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Hong Kong Stock Exchange Publishes Conclusions on Corporate Governance Code Enhancements

The Stock Exchange concluded to adopt the proposed amendments to the CG Code, with certain modifications based on market feedback.

In December 2024, The Stock Exchange of Hong Kong Limited (Stock Exchange) published the [Consultation Conclusions](#) following its publication of the Consultation Paper on the Review of the Corporate Governance Code (CG Code) and Related Listing Rules ([Consultation Paper](#)) in June 2024. The Stock Exchange will implement the proposals from the Consultation Paper to amend the CG Code in Appendix C1 to the Rules Governing the Listing of Securities on the Stock Exchange (Listing Rules) and certain relevant provisions of the Listing Rules. Modifications to certain proposals have been made in response to market feedback, with details provided in the Consultation Conclusions. While the new rules will come into effect on 1 July 2025, the following transition periods will apply: three years for the cap on “overboarding” and six years for the tenure limit of independent non-executive directors (INEDs). The Stock Exchange will issue further guidance in the first half of 2025 to assist listed issuers in complying with the new rules.

Key Amendments in the New Rules

The amendments focus on further enhancing board independence and effectiveness, promoting diversity within the board and workforce, strengthening risk management and internal controls, and improving capital management. After considering market feedback, the Stock Exchange has adopted the following new requirements and implementation timeline:

1. Board independence — A listed issuer’s board must not include an INED who has served for more than nine years (Long Serving INED) (new rule). Reappointment of the same Long Serving INED as an INED of the same issuer will be permitted after a three-year cooling-off period, provided that the INED satisfies other independence requirements under the Listing Rules.

As a transitional arrangement, an issuer’s board must ensure that:

- a) at the conclusion of its first annual general meeting held on or after 1 July 2028, Long Serving INEDs do not represent a majority of its INEDs; and
- b) at the conclusion of its first annual general meeting held on or after 1 July 2031, no Long Serving INED is included on the board.

2. Board effectiveness:

- a) An INED must not concurrently hold more than six Hong Kong-listed issuers directorships (overboarding INED) (new rule). As a transitional arrangement, an overboarding INED as at 30 June 2028 must comply with this requirement by the conclusion of the earliest annual general meeting held on or after 1 July 2028 by any of these issuers.
 - b) Directors are required to complete annual training on specific topics. First-time directors must complete a minimum of 24 hours of training within the first 18 months of their appointment. For first-time directors with prior experience as directors of issuers listed on other securities exchanges, the required training hours are reduced to 12 hours (new rule).
 - c) An issuer's board shall conduct regular board performance reviews at least once every two years and disclose a board's skills matrix (new code provision (CP) under the CG Code).
 - d) A listed issuer's board is recommended to designate a lead INED when the board chair is not independent (new recommended best practice (RBP) under the CG Code), and shall enhance its disclosure regarding the shareholder engagement by the board in the corporate governance report (new CP).
3. Diversity:
- a) At least one director shall be of a different gender on the nomination committee (new CP).
 - b) A listed issuer shall adopt and disclose a diversity policy for their workforce (including senior management) (new rule).
4. Risk management and internal controls — A listed issuer shall review the risk control system (at least annually) and enhance the disclosure of the review process and findings (upgraded to mandatory disclosure requirements (MDR) under the CG Code).
5. Capital management and other miscellaneous amendments — A listed issuer shall enhance the disclosure of listed issuers' dividend policies and board dividend decisions, set record dates for general meetings and for receiving entitlements, disclose auditors' non-unqualified opinions in annual reports, clarify the board's requirements for monthly management information, and unify the terms of reference for board committees.

The amended Rules and CG Code will take effect on 1 July 2025 and will apply to the Corporate Governance Report and annual report for financial years commencing on or after 1 July 2025.

Details of the adoption and amendments of the new requirements, compared to the existing requirements and the proposed amendments in the Consultation Paper, are outlined in the table below.

