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November 2022

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The journal of the Hong Kong Chartered Governance Institute
香港公司治理公會會刊

Repurposing governance

Mind the credibility gap

CGC 2022 review

ISSB standards

Diversity and inclusion

CHARTERED GOVERNANCE Hong Kong

The Hong Kong Chartered Governance Institute

CHARTERED GOVERNANCE Hong Kong

ANNUAL CELEBRATION UPPING THE GAME

2023

FRIDAY 13 JANUARY

LOCATION

The Hong Kong Club GARDEN LOUNGE

Guest of Honour:

Mr Christopher Hui, GBS, JP, Secretary for Financial Services and the Treasury

Hosted by:

Ms Edith Shih FCG(CS, CGP) HKFCG(CS, CGP)(PE)
Past International President & Past President

Registration starts at: 6.30pm

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CHARTERED GOVERNANCE
Hong Kong

Good governance comes with membership

About The Hong Kong Chartered Governance Institute

The Hong Kong Chartered Governance Institute (HKCGI, the Institute) is an independent professional body dedicated to the promotion of its members' role in the formulation and effective implementation of good governance policies, as well as the development of the profession of the Chartered Secretary and Chartered Governance Professional in Hong Kong and the mainland of China (the Mainland).

The Institute was first established in 1949 as an association of Hong Kong members of The Chartered Governance Institute (CGI). In 1994 the Institute became CGI's Hong Kong Division and, since 2005, has been CGI's Hong Kong/China Division.

The Institute is a founder member of Corporate Secretaries International Association Ltd (CSIA), which was established in March 2010 in Geneva, Switzerland. Relocated to Hong Kong in 2017, where it operates as a company limited by guarantee, CSIA aims to give a global voice to corporate secretaries and governance professionals.

HKCGI has over 6,800 members, more than 300 graduates and around 3,000 students.

Membership and studentship statistics update

As of 30 September 2022, the statistics were as follows:
Students: 2,787 **Graduates**: 511 **Associates**: 6,213 **Fellows:** 813

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CGC 2022 review

The Institute's series of biennial corporate governance conferences (CGCs) has been going for over two decades. They have a remit to ask the hard questions that need to be asked about the practice of good governance in the current and emerging business environment. Our latest CGC, the 13th in the series and held in hybrid mode on 23 September 2022, certainly delivered on that promise.

One such question revisited throughout the day's discussions was how the roles of governance professionals need to evolve to help organisations navigate the higher expectations from both stakeholders and regulators relating to issues such as climate change, diversity and inclusion, and technology governance. The forum also had a consistent answer to this question – governance professionals can play a critical role as agents of change. Promoting good governance in all of its forms, not only where it relates to compliance with the rules, will be one of our key values in the complex, and considerably less forgiving, business environment we have now entered.

The cover stories of this edition of *CGj* review the forum, highlighting all the key takeaways from the day's discussions. I won't steal any thunder from the articles ahead of you, but I would like to deliver on last month's promise to properly thank everyone who contributed to the conference.

I would like to thank our Guest of Honour, Nicolas Aguzin, Chief Executive Officer, Hong Kong Exchanges and Clearing Ltd, and Professor Mervyn King SC, Chairman Emeritus, The International Integrated Reporting Council, who gave our CGC its opening and closing addresses, respectively. In addition, I would like to thank our stellar lineup of speakers and panellists, who contributed their insights and generated a very lively discussion on the topics covered.

I would also like to thank our very able conference team for their hard work. We have our Event Chair, Peter Greenwood FCG HKFCG, and Institute Deputy Chief Executive Mohan Datwani FCG HKFCG(PE), to thank for their vital behind-the-scenes work in coming up with the theme for the forum and structuring the event to maximise the opportunity for lively audience participation. Moreover, they were able to assemble a top-level cast of speakers and panellists, drawn not only from Hong Kong but from all over the world, to ensure that the event delivered on its remit to provide the best available thought leadership.

Master of Ceremonies at the event was April Chan FCG HKFCG, Institute Past President, Inaugural President of Corporate Secretaries International Association Ltd (CSIA), and Chairman, Technical Consultation Panel. Thanks should also go, of course, to our other senior members and to Professor Frederick Ma Si-Hang GBS JP, who chaired the four sessions of the forum, and to our Secretariat staff who did an excellent job of ensuring the event ran smoothly.

Finally, I would like to thank our sponsors and supporting organisations. In particular our platinum sponsors CLP Holdings Ltd and PricewaterhouseCoopers, our silver sponsors Nasdaq Governance Solutions and Tricor Hong Kong, and our bronze sponsors the Companies Registry, Egon Zehnder and Link Asset Management Ltd.

Our CGC 2022 covered a lot of ground and our review of the event will be published across two editions of this journal. Look out for the final part of this review in next month's journal. Meanwhile, I would like to leave you with a final thought. A consistent theme of the conference was that corporate governance is not, and has never been, about good public relations. Stakeholder expectations in the emerging business environment will not be satisfied by 'spin'. The organisations that will survive and thrive in the years ahead will be the ones that opt for authenticity over publicity, integrity over hype.

Ernest Lee FCG HKFCG(PE)

公司治理研讨会2022回顾

公会的公司治理研讨会（两年一届）已经持续举办了二十多年。历届研讨会旨在探讨及解决当下以及新兴商业环境中良好治理实务急需解决的难题。2022年9月23日，公会采用线上及线下结合的方式举行了最新一届 - 第13届公司治理研讨会，本次研讨会切实达到了预期。

在当天的讨论中，有一个问题被反复提及，那就是治理专业人士的角色需要如何应变才能帮助企业满足利益相关者和监管机构对气候变化、多样性和包容性以及技术治理等问题的更高期望。研讨会对该问题也有一个一致的答案 -- 治理专业人士可以作为变革的推动者发挥关键作用，促进各种形式的良好治理，而不仅限于合规，这将是治理专业人士在目前这种复杂和严峻的商业环境中的关键价值之一。

本期会刊的封面故事回顾了本次研讨会的盛况，重点阐述了当天讨论的关键结论。在此本人不过多透露文章细节，但如上个月所承诺，本人希望向为研讨会做出贡献的每个人表示衷心地感谢。

在此本人衷心感谢研讨会的主礼嘉宾 - 香港交易所集团行政总裁欧冠昇先生与国际综合报告委员会名誉主席Mervyn King SC教授，他们分别担任了本次研讨会的开幕及闭幕致辞嘉宾。此外，本人也衷心感谢研讨会的诸位讲者及现场研讨小组成员，他们就研讨议题进行了深入探讨，提出了各自的独到见解。

本人也对公会精干的会议团队表示诚挚谢意，感谢研讨会主席Peter Greenwood FCG HKFCG和公会副总裁高朗先生 FCG HKFCG(PE)，他们在幕后做了大量的工作，策划了研讨会主题，并筹划了各项活动以最大限度地提高观众的参与度。此外，他们还邀请了来自香港和世界各地的顶级讲者和研讨小组成员，以确保研讨会能够有效实现目标，为业界提供最佳且可行的思想引领。

感谢本次活动的主持人 - 公会前任会长、公司秘书国际联合会(CSIA)首届会长、技术咨询小组主席陈姚慧儿女士FCG HKFCG。当然，本人也要对主持了研讨会四个环节的公会资深会员们以及馬時亨教授GBS JP表示诚挚谢意，与此同时，也感谢为确保活动顺利进行而做了出色工作的秘书处员工们!

最后，本人也要感谢研讨会的赞助商和支持机构，特别是白金赞助商中电控股有限公司和普华永道，银牌赞助商Nasdaq Governance Solutions和卓佳香港以及铜牌赞助商香港公司注册处、Egon Zehnder和Link Asset Management Ltd。

公会的公司治理研讨会2022所涉议题领域甚广，针对这次研讨会的回顾文章将发表在两期会刊中，有关研讨会的回顾请留意下期会刊。最后我想特别提及的是，公会的公司治理研讨会的一个持续的主题思想：公司治理从来都不是关于良好的公共关系。在新兴的商业环境中，利益相关者的期望将不会被 "忽悠 "所满足。能够在未来几年中生存和发展的将是那些选择真诚，而不是选择宣传与炒作的组织。

李俊豪先生 FCG HKFCG(PE)

Repurposing governance – mind the credibility gap

Under the theme, Repurposing in Changing Times – the Company, Governance and the Governance Professional, the Institute's latest Corporate Governance Conference (CGC) explored the way governance needs to be 'repurposed' to be part of the solution to the many challenges facing our world. This first part of our review of the conference focuses on the key takeaways from session one of the forum, which focused on the urgent need to address climate change.

A consistent theme of the Institute's latest CGC was that business as usual is no longer an option. In particular, across a range of issues, including climate change plans, sustainable development, diversity and inclusion, ethical leadership, stakeholder inclusivity and corporate culture, companies need to prepare for a much less forgiving stakeholder and regulatory environment.

In this context, session one of the conference addressed the first of those issues mentioned above – the urgent need for companies to come up with credible climate action plans. In the emerging business environment, investors, customers and regulators are less likely to be impressed by lofty aspirations and vague pledges on climate change – the focus will be on what measurable targets have been set and how much measurable progress has been made towards those targets.

The first speaker of this session, David Simmonds FCG HKFCG, Institute Vice-President and Chief Strategy, Sustainability and Governance Officer, CLP Holdings Ltd, issued a call for action by businesses in response to climate change, and gave his assessment of the critical role that governance, and governance professionals, must play in helping companies to navigate the challenges of this issue.

He started his presentation with a slide showing that the market capitalisation of Tesla is greater now than the combined market capitalisation of most of the world's major vehicle manufacturers. 'There is probably no more powerful representation of the rewards from climate than this,' he said. Tesla, he added, is reaping the rewards for building a product – electric vehicles – that is purpose built to respond to climate change. 'Too often the rewards for action on climate get overlooked in the face of the very obvious challenges associated with addressing this issue,' he said.

In addition, companies with solid credentials on climate change will reap significant advantages from being better aligned with investor expectations. 'Capital is moving, we have seen an absolute sea change in the attitude of investors in relation to climate action over the last three to five years and the flow of funds into sustainable investments is growing rapidly,' he said.

They will also be better aligned with the expectations of other stakeholders – customers are increasingly looking for greener alternatives and companies with a good track record on climate change are associated with much a greater ability to attract and retain staff.

The role of governance

The climate emergency has a direct relevance for both the board of directors and governance generally. Mr Simmonds pointed out, however, that traditional governance frameworks are often not well suited to deal with this issue. 'The lens through which most organisations address climate change, at least initially, is either through compliance or risk. Compliance leads to a reporting that is generally backward-looking. When it comes to risk, most enterprise risk management frameworks have a field of vision of two to three years at most. The problem with climate change is that the material risks for most organisations will manifest over a longer time horizon,' he said. For this reason, CLP has established a Sustainability Committee of the board with a remit specifically to consider the longer-term issues affecting the company, both in terms of the risks and the opportunities.

