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January 2024

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

AML/CFT

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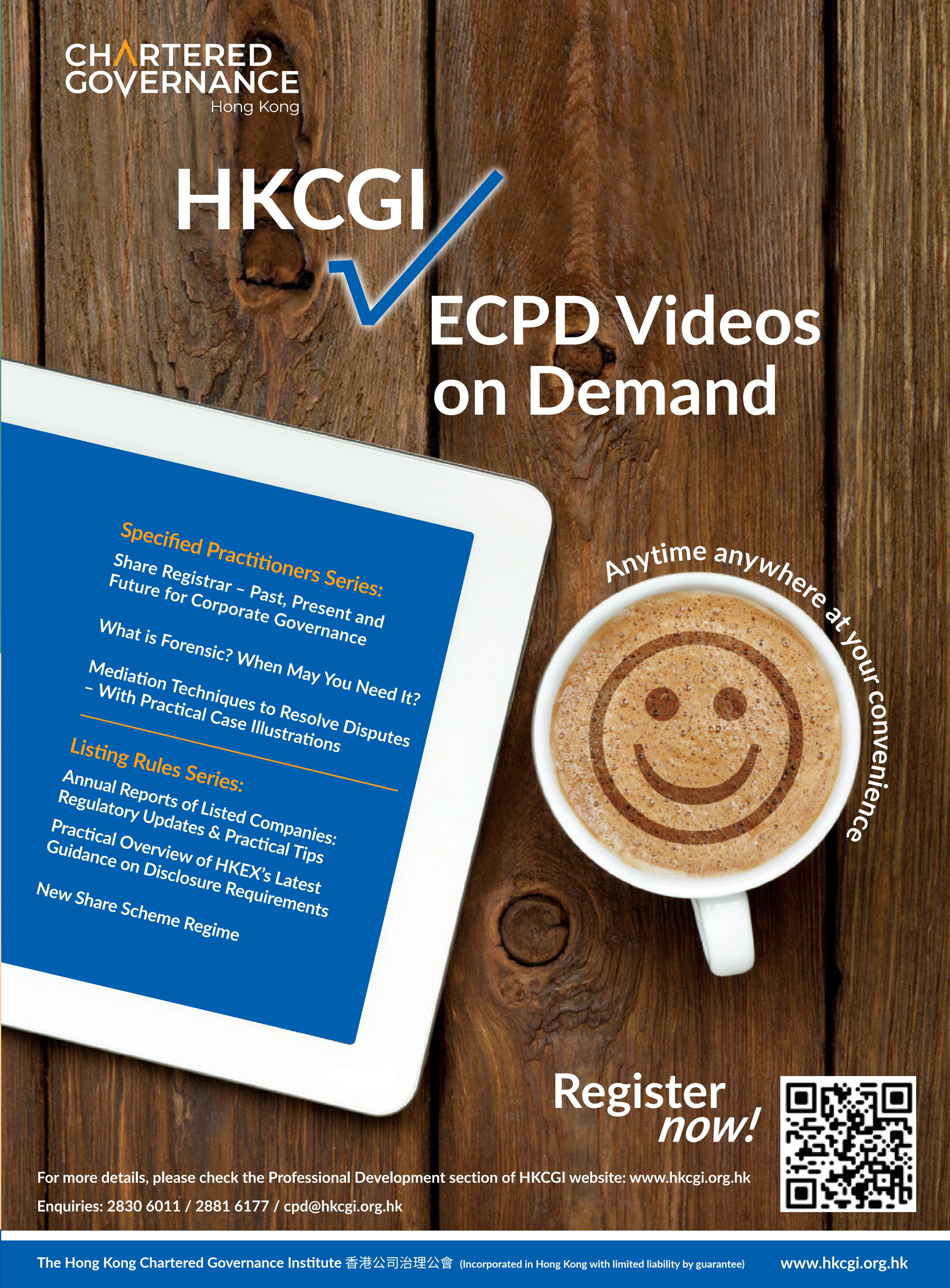
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CHARTERED GOVERNANCE
Hong Kong

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 Novmber 2023, the statistics were as follows:
Students: 2,693 **Graduates**: 464 **Associates**: 6,425 **Fellows**: 870

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The year ahead

This edition of your journal ushers in a new year, but it also marks a number of other new beginnings. This is the first edition of CGj, for example, to be online only. As the interview with our Chief Executive, Ellie Pang FCG HKFCG(PE), made clear in last month's CGj, this marks a major step forward in our Institute's digital transition.

This edition also marks a new beginning in terms of our new Council and Secretariat lineup, as announced at the Council meeting following the Annual General Meeting held on 14 December 2023. I am honoured to have been elected as your new President and I would like to take this opportunity to thank my predecessor, Ernest Lee FCG HKFCG(PE), for his exemplary stewardship over the past two years. I would also like to thank Kenneth Jiang FCG HKFCG(PE) for his 19 years as Chief Representative of the Institute's Beijing Representative Office (BRO). Kenneth retired at the end of 2023 and Dr Gao Wei FCG HKFCG(PE), former Vice-President, took up the baton as our Chief Representative at BRO on 1 January 2024.

Thanks to the hard work of everyone involved in the Institute's activities over the past decades, members of our profession now have far better-recognised roles in establishing and maintaining good governance frameworks and practices. Nevertheless, there is a lot of work ahead of us and I am very glad to see that our new Council includes several younger members of the profession. Having younger perspectives on our Institute's governing body will be all the more critical in the emerging environment where learning agility and openness to change are key factors for success.

I look forward to working with you all to ensure that our profession rises to the challenges ahead. One such challenge, particularly for members working for trust or company services providers (TCSPs), is keeping up with the rapidly evolving anti–money laundering and counter–financing of terrorism (AML/CFT) environment. Many of our Institute's ECPD events have addressed, and continue to address, AML/CFT issues. The highest profile of these events is our annual AML/CFT conference and our cover stories in this edition of CGj review the latest of these forums.

Our 4th AML/CFT Conference, held on 24 November 2023, covered not only the relevant regulatory compliance issues, but also how AML/CFT risks are changing as a result of technological innovation. In particular, virtual asset transactions have expanded the opportunities for money launderers to mask the identify of the parties involved. Developments in Regtech, however, have also expanded the tools available to regulators and governance professionals to ensure transparency and accountability.

Looking ahead, AML/CFT compliance will continue to be a highly complex area of practice for our members and we will continue to provide support in terms of our continuing professional development and thought leadership services. We issued our first comprehensive set of AML/CFT guidelines in 2008. This was followed by the creation of Hong Kong's first initiative in self-regulation for the TCSP sector – our AML/CFT Charter launched in 2016 – and we continue to contribute to AML/CFT best practices for the TCSP sector.

This year will see the launch of an even more ambitious initiative designed to build our members' knowledge and expertise in this space. We plan to launch our AML/CFT Certification Course, which, like the ESG Certification Course launched last year, will provide both training and certification to demonstrate to employers and regulators the professionalism of practitioners who successfully complete the course.

2023 was full of surprises, not all of them welcome, and the year ahead will undoubtedly bring challenges. It will also bring many opportunities, however, and I am confident that we can draw on our community of expertise, our professional network and – most especially – the dedication and enthusiasm of our members to achieve our mission of promoting better governance for a better future.

David Simmonds FCG HKFCG

新年展望

本月会刊迎来了新的一年，同时也迎来了一些新的开端。例如，这是公会会刊《公司治理》(CGj) 的第一期网络版。正如公会总裁彭京玲女士FCG HKFCG(PE)在上个月的 CGj 采访中所指出，这标志着公会在数字化转型方面迈出了重要一步。

新一届理事会及秘书处团队已于 2023 年 12 月 14 日举行的周年大会后的理事会会议上公布。我很荣幸当选为新一届会长，借此机会，我衷心感谢前任会长李俊豪先生FCG HKFCG(PE)在过去两年的卓越领导，同时，也感谢姜国梁先生FCG HKFCG(PE)，感谢他担任公会北京代表处首席代表长达 19 年。姜先生于2023年底退休，公会前副会长高伟博士FCG HKFCG(PE)于2024年1月1日接过接力棒，担任公会北京代表处首席代表。

感谢过去几十年来参与公会工作的每个人的辛勤付出，公会会员在建立和维护良好治理框架和实践方面的作用得到了更好的认可。尽管如此，我们还有很多工作要做，我很高兴看到新一届理事会包括了几位年轻的会员。在新的环境中，学习的敏捷性和对变化的开放性是成功的关键因素。

我期待着与大家共同努力，以确保我们的专业能够应对未来的挑战。其中一项挑战，尤其是对信托或公司服务提供商 (TCSP) 的会员而言，是要跟上快速发展的打击洗钱及恐怖分子资金筹集 (AML/CFT) 环境。公会的许多强化持续专业发展讲座都涉及并将继续涉及打击洗钱及恐怖分子资金筹集问题。这些活动中最受瞩目的是公会的年度打击洗钱及恐怖分子资金筹集研讨会，本期 CGj 的封面故事回顾了这些研讨会的最新情况。

公会于 2023 年 11 月 24 日举行的第四届打击洗钱及恐怖分子资金筹集研讨会不仅讨论了相关的合规问题，还讨论了打击洗钱及恐怖分子资金筹集风险如何因技术创新而发生变化。特别是，虚拟资产交易扩大了洗钱者掩盖相关方身份的机会。然而，监管技术的发展也拓展了监管机构和治理专业人员可用来确保透明度和问责制的工具。

展望未来，打击洗钱及恐怖分子资金筹集的合规性对公会会员来说仍将是一个高度复杂的实践领域，我们将继续在持续专业发展和思想引领服务方面提供支持。公会于 2008 年发布了第一套全面的打击洗钱及恐怖分子资金筹集指引。随后，我们在 2016 年推出了《打击洗钱及恐怖分子资金筹集行为约章》，这是香港首个针对 TCSP 行业的自律举措，我们将继续为 TCSP 行业的打击洗钱及恐怖分子资金筹集最佳实践做出贡献。

今年，公会将推出一项更加雄心勃勃的计划，旨在增强会员在这一领域的知识和专业技能。公会计划推出打击洗钱及恐怖分子资金筹集证书课程，与去年推出的 ESG 证书课程一样，该课程将提供培训和认证，向雇主和监管机构展示成功完成课程的从业人员的专业水平。

2023 年有很多意想不到的事件，当然这些事件并非都是惊喜。但是，新的一年也将带来许多机遇，我相信我们能够利用我们的专业群体与网络，尤其是我们会员的奉献精神和热情，实现公会的使命 -- 促进更好的治理，创造更美好的未来。

司马志先生 FCG HKFCG

AML/CFT update – part one

CGj highlights the latest local developments in anti–money laundering and counter–financing of terrorism (AML/CFT) discussed at the Institute's annual AML/CFT conference held in November 2023.

The AML/CFT landscape, both globally and locally, continues to increase in complexity. Held on 24 November 2023, the Institute's 4th AML/CFT Conference – AML/CFT Regulations, Topical Issues and Practical Sharing – called attention to a number of developments of relevance to governance professionals, in particular those working for trust or company service providers (TCSPs). This first article in our two-part review of the conference looks at the key conference takeaways relating to local developments in the AML/CFT landscape.

Building Hong Kong's AML/CFT defences

The Guest of Honour at the forum, Joseph Chan JP, Under Secretary for Financial Services and the Treasury, the HKSAR Government, reiterated the government's commitment to upholding a robust AML/CFT regime. He also reviewed various steps the government has recently taken to upgrade Hong Kong's AML/CTF framework.

He stressed that ensuring good AML/CFT defences is an indispensable part of Hong Kong's competitiveness as an international financial centre. 'As a global financial centre, and as a responsible member of the global financial community, we attach great importance to our AML/CFT framework. We will continue to make sure our regime is effective in terms of risk identification, law enforcement, asset recovery, anti–proliferation financing and international cooperation,' he said.

He cited the publication of the Money Laundering and Terrorist Financing Risk Assessment Report in July 2022. The Hong Kong government periodically conducts a risk-assessment exercise, examining the money laundering and terrorist financing threats facing Hong Kong. The 2022 report recognises that the growth of the virtual assets (VA) market and digital financial technologies has important ramifications for AML/CFT. The government has signalled its commitment to becoming a global hub for digital assets, but it has also been strengthening its regulatory framework to guard against potential AML/CFT vulnerabilities in alignment with this strategy.

An important development relating to this regulatory framework was the implementation of the Anti–Money Laundering and Counter–Terrorist Financing (Amendment) Ordinance 2022 (Revised AMLO) on 1 June 2023. Mr Chan noted that the Revised AMLO brought in several significant amendments to the law on AML/CFT in Hong Kong in a bid to ensure that the local regulatory regime stays in line with the latest international standards set by the Financial Action Task Force (FATF), the global money laundering and terrorist financing watchdog. Specifically, the Revised AMLO provides for a new licensing regime for virtual asset service providers (VASPs) to be supervised by the Securities and Futures Commission.