Compliance Considerations for Listing Applicants and Listed Issuers

We recommend that listing applicants and listed issuers thoroughly consider the new rules and prepare accordingly when establishing boards of directors and enhancing corporate governance, diversity policies, risk management, and internal control systems.

1. Listing applicants should fully consider the new corporate governance requirements when preparing listing applications to ensure that the future corporate governance structure and internal control system comply with the Listing Rules. The following considerations are essential:
 - a) When assessing the eligibility of INED candidates, be mindful of overboarding issues.

- b) When considering the composition of the board and the nomination committee, in addition to complying with the existing independence and diversity requirements, gender diversity requirements must also be addressed. For example, if all current directors are male, the applicant's board of directors must ensure the selection of at least one female director and nomination committee member.
 - c) Applicants should consider incorporating new board effectiveness review procedures, as well as risk management and internal control requirements, when formulating their corporate governance and internal risk control policies.
2. Listed issuers should ensure compliance with the new rules in stages, particularly:
- a) From 1 July 2025 onwards:
 - 1. At least one member of the nomination committee is of a different gender than the other committee members.
 - 2. First-time directors appointed on or after 1 July 2025 should undergo sufficient director training.
 - 3. The scope of director training should comply with the requirements under the Listing Rules.
 - b) From the first financial year commencing after 1 July 2025 (for example, the financial year commencing from 1 January 2026 or from 1 April 2026):
 - 1. Annual reports and corporate governance reports must comply with the requirements of the new rules.
 - 2. The board should conduct regular performance reviews in a timely manner as required.
 - 3. The board should conduct timely and regular inspection of risk management and internal controls.
 - c) By the end of the first annual general meeting held on or after 1 July 2028, each INED must not be overboard, and the majority of INEDs must have served for less than nine years.
 - d) No Long Serving INED shall be re-elected to the board by the end of the first annual general meeting held on or after 1 July 2031.
 - e) Secondary listed issuers will be exempt from most of the new rules but must comply with the new amendments to Rule 13.66 and Rule 13.92 of the Listing Rules regarding setting record dates and workforce diversity.

Table: Summary of the Amendments

	Issue	Existing Regime	New Rules	Does the Final Rule Amendment Adopt the Original Proposed Amendment?
1	Independence of Directors			
1.1	Independence of INEDs (Long Tenure)	The shareholders' circular must explain why the board (or the nomination committee) considers an INED serving for more than nine years to still be independent. If all INEDs have served for more than nine years, the issuer must appoint a new INED at the next annual general meeting (CPs B.2.3 and B.2.4).	<p>New Rule 3.13A of the Listing Rules imposes a hard cap of INED's tenure for nine years, after which they are no longer considered independent. An INED with a maximum tenure of nine years may re-serve as an INED of the same issuer after a three-year cooling-off period. The transition period for the above provisions is six years, as detailed above.</p> <p>During the transition period, the current provisions for the re-election of INEDs who have served for more than nine years (i.e., existing CPs B.2.3 and B.2.4) will remain in effect.</p> <p>Amend MDR paragraph B(a) to disclose the duration of each director's tenure and their current term of office.</p>	<p>Adopt.</p> <p>Note that the transition period has been extended from three to six years and implemented in phases, with the cooling-off period extended from two to three years.</p> <p>Secondary listed issuers are exempt from the new rule provisions.¹</p>
2	Board Effectiveness			
2.1	Overboarding and time commitment of INEDs and directors	Issuers must explain in the circular how INEDs serving on more than six boards can still devote sufficient time to their director responsibilities (CPB.3.4(b)).	<p>New Rule 3.12A of the Listing Rules limits INEDs to serving as directors for a maximum of six issuers listed on the Main Board or GEM of the Stock Exchange.</p> <p>Rule 3.12A of the Listing Rules provides a three-year transition period for listed issuers to comply with this provision by the end of the first annual general meeting held on or after 1 July 2028.</p> <p>Additionally, new MRD paragraph E(d)(iii) mandates the nomination</p>	<p>Adopt.</p> <p>The Stock Exchange will provide further guidance² on the assessment criteria and the expected level of disclosure.</p> <p>Secondary listed issuers are exempt from the</p>