Mr Simmonds highlighted a number of other 'modest tweaks' to governance frameworks and board processes that can make a material difference. An obvious one is to ensure that recruitment and training practices provide both board and management with the necessary skills and experience to make the right decisions on an issue as complex as climate

Highlights

- investors, customers and regulators are adopting a much more results-oriented approach to climate change – organisations will need to be a lot more specific in their metrics and targets
- all Hong Kong listed companies need to start planning and preparing for reporting on Scope 3 greenhouse gas emissions
- too often the rewards for action on climate change get overlooked in the face of the very obvious challenges associated with addressing this issue

"if you take the time to learn about the impact of climate on your business, where the risks and opportunities are, you can play a really powerful role in helping your company navigate through the challenges and towards the rewards"

David Simmonds FCG HKFCG, Institute Vice-President and Chief Strategy, Sustainability and Governance Officer, CLP Holdings Ltd

change. That doesn't necessarily have to mean recruiting climate experts to join the board, Mr Simmonds said, but he recommended periodic expert briefings on the impacts of climate change on the company.

He also suggested that businesses can consider restructuring executive roles. His own role, for example, covers strategy, sustainability and governance, and that allows for the necessary integration of sustainability into the firm's corporate strategy. Climate change, together with developments in technology and many other transformative trends, requires organisations to adapt their traditional business models and processes. This is not only to manage the risks, but also, more importantly, to find the opportunities that spring from the shifts in economic activity that are occurring through these trends.

Another key consideration, Mr Simmonds said, was the need to stay on top of these trends as they develop. He therefore recommended refreshing the board regularly. 'You can't hope to effectively govern for these sorts of shifts if you don't refresh your board regularly,' he added. 'And that does not mean simply recruiting younger versions of essentially the same people to join your board. The refresh is a good opportunity to bring in the sort of diversity of thought, experience and skills that is going to be helpful in navigating these challenges.'

The role of governance professionals

The scale of the changes that will be needed to successfully address climate change will require the concerted efforts of many different players. Among them, however, the governance professional has a special role to play.

'There is a huge opportunity here for us as governance professionals,' Mr Simmonds said. Governance professionals are not alone, of course, in seeking to influence boards on climate issues. Sustainability experts and ESG practitioners, for example, are well placed to play an advocacy role. However, while they certainly have the technical knowledge and skills to understand the complexity of the issues at stake, they don't always have knowledge and experience of how boards work, and how decisions are made, to effectively influence the board decision-making process.

'As governance professionals, you will have that in spades,' Mr Simmonds said. 'So if you take the time to learn about the impact of climate on your business, where the risks and opportunities are, you can play a really powerful role in helping your company navigate through the challenges and towards the rewards.'

He concluded by emphasising the urgency for governance professionals to rise to this opportunity. 'I know a number of you as governance professionals see your role, at least in part, as being the guardian of the board. With CEOs and directors losing their jobs over climate change – the time to act is now.'

> **what we need to do is to work out a framework and a roadmap to help support companies to… keep pace with evolving international practices while providing the flexibility that they need in this process**

Megan Tang, Senior Director, Corporate Finance Division, Securities and Futures Commission, Hong Kong

The impending regulatory imperative

The second speaker in the first session was Teresa Ko JP BBS FCG HKFCG, Senior Partner, Hong Kong, and China Chairman, Freshfields Bruckhaus Deringer, and Co-Vice-Chair of the IFRS Foundation. With her experience as a trustee of the IFRS Foundation, Ms Ko was the ideal speaker to update CGC participants on the likely impacts in Hong Kong of the much anticipated new sustainability standards about to be launched by the International Sustainability Standards Board (ISSB). See the second cover story in this edition of *CGj* for her views on this issue.

The ISSB was launched last year by the IFRS Foundation to develop a global baseline of sustainability-related disclosures. In March this year, the ISSB published its first two exposure drafts, namely S1 on general sustainability-related financial information and S2 on climate-related disclosures. These developments might seem remote from Hong Kong, but regulators here have already signalled their intention to align Hong Kong's local regulatory requirements with the ISSB standards.

Megan Tang, Senior Director, Corporate Finance Division, Securities and Futures Commission, Hong Kong, a panellist in session one, confirmed that one of the major policy initiatives that the Securities and Futures Commission (SFC)'s Corporate Finance Division has been working on this year is how to introduce ISSB-aligned reporting requirements for Hong Kong–listed issuers. 'We at the SFC have been working closely with the stock exchange on the draft listing rules for implementing the ISSB global baseline reporting standards,' she said.

She confirmed that the aim is to launch a public consultation soon after the ISSB publishes the final S2 standard on climate-related disclosures. A series of soft consultations with listed companies, investors and market professional associations has already been held to solicit feedback on the implementation of the new rules. Through its work at The International Organization of Securities Commissions (IOSCO), the SFC has also been engaged in the international dialogue to promote Hong Kong's perspectives. The SFC also engages in informal dialogue with other capital market regulators – including those in the Mainland and the US – on what they're doing in their jurisdictions.

Ms Tang said the aim was to develop a robust but flexible regime. 'We understand the very real challenges that listed companies face in making this transition, but, having said that, the end game is inevitable. Major jurisdictions around the world are all moving to adopt and implement reporting requirements based on the global baseline standard. What we need to do is to work out a framework and a roadmap to help support companies to align their reporting practices and keep pace with evolving international practices while providing the flexibility that they need in this process,' she said.

The likely impact of tougher regulations on climate reporting in

> “companies that are already thinking about how to do [Scope 3 reporting], or experimenting with ways to do it, will have the advantage of setting the standard for the industry”

Eddie Ng, Partner, Business Reporting and Sustainability, KPMG China

Hong Kong was a focus of the panel discussion at the end of session one. Panellists agreed that the tougher regulations discussed above will be the most important factor in kickstarting change in Hong Kong. Responding to a question by Panel Chair, Gillian Meller FCG HKFCG(PE), Institute Immediate Past President, and Legal and Governance Director, MTR Corporation Ltd, there was a general consensus that regulators are the stakeholder group having the most influence on the climate change plans of Hong Kong companies. While investor and customer expectations are also driving change, tougher regulations are going to have the most immediate influence in terms of getting climate-related issues higher on company agendas, panellists agreed.

‘It’s unrealistic to expect private enterprise to voluntarily implement the necessary changes within the timeframe we have,’ said Ben McQuhae, Founder, Ben McQuhae & Co, and Co-founder, Hong Kong Green Finance Association. ‘Smart regulation is probably therefore the only way to accelerate action in the way we need to see happening. That said, we all need to collaborate because no one organisation or institution has all the answers. We have to pool our experience and energy to develop the necessary solutions,’ he added.

Are Hong Kong companies ready?

The panel discussion also addressed the preparedness of Hong Kong companies for the impending regulatory requirements relating to climate reporting. Mr McQuhae, for example, pointed out that the ISSB standards will require reporting on Scope 3 greenhouse gas (GHG) emissions. Between now and 2035, therefore, all Hong Kong listed companies will need to start planning and preparing for reporting on Scope 3 emissions. This will be a challenge since companies will need to capture data from the full extent of their supply chains. ‘I suspect that few companies in Hong Kong currently have that sort of the data collection ability,’ he said.

Eddie Ng, Partner, Business Reporting and Sustainability, KPMG China, agreed with this assessment and added that companies need therefore to recognise the urgency of starting on that journey. She pointed out the advantages for companies who start preparations for Scope 3 reporting now, before the expected rules are implemented. ‘There’s an advantage in being the first mover,’ she said. ‘Companies that are already thinking about how to do it, or experimenting with ways to do it, will have the advantage of setting the standard for the industry.’

Another aspect of climate reporting that may be part of the new requirements is scenario planning and this too will be unfamiliar to most companies in Hong Kong. Mr Simmonds pointed out, however, that globally a huge amount of investment is going into technology solutions that will help companies get up to speed in this area. ‘Since other markets are going through these changes ahead of us, we will have their experience to go by when choosing the right tools,’ he said.

The last word

The concluding address at the Institute’s CGC 2022 was given by Professor Mervyn King SC, Chairman Emeritus, The International Integrated Reporting Council. Professor King, a regular speaker at the Institute’s CGCs, provided a broad historical and ethical context to the issues discussed earlier in the day. As Event Chair, Peter Greenwood FCG HKFCG, pointed out in his introduction to the concluding address, the transition from financial capitalism to inclusive capitalism and from a shareholder to a stakeholder focus has a long and interesting history. Professor King reminded participants of that history and provided the broad social and historical context from which the current trend towards more sustainable capital markets has come. CGj

> *The Institute’s CGC 2022 was held in hybrid mode on 23 September 2022 at the JW Marriott Hotel. The CGj review of the forum will be in two parts, published in this and the following edition of the journal.*

Harmonising global sustainability reporting standards

The International Sustainability Standards Board (ISSB) was launched last year by the IFRS Foundation to develop a global baseline of sustainability-related disclosures. As a Vice-Chair of the IFRS Foundation, Senior Partner in the Hong Kong office of Freshfields Bruckhaus Deringer and also the firm's China Chairman, Teresa Ko JP BBS FCG HKFCG shares her valuable perspective on the significance of the work of the ISSB for organisations here in Hong Kong.

Some of you may remember a movie called *The Inconvenient Truth* produced by former US Vice-President Al Gore in a campaign to educate people about global warming. That was in 2006, 16 years ago. Five years ago, he said that 'the green revolution is bigger than the industrial revolution and happening at a faster pace than the digital revolution'.

I cannot think of a better sentence to give global context to developments in ESG and sustainability. Here in Hong Kong, our capital formation market is Asia's third-largest stock market and has been ranked as the top IPO venue worldwide in seven out of the past 13 years. At the same time, Asia Pacific is home to five of the 10 largest emitters in the world and accounts for about 45% of global greenhouse gas (GHG) emissions due to its significant population.

We have seen our fair share of climate disasters, including devastating flooding in the Mainland and Pakistan, 49-degree heatwaves in India and tropical storms in the Philippines. At the same time, the opportunities for new technology and innovation to help transition our economy to fight climate change have never been more plentiful – and this is not just bluff.

According to a recent McKinsey report (The Road Ahead: Sustainable, Inclusive Growth, published in January 2022), climate change will cost an extra US$3.5 trillion a year of total capital spending globally on physical assets and about US$1 trillion per year in Asia by governments, businesses and individuals to transition to a low carbon economy.

What has all this got to do with reporting or disclosure?

Currently, the disclosure landscape is suboptimal. With so many frameworks, scorecards and matrices, preparers are suffering from disclosure fatigue because the more they disclose, the more they are asked to disclose. Investors do not have reliable data and cannot compare within sectors, industries or across the indices, let alone globally.

There are also many different frameworks to measure carbon emissions, a necessary focus during the transition to a low carbon economy. The GHG Protocol, the PCAF (Partnership for Carbon Accounting Financials) and ISO, all use different boundaries, assumptions and data.

Why is the IFRS Foundation getting involved?

For those who don't know, the IFRS Foundation was set up 20 years ago to converge national accounting standards. Some may remember that we had HK GAAP, French GAAP, UK GAAP and now 144 jurisdictions around the world mandate the use of IFRS Standards.

In 2019, the IFRS Foundation had a five-year strategy review which resulted in a consultation with our stakeholders to ask if we should get involved in sustainability reporting. It was a demand-led process and we responded to the overwhelming demand that the IFRS Foundation should take on sustainability reporting.

So, fast forward to last November at the United Nations Climate Change Conference (COP26) meeting in Glasgow, the IFRS Foundation announced the establishment of the ISSB with a remit to develop a global baseline of sustainability-related disclosures. It is a sister board sitting next to the International Accounting Standards Board (IASB). For the first time, accounting standards and sustainability standards will be developed under one roof, the IFRS Foundation.