Mr Chan also mentioned the government's plans to launch an enhanced regulatory framework for stable coins sometime next year. Moreover, the government is considering making VA trading activities outside the exchanges subject to Hong Kong's regulatory regime.

'We will continue, as always, to work closely with the community and with all of you to make certain that our legal framework stays up to date with market developments so that we can provide a very clear and transparent regulatory framework for market participants,' he said.

Compliance with the Revised AMLO

Two speakers in the first session of the conference looked at what the Revised AMLO means for designated non-financial businesses and professions, in particular TCSPs.

1. Transitioning to a risk-based approach

The Revised AMLO not only brings in tougher requirements for TCSPs in

Highlights

- under a risk-based approach, practitioners need to have a greater focus on client risk assessment
- the challenge of ensuring effective AML/CFT due diligence when working with digital asset owners is a relatively new challenge for TCSPs
- technology awareness has become a lot more important for practitioners involved in AML/CFT issues

> as a global financial centre, and as a responsible member of the global financial community, we attach great importance to our AML/CFT framework

Joseph Chan JP, Under Secretary for Financial Services and the Treasury, the HKSAR Government

terms of their AML/CFT due diligence work, it also strengthens awareness of the transition from a rules-based to a risk-based approach to AML/CFT. The first speaker in Session One, Michael Lintern-Smith FCG HKFCG, Roll of Honour, Solicitor and Consultant, Robertsons, emphasised that a rules-based, tick-box approach to AML/CFT compliance is not going to be ultimately successful and, under a risk-based approach, practitioners need to have a greater focus on client risk assessment.

He urged conference participants to read the Guidance on Risk-Based Supervision, published in 2021 by FATF. He also highlighted the useful guidance provided by The Law Society of Hong Kong. The Law Society's Practice Direction P sets out the client due diligence that solicitors are now required to follow in respect of all clients, but as Mr Lintern-Smith pointed out it has lessons for all professionals, since, whatever their background, they face similar AML/CFT challenges.

Practice Direction P gives guidance on how to assess client, country and service risk factors, as well as the risk assessments needed for the type of transactions involved and the delivery channel used for the provision of services.

Finally, Mr Lintern-Smith stressed that these risk assessments cannot be a one-off exercise. 'Let's not forget that client due diligence is a continuing process. We all do it when we're taking on board new clients, but it is a requirement that you continue to do so while you carry on providing services – and that is where a lot of people fall down,' he said.

2. Changing definitions

The second speaker in Session One, Daniel Wong FCG HKFCG, Associate Director – Compliance and Risk Management, SWCS Corporate Services Group (Hong Kong) Ltd, concentrated on the guidance released to coincide with the enactment of the Revised AMLO. Guidance has been issued by a number of different regulators in Hong Kong and, while these guidelines contain some help with the definitions of, for example, 'politically exposed persons' (PEPs) and the 'beneficial owners' of trusts, there is still quite a lot of room for interpretation.

Generally the definitions in the Revised AMLO have been broadened. The definition of the 'beneficial owner' of a trust, for example, now extends to the trustee and to all the beneficiaries of the trust, regardless of the degree of their vested interest. Similarly, the term 'foreign PEP' has been replaced by 'non–Hong Kong PEP'. This widens the scope of this definition greatly as it means that all PEPs outside Hong Kong (including those in the Mainland), are now caught by the definition. Moreover, organisations may have some difficulty judging the level of seniority required to qualify as a PEP. The definition of PEPs is restricted to 'high-ranking officials', but Mr Wong flagged up that this is very much subject to interpretation.

'What is high ranking?' he asked. 'Is it only restricted to very senior positions, or can it include those positions one level down?'

Another salient issue Mr Wong discussed is how far practitioners can rely on public or commercial

> **in recent years there has been a very strong collaboration between those working on the technology side and those working on the AML/CFT side**

Jason Ho, Partner and Leader of the Financial Services Technology Risk Consulting practice of Ernst & Young

databases to determine the PEP status of individuals. This issue is also pertinent to employee screening. He pointed out that employee screening in the government sector is nothing new, but it is relatively new to the private sector, especially for TCSPs, and practitioners may have concerns about whether they are required to verify the accuracy of information in public or commercial databases.

There is also ambiguity in the Revised AMLO when it comes to the requirements for verifying a customer's identity when they cannot be physically present for face-to-face client induction. Mr Wong specified that paper documentation and proof is not sufficient – this is clear. However, the requirement to use 'recognised' digital identity systems raises doubts about what constitutes 'recognised'. He emphasised that the new remote onboarding rules heavily favour relying on the government's 'iAM Smart' system when a customer is not physically present for identification purposes.

Virtual assets – the AML/CFT risks

Technology awareness has become a lot more important for practitioners involved in AML/CFT issues. Jason Ho, Partner and Leader of the Financial Services Technology Risk Consulting practice of Ernst & Young, made clear in his presentation that this trend will continue and that professionals involved in AML/CFT work will need to be a lot more tech savvy in the future.

'In recent years there has been a very strong collaboration between those working on the technology side and those working on the AML/CFT side,' he said.

Mr Ho focused his presentation on one aspect of this issue – the need for TCSPs to upgrade their technological expertise regarding the AML/CFT risks relevant to VAs. The challenge of ensuring effective know your customer (KYC) and customer due diligence (CDD) measures when working with digital asset owners is a relatively new challenge for TCSPs. Mr Ho clarified the different types and risk profiles of VAs.

High-risk VAs such as cryptocurrencies and non-fungible tokens have received a lot of attention, but he explained that certain VAs are lower risk. Digital tokens of real world assets, for example, exist in both physical and digital forms. This is true, for example, of tokenised versions of stocks and bonds, and tokenised real-world assets such as real estate, property and equipment. Similarly, central bank digital currencies, or CBDCs, are digital forms of existing currencies issued by a government-backed central bank.

Mr Ho also pointed out that organisations need to have the necessary talent, both on the board and in management, to oversee and administer proper risk management frameworks, notably regarding the governance and oversight of VA risks.

'One of the toughest issues I've seen in the market is actually the lack of talent in this area. This is not just in cybersecurity, but also in every aspect of the VA market. This is a relatively new topic and actually there are still not very many experienced people in the market,' Mr Ho said.

The Institute's 4th AML/CFT Conference was held on 24 November 2023 in hybrid mode. More information is available on the Institute's website: www.hkcgi.org.hk.

AML/CFT update – part two

This second and final part of our review of the Institute's latest AML/CFT conference looks at the latest global developments in anti-money laundering and counter-financing of terrorism (AML/CFT).

AML/CFT practitioners in Hong Kong cannot afford to focus solely on local developments. Money laundering and terrorist financing are global in their extent and combatting their spread requires an internationally coordinated response. With this aim, the Financial Action Task Force (FATF), the global money laundering and terrorist financing watchdog, was set up in 1989 to establish global standards in AML/CFT. This second and final article in our two-part review of the Institute's latest AML/CFT conference looks at the key takeaways relating to global developments impacting practitioners in Hong Kong.

Beneficial ownership

The first speaker in Session Two of the conference, Amanda Diep, Regional Compliance Director, North Asia, Vistra, focused on the changing global AML/CFT landscape. She started by pointing out that trust or company service providers (TCSPs) play a crucial role in combatting money laundering and terrorist financing activities. For this reason, TCSPs are subject to increasing expectations regarding their AML/CFT due diligence work. Globally, these expectations are largely the result of the work of FATF, but Ms Diep observed that FATF's standards have not been applied worldwide.

'You might assume that TCSPs are subject to increasing regulation to prevent money laundering, terrorist financing and other illicit activities as per the FATF standards, but in the global landscape that may not always be the case. Not all jurisdictions regulate TCSPs and this creates an imbalance around the globe,' she said.

She added that TCSPs need to be keenly aware of the revised FATF standards regarding beneficial ownership disclosure. Money laundering operations frequently use shell companies and complex ownership and control structures to disguise ultimate beneficial ownership.

Promoting better transparency of beneficial ownership information has therefore been an integral part of the evolving international AML/CFT standards.

Ms Diep explained that, in the last couple of years, FATF has revised its guidance on beneficial ownership – in particular, via revisions to its Recommendations 24 and 25. In general, the emphasis is on the need to determine substantive beneficial ownership and control, rather than on purely legal arrangements. To be effective and meaningful, beneficial ownership must not be reduced to a legally defined position, such as a director or foundation, or a shareholder who owns more than a certain percentage of shares or legal entitlement/benefit of a trust. In identifying the beneficial owner, priority should be placed on two factors – the control exercised and the benefit derived.

The FATF revisions to Recommendation 24 explicitly require countries to use a multipronged approach. This means using a combination of different mechanisms and different sources to ensure the accuracy of beneficial information by cross-checking. The onus is not only on beneficial ownership registries to ensure their data is adequate, accurate and up to date through verification, but designated non-financial businesses and professions, as well as financial institutions, are also responsible for identifying incorrect beneficial ownership information in their databases and for seeking clarifications and, where necessary, reporting suspicious activities to competent authorities.

> **not all jurisdictions regulate TCSPs and this creates an imbalance around the globe**
>
> **Amanda Diep, Regional Compliance Director, North Asia, Vistra**

This new focus has prompted some jurisdictions to tighten their rules on beneficial ownership transparency. The UK developed legislation in 2023 that will require beneficial owners to submit more information and allow third parties to verify it. In the US, the Treasury Department's Financial Crimes Enforcement Network created a new rule that will require most corporations, limited liability companies and others registered for business in the US to report information about their beneficial owners. The reporting requirement, created to implement the 2021 Corporate Transparency Act, is set to take effect in January 2024, and will give both banks and legal authorities varying degrees of access to the collected data.

Ms Diep also discussed the European Court of Justice Ruling of 22 November 2022, which blocks public access to beneficial ownership registries in the EU on the basis of its interference with the rights to privacy and personal data protection under the EU Charter of Fundamental Rights. The ruling limits access to those that can be said to have a 'legitimate interest' in such information. The court confirmed that journalists and civil society organisations that investigate or campaign on crime and corruption, as well as financial institutions and

Highlights

- the revised FATF standards on beneficial ownership disclosure emphasise the need to determine substantive beneficial ownership and control, rather than the identification of purely legal arrangements
- practitioners need to recognise that due diligence is a continuous process
- virtual asset transactions often involve pseudonymous or anonymous participants, which can make it challenging for TCSPs to identify the parties involved and assess their legitimacy

> **CDD is not only relevant when we're setting up a trust or handling the ongoing administration of the trust – we also need to continue to monitor the flow of funds that are going into trust structures**

Michael Shue, Managing Director – Trust Services, Tricor Services Ltd

other entities with AML obligations, have a legitimate interest in access to beneficial ownership information.

Identifying the source of funds in trusts

The second speaker in Session Two, Michael Shue, Managing Director – Trust Services, Tricor Services Ltd, concentrated his presentation on the challenges faced by TCSPs in identifying the source of funds in trusts.

'Understanding the source of your customers' funds and wealth is a crucial aspect of know your customer (KYC) and customer due diligence (CDD) measures,' he said. He made a distinction between 'source of funds' (the origin of the money used in a particular transaction) and 'source of wealth' (the origin of all the money a person has accumulated over their lifetime).

So how can TCSPs trace and assess the legitimacy of the source of funds? Mr Shue offered a number of practical insights into this challenge, but at the outset he warned practitioners against assuming that they can rely on the due diligence that banks may have done in relation to funds in their custody.

'As trustees we tend to think that if investment funds are held through a bank we can assume that the bank has done its due diligence and gone through a rigorous process of checking the legitimacy of the source of funds and the source of wealth. However, trustees should not automatically assume that this is the case and should always carry out their own due diligence,' he said.

The main issue for practitioners is what level of detail the verification process should involve. For example, where funds are derived from inheritance under a will or intestacy, should trustees check the origins of the estate, and how and from where they were sourced? How many generations should they trace the funds back to?

'If we are looking at assets that have been passed on from generation to generation, it's very difficult to know whether those assets were originally derived from illegal criminal activities,' Mr Shue said.

The availability of reliable data is also an issue. Funds derived from salaries, savings and property sales will usually have reliable sources of data – pay slips, tax returns, employment contracts, bank statements, sale and purchase agreements, etc. But where the assets have come from another trust, particularly where that trust structure is highly complex, checking the origins of the assets and tracking the flow of funds on an ongoing basis may be a challenge.

'Quite often we as trustees may not have visibility in terms of what's going on underneath these trust structures,' Mr Shue said.

