

## **Press Release**

To: Assignment Editor/Editor of Education, Local News, Finance and Business Sections

**7 November 2022**

### **Mandatory “ESG Committee” and “D&O Insurance”, The First-ever Independent Non-Executive Directors (INEDs) Effectiveness Survey in Hong Kong Suggests**

The first-ever study on the effectiveness of Independent Non-Executive Directors (INEDs) in Hong Kong suggested that an ESG committee as well as Directors and Officers (D&O) insurance should become mandatory for all issuers under the Stock Exchange’s Listing Rules.

This Study on the effectiveness of Independent Non-Executive Directors (INEDs) in Hong Kong, was carried out earlier this year jointly through a Working Committee (the Committee) set up by the Hong Kong Independent Non-Executive Director Association (HKiNEDA), the Hang Seng University of Hong Kong (HSUHK) and Provident Governance Services Limited (PGSL). The Committee found that given the growing importance of Environmental, Social and Governance (ESG) disclosure, an ESG committee for every issuer should become a mandatory requirement under the Listing Rules, and some general ESG guidelines are necessary for the smaller listed companies.

In addition, the Committee recommends that INEDs should not be taking the same degree of legal liability as the executive management of the issuers, and Directors and officers (D&O) insurance should also become mandatory for all issuers under the Stock Exchange’s Listing Rules.

The Survey was carried out in two phases. In Phase One of the survey which took place in March and April 2022, 145 valid responses were received from members of HKiNEDA. In Phase Two, in-depth interviews with 10 experienced INEDs by invitation were conducted in June and July 2022. The Survey focused on six perspectives of the INED profession, namely roles and responsibilities, risk and rewards, independence, professional development and qualifications, board diversity and ESG respectively, that has served to provide a better understanding how INEDs view the challenges they face today.

In respect of professional development and qualifications, respondents proposed that well-structured continuing professional development (CPD) activities, such as workshops and online seminars on current events, topic updates and issues of certain sectors or industry with experience sharing sessions, would be important for INEDs in their discharge of INEDs’ duties, would be helpful for INEDs, particularly for the less experienced INEDs. In addition, the Committee recommends that a minimum number of CPD hours every two to three years should be required for all INEDs.

Respondents also opined that remuneration for INEDs in general does not fully reflect the responsibilities and the time and efforts that INEDs have to spend in exercising their duties. Moreover, the Committee suggests that the number of INEDs in the boards of issuers should

be increased for the large market capitalisation issuers and specialised industries, such as financial institutions. Equity-based remuneration for INEDs should continue to be allowed.

The Committee also noted from the findings of the Survey that INEDs with nine years or more experience can make positive contributions to a company, and those who have taken up six or more board seats could benefit the companies' corporate governance practice with their wide exposure. Therefore, the Listing Rules regarding INEDs taking up more than six seats on the boards of issuers and nine-year rule should be re-visited, as "six" is not a magic number for the maximum board seats an INED could take, and "nine" is not a magic number either for the years of service of INEDs with an issuer that would necessarily undermine independence. Whether an INED having taken up more than six seats or taken a board seat for over nine years is to be appointed or re-elected by an issuer should be left to the issuer's nomination committee, which shall make decisions in the best interest of the issuer.

The Committee also recommends that any relationship between senior management and the INED candidate should be disclosed to aid the nomination process.

Finally, on board diversity, the Committee believes that appointing the right person to the board with professionalism should be the focus in the INED selection process rather than solely focusing on gender diversity.

The full report of the Survey can be downloaded at <https://www.hkineda.com/a-list/21147-cht> .



Photos:



Photo 1: The First-ever study on the effectiveness of Independent Non-Executive Directors (INEDs) in Hong Kong, was set up by the Independent Non-Executive Directors Association (HKiNEDA), the Hang Seng University of Hong Kong (HSUHK), and Provident Governance Services Limited (PGSL).

Photo 2:



Mr Herbert Hui, Executive Council Member & Vice Chairman of Corporate Governance Committee;

Professor Kevin Lam, Head, Department of Accountancy, School of Business, and Master of Lee Yick Hoi Lun Mosaic College;

Mr Stephen Law, Deputy President & Chairman of Corporate Governance Committee;

Mr Edwin Yeung, Executive Council Member & Vice Chairman of Corporate Governance Committee;

Dr Anthony Tyen, Director of Provident Governance Services Limited

Photos Download: <https://bit.ly/3E6O89K>

### **About The Hong Kong Independent Non-Executive Director Association Limited (“HKiNEDA”)**



HKiNEDA, incorporated in Hong Kong with limited liability by guarantee under the Companies Ordinance, is a non-profit association mainly representing INEDs of Greater China. Based in Hong Kong, HKiNEDA connects INEDs of mainland China, Hong Kong and Taiwan, to make dedicated contributions in Greater China's enormous financial and capital market.

HKiNEDA aims at enhancing professional development of INEDs, promoting healthy and outstanding corporate governance of listed companies, and sustainable development of the financial and capital market in Greater China. To achieve its mission, HKiNEDA commits to helping INEDs to understand their duties in listed companies, encouraging them to realize their values, supporting them to oversee their companies and fulfil their responsibilities with independence, integrity and impartiality.

Website: <https://www.hkineda.com>



### **About The Department of Accountancy, The Hang Seng University of Hong Kong (“HSUHK”)**



會計學系  
**DEPARTMENT OF ACCOUNTANCY**  
香港恒生大學  
**THE HANG SENG UNIVERSITY  
OF HONG KONG**

The Department of Accountancy, in correspondence with the vision and mission of HSUHK, aims to be one of the best providers of quality professional education in Hong Kong in accountancy and accountancy-related disciplines.

Through well-designed curriculum and quality teaching, the Department is dedicated to developing students into competent professionals or business leaders that possess theoretical knowledge, practical skills and professional ethics to meet the challenges from the ever-changing business environment.

Programmes offered by the Department include:

- Bachelor of Business Administration (Honours) in Corporate Governance and Compliance, and
- Bachelor of Business Administration (Honours) in Professional Accountancy

Website: <https://www.hsu.edu.hk>



### **About Provident Governance Services Limited (“PGSL”):**



*Provident Governance Services Limited*  
普勤管治服務有限公司

A company incorporated in Hong Kong and a venture of various professionals, including legal, accounting, assurance, finance, corporate services, technology and share registration. PGSL provides a wide spectrum of corporate governance services, including internal auditing,

corporate risk management, compliance, transaction advisory, ESG consultation, and coaching and sharing services.

The PGSL management team consists of senior professionals in the fields of corporate governance, regulatory compliance, assurance, finance and accounting, with both entrepreneurial skills, breadth of business experience and academic backgrounds.

Website: <https://www.pgsl.hk>



For media inquiries, please contact:  
The Secretariat, HKiNEDA  
Tel.: 2593 9616  
Email: [info@hkineda.com](mailto:info@hkineda.com)