The ISSB will:

- start with climate first, but not climate only
- focus on the information needs of investors, and
- will not start from scratch, but build on existing work.

Highlights

- everyone has a role to play – governance professionals in particular can influence company leaders to work together for a sustainable future
- consolidation, reduction of fragmentation and reduction of multiple disclosure frameworks in the marketplace is the ISSB's goal
- beware of inadvertent greenwashing – activists are on the warpath and Asia will not be out of their reach

> **“the work of the ISSB is a once-in-a-generation opportunity to bring about real change”**

We have a building block approach and aim to be interoperable. This means that the new standards will be compatible in other jurisdictions like continental Europe and will not conflict with requirements which focus on a broader set of stakeholders beyond investors, like societies and communities.

Consolidation, reduction of fragmentation and reduction of multiple disclosure frameworks in the marketplace is our goal. In fact, the IFRS Foundation has this year consolidated two leading standard-setters, the CDSB (Climate Disclosure Standards Board) and the VRF (Value Reporting Foundation) into the IFRS Foundation. The VRF is itself a merger between the Sustainability Accounting Standards Board (SASB) and the Integrated Reporting Council.

We are also extremely focused on the needs of emerging and developing economies, as well as smaller and medium-sized companies and others within global supply chains.

What has the ISSB done so far?

While the IFRS 17 on insurance took 10 years to produce, in March this year the ISSB published its first two exposure drafts, namely, S1 on general sustainability-related financial information and S2 on climate-related disclosures. Both exposure drafts are built on the four ‘pillars’ used in the Task Force on Climate-related Financial Disclosures (TCFD) recommendations – governance, strategy, risk management, and targets and metrics. They aim to establish the global baseline of sustainability-related disclosures which the ISSB was set up to create.

The global baseline requires companies to disclose a complete set of sustainability-related financial information focusing on enterprise value. This requires insight into sustainability-related risks and opportunities that affect enterprise value. The expectation is to allow investors to assess a company’s business model, its resources and relationships with customers, suppliers and other stakeholders to ensure that its strategy and business is sustainable.

The focus is on the company’s future cash flows over the short, medium and long term, and the value of those cash flows against the entity’s risk profile and cost of capital. The proposals related to non-industry-based climate disclosures are based on the TCFD recommendations, and the industry-based proposed requirements are derived from the SASB Standards. The proposal is that you would only need to apply those industry-based requirements applicable to your business.

ISSB received more than 1,300 sets of comments and during its four-month consultation period (which ended on 29 July 2022). Overall, the response has been positive. Stakeholders generally support the need for a global baseline of sustainability disclosure.

There are, however, calls for more clarity in terms of the meaning of some of the terms used, such as ‘significant’, ‘material’, ‘sustainability’ and ‘enterprise value’. Many respondents also asked for more detailed guidance with illustrative examples.

Will the ISSB proposals conflict with the approaches taken in the US and Europe?

Many readers will know that the US Securities and Exchange Commission has made proposals on climate risk disclosures and the European Financial Reporting Advisory Group (EFRAG) has issued exposure drafts on its European Sustainability Reporting Standards. Thankfully these proposals, together with the ISSB proposals, draw heavily on the TCFD recommendations. All three approaches call directly for disclosure of Scope 3 emissions (that is indirect emissions from a company’s value chain) and they all ask for assurance.

They differ, however, in their level of prescriptiveness and scope, with the EFRAG proposals being the most prescriptive. I can assure you that a lot of work is being done to ensure alignment between the three sets of proposals, to the extent possible.

In addition to an advisory council to support the work of ISSB, a multijurisdictional working group comprising representatives from the Mainland’s Ministry of Finance, the European Commission, EFRAG, together with regulatory authorities in Japan, the UK and the US, and with IOSCO as an observer, has been formed to work on alignment of concepts, definition and terminology, with a view to enhance compatibility between our global baseline and jurisdictional initiatives.

A Sustainability Consultative Committee (SCC) has also been formed comprising members from the International Monetary Fund, OECD, the United Nations and the World Bank to provide advice for the new standards.

Also, ISSB has a multilocation model operating out of offices in Frankfurt, Montreal (where I visited and saw the inauguration of the office in June), San Francisco and Tokyo, and one more location in Asia to be announced. This global footprint will help with outreach and ongoing engagement with stakeholders.

How will these global developments affect Hong Kong?

Here in Hong Kong, we started our ESG journey quite early, launching our first set of voluntary ESG disclosures for listed companies in 2011. These were enthusiastically embraced, probably by the people who did all the work – company secretaries, and their corporate social responsibility and human resources colleagues. So much so that two years ago, Hong Kong Exchanges and Clearing Ltd (HKEX) had to remind listed companies that they should focus on providing material disclosures.

In particular, users of corporate reports want the board to tell them what is material and they want the board to be responsible. In July 2020, Hong Kong public listed companies were required for the first time to disclose a statement from the board on its oversight of ESG issues, approach and strategy, and a review of progress made against ESG-related goals and targets.

> **we need our publicly listed companies to help bring about real change to make our world more sustainable**

Two years ago, the Securities and Futures Commission (SFC) and the Hong Kong Monetary Authority (HKMA) also established the Green and Sustainability Finance Cross Agency Steering Group. This is to coordinate the management of climate and environmental risks in the financial sector, to accelerate the growth of green and sustainable finance in Hong Kong and to support the government's climate strategies.

The SFC, in its response letter to the ISSB's exposure drafts, supports a global baseline of sustainability standards and has been considering how the requirements under the exposure drafts can be adopted as part of Hong Kong's domestic reporting framework.

Personal thoughts

Let me finish with three takeaways.

1. ESG disclosure is no longer a tick-the-box exercise

Disclosure tells you what each company is doing in its sustainability journey, and reflects the role and efforts of everyone up and down the company in this journey. It is not just paperwork and reporting is not an end in itself. Disclosure can be a catalyst for companies to integrate ESG into their operations and build resilience through its internal processes, corporate governance structure and products and services. But you need to write to reflect the material actions, not copy and paste.

Disclosure is also the bedrock of investment. Investors need complete and accurate data and information that hopefully will be comparable, consistent and decision-useful. The sooner companies get to grips with this, the sooner they will reap the benefits of this harsh reality.

2. It is no longer acceptable to just make claims about sustainability without taking real action

We all know that sustainability has become a major commercial enterprise and allegations of greenwashing are not only harmful to companies, but undermine global efforts and proper allocation of capital towards a net-zero transition.

Conversations in the board rooms, at least in the UK, have shifted to asking if ESG claims are real, or are they just paying lip service? Board directors are increasingly asking management to show the work that has been done to substantiate claims. So, scrub marketing spiel on the company's website and beware of inadvertent greenwashing – activists are on the warpath and Asia will not be out of their reach.

3. Please follow the progress of the work of the ISSB

The work of the ISSB is a once-in-a-generation opportunity to bring about real change. I would urge everyone to follow the progress of its work and efforts, globally and locally, to promote a global baseline of sustainability reporting.

Once the two ISSB standards have been endorsed by IOSCO, HKEX will put out a consultation paper to propose changes to the Listing Rules in Hong Kong. I believe this will happen next year.

But at the end of the day, the ISSB can only set standards. We need our publicly listed companies to help bring about real change to make our world more sustainable. Each and every single one of you has a role to play – influence your leaders to work together for a sustainable future.

I will leave you with what I consider to be the best definition of sustainability, which comes from the first comprehensive treatise on forestry in 1713 (even older than my firm Freshfields, as we started in 1743). The definition in the forestry manual advocates sustainability as 'never harvesting more than the forest can regenerate'. I can't agree more, as our future depends on leaving resources not only for our next generation, but for generations to come.

Teresa Ko JP BBS FCG HKFCG

Senior Partner, Hong Kong, and China Chairman, Freshfields Bruckhaus Deringer and Co-Vice-Chair, IFRS Foundation

This article is based on Teresa Ko's presentation (The Pressing Issue of our Times – Climate Change and Harmonising Reporting Standards) at the Institute's CGC 2022.

Diversity and inclusion

The importance of walking the talk

Session three of the Institute's CGC 2022 provided insights and practical suggestions on how to get beyond the current disconnect between messaging and action when it comes to diversity and inclusion.

As discussed in the first cover story this month, the emerging business environment will be more results-oriented in its approach to companies' track records in governance and ESG issues. This has a particular relevance for the approach to diversity and inclusion (D&I) among companies in Hong Kong – paying lip service to the importance of D&I without making real changes to recruitment practices is no longer a viable strategy.

The first speaker in session three of the Institute's CGC 2022, Nicholas Allen, Chairman and Independent Non-Executive Director at Link Asset Management, pointed out that approaching D&I issues as an exercise in PR is missing the point. He started his presentation with a full and frank admission that he is a cynic, adding however, that a cynic 'is someone who believes human conduct is motivated primarily by self interest'. Taking this cynical approach, he got to the heart of the issue – that it is time to stop sending the message that the voluntary efforts of individuals can effect real change.

It would be unrealistic to assume, Mr Allen suggested, that greater diversity in business, along with any of the other social changes that are becoming essential if the world is to successfully navigate the many threats on the horizon, can be achieved on a voluntary basis alone. Corporates need the incentives to act – it has to be in the interest of individuals to drive this change in corporates, requiring a 'significant shift in consumer behaviour that can only be achieved through well-thought-out and well-communicated policies accompanying regulations and enforcement.'

It is important, he reminded the CGC audience, to keep the pressure on governments who are reluctant to make hard and unpopular decisions. He drew a compelling parallel in the context of greenwashing by corporates who spin their green credentials for customers who wish to settle consciences without actually changing their behaviour.

Take the example of carbon offsets. Mr Allen pointed out that they are cheap when compared with real carbon mitigation measures that may require expensive upfront investments, but it is often the case that those in charge of spending will be attracted by the cheaper option of carbon offsetting regardless of whether or not they work in the longer term. As self interest all too easily guides conduct, it has to be be in the interest of all three parts of society to shoulder this responsibility, governments in setting policies and regulations, businesses in adopting genuine and realistic strategies to achieve both financial and non-financial outcomes, and individuals in changing their lifestyles to adopt new behaviours.

> "we need to create a culture of aspiring to real achievement and not spin, really walking the talk"

Nicholas Allen, Chairman and Independent Non-Executive Director, Link Asset Management

Businesses need to consider the corporate governance choices, particularly around inclusion and diversity, that might remedy the current inaction and lead to genuine solutions. In particular, people who genuinely understand the vital importance of achieving tangible goals need to have a seat at the corporate table, and those already at the table need to be briefed to ensure they fully understand the issues.

In practical terms, this translates into the experience and skills that businesses need to be looking for when recruiting, whether it be at board, executive or entry level. 'Diversity of background

Highlights

- paying lip service to the importance of D&I without making real changes to recruitment practices is no longer a viable strategy
- listing applicants in Hong Kong must have at least one female director on their boards and listed issuers with a single gender board are required to appoint at least one female director by 2024
- diversity should not be based on gender alone – the full spectrum of diversity criteria should be considered to maximise the diversity of perspectives on a board

and gender are key to inculcating a culture of meeting a set of nuanced and often non-financial outcomes, not just the black and white financial goals of corporates,' Mr Allen said. When training the workforce, it is important to ensure that critical topics remain at the forefront of education. 'We need to create a culture of aspiring to real achievement and not spin, really walking the talk,' he added.