This is also true where the funds are in the form of cryptocurrencies. As cryptocurrency assets are often considered to be the preferred asset class for criminal activities, Mr Shue added that trustees tend to be wary of any cryptocurrencies going into their trusts.

Finally, Mr Shue emphasised that practitioners need to recognise that due diligence is a continuous process. 'CDD is not only relevant when we're setting up a trust or handling the ongoing administration of the trust – we also need to continue to monitor the flow of funds that are going into trust structures,' he said.

FATF update

The third speaker in the second session of the conference, Nicky Kwok, Assistant Manager of Risk Advisory, BDO Ltd, gave an update on the work of FATF. In particular, she highlighted the strong focus FATF has had on extending its global AML/CFT standards to virtual assets (VAs) and virtual asset service providers (VASPs).

VA transactions often involve pseudonymous or anonymous participants, which can make it challenging for TCSPs to identify the parties involved and assess their legitimacy. Moreover, not all jurisdictions have AML/CFT regulations in place relating to VAs. Compliance in the VA sector still generally lags behind other areas. Indeed, 75% of jurisdictions assessed are deemed to be non-compliant or partially compliant with the relevant FATF recommendations.

In February 2023, FATF adopted a roadmap to June 2024 to improve implementation of Recommendation 15 (R15), which states that VASPs should be regulated and licensed for AML/CFT purposes, and that they should be subject to effective systems for monitoring and supervision. This was followed in June 2023 by a targeted update on the implementation of FATF standards in this area.

These developments are of particular relevance to Hong Kong, Ms Kwok pointed out, since the latest FATF follow-up report on Hong Kong – issued in February 2023 as part of the FATF mutual evaluation report (MER) process – includes a downgrading of Hong Kong to 'partially compliant' from 'largely compliant' with respect to R15.

Overall, however, Hong Kong has made progress in addressing the technical compliance deficiencies identified in the original 2019 MER. Indeed, it was upgraded during the recent follow-up report on Recommendation 28, which relates to the regulation of designated non-financial business and professions.

Ms Kwok clarified that, at the time of the follow-up assessment, only centralised VA exchanges trading security tokens were subject to supervision in Hong Kong, limiting the scope of entities covered. The Anti–Money Laundering and Counter–Terrorist Financing (Amendment) Ordinance 2022 (Revised AMLO), which took effect in June 2023, extends supervision to centralised VA exchanges trading non-security tokens. Moreover, the implementation of the new licencing regime for VASPs should mean that Hong Kong now meets the revised requirements of R15.

> ***The Institute's 4th AML/CFT Conference was held on 24 November 2023 in hybrid mode. More information is available on the Institute's website: www.hkcgi.org.hk.***

Credits

The Institute would like to thank everyone who contributed to its 4th AML/CFT Conference. In addition to the speakers quoted in this and the previous cover story in this month's edition of CGj, the Institute would like to thank the members and practitioners named below (in order of appearance) for their contributions to the debate.

Welcoming Address
Ernest Lee FCG HKFCG(PE), Institute President, and Technical Partner, Deloitte China

Session One Chair
Edmond Chiu FCG HKFCG(PE), Institute Council member and Chairman of the Professional Services Panel, and Head of Corporate and Fund Services, Vistra Corporate Services (HK) Ltd

Session One Panellists
Wendy Ho FCG HKFCG(PE), Institute Council member and Chairman of the Professional Development Committee, and Executive Director, Corporate Services, Tricor Services Ltd

Teresa Lau ACG HKACG, Institute Vice-Chairman of the Professional Services Panel, and Director and Head of Corporate Secretarial Services, BDO Ltd

Session Two Chair
Dr Maurice Ngai FCG HKFCG(PE), Institute Past President and Vice-Chairman of the Professional Services Panel, and Director and Group CEO, SWCS Corporate Services Group (Hong Kong) Ltd

Session Two Panellists
Jenny Choi FCG HKFCG(PE), Partner, Entity Compliance & Governance Leader, Ernst & Young Company Secretarial Services Ltd

Alberta Sie FCG HKFCG(PE), Director and Company Secretary, Reanda EFA Secretarial Ltd

Raising APAC sustainability reporting standards

Paul Murphy, Head of ESG, Asia Pacific, Georgeson, talks to CGj about the new International Sustainability Standards Board (ISSB) reporting standards and how they will impact companies in the Asia Pacific (APAC) region, from an ESG advisory perspective.

Thank you for giving us this interview. How easy do you think it will it be for the companies you deal with in APAC to meet the new ISSB standards?
'The first thing I'd say is those companies that were already opting into some of the disclosure frameworks that came before ISSB – like the Task Force for Climate-related Financial Disclosures (TCFD) and the Sustainability Accounting Standards Board frameworks – will have a much easier uplift than those that have not really started yet.

The challenging thing for companies that haven't really started their journey just yet is that it's going to be mandatory, particularly in relation to climate risk disclosure. There'll be some leeway given in the early years for things like Scope 3 greenhouse gas (GHG) emissions, which are the most challenging component, but for Scopes 1 and 2, and for the metrics and targets, as well as the governance and strategy components, that's pretty much on the horizon for Hong Kong issuers' reporting from 2025.'

Because the ISSB standards are voluntary, is there a risk that some companies will just ignore them? Or do you see these becoming mandatory across the board?
'I don't think companies will be able to ignore them. There are slightly different regulatory timetables and structures for mandatory implementation across APAC – in some cases it is the government, in other cases it is the accounting standards authorities, the securities regulators or the stock exchanges, depending on the circumstances of the different markets – but climate disclosure is going to be mandatory, if it is not already.

For example, here in Hong Kong, it is Hong Kong Exchanges and Clearing Ltd that is making it mandatory for listed companies to adopt the ISSB's framework for their approach to managing climate-related risks and opportunities, which will have the force of the Listing Rules. And that is also happening in a number of the major regional APAC markets, including Australia, Singapore, Malaysia and Japan. New Zealand has had mandatory climate disclosure for a couple of years already, so they are a world leader in that sense. The US has a different sort of framework through the Securities and Exchange Commission. This will be challenging everywhere – it's not like anyone has got this nailed just yet or has the perfect answer.'

What do you think will be the hardest tasks for companies in terms of raising their standards to be ISSB compliant?
'Apart from the Scope 3 GHG emissions reporting that we have already mentioned, I think the first hurdle will be getting the data, as well as the volume of information, that is required. A lot of that is going to involve extracting information out of all sorts of internal sources and from external parties. If you're measuring carbon emissions, for instance, that's not necessarily the kind of data that companies will have to hand. They might instead need to consider engaging specialists to help them.

Highlights

- companies that already opted into disclosure frameworks prior to the ISSB standards will have an easier uplift than those that haven't yet started their journey, as reporting will be mandatory, particularly in relation to climate risk disclosure
- the first hurdle will be collecting the data and the volume of information that is required, as well as an increased focus on supply chains, but that is only the beginning – just having the data out there is not an end in itself
- APAC businesses with a big presence in Europe will need to comply with the European disclosure directives, which are based on double materiality, and this will add another layer of complexity to the landscape

> one of the governance tools that an investor will be looking at is the skills matrix on a board, particularly in relation to climate competency

Also, there'll be a lot more focus on supply chains, both upstream and downstream. We are already experiencing this in most markets – companies are starting to receive a lot of request for proposal (RFP)-type documents from both customers and suppliers, because they're going to need those to comply with their own reporting obligations. It's not just getting questionnaires from investors anymore, it's also getting them from your own supply chain. Everybody will have to have this baseline level of disclosure.

The ISSB has built on the four pillars of the TCFD framework, which puts governance at the top. Then comes strategy, then risk management and lastly the metrics and targets. At the moment, a lot of people are just in the weeds of the metrics and targets. I think what's going to have to happen is an uplift into those higher levels of oversight, which is squarely in the world of directors and corporate governance. A lot of us in this field say that ESG actually begins with G – it's not just about the environmental metrics as ends in themselves. This will therefore be another massive change for companies and is still a work in progress.

Investors will be looking closely at what a company is doing with all the data, how that feeds into the strategic planning and what the governance layer is around this. They will need to have confidence that the board understands the strategic challenges and what that means for the future of the business. If you set a net zero target, for example, and you've got an interim target for 2030, that's not really that far away. What are you going to do in terms of adjusting your investment portfolio or changing your supplier arrangements to hit those targets? Just having the data out there is not an end in itself.'

How is all this going to affect the boards? What would you like to see happen on boards and how will they need to change?

'One of the governance tools that an investor will be looking at is the skills matrix on a board, particularly in relation to climate competency. Experience in oversight of major transitions, such as the energy transition, would be an advantage. In the financial services sector for instance, if entities are providing finance into the energy and resources sector, it's going to be really important that they've got the capabilities at board level to know which questions to ask and how to guide management on implementing strategy.

As a specialist shareholder engagement and communication company, at Georgeson we do a lot of work helping boards with their engagement with institutional investors. ESG is very much an extension of this and, as we move deeper into the world of broader director accountability, we are working more on advising companies and their boards on implementing the ESG reporting frameworks and understanding what their investors are looking for. Many companies listed in Hong Kong, for example, are trying to diversify their shareholder base and attract more capital, particularly from offshore institutional investors. Boards are therefore going to have to get much more involved in shareholder engagement, including with minority shareholders. So there's a commercial dynamic at play, as there's a limit to how much you can stay as just a locally listed entity. If you want to get allocations from global asset managers and big pension funds, then they are going to be much more engaged in ESG discussion and long-term shareholder value discussion, especially for index funds and large pension fund investors.

For institutional investors, the main ways to contribute to long-term value creation are through advocacy for higher disclosure standards and engagement with boards. And ultimately the sanction will be action against directors – you don't get to vote on someone's ESG report, but if you're concerned about the level of oversight and strategy, then, if it's not addressed, you'll find it will be reflected in adverse voting on such things as director re-election or remuneration. It is very important that boards are aware of this and that they draw a line back to the G part of ESG, and that's where both the upside and the downside of the institutional investor engagement comes in.

At the end of the day, regulation will only take you so far. You really want directors to be engaged in the strategy, investors to clearly appreciate what companies are trying to achieve and regulators to be content with progress. So there's always going to be a balancing act between all those different parties.'

From an investor's viewpoint, what can you tell us about the difference between single materiality and double materiality, and how will that affect the APAC companies you work with?

'The ISSB standards are based on the concept of single materiality, which considers the impact of material sustainability issues on a company's financial performance. This is what the portfolio investors and providers of financial capital, whether equity or debt, really need to know. The investors in the APAC companies I work with will be looking primarily through this prism of financial materiality.

However, issuers with multinational operations, especially if they have a certain threshold of business activities in Europe, will need to get to grips with the EU's Sustainable Finance Disclosures Regulation, which is based on the notion of double materiality. This means that companies not only have to address the impact of climate change, for example, on their enterprise value, but will also be accountable for the social and environmental impact they have on the outside world. This is a much more ambitious task than the ISSB framework that has been adopted elsewhere.

Perhaps a good way for issuers in this part of the world to look at it is that double materiality is still a good framework for the wider stakeholder groups, such as communities, employees and customers – and to cater to those audiences a framework like the Global Reporting Initiative remains very useful. However, for the specific needs of investors in APAC-based jurisdictions, what you really need to focus on with the ISSB standards is financial materiality.

APAC companies with a big presence in Europe will need to comply with the European disclosure directives and this will add another layer of complexity to the landscape. I'd say that double materiality has an important place in broader stakeholder outreach, and remains especially important in industries that are consumer-facing and/or have significant environmental and social impacts. But I can't see that the ISSB framework and its related legal structures would have been adopted if it had been based on a double materiality standard, as some civil society stakeholders would have preferred.'

What role do you see governance professionals, in particular company secretaries, playing in all this?

'What these reporting standards are really going to do is force companies to look at the internal communication between different siloed departments, such as corporate affairs, communications, investor relations, and risk and sustainability teams. One of the changes that these standards will bring in is a requirement for sustainability disclosure to be reported in the same publications and in the same time frame as the financial reports. The accountability for all of this is going to fall squarely on the shoulders of directors, so they will need to have a very clear line of sight.

Once the new standards reach maturity, accountability for the ESG

> **given the degree of engagement and awareness, and what will actually be needed to address these issues, it is clearly going to be a challenging time for company directors, but there are also some exciting aspects**

disclosures will be just as testing as it currently is for financial disclosures under the International Financial Reporting Standards (IFRS) and integrated reporting principles. Boards will need to have assurance that their team is doing the right thing and also not straying into the flip side of all this, which is getting into greenwashing – or even greenhushing, which is the new thing. Regulators are incredibly sensitive to this.

