

June 2024 legal and regulatory update

Appendix 1 Summary of HKEX corporate governance proposals

I. BOARD EFFECTIVENESS

- *(New CP)* **Designation of “Lead INED”**
 - Issuers **without an independent board chair** to designate a “Lead INED”
 - To facilitate and strengthen communication among INEDs; between INEDs and the rest of the board; and with shareholders
- *(New rule/revised MDR)* **Mandatory director training**
 - For **all directors**; covering **specified topics**
 - roles and responsibilities of the board/committees and directors, and board effectiveness
 - issuers’ obligations and directors’ duties under HK law and Listing Rules, and key legal/regulatory developments
 - corporate governance and ESG (*including developments on sustainability or climate-related risks and opportunities relevant to the issuer/business*)
 - risk management and internal controls
 - industry-specific developments, business trends and strategies relevant to the issuer
 - **“First-time directors”**: (*minimum*) **24 training hours** within **18 months** of appointment
 - appointed as a director of an issuer listed for the first time; or
 - not served as a director of an issuer listed for a period of 3 years or more prior to their appointment
 - **Enhanced disclosure** for each director: number of hours; topics/format of training; names of relevant training providers (*if external*)
- *(Upgrade to CP)* **Board performance review**
 - At least **every two years**
 - Issuer’s **discretion re: format** (*e.g. internal or external providers*)
 - Focus on the **board’s performance as a whole** (*not individual director performance*)
 - **Specific disclosure**: scope of review; process and findings including improvement; measures taken/planned to address the same
- *(New CP)* **Maintain and disclose board skills matrix**
 - **And enhanced disclosure**: existing skills mix; how the skills/diversity serves the issuer’s purpose/values/strategy/culture; details and plans to acquire further skills

- *(New rule/new MDR)* **Overboarding INED and directors' time commitment**
 - **Hard cap on overboarding** (*NOT more than 6 listed issuer directorships*)
 - **Nomination committee:** to **annually assess and disclose** each director's time commitment and contribution

II. INDEPENDENCE OF INEDS

- *(New rule)* **Long-serving INEDs**
 - **Not considered as independent**
 - Allowed to serve as INED again after a cooling-off period of 2 years

III. (New CP/new Rule/MDR) BOARD AND WORKFORCE DIVERSITY

- Various measures
 - *(New CP)* **Nomination committee:** at least 1 director of a different gender
 - *(Upgrade to MDR)* Results of **annual review of implementation** of board diversity policy (*including progress towards objectives*)
 - *(New rule)* Set and disclose a **workforce diversity policy** (*including senior management*)
 - *(MDR)* **Separate disclosure** of gender ratio of senior management and workforce

IV. (Upgrade to MDR) RISK MANAGEMENT AND INTERNAL CONTROLS

- **Enhanced disclosure on annual reviews** of such systems
 - Including supporting information on board's conclusion of effectiveness of the systems (*e.g. confirmation received from management, etc.*), and details of review findings

V. (New MDR) DIVIDENDS

- Including enhanced disclosure of **dividend policy** and **dividend decisions**
 - E.g. **dividend decisions**
 - reasons for **material variation** in dividend rate compared with previous period
 - **if no dividend declared:** reasons for decision and measures to enhance investors' return