What do the rules say?

Bonnie Chan, Head of Listing, Hong Kong Exchanges and Clearings Ltd (HKEX), picked up on the crucial need for genuine change, and expanded on how HKEX has flexed its muscles in advocating diversity. Using its unique position as regulator, listed company and market operator, it is able to extend influence beyond its shareholders. Hong Kong was the first jurisdiction in this region, she pointed out, to require that all listed companies have a diversity policy.

Ms Chan also highlighted a number of new requirements in the Listing Rules and Corporate Governance Code, several of which have come into effect this year.

Regular board refreshment

If the independent non-executive directors (INEDs) on a listed company board are all 'long-serving' (meaning that they have served more than nine years), the company will be required to appoint a new INED by the 2023 AGM. This will ensure new perspectives will be available to the board, and will address the tendency towards groupthink, particularly important in Hong Kong where family founded companies sometimes rely on a tight inner circle of advisers and board members.

Strengthening the role of the nomination committee

Recognising the important role of the nomination committee in ensuring board diversity, HKEX has imposed a mandatory requirement for all listed companies to have such a committee. The committee must

Shared value

As discussed in the main article, stakeholder expectations of companies' track records on diversity and inclusion have been changing in recent years. In fact, stakeholder expectations across a wide spectrum of issues have been changing and many speakers at the Institute's CGC 2022 highlighted the need for companies, and the governance professionals advising them, to recognise the implications of this trend.

This was very much front and centre in the first presentation of the conference, delivered by Guest of Honour, Nicolas Aguzin, Chief Executive Officer, Hong Kong Exchanges and Clearing Ltd. Good governance, he said, should not simply be about ensuring compliance with regulations. 'The expectation is that companies should be much more focused on long-term success and balancing the need to generate profits with the interests of a much wider stakeholder group. Importantly, companies are expected to have the people and the right culture to enable this,' he said.

He pointed out that the Covid-19 pandemic has been a turning point in changing mindsets globally. 'Covid-19 forced the world to slow down for a period and this gave individuals and societies time to reflect on their priorities. It crystallised the world's thinking on some of the things we always knew were important – the environment, sustainable growth, community, social mobility, and inclusion and diversity,' he said.

This has important implications for leadership teams. 'Realising that effective corporate governance makes good sense is the easy part. The challenge is implementation. My advice is a good place to start is with the board. For sure, regulators and policymakers have a role to play in driving change, but when the change comes from the top within a business, it is more powerful. Change that comes from within an organisation generates greater trust in the motivations and integrity of the business,' he said.

He recommended developing governance frameworks around three concepts: creating shared value, focusing on the right risks, and ESG integration and reporting. Put simply, creating shared valued is about seeking to create value for all not only be comprised of a majority of INEDs, it must also be chaired by an INED. This, Ms Chan emphasised, will ensure proper oversight of the directors' nomination and recruitment process, and will be more likely to encourage diversity.

Banning single gender boards

HKEX took a big step forward by calling an end to single gender boards, making gender diversity mandatory rather than a 'comply or explain' approach, as in most other jurisdictions. Under the new requirements, as of July this year, listing applicants in Hong Kong must have at least one female director on board.

Existing listed issuers who have a single gender board (there are currently approximately 800 companies in this category) are required to appoint at least one female director by 2024. Ms Chan emphasises that HKEX will take steps to ensure this will not be simply a 'check-the-box' exercise for the sake of compliance, and companies should focus on getting individuals with the necessary skills and experience appropriate to the business.

Aiding transparency with public data

HKEX has launched, as of April this year, a new data repository on board diversity and inclusion where information on board directors such as their age, gender and years of tenure can be accessed on this platform. This can then be benchmarked against other comparable companies within the same sector, acting as a form of corporate peer pressure. As of the end of August, single gender boards have dropped by 2.7%, while 26.5% of IPO applicants in 2022 managed to have 30% female directors on the board.

Practical recommendations

Using a diversity matrix

The panel discussion at the end of session three addressed a number of practical issues to help governance professionals get up to speed on D&I. Edith Shih FCG(CS, CGP) HKFCG(CS,CGP)(PE), Past

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stakeholders, not just shareholders, and focusing on the right risks is about building resilience as a business – so that in both the good times and the bad times, the business is better positioned.

'Understanding your areas of risk and vulnerability is essential to good governance oversight. In turn, good governance oversight is essential to building robust business and operational models, and robust business and operational models are essential to mitigating stress and damage in acute scenarios – and even to transforming risk into opportunity,' Mr Aguzin said.

The third concept is to embed ESG integration and reporting into your governance framework. 'ESG

integration has become a critical building block of the post-Covid recovery, as investors demand more proactive risk management and reporting. It's not enough to just set targets. You also need to communicate the actions you are taking to meet those targets. Companies that proactively communicate their ESG priorities and performance gain the trust of investors, and that trust underpins business success,' he said.

> **if we are going to be myopic and only look at the colour of skin or the gender, we are losing out and as board directors we are failing our shareholders**

Shalini Mahtani MBE, Founder and CEO of the Zubin Foundation

International President, and Institute Past President, and Executive Director and Company Secretary, CK Hutchison Holdings Ltd (CKH), recommended using a matrix to identify any gaps in your company's D&I profile. CKH regularly assesses any such gaps identified by the matrix, which keeps track of the skill sets, expertise, age, years of experience on the board, gender, ethnicity, director type and committees involved in, etc. Moreover, as D&I is constantly evolving, CKH's nomination committee meets annually to review the board's composition. Where gaps are identified, the board will then determine whether additional directors should be appointed, and, when the opportunity arises, Ms Shih recommends appointing a female director.

She emphasised, however, that one size doesn't fit all. She recommends governance professionals assess their company's existing D&I profile and determine how it impacts the long-term needs of the company. 'Diversity is a precious asset; the long-term sustainability of the company predicates on our ability to be inclusive amidst these diversities,' she said.

Ms Shih pointed out that female directors on listed company boards are mostly INEDs, retired from full-time employment in diverse fields including accountancy, law and banking. Some full-time executives also serve as INEDs of other companies, but this practice is not welcomed by investors. Ms Shih related an occasion when proxy advisers recommended a vote against the appointment of a director, who was also the CEO of a bank, as an INED. There are relatively few female executive directors, other than those with the family that controls the company, and she called for more female executives to be appointed to company boards.

Dealing with unconscious bias

Another panellist, Neil Waters, Senior Partner, Egon Zehnder, brought a different perspective to the discussion from his experience of working in executive recruitment. He pointed out that any process of selection is, by definition, discriminatory, but the role of an intermediary is to remove any unconscious biases. These tend to lead to less diversity as people often favour people like themselves.

Balancing the need to select someone the client is happy with against any unconscious bias requires intermediaries who are thoughtful and caring, but at the same time forthright about pointing out the biases, and how they might manifest in terms of the teams they build. 'The more that we can reflect about how we develop as adults and the programmes that we're putting in place, the greater the chance of developing more diverse, inclusive teams,' he said.

Nicholas Chilton, Head of Board Advisory, South Pacific Region, Nasdaq, emphasised that it is critical for organisations to define why they are pursuing diversity. They need, he pointed out, to consider whether they view it from the perspective of business value or whether it is the result of a desire from the community to see broader representation. The pertinent question that needs to be asked is how keen organisations are about enacting a diversity policy.

Ethnic diversity

Much of the panel discussion centred on gender diversity. Shalini Mahtani MBE, Founder and CEO of the Zubin Foundation, introduced a different perspective. 'The best people', she pointed out, 'come in different shapes and sizes, they come in different colours, they come in male and female. As women exist, there are people of different races that exist too'. She points out that it is the responsibility of board directors to deliver shareholder value to mitigate risks, and the board is not doing that if they're not bringing the best people onto the board. Talent, she emphasises, comes in diverse forms. 'If we are going to be myopic and only look at the colour of skin or the gender, we are losing out and as board directors we are failing our shareholders,' she said.

She also pointed to research by McKinsey showing that you will outperform significantly if you have ethnic diversity. Why? People of different ethnicities, with the same skills and competencies, but with different backgrounds, will have diverse ways of approaching different problems. You need diversity for diverse perspectives.

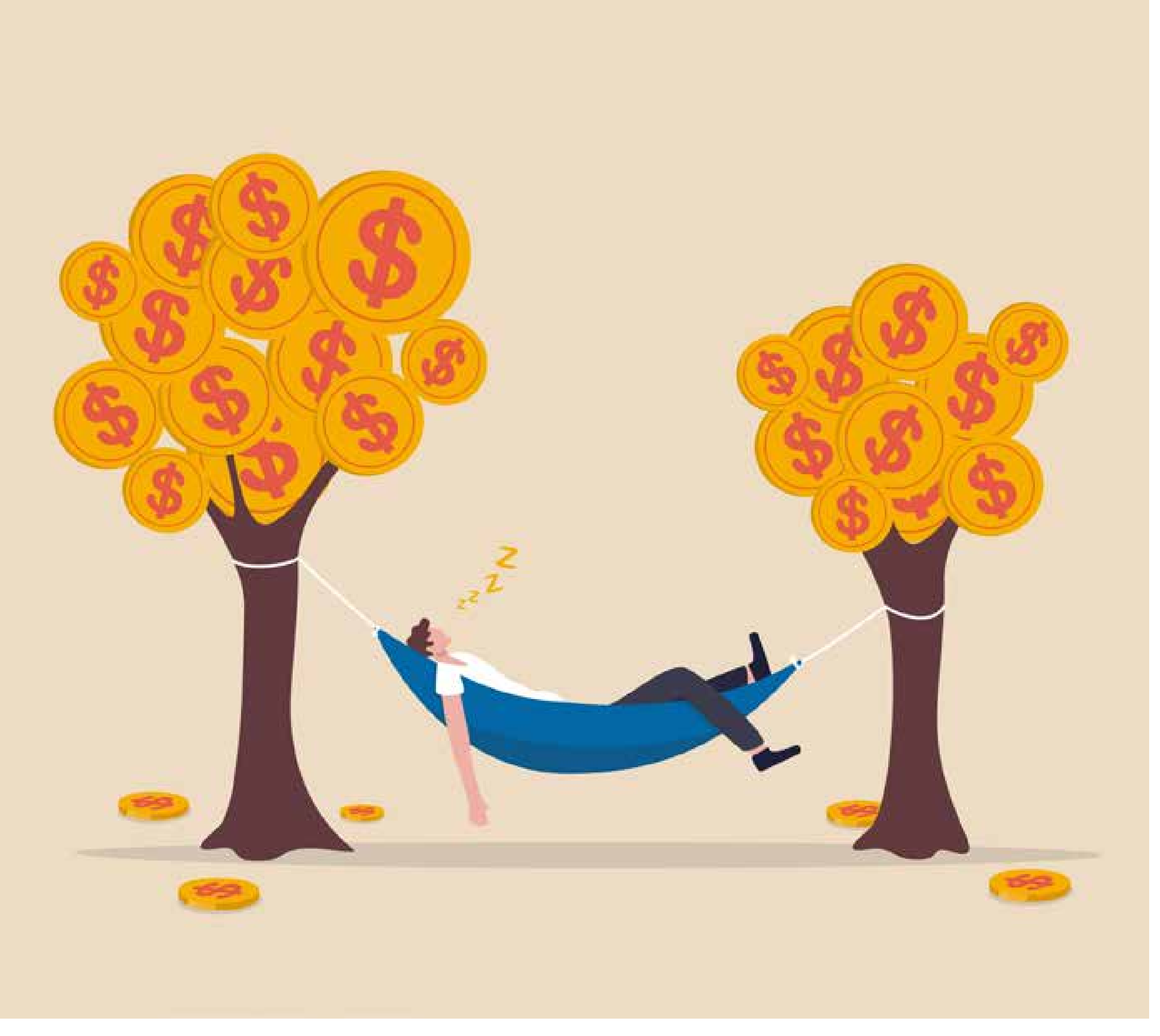
Ms Mahtani also highlighted some of the ongoing initiatives in Hong Kong to improve levels of D&I. Over the last five years, for example, the Zubin Foundation has produced an annual list for the government with the names of qualified people from ethnic minorities in Hong Kong. Over the course of six years, out of 120 names given, the government has taken on 30 people into Advisory and Statutory Bodies (ASBs) in Hong Kong. Hong Kong companies need to follow this lead, she added, to 'bring the best talent to sit on our boards'.