This is where the governance professional and the company secretary can play a vital role as the hub to bring together the internal coordination and connected thinking.'

What do you envisage for the ISSB standards going forward, and what challenges do you see ahead for the boards of the companies you deal with?
'With the ISSB, we now have a gold standard for sustainability disclosure, under the same standard-setter as for the International Accounting Standards Board. This gives it the gravitas that it lacked when it was more of a voluntary opt-in. And even if the standards were not made mandatory, it would certainly still be strongly expected of companies in a globalising world, when your peer group is subject to the same investment decisions. National boundaries won't matter as much anymore as you're going to be assessed against peer groups, wherever they are. Obviously this will make things more challenging.

It's important to note that the IFRS S1 is a framework for a number of thematic disclosure requirements, with climate change being only the first of these. We already have a foreshadowing of what is to come in the next wave, including biodiversity – and obviously biodiversity and climate go hand in hand – and some of the S issues, like human rights and labour standards, which raises the question of how we measure socially beneficial outcome. We will also need to think about the geopolitical situation, cybersecurity and other challenges that are in the pipeline. These issues are not going to go away.

Given the degree of engagement and awareness, and what will actually be needed to address these issues, it is clearly going to be a challenging time for company directors, but there are also some exciting aspects. Hopefully, all this will contribute positively both to the delivery of long-term shareholder returns and strategic resilience, which is what business is really all about, and to sustainable outcomes for the planet, which is incredibly important.'

Paul Murphy was interviewed by Mohan Datwani FCG HKFCG(PE), Institute Deputy Chief Executive, and CGj Editor Kieran Colvert.

> *Paul Murphy is Head of ESG, Asia Pacific, at Georgeson and is responsible for growing and executing the ESG advisory strategy across the region, through assisting clients with managing their environmental, social and corporate governance risks and opportunities.*

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Climate change disclosures – is the world too focused on this topic?

Corporate Governance Paper Competition 2023 – Best Paper

The Best Paper of the Institute's latest Corporate Governance Paper Competition looks at the issue of climate change disclosure and investigates whether the world is overly focused on this issue, or if it is an overlooked priority.

The Institute's annual Corporate Governance Paper Competition and Presentation Awards has been held since 2006 to promote awareness of corporate governance among local undergraduates. In the first of two parts of this year's Best Paper, the authors discuss the relevant concepts, explore the current global climate change disclosure regimes and evaluate the view that the world might be too focused on climate change disclosure.

Introduction

'Of all risks, it is in relation to the environment that the world is most clearly sleepwalking into catastrophe,' the World Economic Forum warned. Thus, revealing information about climate change, including but not limited to a company's carbon footprint and the potential impacts of climate change on its operations and prospects, is given increasing weight in the capital market. As such, climate change disclosure is not only used as a government policy to encourage or even mandate companies to regulate their production to minimise environmental impacts, it is also an indicator of sustainable investing. Aside from profitability, environmental concern is becoming one of the dominant factors influencing investment decisions. Under the rising trend of green investing, GSS+ (green, social, sustainability, sustainability-linked and transition) volumes held a 5% share of the global bond market in 2022, implying an expanding demand for climate-related disclosure from companies to ensure sustainable business practices. Yet, this has sparked a debate over whether the world is too focused on climate change disclosure. However, we

Highlights

- to ensure sustainable business practices, demand is expanding for companies to disclose climate-related information, including their carbon footprint and the potential impacts of climate change on their operations and prospects
- to align with the ISSB global climate change disclosure standards, Hong Kong's ESG regime will be tightened for all listed companies
- by placing a disproportionate spotlight on climate change disclosure, companies might overlook other important ESG issues such as labour practices, supply chain management, diversity and inclusion, and data privacy

believe that the world is not too focused on this important issue – as climate risks become more urgent, the world is beginning to give climate change disclosure a proportionate level of attention.

This paper is dedicated to (i) defining the concept of environmental, social and governance (ESG), (ii) exploring current climate change disclosure regimes in a global context, (iii) explaining the factors supporting the view that 'the world is too focused on climate change disclosure', (iv) and, if so, stating the challenges the world would face, (v) providing justifications for upholding our stance, and (vi) envisaging the future direction of climate change disclosure. Here, in part one, we focus on the first four of these topics.

ESG

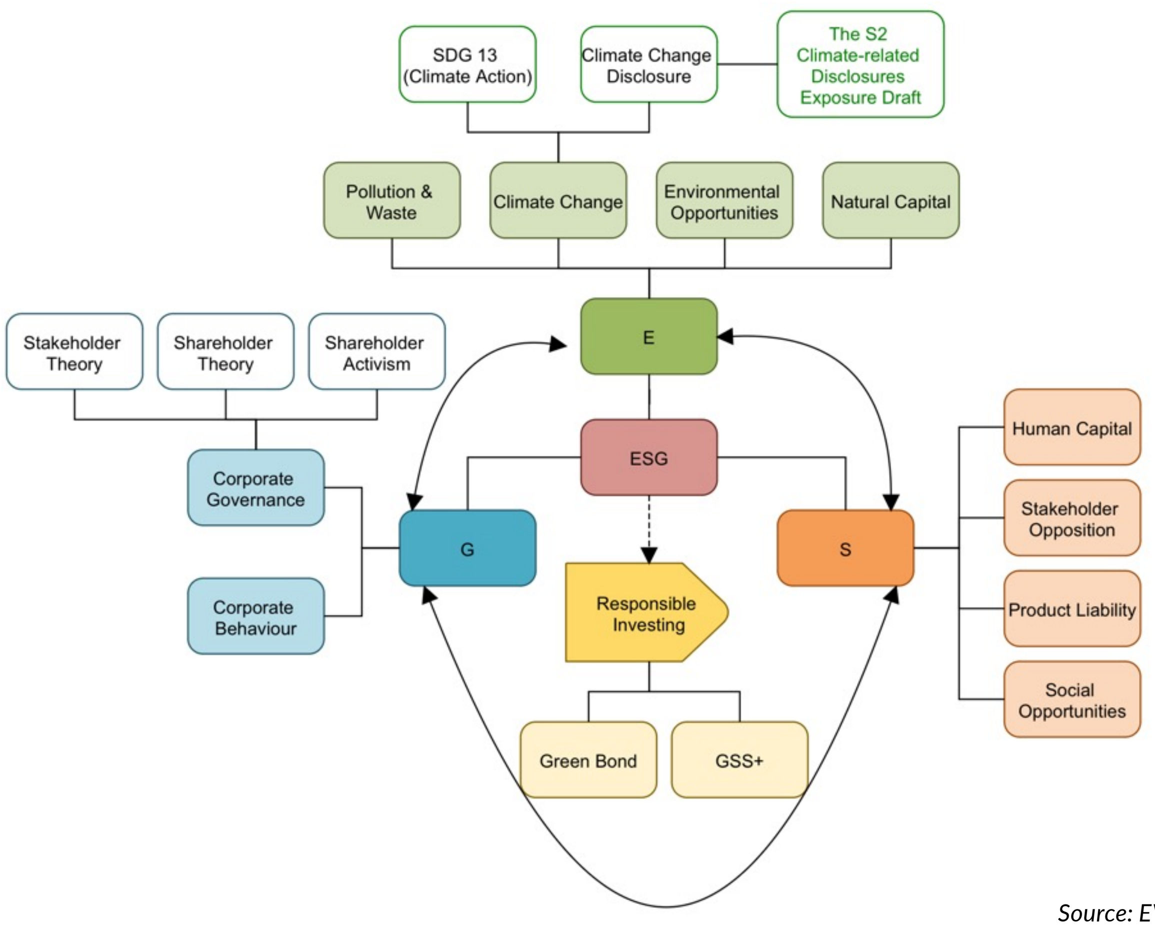
ESG is a non-financial framework using environmental, social and governance factors to assess the sustainability of companies and to measure business risks and opportunities (see Figure 1). Socially responsible investors would usually use ESG performance as a benchmark to screen investments.

The following examines the intimate relationship between climate change disclosure and ESG, forming the bedrock of a sustainable economy.

Environmental

The environmental factor examines a company's environmental impacts and risk management practices, including the company's overall resiliency against climate risks. Climate change disclosure serves as a tool to assess the environmental factor by publishing the carbon footprint of business activities, the vulnerability of the business activities to climate

Figure 1: ESG framework



Source: EVLI

> "environmental concern is becoming one of the dominant factors influencing investment decisions"

risks and the company's plans to combat climate risks. Climate risks are categorised into physical risks and transition risks. The former risk relates to the physical impacts of climate change, while the latter relates to the transition to a lower-carbon economy. With a growing call for climate change disclosure, there are multiple international independent organisations running global disclosure systems, guidelines or standards for companies to manage their environmental impacts. CDP Worldwide, the Sustainability Accounting Standards Board and the Global Reporting Initiative are some examples.

Social

This paper focuses on environmental and governance aspects. For completeness, the social factor looks at a company's relationship with internal and external stakeholders, ranging from employees, suppliers and customers to community members and more.

Governance

Corporate governance looks at a company's management, for instance, how well it manages capital distribution, the balance of interest between internal and external stakeholders, and compliance with established standards relating to accounting and risks. It is critical to a company's level of accountability and transparency of leadership. When it comes to prioritising a company's business and social responsibilities, there has been a longstanding controversy over the merits of shareholder theory versus stakeholder theory. Stakeholder theory is the more accepted theory in today's world, where climate change disclosure is a gradually more common corporate practice. It suggests that profit maximisation is not the sole corporate responsibility – businesses should also have a moral responsibility to consider the interests and well-being of their stakeholders.

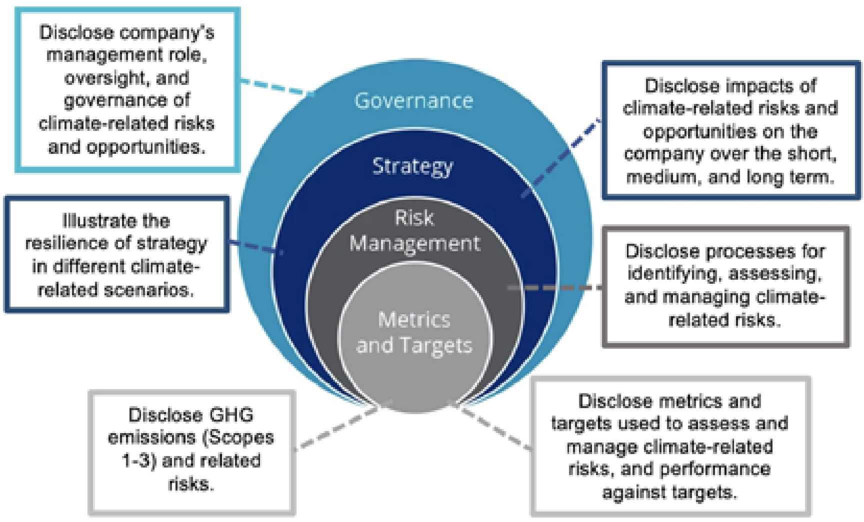
As such, stakeholder theory implies a positive relationship between the extent of responsiveness to the pressure of institutional stakeholders and the level of climate change disclosure. The S2 Climate-related Disclosures Exposure Draft (the Draft), published by the International Sustainability Standards Board (ISSB) in March 2022, is structured around four areas, namely, governance, strategy, risk management, and metrics and targets. Details of each area will be discussed below. By issuing a global baseline for climate change disclosure, businesses can become better familiarised with climate change reporting requirements, thus fulfilling the ethical responsibility to the environment.

Current climate change disclosure regimes in the global context

Hong Kong

To strive for carbon neutrality by 2050, Hong Kong's climate change disclosure standards will be tightened. Hong Kong Exchanges and Clearing

Figure 2: Climate change disclosure framework



Ltd has proposed to mandate all listed companies to provide climate change disclosure in their ESG reports. This is currently scheduled to take effect from 1 January 2025 and will be introduced as a new Part D of Appendix 27 to the Hong Kong Listing Rules. This will mark an upgrade from the current 'comply-or-explain' regime, where issuers are allowed either to make climate change disclosures or to justify their absence.

As the proposal strives to align Hong Kong's ESG regime with the global climate change disclosure standards, it builds on the Draft (see Figure 2). First, companies must reveal their climate-related goals and whether their attempts to mitigate or adapt to climate change will alter their business models and strategies. Second, they must disclose how resilient their business models are to the effects of climate change, including a quantitative analysis of current impacts and a qualitative description of future impacts on their financial performance, position and cash flows. Third, the percentage of their assets or business operations susceptible to climate risks or aligned with climate-related opportunities, as well as the funding allocated to them, must be disclosed. Fourth, greenhouse gas (GHG) emissions for Scope 1, Scope 2 and Scope 3, as well as information on any internal carbon pricing maintained by companies and how climate-related considerations are factored into executive compensation policies, must be revealed.