	Issue	Existing Regime	New Rules	Does the Final Rule Amendment Adopt the Original Proposed Amendment?
			committee to annually assess and disclose each director's time commitment and contribution to the board. This assessment must consider the director's professional qualifications and work experience, their directorships with listed issuers (and the time spent on other significant external matters), and other factors or circumstances related to their personality, character, independence, and experience.	new rule provisions.
2.2	Mandatory training for directors	CP C.1.4 requires all directors to engage in ongoing training.	<p>New Rules 3.09F and 3.09G of the Listing Rules mandate annual participation in continuing professional development for all directors and the specific subject areas covered (without specifying minimum training hours).</p> <p>New Rule 3.09H of the Listing Rules requires first-time directors — those appointed as directors of a Stock Exchange-listed issuer for the first time (i.e., with no prior experience as a director of a Stock Exchange-listed issuer) or those who have not served as directors of a Stock Exchange-listed issuer for the past three years or more — to complete at least 24 hours of training within 18 months of their appointment. However, if the first-time director has served as a director of a listed company outside Hong Kong within the three years preceding their appointment, the required training hours will be reduced to 12 hours.</p> <p>New MRD paragraph B(j) requirements has been added to refine the disclosure of director training.</p>	<p>Adopt.</p> <p>Note that the final rules have (1) reduced the training time for first-time directors who have served as directors of listed companies outside Hong Kong within three years prior to their appointment; (2) removed the mechanism to recalculate the minimum training hours if a first-time director ceases to be a director of the issuer before completing the minimum training hours; and (3) revised the disclosure requirements for the various forms</p>

	Issue	Existing Regime	New Rules	Does the Final Rule Amendment Adopt the Original Proposed Amendment?
				of training received by directors. Secondary listed issuers are exempt from the new rule provisions.
2.3	Board performance review	RBP B.1.5 recommended that the board regularly evaluate its performance.	The existing RBP has been upgraded to CP B.1.4, requiring a board performance review at least once every two years, with the findings disclosed in the corporate governance report.	Adopt.
2.4	Disclosure of the board skills matrix	The nomination committee is responsible for reviewing the board's structure, size, and composition at least annually (CP B.3.1(a)).	A new CP B.1.5 has been added, requiring issuers to disclose a board skills matrix in their corporate governance reports and to enhance the disclosure of board skills.	Adopt. The Stock Exchange will provide further guidance ² on suggestions as to the format, scope and level of detail for maintaining an effective board skills matrix and making meaningful disclosure.
2.5	Appointment of lead INED	Not applicable.	New RBP C.1.8 recommends that issuers without an independent board chairman appoint an INED as the lead INED. New MDR paragraph L(d) and new CP F.1.1 require the enhancement of the disclosure of shareholder engagement by the board in the corporate governance report.	Adopt. Note that this rule was downgraded to RBPs, with new MDR on enhancing the disclosure of interactions with shareholders.

	Issue	Existing Regime	New Rules	Does the Final Rule Amendment Adopt the Original Proposed Amendment?
				The Stock Exchange will provide further guidance ² elaborating the expected role and functions of a Lead INED.
3	Board and Workforce Diversity			
3.1	Diversity policy and disclosures	<p>Rule 13.92 of the Listing Rules provides for gender diversity on the board.</p> <p>The board is required to annually review the implementation and effectiveness of the issuer's board diversity policy and disclose it in the Corporate Governance Report (CP B.1.3 and MDR paragraph J).</p>	<p>Gender diversity in nomination committee: A new CP B.3.5 requires that an issuer's nomination committee include at least one director of a different gender.</p> <p>Annual review of the board diversity policy: This has been upgraded from a CP to MDR paragraph J(a).</p> <p>Workforce diversity policy: Rule 13.92 of the Listing Rules has been amended to require issuers to develop and disclose diversity policies for all employees, including senior management.</p> <p>Gender disclosure: MDR Paragraph J(c) requirement has been amended to require separate disclosure of the gender ratio of senior management and all employees.</p> <p>Temporary deviation from the gender diversity requirement: Rule 13.92 of the Listing Rules has been amended to specify disclosure requirements and provide a three-month grace period.</p>	<p>Adopt.</p> <p>Rule 13.92 is applicable to secondary listed issuers.</p>