Sharan Gill

Sharan Gill is a lawyer and writer based in Hong Kong

Foreign source income exemption for passive income

Agnes Cheung, Director and Head of Tax, and Abigail Li, Director, BDO Tax Ltd, summarise recent proposals to refine Hong Kong's foreign source income exemption (FSIE) regime for passive income and discuss what companies should now be considering in preparation.



The HKSAR Government has recently published a proposal to amend the Inland Revenue Ordinance (IRO) to refine Hong Kong's FSIE regime for passive income, in order to address concerns expressed by the European Union (EU) over the potential risk of double non-taxation. The consultation paper gives an overview of the key features of the refined FSIE regime. In this article, we highlight what companies need to know at this stage.

Starting point

Under the refined FSIE regime, in-scope offshore passive income received in Hong Kong by a covered taxpayer will be deemed to be sourced from Hong Kong and chargeable to profits tax, unless the prescribed requirements are met. The term 'offshore' should mean offshore based on our Hong Kong profits tax rules.

Who is covered?

A constituent entity of a multinational enterprise (MNE) group is regarded as a covered taxpayer. The consultation paper refers to the definition of 'MNE group' and related terms in the context of the Global Anti-Base Erosion Rules promulgated by the Organisation for Economic Co-operation and Development, but the language used in the consultation paper does not clearly reflect whether there is any group revenue size threshold for an MNE group to come into scope. When they are released, the final FSIE rules will need to be reviewed carefully to confirm the definition of a covered taxpayer.

What income is covered?

Offshore passive income – that is interest, intellectual property (IP) income, dividends and disposal gains in relation to shares or equity interest (disposal gains) – is in-scope income.

No change will be made to the FSIE regime with regard to active income, such as manufacturing, trading and service income.

When is the point of taxation?

The consultation paper proposes that if an in-scope income is received in Hong Kong and if the recipient covered taxpayer fails to meet the prescribed requirements (discussed below), the income will be deemed taxable. This seems to suggest that taxation happens upon receipt. However, in general, income is chargeable to tax based on accounting accrual under the prevailing practice. Hence, this is another area that will require extra attention when the FSIE rules are released.

Prescribed requirements for income not to be deemed taxable

Economic substance

Adequate relevant activities, ie substantial economic activities with regard to the relevant passive income, are required to be conducted in Hong Kong. Two tests are proposed, to apply depending on whether a taxpayer is a pure equity holding company or not.

- For a pure holding company, the relevant activities only include holding and managing its equity participation, and complying with corporate law filing requirements in Hong Kong.
- For a non-pure holding company, the relevant activities include making necessary strategic decisions, and managing and assuming principal risks in respect of any assets it acquires, holds or disposes of.

Outsourcing of relevant activities is possible where adequate monitoring is demonstrated.

Adequacy is measured by the number of employees and qualifying expenditure in Hong Kong. There is no indication of any benchmark in the consultation paper, but there will be administrative guidance issued by the IRD in this regard.

Highlights

- the government has recently proposed refinements to the foreign source income exemption regime for passive income, in response to EU concerns over the potential risk of double non-taxation under Hong Kong's current tax system
- under the proposals, four types of offshore passive income are deemed in-scope, namely interest, intellectual property income, dividends and disposal gains in relation to shares or equity interest
- profits tax exemption or preferential treatment will only apply if the requirements of economic substance, participation exemption and the nexus approach are met

> in-scope offshore passive income received in Hong Kong by a covered taxpayer will be deemed to be sourced from Hong Kong and chargeable to profits tax, unless the prescribed requirements are met

Participation exemption
The exemption will apply if:

- the investor company is a Hong Kong resident or a non-Hong Kong resident that has a permanent establishment in Hong Kong
- the investor company holds at least 5% of the shares or equity interest in the investee company, and
- no more than 50% of the income derived by the investee company is passive income.

There will be specific anti-abuse rules under the participation exemption, namely the switch-over rule, main purpose rule and anti-hybrid mismatch rule.

Nexus approach
The nexus approach applies to determine the extent of IP income to be tax exempt.

Only income from patents, or functionally equivalent IP assets, may qualify for preferential tax treatment. Marketing-related IP assets, eg trademarks and copyrights, are excluded from preferential tax treatment (ie IP income generated from marketing-related IP assets should be deemed taxable).

General anti-abuse rules
Arrangements with an intent to avoid the FSIE deeming provisions will be subject to the general anti-avoidance rules under sections 61 and/or 61A of the IRO.

Unilateral tax credit

If foreign income tax is paid on in-scope offshore passive income that is chargeable to profits tax under the FSIE regime, a tax credit will be offered by Hong Kong even in a case where there is no applicable double taxation agreement.

Compliance requirements

Administrative guidance will be issued to set out the factors that should be considered in analysing the compliance with economic substance requirements (eg the average number of employees, their qualifications with regard to the nature of the relevant activities, the quantitative and qualitative aspects of the management, and the administration of the taxpayer), and also to explain the application of the nexus approach, as well as the rules governing the participation exemption and unilateral tax credit.

Why is the government doing this?

The government has made it clear that the FSIE refinements are based on a consensus with the EU's Code of Conduct Group (Business Taxation). This means it is likely there will be very limited room for modification in the substantive provisions to come. The consultation paper indeed only invites input on implementation aspects such as tax credit claims, administrative guidance and compliance requirements.

Three of the government's self-stated points are particularly noteworthy.

1. The territorial source principle of taxation will still apply in general and the primary goal of the FSIE refinements is to tackle cross-border tax evasion.
2. Only MNE groups are affected. Offshore income of standalone local companies with no offshore operation and companies belonging to purely local groups will not be affected.
3. It is not the government's policy objective to generate fiscal revenue through the refined FSIE regime.

Effective date

The government plans to introduce an amendment bill in October 2022 and have it passed by the end of

2022, bringing the FSIE rules into force from 1 January 2023.

Comments

The refined FSIE rules continue Hong Kong's implementation of changes in response to the evolving international tax landscape. A number of new requirements, such as economic substance, participation exemption and the nexus approach, are being introduced into Hong Kong's taxation system, possibly no longer just impacting large global MNEs with a total revenue exceeding €750 million. Hong Kong small and medium-sized enterprises (SMEs), ie Hong Kong operating companies with parent or subsidiary entities located in another jurisdiction (including offshore jurisdictions like the British Virgin Islands), may now also come into scope.

This could result in a fairly significant impact, such as:

- potential taxation of interest where a covered taxpayer does not have adequate economic substance without regard to source
- potential taxation of disposal gains in relation to shares or equity interest without regard to whether they are on a capital or revenue account
- potential taxation of passive income from marketing-related IP assets, eg trademarks and copyrights, without regard to source for a covered taxpayer
- potential conflicts in the consideration of economic substance requirements and source of profits, and
- additional reporting obligations and compliance burdens for covered taxpayers.

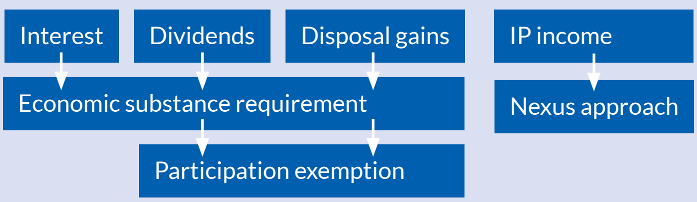
Taxpayers will need to assess any potential effect of the FSIE rules for their groups, starting with reconsidering substance in their existing structures.

Agnes Cheung, Director and Head of Tax, and Abigail Li, Director
BDO Tax Ltd

How do the FSIE rules work?

According to the key features of the FSIE regime highlighted in the consultation paper, if an in-scope income is received in Hong Kong, and if the recipient is a covered taxpayer, profits tax exemption or preferential treatment only applies if the requirements of *economic substance*, *participation exemption* and *nexus approach* are met.

Different tests apply to different types of income, as follows:



Interest
Interest income received in Hong Kong by a covered taxpayer that fails to meet the *economic substance* requirement will be deemed taxable.

Dividends
Dividend income received in Hong Kong by a covered taxpayer that fails to meet the *economic substance* requirement, and where the conditions for *participation exemption* are not met, will be deemed taxable.

Disposal gains
Disposal gains received in Hong Kong by a covered taxpayer that fails to meet the *economic substance* requirement, and where the conditions for *participation exemption* are not met, will be deemed taxable.

IP income
IP income received in Hong Kong by a covered taxpayer that fails to comply with the *nexus approach* will be deemed taxable.

A proposed revised conceptual model for ESG

Professor Simon SM Ho, President, The Hang Seng University of Hong Kong, and Anthony Tyen, Director, Provident Governance Services Ltd, propose a revised conceptual framework for ESG with greater emphasis on ethics, stakeholder value and sustainability.

Many companies spend considerable resources on improving their ESG performance and reporting, and this is a trend to which the capital market has been paying close attention. Improved ESG practices not only have potential environmental and societal benefits (helping to tackle climate change and social inequalities, or improving labour rights for example), but they also enable a more efficient resource allocation and lead to better risk management and more sustainable corporate growth.

Some nine years ago, in 2013, Hong Kong Exchanges and Clearing Ltd (HKEX) released for the first time its ESG Reporting Guide, which sets out certain reporting approaches and principles that serve as minimum parameters for listed companies' ESG reporting. Since then, HKEX has issued a number of updates to the Reporting Guide.

Nevertheless, while there has been a general acceptance of the importance of ESG performance and reporting, this area of corporate practice still lacks a robust conceptual framework. ESG is arguably a loose and convenient buzzword that lacks clarity regarding its purpose, assumptions, elements and limitations. In particular, many ESG reports focus on environmental issues and on investors' information needs, and demonstrate little concern for business ethics or the company's responsibilities to each of its different stakeholders.

Moreover, there has rarely been any serious discussion in either the market or the literature regarding why the three domains of ESG have been put together, why in this particular order and how they interrelate with one another. The current ESG disclosure requirements in Hong Kong do not specify whether governance aspects should be disclosed together with environmental and social aspects in a single report, or in what order. Rather, to many companies, it is only some additional regulatory requirement to comply with.