Prior to the implementation of the mandatory policy, some listed companies, like the Bank of China, CLP Power and Standard Chartered, had already provided climate change disclosures on their own initiative.

The Mainland

By 2060, the amount required in infrastructure investment, as per the People's Bank of China, could total between RMB100 trillion and RMB200 trillion. As such, the Mainland employs a top-down strategy to support these goals and was the first nation in the world to create a complete policy framework for green finance, which was launched in 2016. In contributing to the world economy, the overall trend of non-financial direct investment by Chinese enterprises in 57 countries increased from 2016 to 2021, with the proportion of investment also rising year by year (see Figure 3).

Additionally, the Guidance for Enterprise ESG Disclosure (the Guidance) was released by the China Enterprise Reform and Development Society (CERDS), together with several notable Chinese corporations, with effect from 1 June 2022. The Guidance, which applies to all businesses and sectors, is the Mainland's first ESG disclosure policy. The Guidance outlines a framework for Chinese businesses to report under three core metrics for environmental, social and governance measures, which are further broken down into 10 secondary metrics, 35 tertiary metrics and 118 total metrics. The Guidance's most significant aspect is how it adjusts ESG principles to the needs of domestic laws and regulations, along with the Chinese business landscape. This is described as 'international guidelines with Chinese characteristics'. It includes references to the unique features of the Mainland's social welfare system, such as social security and the housing provident fund.

While compliance with the Guidance remains voluntary, Chinese businesses may leverage it as a springboard to explore the use of ESG standards that have been tailored for and created in a local context. On a broader level, it is anticipated that mandatory ESG disclosures, commencing with state-owned businesses, are likely to be introduced in the Mainland.

Europe

The European Council authorised the adoption of the Corporate Sustainability Reporting Directive (CSRD) on 28 November 2022, which became operative on 5 January 2023. The CSRD mandates reporting and disclosure of data on large enterprises' societal and environmental impacts, as well as external sustainability concerns affecting their operations. Furthermore, the Non-Financial Reporting Directive (2014/95/EU) has been amended by the CSRD, which additionally establishes more specific, mandatory sustainability reporting standards. These standards involve qualitative and quantitative data on ESG issues, including climate change. Therefore, both large corporations and listed small and medium-sized enterprises (SMEs) must submit reports on sustainability and governance issues.

The EU has initiated significant progress towards a sustainable economy via upgraded corporate accountability with the shift from 'non-financial disclosures' to 'sustainability disclosures', which reconciles financial and sustainability reporting. According to estimates, the new regulations will apply to 50,000 enterprises. Companies will need to evaluate their disclosing strategies in light of the CSRD and create systems for gathering pertinent, verifiable data, as well as disclosing relevant details in an unambiguous, efficient manner supported by independent verification.

Critiques of the emphasis on climate change disclosure

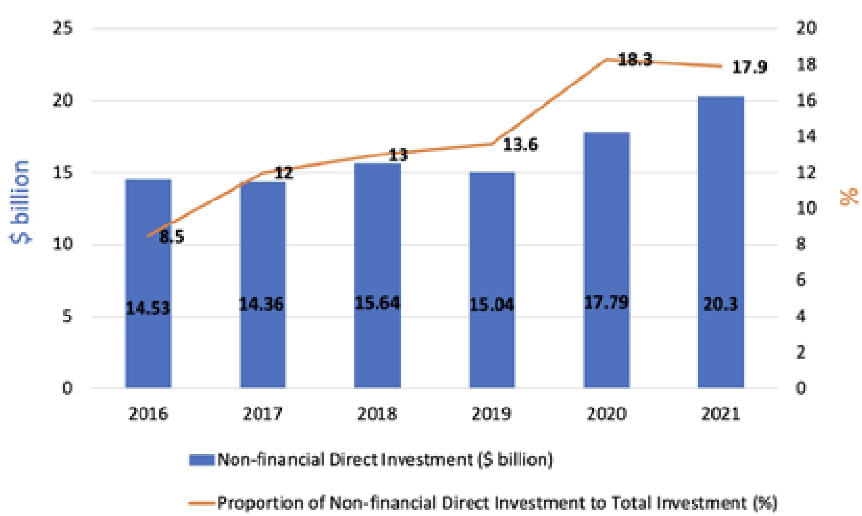
In the past decade, the subject of climate change has been receiving greater prominence, with plenty of organisations and governments stressing the urgency of climate change disclosure. Yet, some doubts have been raised about whether the world has become overly focused on climate change disclosure.

Neglecting other ESG goals

To accomplish business sustainability by placing a disproportionate spotlight on climate change disclosure as a countermeasure to environmental threats, companies might overlook other important ESG issues such as labour practices, supply chain management, and diversity and inclusion.

By way of example, Nestlé places an overabundance of weight on how climate-related hazards might impact its strategy and future business forecasts, with its climate change disclosure set up in line with the Task Force on Climate-related Financial Disclosures (TCFD) guidelines. As such, the comprehensive disclosure covers its governance structures, strategy and risk management, assessment of resilience, and metrics and targets. Likewise, Nestlé adopted the Net Zero Roadmap, wherein the goal is to achieve zero in-scope emissions by 2050. Furthermore, Nestlé undertook a key step towards integrating climate-based thinking throughout its business in 2022 by including climate assessments in its Strategic Business Units' and Globally Managed Businesses' yearly strategic portfolio evaluations. Despite endeavouring to minimise its carbon footprint to meet climate change disclosure requirements,

Figure 3: Chinese non-financial direct overseas investments from 2016 to 2021



Source: SynTao

it has been investing considerably fewer hours and resources on other equally vital ESG issues, like health risks and human rights abuses. The International Labour Rights Fund and the courts have filed cases against Nestlé spanning from 2005 to 2021, asserting that children were trafficked, forced into slavery and subjected to regular beatings on a cocoa plantation. In the 2008 Chinese milk scandal, Nestlé products were contaminated with melamine, a chemical that is illegally added to food items to boost their apparent protein content, resulting in the death of six infants and the hospitalisation of 860 others with kidney damage. Therefore, corporations' overzealous focus on climate change disclosures and disregard for the complete spectrum of ESG risks could result in a distorted emphasis on these topics, undermining their long-term sustainability and performance.

“some contend that the world is indeed excessively preoccupied with climate change disclosures”

Exploiting the benefits of climate change disclosures
Emphasising climate change disclosure encourages enterprises to differentiate themselves from rivals due to their commitment to ethical principles, while simultaneously providing shareholders with genuine benefits in the form of cost savings through energy conservation measures. Further, the growing consensus is that businesses should take the initiative to integrate sustainable practices into their everyday operations, otherwise they face the risk of ruining their reputation and incurring legal ramifications based on regulations particular to their industry. Due to the potential for value generation and reputational enhancement through green initiatives, such as the issuance of green bonds or investing in renewable energy, businesses are now beginning to devote significant resources to these efforts. Hence, there may be a surplus 'green economy' developed in satisfying the requirements for climate change disclosure. For instance, an entity may aggressively engage in renewable energy to raise its environmental profile and meet climate change disclosure standards, but due to resource constraints, it must disregard ESG issues like data privacy. This could give rise to a loss of trust and reputational harm, which will eventually impact long-term sustainability and performance. In this regard, some contend that the world is indeed excessively preoccupied with climate change disclosures.

Challenges faced if the world is too focused on climate change disclosure
Assuming the proposition that the world is too focused on climate change disclosure is justified, such excessive focus may present the following challenges.

Hurdles for SMEs
One of the obstacles is that the efficacy of climate change disclosure as a whole may be hindered by SMEs' restricted access to resources. Due to their lack of resources and knowledge, SMEs may have difficulties in adhering to the standards for climate change disclosure. In particular, 350 SMEs from 40 countries and more than 20 different industries took part in the 2023 study by the SME Climate Hub. Insufficient funding, according to 55% of respondents, is a significant impediment to putting climate-related policies into action. Nearly half of those surveyed indicated that they would require up to US$100,000 to reach net zero. Extra hurdles, as cited by 58% of respondents, included a lack of skills, resources and knowledge. As a result, they may not be able to

provide accurate and complete disclosures, which can impact the overall effectiveness of climate change disclosure frameworks across the board.

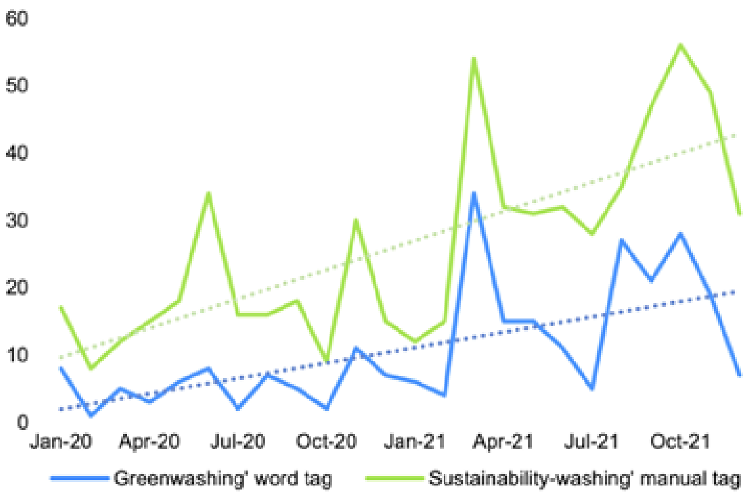
Diversion of resources

Another challenge that can arise from a single-minded concentration on climate change disclosure is the potential weakening of coordination and corporate sustainability. Companies may divert resources from other important corporate governance matters, such as supply chain management and labour practices, in order to focus on climate change disclosure. This can result in a lack of coordination and integration of ESG issues, which could eventually render it tougher for businesses to be sustainable. The example of Nestlé presented above illustrates a lack of coordination and integration of corporate governance issues, which may ultimately jeopardise the sustainability of the business in its entirety.

Upsurge of greenwashing

In terms of corporate marketing, climate change disclosure may be treated as a means to raise capital, such as through the issuance of green bonds. While this can be an important step in mitigating climate change, it could result in the practice of 'greenwashing', in which businesses' climate change disclosures lack content or insightful analysis. In Europe, the number of greenwashing controversies has steadily increased between 2020 and 2021 (see Figure 4). The Volkswagen Clean Diesel campaign is one specific instance of greenwashing. Volkswagen promoted its diesel vehicles as being ecologically benign at the beginning of the 2000s, asserting that they had cutting-edge pollution control systems that reduced hazardous emissions. The US Environmental Protection Agency, however, discovered in 2015 that Volkswagen installed software on its diesel vehicles that allowed them to pass emissions tests and conform to disclosure rules regarding climate change. In actuality, Volkswagen vehicles emitted up to 40 times the legal limit of the hazardous pollutant nitrogen oxide. Volkswagen incurred huge reputational damage as a result of the incident and the automaker ultimately had to pay AU$125 million (US$83.4 million) in fines and customer compensation. The Clean Diesel campaign was revealed to be a case of greenwashing as Volkswagen had deliberately misled its customers about the environmental impact of its diesel cars to make it look 'environmentally friendly', while providing incomplete or inaccurate climate change disclosures on its risk. The prevalence of greenwashing caused by excessive focus on climate change disclosures thereby creates an unhealthy corporate climate on a global scale.

