

Consultation Conclusions – Review of Corporate Governance Code and Related Listing Rules

21 January 2025

In brief

On 19 December 2024, the Stock Exchange of Hong Kong Limited (the “HKEX”) published the consultation conclusions following the consultation paper on Review of Corporate Governance (“CG”) Code (the “CG Code”) and related Main Board (“MB”) and GEM Listing Rules (the “Listing Rules”).

The amendments to the CG Code and Listing Rules aim at striking an appropriate balance between advancing good corporate governance practices in Hong Kong, addressing the practical concerns of listed issuers and improving the board effectiveness. The phased implementation will provide issuers with greater flexibility and more time to make these governance improvements at an appropriate pace.

The new rule will come into effect on 1 July 2025, with transitional arrangements for certain new requirements.

In this news flash, we outline the key highlights of the amendments under the consultation conclusions.

In detail

The key amendments to the CG Code and Listing Rules are summarised below:

I. BOARD EFFECTIVENESS

<u>ASPECTS</u>	<u>KEY AMENDMENTS</u>
Designation of lead independent non-executive director (“INED”)	<ul style="list-style-type: none">Require issuers without an independent board chair to designate one INED as a Lead INED (New Recommended Best Practices (“RBP”) C.1.8)

I. BOARD EFFECTIVENESS (CONT'D)

<u>ASPECTS</u>	<u>KEY AMENDMENTS</u>
Shareholder engagement	<ul style="list-style-type: none"> ▪ Require enhanced disclosure requirement in the CG Report regarding the board's engagement with shareholder (New Mandatory Disclosure Requirement ("MDR") paragraph L(d), new Code Provision ("CP") F.1.1)
Mandatory director training	<ul style="list-style-type: none"> ▪ Require all directors must receive mandatory continuous professional development training ("CPD") each year, and on specified topics at least covering each of the following: <ul style="list-style-type: none"> i. the roles, functions and responsibilities of the board, its committees and directors, and board effectiveness; ii. Issuers' obligations and directors' duties under Hong Kong law and the Listing Rules, and key legal and regulatory developments (including Listing Rules updates) relevant to discharging those obligations and duties; iii. Corporate governance and ESG matters (including developments on sustainability or climate-related risks and opportunities relevant to the issuer and business); iv. Risk management and internal controls; and v. Updates on industry-specific developments, business trends and strategies relevant to the issuer. ▪ First-time directors will be required to complete a minimum of 24 training hours within 18 months of their appointment. The minimum training hours will be reduced to 12 hours, for first-time directors who have served as director of a company listed on an exchange other than HKEx within three years prior to their appointment (New MB Rules 3.09F, 3.09G, 3.09H / GEM Rules 5.02F, 5.02G, 5.02H) ▪ Require enhanced disclosure in the CG Report on the different modes of training (i.e. external, internal or self-study) undertaken by directors, namely the number of CPD hours completed, the topics covered and a description of the relevant training provider(s) (where (Revised MDR paragraph B(i))

Board performance review	<ul style="list-style-type: none"> Require a board performance review to be conducted at least every two years, with specific disclosure of the review's details in the CG Report (New CP B.1.4)
Board skills matrix	<ul style="list-style-type: none"> Require issuers to maintain and disclose a board skills matrix in the CG Report, with enhanced disclosures in regard of the board's skills (current board skills mix and plans that the board is looking to acquire further skills, if any) (New CP B.1.5)
Overboarding INED and directors' time commitment	<ul style="list-style-type: none"> An INED must not concurrently hold more than six listed issuer directorships, with a three-year transition period that the new rule will apply from the first Annual General Meeting held on or after 1 July 2028 by any company that an overboarding INEDs serve (New MB Rule 3.12A / GEM Rule 5.07A) Require the nomination committee to annually assess and disclose its assessment of each director's time commitment and contribution to the board, taking into account each of their other significant external time commitments and other factors relevant to their character, integrity, independence and experience (New MDR paragraph E(d)(iii))

II. INDEPENDENCE OF INEDs

ASPECTS	KEY AMENDMENTS
Independence of INEDs after nine years	<ul style="list-style-type: none"> An INED will no longer be considered independent after serving as an INED for a company for nine years with a three-year cooling off period. (New MB Rule 3.13A / GEM Rule 5.09A) The rule will be subject to phased implementation over a transition period of six years: <ul style="list-style-type: none"> <i>phase one (compliance required by the first AGM held on or after 1 July 2028)</i> – issuers must not have long serving INEDs representing a majority of the INEDs on the board <i>phase two (compliance required by the first AGM held on or after 1 July 2031)</i> – issuers must not have any long serving INED on the board. Require enhanced disclosure on the length of tenure and current period of appointment of each director in the CG Report (Revised MDR paragraph B(a))

III. BOARD AND WORKFORCE DIVERSITY

<u>ASPECTS</u>	<u>KEY AMENDMENTS</u>
Board and workforce diversity	<ul style="list-style-type: none"> Require issuers to have at least one director of a different gender on the nomination committee (New CP B.3.5) Require an annual review of the implementation of the board diversity policy, and separate disclosure of the gender ratios of senior management and the workforce (New & revised MDR paragraph J) Require issuers to have and disclose a workforce diversity policy in the CG report (New MB Rule 13.92 / GEM Rule 17.104) Require issuers to immediately publish an announcement if the issuer fails to have directors of different genders on its board, and must re-comply with a three-month grace period (New MB Rule 13.92 / GEM Rule 17.104)

IV. RISK MANAGEMENT AND INTERNAL CONTROLS

<u>ASPECTS</u>	<u>KEY AMENDMENTS</u>
Risk management and internal controls ("RMIC")	<ul style="list-style-type: none"> Enhanced disclosures in the CG Report on the board's review of the effectiveness of the issuer's RMIC systems conducted at least annually, including the disclosure of the board's confirmation that the RMIC systems are effective and adequate and details of the review findings (New MDR paragraph H) (Section D.2 of the CG Code)

V. DIVIDENDS

<u>ASPECTS</u>	<u>KEY AMENDMENTS</u>
Dividends	<ul style="list-style-type: none"> Require issuers to disclose in the CG Report details of the dividend policy, (or otherwise explain the reason(s) for not having such policy), as well as the dividend decisions made by the board during the reporting period (New MDR paragraph M)

Next steps

The new requirements will apply to CG Reports and annual reports in respect of financial years commencing on or after 1 July 2025. For companies with a 31 December financial year-end, the new requirements will apply to annual reports published in 2027 in respect for financial year ending 31 December 2026.

Listed issuers should understand the latest changes to the CG Code and Listing Rules and take timely actions to fulfil the new requirements. In particular, where listed issuer has a number of long serving INEDs should consider their long-term plans for compliance with the new amendments.

The HKEX will publish updated guidance in the first half of 2025 to assist issuers' compliance with the new requirements.

For further details, full consultation conclusions published by the HKEX can be accessed via this link: [link](#)

Should you have any questions or need any guidance in relation to the new requirements, please feel free to contact us.

Let's talk

For a deeper discussion of how this impacts your business, please contact:

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