Lacking an integrated conceptual framework, the major problem with existing ESG reporting is that it is not based on a company's purpose and responsibilities. Different concepts or terms such as responsible management, business ethics, Corporate Social Responsibility (CSR), sustainability, responsibilities to stakeholders and corporate governance cannot easily be linked together.

As many of the inherent concerns regarding ESG reporting have not been addressed, it is doubtful to what extent piecemeal revisions of the HKEX requirements or other regulatory bodies can significantly improve the cost effectiveness and value of ESG reporting, especially in achieving social and environmental progress.

In March 2022, the International Sustainability Standards Board (ISSB) of the IFRS Foundation issued two IFRS sustainability disclosure standard exposure drafts on Sustainability-related Financial Information (IFRS S1) and Climate-related Disclosures (IFRS S2). While acknowledging the timely address by ISSB on the desperate concern of the effect of climate change on corporate sustainability, as evidenced by a report of the World Economic Forum of 2020, the two exposure drafts however focus only on environmental sustainability and climate change reporting. We do hope that the IFRS Foundation continues to make efforts to tie up the other loose ends inherited from the current ESG legacy.

Highlights

- the authors' enhanced ESG model places greater emphasis on ethics, stakeholder value and sustainability
- in addition to these three aspects, governance provides the overall corporate direction and leadership for responsible management
- the authors also recommend companies establish an ESG committee and ensure accurate reporting at the subsidiary level to facilitate comparability between companies

> **the major problem with existing ESG reporting is that it is not based on a company's purpose and responsibilities**

Ethics, stakeholder value and sustainability

To address the shortcomings discussed above, the first step in developing a revised ESG model is to identify a sound and comprehensive conceptual framework. We believe that corporations are important social institutions that have the capacity to benefit various stakeholders and society. In recent years, some business and academic leaders have suggested redefining the purpose of corporations from the perspective of social contracting. That is, since companies enjoy privileges such as limited liability, unlimited life and independent legal person status, management should implicitly agree to bear responsibilities to various interdependent stakeholders, and make a positive impact on today's pressing challenges such as climate change and social concerns. Thus, corporate leaders should not concentrate solely on shareholders' interests, but rather should optimise value for all stakeholders upon whom the company depends for its existence. In other words, corporations need to balance the interests of all major stakeholders and aim for sustainable corporate growth.

While corporate governance provides a framework within which boards make decisions, such frameworks should be based on the fundamentals of the decision-making process by responsible management, which we believe is the single common denominator for corporate governance. We therefore propose an enhanced ESG model based on the Integrated Conceptual Framework of Responsible Management developed by one of the authors of this article, Simon Ho, in 2020. This framework stems from the umbrella concept of social contracting and examines the purpose and the core values of responsible management.

In this integrated framework (see 'Our enhanced ESG model'), three core domains are identified: ethics, stakeholder value and sustainability. On top of these three domains comes the existing governance domain, which provides the overall corporate direction and leadership for responsible management.

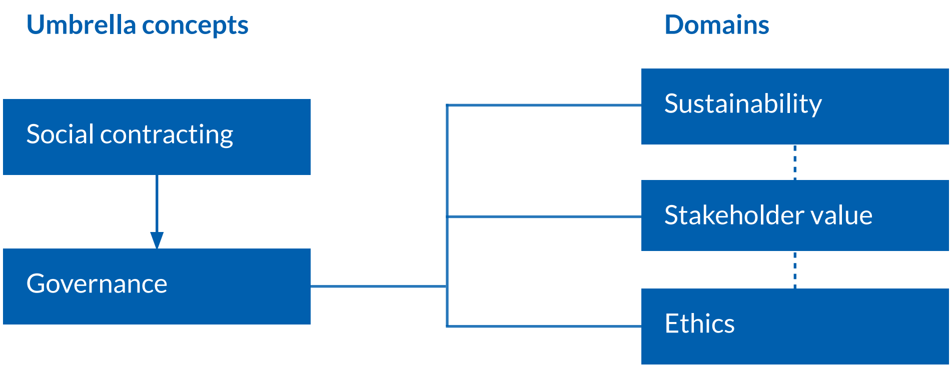
The existing ESG model pays little attention to ethics, which is the foundation of responsible

Our enhanced ESG model

The four domains, outlined below, of our revised ESG model are complementary, mutually reinforcing but distinct, each with its own core concepts and execution.

1. E is for ethics. This represents the moral principles or conscience that govern a company's behaviour. Companies are obliged to implement ethical business policies and practices with regard to diverse issues, some of which are not currently subject to legal requirements.
2. S is for stakeholder value. Companies need to disclose the value they create for each of their stakeholder groups, including investors at large, employees, customers, suppliers, creditors, community, regulators and the government.
3. S is for sustainability. Companies need to meet the needs of this generation while not compromising those of future generations. This domain is centred on the core concept of the triple bottom line, that is the goals of 'people, planet and profit' (the 3Ps) and encourages organisations to take a longer-term perspective, and thus evaluate the future consequences of their activities and decisions.
4. G is for governance. This domain focuses on the mechanisms and processes by which companies are directed and controlled. In this context, governance essentially involves balancing the interests of the company's many stakeholders, especially among shareholders, the board of directors and senior management, and thus calls for appropriate incentives, control and risk management measures.

An integrated conceptual framework of responsible management (Simon SM Ho, 2020)



management. Ethical decision-making not only shapes sustainable businesses but also facilitates the creation of long-term value to stakeholders more effectively. In the field of corporate governance, moral integrity is generally recognised as one of the major pillars. Management awareness of ethical issues is therefore a fundamental attribute which ensures that managers avoid abusing their power or undertaking improper actions that could result in questionable behaviours and practices within organisations.

Further, in the existing ESG model, the social domain is arguably too broad and hence confusing, as it consists of a number of loose reporting elements such as human rights, training (which is not well-defined in the ESG Reporting Guide), equal opportunities and diversity, corruption prevention, occupational health and safety, consumer rights, community engagement and so on, which do not necessarily relate to each other. The expectations and information needs of different stakeholders are not systematically addressed. Considering this, we propose that the enhanced ESG model should be based on the four domains of ethics, stakeholder value, sustainability' and governance.

Revised KPIs

The various existing and additional reporting requirements or key performance indicators (KPIs) should then be classified according to each of the four redefined domains of ESG listed above. To illustrate, here are some examples of new KPIs in our refined ESG model. For ethics, KPIs would include investment in 'sin stocks' that would currently be an aspect of governance. Excessive work hours and any monopolistic behaviour would go under stakeholder value. Other examples would include interactions/engagement with investors. For sustainability, examples of KPIs would be the proportion of renewable energy consumed and management salary multiples over operational staff wages, as well as innovation and knowledge creation, and long-term risk management.

Towards a stakeholder-based and sustainable economy

Apart from advocating for the enhanced ESG model, we have also identified the following suggestions for improvements to current ESG reporting practices, subject to materiality considerations.

Establish an ESG committee

A fundamental principle of corporate governance is to ensure accountability. It is observed though that the boards of some companies do not sign off the ESG report. Emulating the approval process of financial statements by the company's audit committee, it is proposed that companies should establish an ESG committee, consisting mainly of independent non-executive directors (INEDs), which will monitor the issuer's ESG-related matters and be responsible for endorsing the ESG report.

Subsidiary reporting

Currently, ESG disclosures are commonly done on a group basis only. This may mask poor ESG performance

CHARTERED GOVERNANCE Hong Kong

Supporting Organisation

HKEX 香港交易所

Director training – a focus on INEDs

WHY?

Hearing from HKEX regulators, prominent directors including INEDs, as well as market practitioners, governance professionals to understand:

- Director/INED's duties, functions and authority
- How to respond to current governance issues, e.g. risk management, investor communications, conflicts of interest, ESG
- Complex transactions that INEDs need to seek more information from management and/or professional advice
- Enforcement

FORMAT – Hybrid

A series of three director training sessions in **HKEX Connect Hall**, with limited physical attendance and live streaming for online participation.

Session One [Physical] / [Online]	**Understanding Director/INED's Duties**	**22 November 2022** (2.00pm to 4.00pm)
Session Two [Physical] / [Online]	**Tackling Current Governance and Regulatory Issues**	**17 February 2023** (4.00pm to 6.00pm)
Session Three [Physical] / [Online]	**Enforcement - Current Issues and Disciplinary Processes**	**17 March 2023** (4.00pm to 6.00pm)

CPD ACCREDIATION

HKCGI: 2 ECPD points per session, **The Law Society of Hong Kong:** 2 CPD points

ENQUIRIES

Please contact the Institute's Professional Development Section: 2881 6177, or email: cpd@hkcgi.org.hk.
For details, please visit the Institute's website: www.hkcgi.org.hk.

Session One

You will learn:

- What is corporate governance about?
- Boardroom dynamics
- Directors' duties, functions and authority
- INED specific duties, roles and authority
- INED's role in risk management, including ESG and climate-related risks and opportunities
- Shareholder communications/ investor expectations

Speakers:

- **Ms Edith Shih FCG(CS, CGP) HKFCG(CS, CGP)(PE)**
  Past International President, The Chartered Governance Institute and Past President, HKCGI; Executive Director and Company Secretary, CK Hutchison Holdings Ltd
- **Ms Ellie Pang FCG HKFCG(PE)**
  Chief Executive, HKCGI
- **Mr Ernest Lee FCG HKFCG(PE)**
  President, HKCGI; Technical Partner, Deloitte China
- **Ms Gillian Meller FCG HKFCG(PE)**
  Immediate Past President, HKCGI;
  Legal and Governance Director, MTR Corporation Ltd
- **Ms Katherine Ng**
  Managing Director and Head of Policy and Secretariat Services, Listing Division, HKEX
- **Ms Teresa Ko JP BBS FCG HKFCG**
  Senior Partner, Hong Kong and China Chairman, Freshfields Bruckhaus Deringer; Co-Vice Chair, IFRS Foundation

(In alphabetical order)

Session Two

You will learn:

- INED's oversight role in:
    - Internal control system
    - Connected transactions and major transactions
- Conflicts of interest
- When to seek information from management
- When to seek professional advice

Speakers:

- **Ms Christine Kan**
  Managing Director, Head of Listed Issuer Regulation, Listing Division, HKEX
- **Mr David Simmonds FCG HKFCG**
  Vice President and Chairman, Membership Committee, HKCGI; Chief Strategy, Sustainability & Governance Officer, CLP Holdings Ltd
- **Mr Frank Yuen**
  Group General Counsel and Head of Compliance, CK Hutchison Holdings Ltd
- **Mr Joe Fan**
  Vice President, Listed Issuer Regulation, Listing Division, HKEX
- **Ms Melissa Fung**
  Risk Advisory Southern Region Lead Partner, Deloitte China
- **Mr Nicholas Allen**
  Chairman and Independent Non-Executive Director, Link Asset Management Ltd

(In alphabetical order)

Session Three

You will learn:

- Disciplinary cases against INEDs
- HKEX's disciplinary process
- Latest case studies relating to INEDs
- How to respond to disciplinary actions?
- How to defend disciplinary actions?