Figure 4: Monthly number of greenwashing controversies for STOXX Europe 600 firms



Source: European Securities and Markets Authority

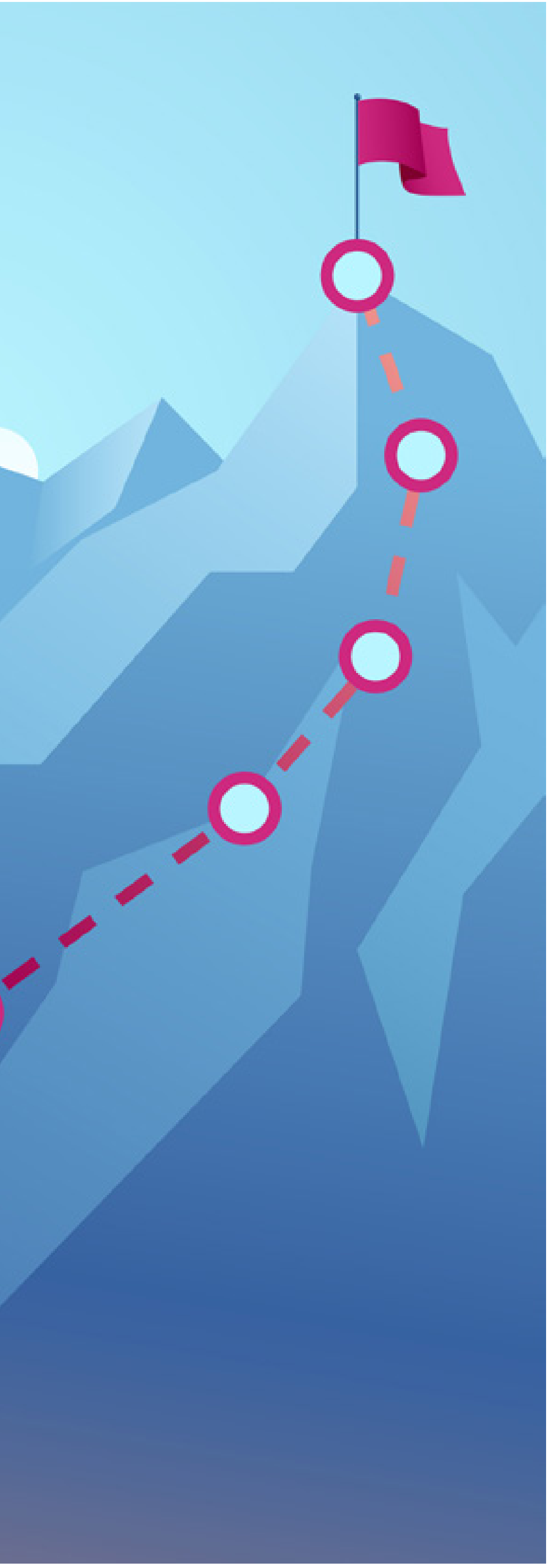
Yannie Kum and Selina Wu

The University of Hong Kong

This two-part article is the winning paper of the Institute's annual Corporate Governance Paper Competition for 2023, titled 'Climate change disclosures: an overlooked priority in the world's agenda?', under the theme 'Climate change disclosures – is the world too focused on this topic?' More information on the competition and the full version of the Best Paper, along with those from the First Runner-up and Second Runner-up, are available under the Studentship section of the Institute's website: www.hkcgi.org.hk.

Family succession planning

How Asia's most successful founders can keep their firms in the family



Keeping a business in the family over successive generations isn't easy to get right, but Mabel Lui, Chenthil Kumarasingam and Leong Chuo Ming, Withersworldwide, highlight the factors that the most successful handovers have in common.

'I would argue that family-run businesses can be more effective than public companies. Leadership has better control and can be more agile in terms of being able to pivot,' says Chenthil Kumarasingam, a litigation and arbitration Partner for Withers KhattarWong in Singapore.

The model is certainly working well in Asia at present. The region is home to two-thirds of the largest family firms in the world, including Samsung, LG, Tata Group and Sun Hung Kai Properties. While some do choose to hire in talent, it seems that most Asian founders' first choice is to pass power to the next generation. It isn't easy to get it right, but there are certain things that the most successful handovers have in common.

'Hong Kong has some great examples of how to keep a business in the family,' says Mabel Lui, Head of the firm's Greater China commercial team. One business co-founded by siblings many decades ago is now led by one of their grandsons and operating on an international scale. 'The founders' descendants brought in new ideas and energy, but always consulted their elders', explains Mabel. 'Even after the founders stepped out of the limelight, you could see that the younger generation respected them a lot and would always ask their advice.'

Easing the transition

Long-running success stories such as this one make the transition process appear straightforward, but as anyone with a business (or a family) will appreciate, things can easily go awry.

'One problem that can arise is when the second, third or fourth generation isn't of the same calibre as the first – or they may have different interests. It's important to recognise that so that you don't put the wrong

Highlights

- it is important that the next generation has had significant involvement in the family business prior to taking over leadership and control
- there are also advantages in having the next generation start outside the family business – providing them with a wider range of exposure to how things are done elsewhere
- highly successful people are rather attached to their life's work and may find it difficult to let go

"**knowing when to let go is the biggest hurdle**"

Chenthil Kumarasingam, Partner, Singapore, Withersworldwide

person in charge,' says Chenthil. 'That said, we are finding that business owners are a lot more flexible nowadays. A lot of them don't just appoint their eldest son – it might be their daughter, their youngest child, a niece or a nephew.'

Singapore-based Corporate Partner Leong Chuo Ming has worked with a number of family businesses as they consider a leadership transition. 'It's an interesting time, but also a delicate one, especially if a few siblings are involved. There is always the question of who the leader will be. Being the eldest should not be an assumption of leadership, but still does present complications.'

As Mabel Lui points out, there need not just be one successor. 'Another way of doing it is to split the business so that one son or daughter is in charge of one sector, the other a different one. I can think of at least one publicly known family business that has been successfully handed down in that way.'

Family frictions

Whoever they choose to run things for them, founders need to be mindful of the difference between their own situation and that of the next generation. For them, the challenge has been to get a business off the ground and sustain it. By contrast, their successors face a different set of difficulties – in particular, the pressure to make their own mark on a business created by somebody else. In some instances, we have seen the next generation being pitted against each other.

'If you're brought into a business that's already doing well, then it can feel hard to replicate that. People do it, but it's not easy,' says Chenthil. 'Sometimes a son or daughter will come in with creative ideas that don't really pan out. Or in the nightmare scenario, they'll be identified by international conmen who will take them for a ride.'

Chuo Ming warns that founders can overlook the dynamics of family and business relations. 'In some instances, we have seen the next generation being pitted against each other, creating rivalries and hostilities that make it impossible for siblings to work with each other once the pioneer generation is gone and the business is no longer able to operate.'

A similar issue to be managed is rivalry between successors or potential successors. Here, Chenthil has more than one cautionary tale to offer. 'I acted in a shareholder dispute between siblings who had disagreed over shares in a property business. One had gifted shares to the other and eventually they had a big argument. As a result, the operation of the business has been severely affected,' he says. 'Another time, I was called in because the founder of a Chinese company had transferred shares to his children, and then fell out with them over the direction of the business. The litigation lasted more than six years before a settlement was reached.'

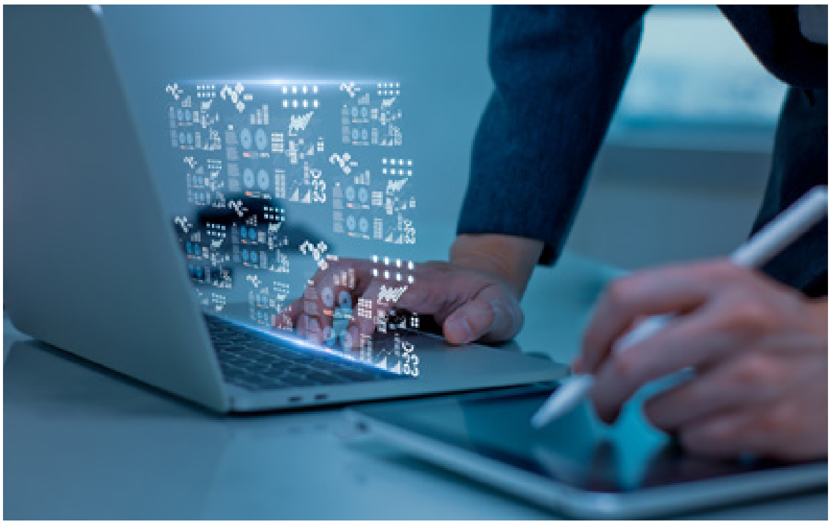
Building on experience

Even the sharpest founders can be blindsided when these kinds of issues arise within their own families, so the Withersworldwide team suggests involving the next generation in the family business sooner rather than later. This will allow them to gain knowledge and experience of the business and feel personally invested in it, while showing their elders what they are capable of.

'There are a few schools of thoughts on this point,' indicates Chuo Ming. 'Some are of the view that having

> **the younger generation coming through now is definitely more tech conscious, more conscious of the environment and social responsibility**

Mabel Lui, Head of Greater China Commercial Practice, Withersworldwide



the next generation start outside the family business is more advantageous. It can provide them with a wider range of exposure to how things are done elsewhere and gives them options to consider and compare against when they eventually come back to the business. In any event, it is important that the next generation has had significant involvement in the family business prior to taking over leadership and control.'

'Academic education is a given. What makes the difference is experience. For that reason, the most successful families will allow the next generation to take part in the running of the company from an early age,' adds Mabel. 'Once that is going well, the older generation can slowly draw back.'

That is the theory, at least. In practice, highly successful people are rather attached to their life's work and may find it difficult to let go. 'The key to a successful family business is the ability of the founders to allow the younger generation to take over,' says Chenthil. 'Knowing when to let go is the biggest hurdle. Are they going to let that younger generation implement their ideas and run the business? What we have seen a lot of times is that they want to retain control, which can make it difficult to move forward.'

'The main concern ought to be long-term viability,' says Chuo Ming. 'In order to ensure the longevity of the business, the key is to have the right people leading the business. The next generation may or may not be the best people to run the business and, if they are not, it is better to allow them to continue owning a majority part of the business whilst having capable talent from outside the family run the business while being co-owners.'

There is no science to finding the right moment, however Chenthil believes that there will be a natural tipping point in most cases. 'When you have children, your relationship evolves at some point in their teens as you move from the parent of a young child to almost a friend. The same thing happens again in business, but usually 20 or 30 years later. It's just a question of feeling when they are ready and managing that transition.'

And while everyone involved needs to be mindful of the potential pitfalls, Mabel points out that the most successful transitions will not just continue but actively improve the business. 'The younger generation coming through now is definitely more tech conscious, more conscious of the environment and social responsibility. My feeling is that they are really embracing all that as they take over and you can see businesses advancing as a result.'

Mabel Lui, Head of Greater China Commercial Practice, Chenthil Kumarasingam, Partner, Singapore, and Leong Chuo Ming, Partner, Singapore

Withersworldwide

“it is possible that in the future AI could integrate real-time data to expedite the process of risk management and decision-making”

Rain Lam ACG HKACG, Senior Officer, Secretarial of Legal and Risk Management Department, Orient Overseas (International) Ltd

Rain Lam ACG HKACG

What is your current role and what was your career path to this role?

'I studied finance at City University of Hong Kong. By sheer coincidence, I joined a company secretarial team as an intern in a professional services firm. This year I joined Orient Overseas (International) Ltd, a listed company whose principal activities are in container transport and logistics services. Our department includes both corporate and listing teams. My main task is to assist the listing team with annual compliance requirements, such as preparing for the annual general meeting, interim reports and board meetings. I have discovered that there are many more things involved in this profession – and that it is more important – than I had previously imagined. Corporate governance is similar to the role of airport customs. Each decision can be considered as a piece of luggage in which the governance professional acts as the baggage scanner. If there is anything inappropriate from a governance perspective, or does not comply with regulations, we will intercept that baggage and examine how to handle the situation, ensuring proper control.'

When did you first hear the terms 'company secretary' and 'governance'? What was your impression of these terms?

'I first heard about the role of a company secretary from my father. He knows my personality well and thought that I would be suited to the position because it follows a systematic and orderly approach. He had seen news reports mentioning that this career has good prospects. When I was choosing my university major, I also considered enrolling in related courses but in the end I didn't pursue it. As for corporate governance, I used to think it was something only top-level executives would be involved in.'

What qualities do you think are needed to be a successful governance professional?

'The field of corporate governance is very complex as it involves various types of business relationships and constantly evolving rules. With each new update there are new challenges. First, it is important to have an open mind when it comes to learning new things. For example, many documents are now transitioning to a paperless format and the formalities of work have changed. If you don't keep up with learning, you will quickly fall behind. Second, attention to detail is crucial because the industry itself does not tolerate errors. One must be diligent in ensuring everything is accurate.'

What was your chosen route to complete the Institute's qualifying programme and what advice would you give to people who are considering qualifying as a Chartered Secretary and Chartered Governance Professional?

'I chose the Chartered Governance Qualifying Programme examinations for two main reasons, the first being flexibility in terms of time and the second being the higher cost effectiveness compared with taking a master's degree. Besides, there are also many resources available from the Institute that can assist us in preparing for the exams, making the learning process much more effective. Furthermore, I believe that to be an outstanding company secretary you should have a well-rounded education, which requires additional expertise beyond that of pure corporate governance. If I undertake further studies, I would therefore choose related disciplines.'

As a member of the younger generation, how do you think governance will evolve in the future and would you recommend a career in governance to others?

'I believe that the future will undoubtedly be characterised by digitisation and even AI integration. In the corporate secretarial field, hybrid meetings, online voting and paperless operations have already become the norm. It is possible that in the future AI could integrate real-time data to expedite the process of risk management and decision-making. However, this industry will not disappear as there are certain insights that AI cannot provide. We will contribute to the company's decisions by offering perspectives that are both objective and subjective.'

