generally **should not grant equity-based remuneration, especially options, with performance-related elements to INEDs.** Remuneration with time-based elements also should not be granted to INEDs. However, we are not opposed to granting stocks (not options) in lieu of cash to INEDs.

(b) Diversity:

- We suggest the Exchange require issuers to **set a minimal medium-term target of 30% female at board level** and to disclose a specific timeline regarding how the company is going to make steady progress towards the target.
  - We also argue that diversity is multi-dimensional and the board should promote diversity on multiple fronts, including experience, expertise, age, etc.
  - We recommend that a board skills matrix be disclosed so investors can understand what skills each director is contributing to the board.

2) **ESG:**

- Given this Consultation's focus on company culture and how this should be aligned with a company's purpose, value and strategy, we suggest that ESG information should be considered a critical element of company culture and part of the "purpose, value and strategy" of the company, and not just a category of "significant risks". We propose that in line with international trends and data that increasingly reflect ESG as more than a risk consideration, but rather also opportunities and signs of a high performing company, that ESG should not be refined to risks in the Corporate Governance Code (as set out in the introduction and also D.2) but also mentioned as forming part of the "purpose, value and strategy" of a company.

- We suggest the Exchange strengthen the linkage between corporate governance and ESG by encouraging issuers to **align remuneration**
with long-term value creation, including sustainability-related goals of the company.

- We further recommend the Exchange (1) formulate and disclose a specific timeline for implementing the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and (2) incorporate the standards of SASB into the ESG Reporting Guide.

- Re the date of publication for the ESG report, we applaud the proposal to have ESG information published simultaneously with a company's financial information, which reflects an understanding that ESG information is crucial to shareholders and investors' understanding of the company's performance in a more comprehensive manner.

- We further suggest the Exchange do more in nudging issuers in the direction of assurance. From a longer term, strategic perspective, and certainly from an investor’s standpoint, it may be more important to have ESG information that has been independently reviewed and assured, than have an earlier ESG report.

3) Implementation Dates:

- We suggest all proposals including those related to Long Serving INEDs should be implemented since the financial year commencing on 1 January 2022. Disclosures for financial year commencing 1 Jan 2022 and voting on such matters will only be available in almost Q2 of 2023; we do not see a particular reason why an additional year should be allowed for the proposals related to Long Serving INEDs.