Speakers:

- **Ms Candy Au**
  Assistant Vice President, Enforcement, Listing Division, HKEX
- **Mr Ernest Lee FCG HKFCG(PE)**
  President, HKCGI; Technical Partner, Deloitte China
- **Mr Jon Witts**
  Senior Vice President, Head of Enforcement, Listing Division, HKEX
- **Ms Julia Charlton**
  Principal Partner, Charltons
- **Dr Kelvin Wong SBS JP**
  Chairman, Accounting and Financial Reporting Council
- **Mr Mohan Datwani FCG HKFCG(PE)**
  Deputy Chief Executive, HKCGI

(In alphabetical order)

Physical seats are limited while attendance is subject to the social distancing rules in place at the time of the session. The Institute reserves the right to change the above session, listed presenter(s) and time, if necessary.

CHARTERED GOVERNANCE
Hong Kong

Supporting Organisation
HKEX 香港交易所

Director training – a focus on INEDs

Session One – Understanding Director/INED's Duties

Date 22 November 2022 **Time** 2.00pm – 4.00pm

There will be three training sessions in hybrid mode. This inaugural November session will have HKEX representative, directors and market practitioners as speakers. They will discuss director duties focusing on INEDs, risk management, shareholder communications and ESG.

Opening Address
(10 mins)

Mr Ernest Lee FCG HKFCG(PE)
President, HKCGI; Technical Partner, Deloitte China

Keynote Address
Regulatory issues and policy trends (20 mins)

Ms Katherine Ng
Managing Director and Head of Policy and Secretariat Services, Listing Division, HKEX

Relevant Listing Rules
(15 mins)

Ms Ellie Pang FCG HKFCG(PE)
Chief Executive, HKCGI

Panel discussion (60 mins)
Moderator

Ms Edith Shih FCG(CS, CGP) HKFCG(CS, CGP)(PE)
Past International President, The Chartered Governance Institute and Past President, HKCGI; Executive Director and Company Secretary, CK Hutchison Holdings Ltd

Panellists

Ms Katherine Ng

Ms Teresa Ko JP BBS FCG HKFCG
Senior Partner, Hong Kong and China Chairman, Freshfields Bruckhaus Deringer; Co-Vice Chair, IFRS Foundation

Ms Gillian Meller FCG HKFCG(PE)
Immediate Past President, HKCGI; Legal and Governance Director, MTR Corporation Ltd

Q and A (15 mins)

(In order of appearance)

CPD Accreditation:
HKCGI: 2 ECPD points, **The Law Society of Hong Kong:** 2 CPD points

For enquiries, please contact the Institute's Professional Development Section: 2881 6177, or email: cpd@hkcgi.org.hk. For registration, please visit www.hkcgi.org.hk/professional-development/forthcoming-ecpd-seminar.

Physical seats are limited while attendance is subject to the social distancing rules in place at the time of the session.
The Institute reserves the right to change the above session, listed presenter(s) and time, if necessary.

> "the existing ESG model pays little attention to ethics, which is the foundation of responsible management"

in subsidiaries since their KPIs may be 'offset' by better performance elsewhere in the group. This may not only lead to under-investment in environment correction activities, but also impose the threat of greenwashing where the public would be misguided in the belief that the company is 'greener' than it actually is. In such cases, reporting at the subsidiary level would facilitate comparability among companies of different segments locally and abroad.

Improve the integration of Hong Kong and Mainland ESG requirements

With the more intensive integration of the Hong Kong and Mainland economies, as well as dual listings, Hong Kong's present ESG reporting model does not take adequate consideration of recent ESG developments in the Mainland. Our ESG proposal will require more collaboration between Hong Kong and Mainland authorities.

Monitor implementation

Policies, plans and action executed should be disclosed separately, and the proper implementation of such policies and plans should be monitored. Such disclosures also manifest accountability of responsible management, which is a major principle of corporate governance, vital in establishing confidence among stakeholders and shareholders.

Conclusion

It is evident that across the globe, the current ESG reporting model has fallen short of the expectations of society at large. Different stakeholders are desperately waiting for new thinking on this matter. This article has laid out an enhanced version of the existing ESG model. Our enhanced ESG model offers a structure which aligns with the principles of good corporate governance and will help to measure true corporate performance and facilitate meaningful comparison between companies, industries and specific topics.

Although our enhanced ESG reporting model represents only a modification of the current prevailing ESG reporting model, it nonetheless provides a robust framework that seeks to address some shortcomings of the present model. It is time to recalibrate.

Professor Simon SM Ho, President
The Hang Seng University of Hong Kong

Anthony Tyen, Director
Provident Governance Services Ltd

This article represents the authors' personal views. CGj's Viewpoint column provides a forum for readers to share their views and expertise on issues relevant to the work of governance professionals. Please contact CGj Editor, Kieran Colvert, by email: kieran@ninehillsmedia.com, if you would like to submit an article for publication in this column.

Professional Development

Seminars: September 2022

1 September
Sanctions: basics, sanctions compliance programme and case study

Chair: *Edmond Chiu FCG HKFCG(PE), Institute Council member, Membership Committee Vice-Chairman, Professional Services Panel Chairman, AML/CFT Work Group member and Mainland China Focus Group member, and Head of Corporate Services, Vistra Corporate Services (HK) Ltd*

Speaker: *Richard Ip, Founder, Richard Ip Consultancy*

28 September
Directors' responsibilities and company secretaries' roles under the Listing Rules

Speakers: *Julia Charlton, Principal Partner, Charltons; and Mohan Datwani FCG HKFCG(PE), Institute Deputy Chief Executive*

29 September
Director induction: overview, best practice and case sharing

Chair: *Stella Lo FCG HKFCG(PE), Institute Council member, Education Committee Chairman and TCP – Public Governance Interest Group member, and Company Secretary, Guoco Group Ltd*

Speakers: *Alson Law FCG HKFCG, Company Secretary and Head of Secretarial Department, The Bank of East Asia Ltd; and Wendy Ho FCG HKFCG(PE), Institute Council member, Professional Development Committee Vice-Chairman, Professional Services Panel Vice-Chairman and Rebranding Working Group member, and Executive Director, Corporate Services, Tricor Services Ltd*

30 September
Shareholders' protection – overview, application and company secretaries' & investor relations' roles

Chair: *Dr Eva Chan FCG HKFCG, Audit Committee member, Assessment Review Panel member, Nomination Committee member, Rebranding Working Group member and Head of Investor Relations (IR), C C Land Holdings Ltd*

Speakers: *Ricky Lai FCG HKFCG(PE), Company Secretary, China Renewable Energy Investment Ltd; and Carmen Lam FCG HKFCG, Senior Lecturer in Corporate Governance, and Corporate Secretaryship and Compliance, Hong Kong Metropolitan University*

ECPD Videos on Demand

Some of the Institute's previous ECPD seminars/webinars can now be viewed on its online platform – ECPD Videos on Demand.

Details of the Institute's ECPD Videos on Demand are available in the Professional Development section of the Institute's website: www.hkcgi.org.hk.

For enquiries, please contact the Institute's Professional Development Section: 2830 6011, or email: cpd@hkcgi.org.hk.

ECPD forthcoming webinars

Date	Time	Topic	ECPD points
29 November 2022	4.00pm–5.30pm	Board evaluations – practical implementation of regulatory concerns	1.5
30 November 2022	6.45pm–8.15pm	Cross border data transfers – practical sharing and risk mitigation	1.5
5 December 2022	4.00pm–6.00pm	New listing regime for specialist technology companies	2
7 December 2022	4.00pm–5.30pm	Practical sharing on handling transactions & related queries to reduce enforcement risk	1.5

For details of forthcoming seminars/webinars, please visit the Professional Development section of the Institute's website: www.hkcgi.org.hk.

Membership

Membership activities: September 2022

17 September
Fun & Interest Group – natural tie dye workshop at heritage site

24 September
Mentorship Programme training – creative thinking for solutioning

22 September
Thriving in the post-Covid workplace (free webinar)

24 September
Wellness series: gong bath workshop

Membership (continued)

New graduates

The Institute would like to congratulate our new graduates listed below.

Au Wai Hei, Billy	Gu Bing	Law Cheuk Luen, Cherry	Tsang Chiu Jo
Chan Tsz Yan	Guo Chang	Law Chi Hung	Tsang Tsz Kam
Chan Yuk Heung	Hui Man Chun	Law Wai Ting	Tse Sze Man
Chen Zhuoying	Hui Sheung Ting	Lee Chun Hin	Tsui Sai Kit
Cheng Anne	Ip Diana	Leung Po Yu	Tsui Sin Chi, Niki
Cheng Cheung King	Ip Sze Ho	Li Hoi Sin	Tsui Yeuk Wing
Cheung Chui Ting	Jin Honggu	Liang Shuang	Wang Ruoyu
Cheung Chun Ho	Ke Mingjie	Loo Wai, Joyce	Wong Kar Yan
Cheung Hoi Kam	Kei Siu Ying	Ng Ka Wai	Wong Kwun Ling
Cheung Pui Fung	Kwan Ho Yi	Ng Man Yi	Wong Mung King
Cheung Yee Ting	Kwok Ka Wai	Peng Liting	Wong Tsz Ki
Ching Cho Miu	Lai Yue Tak, Adrian	Poon Wing Yi	Wong Yu Yan
Cho Hiu Shan, Amy	Lam Hoi Ching	Poon Yi Yan	Xin Yingnan
Fan Shui Hang	Lam Kai Chun	Shi Yi Jing	Yan Yuen Mei
Fang Lu	Lam Parker	Sin Ho Wai, David	Yeung Nga Yuk
Fong Christine Haiman	Lam Yu Hon	Sin Yi Kiu	Yung Tin Yan
Fung Chun Kei	Lau Ming Tak, Simeon	Sung Hei Wah, Rachel	Yung Yim Hing, Yuly
Gao Yuan	Lau Yuk Chun	Tang Sze Wing	Zhang Lin

New Fellows

The Institute would like to congratulate the following Fellows elected in September 2022.

Au Lap Ming FCG HKFCG

Mr Au is the Company Secretary of Besunyen Holdings Company Ltd (Stock Code: 926). He holds a bachelor's degree in accountancy from The Hong Kong Polytechnic University, an LLB and an LLM from the University of London, and an MBA from The Hong Kong University of Science and Technology. Mr Au is a Fellow of the Hong Kong Institute of Certified Public Accountants.

Lee Sze Chung FCG HKFCG

Mr Lee is the Practising Director of One IBC CPA Ltd. He holds a bachelor's degree in accountancy from the University of Wollongong and a postgraduate diploma in corporate administration from The Hong Kong Polytechnic University. Mr Lee is a Practising CPA of the Hong Kong Institute of Certified Public Accountants, and a Fellow of CPA Australia and the Taxation Institute of Hong Kong. He also holds professional qualifications as a member of Chartered Accountants Australia and New Zealand, and Chartered Professional Accountants Canada.

Leung Ka Hong FCG HKFCG

Mr Leung is the Finance Director of Ta Yang Group Holdings Ltd. He has over 13 years of experience in auditing, financial reporting, mergers and acquisitions, and risk management. He is a Fellow of the Hong Kong Institute of Certified Public Accountants, a member of the Association of Chartered Certified Accountants and a Financial Risk Manager of the Global Association of Risk Professionals. Mr Leung obtained a bachelor's degree in accounting and finance from The Hong Kong Polytechnic University, and a master's degree in corporate governance and compliance from Hong Kong Baptist University.

Liu Yingying FCG HKFCG

Ms Liu is a Senior Vice President of the global family office team under Invest Hong Kong, the HKSAR Government.