林芊希女士ACG HKACG

> 以后人工智能也许可以整合实时的资料，加速风险管理和决策过程

林芊希女士ACG HKACG，东方海外（国际）有限公司法律及风险管理部高级主任

请问您目前的职位是什么？能告诉我们您的职业发展经历吗？

‘我在香港城市大学修读财务，实习的时候机缘巧合地加入了专业服务公司的公司秘书团队。今年我转职到一家上市公司，东方海外（国际）有限公司，主要从事货柜运输和物流业务。我任职的部门有企业组和上市组，我主要是在上市组帮忙处理每年的合规工作，例如准备周年股东大会、中期报告，和安排董事会会议。我发现这个专业接触到的事情和范畴比我想象中多很多，这专业的重要性也比我想象中大。公司治理的角色很像机场海关，如果每一个决策是一件行李，公司治理就像是行李扫瞄器。从治理的角度来看，如果有任何事情不适当，或者不符合规则，我们就会截停那个行李，再去看看怎样处理事情，做好把关的工作。

您第一次听到‘公司秘书’或‘公司治理’是什么时候？您当时对这些专业名词有什么印象？

‘我是从我爸爸那里第一次听到公司秘书这个专业名词。他了解我的性格，知道我适合按部就班和条理的工作，所以他认为我适合从事公司秘书这个专业。他也看过新闻报导，说这个专业前景很好。大学选科系时，我也曾考虑报读相关课程，但最后没有成事。至于公司治理，我最初以为是公司高层才会接触到的东西。’

您认为成为一名成功的治理专业人士需要具备哪些素质？

‘公司治理这个范畴很复杂，牵涉很多不同类型的商业关系及时常更新的规则，每当有新的更新，就会带来新的挑战。第一，对于学习新事物要持有开放的态度，比方说很多文件最近已转为无纸化，工作的程序也随之改变，如果你不持续学习，很快就会跟不上步伐。第二是要注重细节，因为这个行业不可以有错误，要用心确保所有事情是准确的。’

您完成公会的资格计划的路径是怎样的？对于那些有想去成为特许秘书和公司治理师的人，您有什么建议？

‘我选择参加特许公司治理专业资格课程考试，主要有两个原因，第一是时间上的灵活性，第二是成本效益比修读硕士课程高。而且公会也有很多资源可以帮助我们准备考试，令学习过程更加有效。我觉得出色的公司秘书一定要接受全面的教育，需要具备公司治理以外的专长。所以如果我将来再进修，我会选择相关的科目。

作为年轻一代的一员，您认为‘治理’将来会如何发展？您会推荐其他人从事治理方面的工作吗？

‘我觉得未来无疑会数码化甚至人工智能化。在公司秘书行业，混合模式会议、网络投票、无纸化运作已经成为常态，以后人工智能也许可以整合实时的资料，加速风险管理和决策过程。不过，公司秘书专业不会消失，因为有些独特见解是人工智能无法提供的，我们会从客观和主观的角度提供意见，让公司管理层做决定时作为参考。’

CHARTERED GOVERNANCE
Hong Kong

75th ANNIVERSARY CELEBRATION

RESILIENCE IN GOVERNANCE

Wednesday 31 January 2024
6.30pm

The Hong Kong Club (1/F)
1 Jackson Road, Central

Guest of Honour:
The Hon. Paul Chan Mo-po, GBM, GBS, MH, JP,
Financial Secretary, HKSAR

Business Smart

Fees: HKD 180
(All proceeds will be donated to the HKCGI Foundation)

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

RSVP NOW

By Friday 5 January 2024

Professional Development

Seminars: November 2023

10 November

Company secretarial practical training series: non–Hong Kong companies – practice and application

Speaker: *Ricky Lai FCG HKFCG(PE), Company Secretary, China Renewable Energy Investment Ltd*

14 November

Incorporating Hong Kong companies and preparing for the Company Registry's new measures

Speakers: *Ivy Chow FCG HKFCG(PE), Tax – Corporate Services Director, Beatrice Law ACG HKACG, Tax – Corporate Services Manager, and Elif Fu ACG HKACG, Tax – Corporate Services Manager, PwC Hong Kong*

17 November

The governance implications of (bad) director decisions

Chair: *Mohan Datwani FCG HKFCG(PE), Institute Deputy Chief Executive*

Speakers: *Professor Joan Loughrey, Head of School of Law, Queen's University Belfast; and Pooja Shukla FCG HKFCG, Senior Lecturer, Lee Shau Kee School of Business and Administration, Hong Kong Metropolitan University (panellist)*

29 November

Paperless regime for listed companies and other listing rule updates

Chair: *Wendy Ho FCG HKFCG(PE), Institute Council member, Professional Development Committee Chairman and Professional Services Panel member, Mainland China Technical Consultation Panel member and AML/CFT Work Group member, and Executive Director, Corporate Services, Tricor Services Ltd*

Speaker: *Maxwell Chan, Partner, ONC Lawyers*

ECPD seminars/Videos on Demand

ECPD training is organised by the Institute to facilitate its members and other governance professionals to acquire governance knowledge, corporate secretarial skills, and related thought leadership and best practices.

In addition to in-person seminars, ECPD training is delivered via live webinars or pre-recorded videos for maximum accessibility and flexibility.

Details of the Institute's forthcoming ECPD seminars and 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: (852) 2830 6011, or email: cpd@hkcgi.org.hk.

Membership

New Associates

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

Cham Wai Man
Chan Cheung
Chan Ching Man
Chan Hiu Chui, Cherie
Chan Jeuk Hei
Chan Man Lok
Chan Man Sze
Chan Sze Nok, Charlet
Chan Tak Yiu
Chan Ting Fung, Jason
Chan Wai Shan
Chang Sin Sum
Chang Wing Man
Chau Victoria Elizabeth Tuen Wai
Chen Hong
Cheng Hau Ching
Cheung Ka Yee
Cheung Chun Yan, Grace
Cheung Ka Yu
Cheung Mei Tan
Cheung Wai Yi, Katriana
Cho Tsun Pang
Choi Kit Sum
Choi Man Yee
Choi Wai Chun, Vanessa
Chow Sai Hung
Chu Hiu Tung
Dai Gaojie
Fong Yuet Yi
Fung Ka Hong
Ho Chun Ho
Huang Jieling
Hung Ying Ying
Ip Tan Ieng
Iu See Lap, David
Kwan Wing Tung
Kwok Chee Wai
Kwong Cho Wan
Kwong Kit Ling
Lai Sum Yi
Lam Ching Kwan
Lam Hoi Ling
Lam Kai Kei
Lam Yin Yam
Lee Chi Ho
Lee Ka Wing
Lee Sai Ho
Lee Wa Lai
Lee Yiu Wai, William
Leung Man Kit
Leung Shuk Kam
Leung Sui Yan
Leung Wai Yin
Leung Yim Ting
Li Chun Sing, Andrew
Li Yiheng
Lian Qinyi
Liew Daphnie Pingyen
Lo Cheuk Wai
Lo Pik Fai
Lok Ka Ho
Long Yipeng
Louie Leung Kwan
Luk Ka Yan
Luk Sum Yee
Mak Pui Yee
Mo Yingfei
Mok Wai Yiu
Ng Kwan Ming
Ng Ming Kit
Ng Yat Wing, Athena
Ngan Ching Man
Pang Wai Shan
Sze Hiu Lai
Sze Wing Fung
Tang Kak Lan Sze
Tao Siu Ping
Teng Lili
Tsang Man Yin
Tse Po Yu
Tso Kit Ling
Wan Kok Chu
Wang Mengyue
Wong Hoi Chun, Jenny
Wong Hui Yu
Wong Kai Tan, Dana
Wong Lai In
Wong Yan Kei
Wong Yu Sze
Yau Yuen Ting
Yeung Po Yan
Yeung Ki Ki
Yeung Pauline Hoi Yee
Yip Hiu Har
Yu Xian
Yuen Yu Hung
Zhang Shu
Zhang Tieying
Zhang Yanjun

New graduates

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

Cao Xiushan
Cao Xue
Chan Chung Yi
Chan Hau Pui, Pegky
Chan Hiu Ching
Chan Man Kin
Chan Tsz Hin
Chen Junshang
Chen Xiqin
Cheng Wan Wing
Cheung Shu Kiu
Cho Yi Hsien
Chong Ching Kin
Choy Yuen Mei
Chung Kok Kuen
Cong Lin
Gao Li
Gao Wenhuan
Guo Ying
Ho Chun Yin, Johnny
Ho Pan
Ho Tsz Ying
Ho Yin Shuen
Huang Hanyin
Hui Sze Tung
Hui Wing Yan
Ji Xin
Lam Mei Tsz
Lau Ka Ming
Lau Yin Kwan
Law Wan Sze
Lee Ching Hung
Lee Sau Wai
Li Na
Lin Pingping
Lin Yijing

Membership (continued)

New graduates (continued)

Liu Jindi	Tang Lin	Wong Cheuk Lun	Yeung Kit Yan, Theresa
Liu Xuanmin	Tang Yan	Wong Ching Yi	Yu Ho Yin
Lui Lai Ping, Cecily	Tao Lei	Wun Tsz Yan	Yu Kin Wai
Ma Rongkun	Temir Sema Sky	Xiao Meiru	Yu Pui Ki
Mak Nga Wun	Tsang Hei Man	Xing Mengwei	Yuan Quan
Peng Yunlu	Tuo Ying	Xu Haiyan	Yue Feiya
Shen Jinjin	Wang Xiaoti	Xu Hua	Zhang Dingran
Song Geqian	Wang Yanyan	Ye Chunli	Zhang Lihong
Song Yu	Wang Zhe	Yeung Gar Lai, Calia	Zhu Luzhen

Membership activities: November 2023

17 November
Wellness series: hatha yoga workshop (re-run)

18 November
Fun & Interest Group – day-tour to Lai Chi Wo, Kat O (荔枝窩,吉澳)

24 November
Wellness series: back care yoga workshop

Forthcoming membership activities

Date	Time	Event
20 January 2024	11.00am–2.00pm	Fun & Interest Group – self-service baking experience workshop
27 January 2024	2.00pm–3.30pm	Wellness series: 易筋八段錦研習會

For details of forthcoming membership activities, please visit the News & Events section of the Institute's website: www.hkcgi.org.hk.

Advocacy

Hybrid Annual General Meeting

The Institute held its hybrid Annual General Meeting (AGM) on Thursday 14 December 2023.

At the Council meeting following the AGM, the Honorary Officers for 2024 were elected (see box). David Simmonds FCG HKFCG, Chief Strategy, Sustainability and Governance Officer of CLP Holdings Ltd, has been elected as President for 2024.

From 1 January 2024, Ernest Lee FCG HKFCG(PE) retired from the presidency, but will continue to serve the Institute ex-officio as Immediate Past President. The Institute would like to extend its sincere appreciation to Mr Lee for all his contributions as President.

The Hong Kong Chartered Governance Institute Council for 2024

Honorary Officers:

Mr David J Simmonds FCG HKFCG	President (re-elected to Council)
Ms Stella SM Lo FCG HKFCG(PE)	Vice-President (newly elected to Council)
Mr Tom SL Chau FCG HKFCG	Vice-President (re-elected to Council)
Mr Kenny Luo (Luo Nan) FCG HKFCG(PE)	Vice-President
Mr Daniel WS Chow FCG HKFCG(PE)	Treasurer

Council Members:

Professor Alan KM Au FCG HKFCG
Mr Edmond MK Chiu FCG HKFCG(PE)
Ms Ivy YY Chow FCG HKFCG(PE) (newly elected to Council)
Mr David YH Fu FCG HKFCG(PE) (newly elected to Council)
Mr Robin B Healy FCG HKFCG
Ms Wendy WT Ho FCG HKFCG(PE)
Mr CK Low FCG HKFCG
Mr Wei Fang FCG HKFCG (newly elected to Council)
Mr Matthew WH Young FCG HKFCG(PE) (newly elected to Council)
Mr William WY Zhang FCG HKFCG (newly elected to Council)

Ex-officio:

Mr Ernest CH Lee FCG HKFCG(PE)	Immediate Past President
Ms Gillian E Meller FCG HKFCG(PE)	Past President

Honorary Adviser:

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

Advocacy (continued)

In addition, the poll results in respect of the resolutions proposed at the AGM were as follows:

Resolutions		Number of votes (%)	
		For	Against
1.	To receive and adopt the Council's Report for the year ended 30 June 2023	138 (99.28%)	1 (0.72%)
2.	To receive and adopt the Independent Auditor's Report and Audited Consolidated Financial Statements for the year ended 30 June 2023	137 (98.56%)	2 (1.44%)
3.	To reappoint BDO Ltd as Auditor of the Institute and authorise the Council to fix the Auditor's remuneration	135 (97.12%)	4 (2.88%)
4.	To elect Council members (see note iv)	N/A	N/A
5.	To consider and, if thought fit, pass with or without amendments, the following resolution as a Special Resolution: 'That the provisions contained in the attached printed document be approved and adopted as the new Articles of Association of the Institute, in substitution for, and to the exclusion of, the existing Articles of Association of the Institute.'	136 (98.55%)	2 (1.45%)

Notes:

i. As the required majority of the votes of members who attended and voted, either in person or by proxy, at the hybrid AGM was obtained, resolutions 1 to 3 were passed as Ordinary Resolutions.

ii. The percentages of votes on the resolutions were rounded to two decimal places.

iii. The scrutineer for the poll at the AGM was Tricor Investor Services Ltd.

iv. The election of Council members was conducted by a postal ballot in accordance with the Articles of Association of the Institute and the ballot results were published on the Institute's website on 7 December 2023.

v. As the required majority of at least 75% of the votes of members who attended and voted, either in person or by proxy, at the hybrid AGM was obtained, resolution 5 was passed as a Special Resolution.