	Issue	Existing Regime	New Rules	Does the Final Rule Amendment Adopt the Original Proposed Amendment?
4	Strengthening Risk Management and Internal Controls			
4.1	Risk management and internal controls	Issuers are required to disclose the board's review of the effectiveness of risk management and internal controls in their corporate governance reports.	Upgraded to MDR: The board's responsibilities regarding the issuer's risk management and internal controls and its obligation to review the effectiveness of the risk management and internal control systems (at least) annually, have been upgraded to a mandatory disclosure requirement in paragraph H. Additional enhancements have been applied to the risk management and internal control sections.	Adopt, but with adjusted wording. The Stock Exchange will provide further guidance ² on the scope and detail of disclosure on the RMIC Systems and the review of their effectiveness.
5	Capital Management and Other Miscellaneous Amendments			
5.1	Dividend	CP F.1.1 requires issuers to establish a dividend policy and disclose it in their annual reports. Paragraphs 4(3) and 17 of Appendix D2 to the Listing Rules require issuers to disclose dividend distribution arrangements in interim and annual results announcements and reports.	The existing CP has been upgraded to paragraph M of the mandatory disclosure requirement, mandating issuers to disclose in their Corporate Governance Report specific information about their dividend policy (or provide an explanation for the absence of such a policy) and the board's dividend decisions.	Adopt.

	Issue	Existing Regime	New Rules	Does the Final Rule Amendment Adopt the Original Proposed Amendment?
5.2	Setting the record date	Rule 13.66 of the Listing Rules requires disclosure of the book closure date.	The amendment to Rule 13.66 of the Listing Rules requires issuers to set a record date to determine which holders of securities are eligible to attend and vote at a general meeting or receive entitlements.	Adopt. Rule 13.66 is applicable to secondary listed issuers.
5.3	Disclosure of non-qualified auditor opinions	Paragraph 3 of Appendix D2 to the Listing Rules requires issuers to make additional disclosures when the financial statements do not give a true and fair view of the issuer's position.	The Stock Exchange's annual report disclosure proposal has been incorporated into paragraph 3.1 of Appendix D2 to the Listing Rules, requiring issuers whose auditors have issued a non-qualified opinion to disclose more information.	Adopt.
5.4	Monthly financial information	CP D.1.2 requires management to provide monthly updates to the board.	CP D.1.2 clarifies that the Stock Exchange expects issuers to provide the updates to the board on a monthly basis.	Adopt.
5.5	Alignment of nomination committee requirements with other committees' requirements	Rule 3.27A of the Listing Rules provides for the establishment and composition of the nomination committee.	The Stock Exchange amended Rules 3.23 and 3.27 and add new Rules 3.27B and 3.27B to align the requirements applicable to the nomination committee, the audit committee, and the remuneration committee on establishing written terms of reference and arrangements during temporary deviations from the relevant requirements.	Adopt. Secondary listed companies are exempt from complying with the new rule provisions.

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Endnotes

¹ Secondary listed issuers are exempt from all provisions of the CG Code.

² The Stock Exchange expects to issue new updated guidance for boards and directors in the first half of 2025, to assist issuers' compliance with the new CG requirements, which will be built on and supersede the Stock Exchange's Corporate Governance Guide for Boards and Directors published in December 2021.