Her role is to provide a holistic service to help overseas and Mainland family offices establish and expand their presence in Hong Kong. Ms Liu holds a bachelor's degree in accounting and finance from The Hong Kong Polytechnic University and an LLM from The Chinese University of Hong Kong. She also holds professional qualifications as a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

Shum Kit Han FCG HKFCG

Ms Shum is a Senior Associate and the head of the Corporate Governance Department at La Nao Group Ltd. Ms Shum holds a bachelor's degree in English for professional communication, and a master's degree in professional accounting and corporate governance from City University of Hong Kong.

Tsui Lai Ki, Vicki FCG HKFCG

Ms Tsui is the Company Secretary of Vincent Medical Holdings Ltd (Stock Code: 1612). She has over 17 years' experience in the listed corporate secretarial and governance field. She holds a bachelor's degree in accountancy from the University of South Australia.

Wang Yu FCG HKFCG

Ms Wang is the Executive Director and Company Secretary of Courage Investment Group Ltd (Stock code: 1145). She has experience in the logistics industry, corporate administration and company secretarial practice. Ms Wang holds a bachelor's degree in arts from University of Science and Technology of China, an LLB from Manchester Metropolitan University, an MBA from University of Birmingham, and a master's degree in corporate governance and a master's degree in professional accounting from The Hong Kong Polytechnic University.

Leung Kam Fai, Anthony FCG HKFCG

CFO and Company Secretary, Ever Reach Group (Holdings) Company Ltd (Stock code: 3616)

Shen Xiaoxiao FCG HKFCG

Securities Affairs Representative and Senior Administration Manager of the Board of Directors, Ping An Insurance (Group) Company of China, Ltd (Stock code: 2318)

Yu Chor On FCG HKFCG

Sole Practitioner, Roger Yu & Co

Membership (continued)

HKCGI Annual Convocation 2022

The Institute's Annual Convocation was held on 6 October 2022 with a welcome from Guest of Honour, April Chan FCG HKFCG, Institute Past President, Inaugural President of Corporate Secretaries International Association Ltd (CSIA), HKCGI Prize 2021 Awardee, Chair and member of many Institute panels and committees; and Institute President Ernest Lee FCG HKFCG(PE).

In the year 2021/2022, 64 Fellows and 407 Associates were elected, while 123 graduates were admitted to the Institute. New Fellows, Associates and graduates, together with awardees of the Institute's Chartered Governance Qualifying Programme (CGQP) module prizes and merit certificates, as well as of the HKCGI Foundation scholarships and subject prizes, received their certificates and awards at the convocation.

Certificates were presented by Guest of Honour April Chan FCG HKFCG; Institute President Ernest Lee FCG HKFCG(PE); Past International President and Institute Past President Edith Shih FCG(CS, CGP) HKFCG(CS, CGP)(PE); Institute Immediate Past President Gillian Meller FCG HKFCG(PE); Treasurer Daniel Chow FCG HKFCG(PE); Council member and Membership Committee Vice-Chairman Edmond Chiu FCG HKFCG(PE); and Council member and Education Committee Chairman Stella Lo FCG HKFCG(PE). The Institute also invited Flora Ho ACG HKACG, a newly elected Associate, to share her experience and aspirations of the profession.

Advocacy

Introduction to Hong Kong stock exchange enforcement and practical sharing

A topic of significant concern to the governance professional is the exercise and enforcement of disciplinary powers by Hong Kong Exchanges and Clearing Ltd (HKEX) on Hong Kong listed companies. A webinar focusing on this issue was held on 14 October, at which Edith Shih FCG(CS, CGP) HKFCG(CS, CGP)(PE), Past International President and Institute Past President, and Executive Director and Company Secretary, CK Hutchison Holdings Ltd, and her team, Candy Au, Assistant Vice-President, Enforcement, Listing Division, HKEX, and Ellie Pang FCG HKFCG(PE), Institute Chief Executive, discussed the overall enforcement powers and approach of HKEX, including its disciplinary powers, and parties subject to sanctions and types of sanctions, supplemented with enforcement case studies showcasing the usual breaches and the lessons learned, with the hope of understanding the risk exposure to HKEX enforcement actions, whether against listed companies, directors or others in senior management positions, including governance professionals themselves.

The Institute would like to express its appreciation to all speakers and participants for their generous support and participation.

Professional seminars at Hong Kong Shue Yan University Academic Week 2022

On 19 October 2022, Ellie Pang FCG HKFCG(PE), Institute Chief Executive, and Dr Maurice Ngai FCG HKFCG(PE), Institute Past President, and Director and Group CEO, SWCS Corporate Services Group (Hong Kong) Ltd, conducted professional seminars on how ESG implementation has influenced business development in Hong Kong, and how integration into the Greater Bay Area market has affected the corporate governance of Hong Kong companies, respectively, for over 120 Hong Kong Shue Yan University undergraduates in Corporate Governance and Risk Management. Information was also shared about the Institute's dual qualification of Chartered Secretary and Chartered Governance Professional.

Community service – Pink Together 2022

In support of the online fundraising event – Pink Together 2022 – organised by the Hong Kong Breast Cancer Foundation, the Institute called on members, graduates and students to join the Institute's team in this good cause.

The Institute would like to thank all members, graduates, students and colleagues who supported the Pink Together 2022 event.

Dress Pink Day

Dress Pink Day is part of the Pink Revolution campaign advocated by the Hong Kong Cancer Fund (HKCF) to raise awareness and funds to support women with breast cancer. The Institute's Secretariat team, in both the Hong Kong and Beijing offices, showed their support by making donations to HKCF and by dressing in pink on 21 October 2022.

The Institute would like to thank all members, graduates and students who responded to the call to support Dress Pink Day.

CGI Council meeting

CGI's International Council held its Council meeting on 3 and 4 October 2022 in hybrid mode in Cape Town, South Africa. The following representatives of the Hong Kong/China Division participated in the meeting: Edith Shih FCG(CS, CGP) HKFCG (CS, CGP)(PE), Past International President and Institute Past President, and Executive Director and Company Secretary, CK Hutchison Holdings Ltd; Gillian Meller FCG HKFCG(PE), Immediate Past President and Ex-officio, and Legal and Governance Director, MTR Corporation Ltd; Professor Alan KM Au FCG HKFCG, Chairman of CGI's Professional Development Committee, Institute Council member, Education Committee member, Academic Advisory Panel member, and Dean, Lee Shau Kee School of Business and Administration, Hong Kong Metropolitan University; and Ellie Pang FCG HKFCG(PE), Institute Chief Executive.

Ms Pang also spoke at Zimbabwe's 2022 Annual Conference, under the theme 'Marching towards vision 2030: Positioning a future-fit Chartered Governance and Accountancy Profession in Zimbabwe'.

Advocacy (continued)

The 65th Governance Professionals ECPD webinars

The Institute held its 65th Governance Professionals ECPD webinars from 21 to 23 September 2022 under the theme of Market Value Management and Equity Incentives. The webinars attracted over 100 attendees, mainly comprising board secretaries and equivalent personnel, directors, supervisors, CFOs and other senior management from companies listed or to-be-listed in Hong Kong and/or the Mainland.

Speakers from China Securities Regulatory Commission and China Association for Public Companies, as well as other senior professionals and board secretaries, shared their insights on the following topics:

- judicial interpretation of misrepresentation in the securities market
- the practices of independent directors of listed companies and relevant suggestions
- new rules and practical highlights of the Corporate Governance Code and the Environmental, Social and Governance Report
- the governance of listed companies, and directors' and supervisors' proper performance of their duties
- directors' continuing obligations and case analysis on penalties for non-compliance
- practical guidelines on directors' liability insurance
- design and implementation of equity incentive schemes
- part A: equity incentives – ESG strategy implementation and institutional guarantee
- part B: experience sharing – implementing and evaluating the effectiveness of corporate equity and compensation incentive programmes
- part C: discussion – misconceptions and confusions in equity incentive practice, and
- value management practice for listed companies.

The Institute would like to express its appreciation to all speakers and participants for their generous support and participation.

Chartered Governance Qualifying Programme (CGQP)

November 2022 examination diet

Examination admission slips, together with information packs including the Precautionary Measures at Examination Centres and Instructions to Candidates, were released on 27 October 2022. All candidates are reminded to follow the pandemic precautionary measures before entering the examination centres.

Candidates who are unable to attend the scheduled CGQP November 2022 examinations may apply for an examination postponement by submitting a relevant medical certificate and/or supporting document(s). All applications must be submitted to the Institute on or before Friday 16 December 2022.

Key dates

Date	Description
16 December 2022	Closing date for examination postponement applications
Mid-February 2023	Release of examination results
Mid-February 2023	Release of examination papers, mark schemes and examiners' reports
Late February 2023	Closing date for examination results review applications

Note: The Institute reserves the right to change the dates and details without prior notice.

For details, please visit the Examinations page under the Chartered Governance Qualifying Programme subpage of the Studentship section of the Institute's website: www.hkcgi.org.hk.

For enquiries, please contact Leaf Tai: 2830 6010, or email: exam@hkcgi.org.hk.

Studentship activities: November 2022

1 November

Governance Professionals Information Session (Putonghua session)

Forthcoming studentship activities

Date	Time	Event
24 November 2022	12.30pm–2.00pm	Academic luncheon (by invitation only)
8 December 2022	1.00pm–2.00pm	Governance Professionals Information Session (Cantonese session)

Notice

Update of the CGQP exemption policy

With effect from 1 July 2022, all exemption appeal applications are subject to an application fee of HK$1,400.

For details, please visit the Exemptions page under the Chartered Governance Qualifying Programme subpage of the Studentship section of the Institute's website: www.hkcgi.org.hk.

Update of the CGQP syllabus and study materials

The syllabus and online study materials for the following CGQP modules have been updated. With effect from the November 2022 examination diet and onwards, the new syllabus will be incorporated into the following examinations:

- Corporate Governance
- Corporate Secretaryship and Compliance
- Boardroom Dynamics
- Interpreting Financial and Accounting Information
- Risk Management

For details, please visit the Syllabus page under the Chartered Governance Qualifying Programme subpage of the Studentship section of the Institute's website: www.hkcgi.org.hk.

In addition to the updated study materials mentioned above, a list of resources from the Companies Registry and Hong Kong Exchanges and Clearing Ltd for the relevant modules, and the syllabus, examination paper, mark scheme and examiners' report for all eight CGQP modules are available on the PrimeLaw online platform.

For details, please visit the Online Study Materials page under the Learning Support subpage of the Studentship section of the Institute's website: www.hkcgi.org.hk.

Featured job openings

Company name	Position
Computershare	Officer, Governance Services
Computershare	Manager, Governance Services
Computershare	Vice-President, Governance Services
Lei Shing Hong Ltd	Company Secretarial Officer
The Law Debenture Corporation (H.K.) Ltd	Company Secretarial Assistant
The Hong Kong University of Science and Technology	Associate Director (Job ID: 8135)

For details of job openings, please visit the Jobs in Governance section of the Institute's website: www.hkcgi.org.hk.

Governance Professionals Information Session

Date: Thursday 8 December 2022

Time: 1.00pm – 2.00pm

Language: Cantonese

Webinar session. No physical attendance is required.

Member, Graduate, Student, Student Ambassador & Non-member

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Speakers

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