Secretariat news

With effect from 1 January 2024, Dr Gao Wei FCG HKFCG(PE) has been appointed as the new Chief Representative of the Institute's Beijing Representative Office (BRO). He took up the baton from Kenneth Jiang FCG HKFCG(PE), former Chief Representative of BRO, who retired at the end of 2023.

Dr Gao is qualified as a lawyer in the Mainland and has over 20 years of extensive experience in corporate finance and managing overseas-listed companies. He will build on the thought leadership and research strengths of the Institute in the Mainland, as well as assist Institute Chief Executive Ellie Pang FCG HKFCG(PE) in her management role.

Agency for Volunteer Service (AVS) Annual Dinner 2023

On 2 November 2023, Ernest Lee FCG HKFCG(PE), Institute President and Technical Partner, Deloitte China, attended the AVS Annual Dinner 2023.

The Hong Kong Institute of Architects (HKIA) Annual Ball cum Annual Awards Presentation 2023

On 8 November 2023, Ernest Lee FCG HKFCG(PE), Institute President and Technical Partner, Deloitte China, attended the HKIA Annual Ball cum Annual Awards Presentation 2023.

World Chinese Accountants Consortium Ltd Allies Dinner

On 18 November 2023, Ernest Lee FCG HKFCG(PE), Institute President and Technical Partner, Deloitte China, attended the World Chinese Accountants Consortium Ltd Allies Dinner.

A Comparative Study on ESG Scores across Rating Agencies: Cases in Hong Kong

The Institute and Hong Kong Metropolitan University have jointly produced a research paper, titled A Comparative Study on ESG Scores across Rating Agencies: Cases in Hong Kong.

The report explores rating agencies' evaluations of the ESG disclosures of businesses. After reconciliation of the ESG performance data for 2,592 companies that were listed on the Hong Kong Stock Exchange in 2022, the report examined the overall ESG performance findings of 689 samples. From those samples, seven organisations received ESG evaluations from all eight rating agencies, which were then used to derive comparisons and insights.

In his foreword to the report, Institute President Ernest Lee FCG HKFCG(PE) urged 'all businesses to seize the opportunities ESG integration provides for business sustainability and resilience and, where appropriate, for a rating to attract capital'.

Advocacy (continued)

ESG Leading Enterprises 2023

On 23 November 2023, Ernest Lee FCG HKFCG(PE), Institute President and Technical Partner, Deloitte China, attended the ESG Leading Enterprises 2023.

Institute thank you luncheon

On 4 December 2023, the Institute hosted a thank you luncheon for our Council, committee and panel members at the Harbour Grand Hong Kong. The occasion served as an excellent opportunity for everyone to get together in a relaxed social setting.

The Institute would like to thank all our Council, committee and panel members for their dedication, diligence and hard work throughout 2023.

Secretariat holiday celebrations

On 11 December 2023, the Secretariat team in Hong Kong enjoyed a heartwarming holiday season celebration and luncheon at the Harbour Grand Hong Kong.

Thanks to the Council members, this year the Institute presented the Secretariat staff members in Hong Kong and Beijing with generous gifts to celebrate the end of the year in recognition of their dedication, diligence and hard work throughout 2023.

2023 advanced regulatory seminars for Chinese companies listed overseas

The Institute held its 2023 advanced regulatory seminars for Chinese companies listed overseas from 24 to 27 October in Hong Kong, attracting over 30 participants, mainly comprising board secretaries and equivalent personnel, CEOs, directors and other governance-related senior executives from Chinese companies listed or planning to list in Hong Kong, as well as from member companies of the Insurance Association of China.

Institute President Ernest Lee FCG HKFCG(PE) delivered the welcome address. Institute Vice-President Dr Gao Wei FCG HKFCG(PE) was then joined by Institute Chief Executive Ellie Pang FCG HKFCG(PE) and other speakers from Hong Kong Exchanges and Clearing Ltd (HKEX), the Independent Commission Against Corruption (ICAC) the Securities and Futures Commission and the Financial Service Development Council, as well as by senior market practitioners and professionals, to share their insights and hands-on experience of a range of topics. These included the latest regulatory developments, directors' continuous liabilities, ESG reporting, anti–money laundering and other governance-related topics. A study tour to HKEX was also arranged on 27 October 2023.

A welcome luncheon was held on 24 October, which was attended by eight Council and committee members, including Institute President Ernest Lee FCG HKFCG(PE) and Institute Chief Executive Ellie Pang FCG HKFCG(PE).

The Institute would like to express its sincere appreciation to all speakers and to the sponsors Jingtian & Gongcheng LLP and Computershare, as well as to all participants for their generous support and participation.

Advocacy (continued)

The 73rd Governance Professionals ECPD seminars

The Institute held its 73rd Governance Professionals ECPD seminars from 15 to 17 November 2023 in Chengdu, Sichuan Province, under the theme of Annual Financial Audit and Performance Reporting. This event attracted over 150 participants, mainly comprising board secretaries and equivalent personnel, CFOs, directors, supervisors and other senior management from companies listed or to-be-listed in Hong Kong and/or the Mainland.

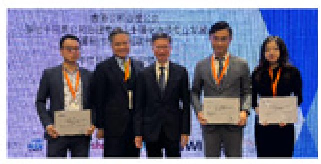
Institute President Ernest Lee FCG HKFCG(PE) delivered the welcome speech, after which 15 senior professionals and governance practitioners shared their insights on following topics:

- regulatory updates on information disclosure and compliance of companies listed in Hong Kong
- accounting regulatory focus and IFRS updates
- high-quality development solutions for listed companies – value creation and enhancement
- M&A warranty insurance
- ESG and climate disclosure regulations update and practices for companies planning to list in Hong Kong
- Hong Kong listing and spin-off subsidiary listing update, and 2023 AGM season insights
- ESG and digital printing, and
- promoting high-quality development of listed companies with good governance.

The Institute would like to express its sincere appreciation to all speakers and sponsors, as well as to all participants, for their generous support and participation.











Student Ambassadors Programme

The Institute's Student Ambassadors Programme (SAP) serves as a platform for local undergraduates to better understand what a career in governance entails. The SAP for the new academic year (2023/2024) has now commenced, with 74 undergraduates from 10 local universities and educational institutions having registered, while 46 Institute members joined as mentors.

On 2 December 2023, a tea reception was held to kick off the programme and to welcome the student ambassadors and SAP mentors. Other SAP activities, including networking activities, visits to regulators, soft skills workshops and internships, will be held during the year to reinforce our student ambassadors' potential as future leaders in governance.

The Institute would like to thank the following SAP mentors for their valuable contribution.

Mentors for SAP 2023/2024 (in alphabetical order of surname)

Alice Chai ACG HKACG
David Chan ACG HKACG
Mike Chan FCG HKFCG
Caroline Chan FCG HKFCG
Eric Chan FCG HKFCG(PE)
Willa Chan ACG HKACG
Jess Chan ACG HKACG
Sheryl Cheung FCG HKFCG(PE)
Nick Cheung ACG HKACG
Sally Cheung ACG HKACG
Daniel Chow FCG HKFCG(PE)
Simon Chow ACG
Tony Fong FCG HKFCG
Rico Fung FCG HKFCG
Donald Fung ACG HKACG
Miles Ko FCG HKFCG
Eddy Ko FCG HKFCG
Donald Lai ACG HKACG
Michelle Lam ACG HKACG
Carmen Lam FCG HKFCG(PE)
King Ho Lau ACG HKACG(PE)
Klare Lau ACG HKACG
Davis Lau FCG HKFCG
Simon Lee ACG HKACG
Kelvin Leung ACG HKACG
Aster Li ACG HKACG(PE)
Pok Yin Luk ACG HKACG
Grace Mok ACG HKACG
Philips Ng ACG HKACG
Emily Ng ACG HKACG
Chelsie Shiu ACG HKACG
Pooja Shukla FCG HKFCG
Patrick Sung FCG HKFCG
Nathalie Tam GradCG
Vincent Tam ACG HKACG
Yan Tam ACG HKACG
Calvin Tang FCG HKFCG
Jerry Tong FCG HKFCG
Wing Shun Wong ACG HKACG
Patrick Wong FCG HKFCG
Polly Wong FCG HKFCG
Sandy Yan ACG HKACG(PE)
Joseph Yau FCG HKFCG
Arthur Yeung ACG HKACG
Ann Young ACG HKACG
Trevor Yu ACG HKACG

Chartered Governance Qualifying Programme (CGQP)

June 2024 examination diet timetable

The June 2024 examination diet of the CGQP is open for enrolment from 1 February to 28 March 2024. All examination enrolments must be made online via the Login area of the Institute's website.

Week one

Date/Time	11 June Tuesday	12 June Wednesday	13 June Thursday	14 June Friday
9.15am–12.30pm*	Hong Kong Taxation	Hong Kong Company Law	Interpreting Financial and Accounting Information	Corporate Secretaryship and Compliance

Week two

Date/Time	18 June Tuesday	19 June Wednesday	20 June Thursday	21 June Friday
9.15am–12.30pm*	Corporate Governance	Strategic Management	Risk Management	Boardroom Dynamics

* Including 15 minutes reading time (9.15am–9.30am).

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

For enquiries, please contact the Qualifications and Assessments Section: (852) 2830 6010, or email: exam@hkcgi.org.hk.

Learning support

The Institute provides a variety of learning support services for students to assist them with preparing for the CGQP examinations.

CGQP examination technique workshops

The three-part examination technique workshops for the CGQP June 2024 examinations will be held online between April and mid-May 2024. In parts one and two, students will attend a 2.5-hour online workshop and receive one take-home mock examination paper. In part three, students who have attended and submitted their answers to the mock examination paper will receive feedback and further guidance. The enrolment period is from 1 February to 28 March 2024.

For details, please visit the News & Events section of the Institute's website: www.hkcgi.org.hk.

HKU SPACE CGQP Examination Preparatory Programme – spring 2024 intake

HKU SPACE has been endorsed by the Institute to organise the CGQP Examination Preparatory Programme, which helps students to prepare for the CGQP examinations. One assignment and one take-home mock examination will be provided to students. There are 36 contact hours for each module, except for Hong Kong Company Law, which has 45 contact hours. The spring 2024 intake will commence in early March 2024.

For details, please contact HKU SPACE: (852) 2867 8485, or email: hkcgi@hkuspace.hku.hk.

Key dates for the November 2023 examination diet

Key dates	Description
Late February 2024	Release of examination results
Late February 2024	Release of examination papers, mark schemes and examiners' reports
Mid-March 2024	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 the Qualifications and Assessments Section: (852) 2830 6010, or email: exam@hkcgi.org.hk.

Professional and career talks at local universities and educational institutions

The Institute continues to liaise closely with local universities and educational institutions to inspire and encourage more young people to consider governance as a career. The Institute arranged with local universities and educational institutions to hold the following professional and career talks for their respective students in October and November 2023.

Date	University
10 October	The Chinese University of Hong Kong
31 October	Hong Kong Metropolitan University
21 November	The Hong Kong Polytechnic University


Forthcoming studentship activities

Date	Time	Event
20 January 2024	3.30pm–6.30pm	Student Ambassadors Programme: T · PARK guided tour

For details of forthcoming studentship activities, please visit the News & Events section of the Institute's website: www.hkcgi.org.hk.

Notice

Featured job openings

Company name	Position
The Hong Kong Chartered Governance Institute	Senior Officer/Officer, Marketing and Communications (Ref: MKT 2023-04)

For details of job openings, please visit the Job Openings for Governance Professionals section of the Institute's website: www.hkcgi.org.hk.