KPMG

CHARTERED GOVERNANCE
Hong Kong

The Transformative Power of Diversity

Regulatory and practical considerations for boards

kpmg.com/cn
www.hkcgi.org.hk

Contents

Foreword

KPMG China and The Hong Kong Chartered Governance Institute (HKCGI) are strong advocates for diversity. Diversity contributes additional perspectives that reduce 'group thinking' and allow more informed business decisions that also mitigate risks. Increasingly, access to capital is linked to diversity. Major investors have exercised their voting rights to vote down proposals because companies lack diversity. Diversity, therefore, has become a stakeholder-responsive governance issue.

The current market consensus is that in terms of diversity, the most recognisable aspect is gender. Increased action by regulators to help achieve more gender diversity on boards is a welcome development in line with the emerging global baseline of a minimum of 30% women on boards. We welcome the current effort of the Hong Kong Exchanges and Clearing Limited (HKEX) to eliminate single-gender boards by the end of 2024[1]. This move is expected to facilitate not only increased board diversity but consideration and implementation of other diversity, equity and inclusion (DEI) initiatives.

Diversity goes beyond gender. Race, age, expertise, experience, skill sets, and knowledge must also be considered. Properly addressing the issue of gender diversity, the most visible aspect of diversity, will contribute to diversification in other aspects and ultimately help to optimise decision-making and strategy.

This paper is based on recent discussions at a joint seminar on board diversity conducted by HKCGI and KPMG China held during the 2023 Asian Financial Forum week in Hong Kong. We hope you find this publication informative and welcome the opportunity to further discuss these trends.

Edith Shih FCG(CS, CGP) HKFCG(CS, CGP)(PE)
Past International President, The Chartered Governance Institute; Honorary Adviser to Council and Past President, HKCGI; Executive Director and Company Secretary, CK Hutchison Holdings Limited

Andrew Weir, MBE JP
Senior Partner,
Hong Kong (SAR) and Vice Chairman,
KPMG China

[1] Listing Rule 13.92 (Note).

Message from the Head of Listing, Hong Kong Exchanges and Clearing Limited

HKEX has been steadfast in its focus to promote board diversity both as a corporate and as a market regulator. In our view, diversity and inclusion are key components of business success and long-term sustainability, and change is most effective when it comes from the top. Therefore the key question is not 'why promote board diversity?', but 'rather how can issuers achieve board diversity?'. Our ban on single-gender boards among Hong Kong-listed companies is a step forward. But there is still much more work to be done and we are committed to driving change through our regulatory efforts as well as through ongoing market education and advocacy.

Katherine Ng
Head of Listing,
HKEX

Enhanced regulation

HKCGI has been working on the issue of diversity, focusing on gender as an important aspect for over a decade. We support initiatives to address gender imbalance and other diverse perspectives, and that has been our approach to supporting the work of HKEX and collaborations with other progressive organisations.

Ernest Lee FCG HKFCG(PE)
President, HKCGI

HKEX's efforts to end single-gender boards, which began a decade ago, provide a strong foundation for diversity and inclusion for Hong Kong listed issuers. However, with 17% female representation on boards in Hong Kong as compared to the 30% global average, much remains to be done[2].

Effective September 2013, the Corporate Governance Code (CG Code) published by HKEX under the Listing Rules, which governs the listing of securities on HKEX, required listed issuers to adopt a code to promote diversity on a 'comply or explain' basis[3]. The related requirement is for the diversity policy (or a summary) to be disclosed in the annual Corporate Governance Report (CG Report). Also, effective from January 2016, another requirement came into effect under the Environmental, Social and Governance (ESG) Reporting Guide (ESG Guide) under the Listing Rules[4]. This was the recommended (optional) reporting on gender data of the workforce and employee turnover rate, etc., as a social-related key performance indicator (KPI).

In January 2019, the CG Code upgraded the code provision on disclosure of diversity policy (or a summary) to a rule[5]. If listed issuers do not comply with this rule, they breach the Listing Rules, which could affect the company and its directors. Also introduced was a code provision on the need for a shareholder circular for elections of proposed independent non-executive directors (INEDs) to address the perspective, skills and experience of the proposed INEDs on a board and their contribution to board diversity.

In May 2019[6], HKEX updated its guidance letter to new listing applicants. This required additional disclosure on board diversity policy (including gender) and how to achieve gender diversity for single-gender boards. As of July 2020, the ESG Guide required all social KPIs to be upgraded to comply or explain, including

[2] HKEX Board Diversity & Inclusion in Focus, updated 2023, https://www.hkex.com.hk/eng/BoardDiversity/index.htm

[3] HKEX Consultation Conclusions on Board Diversity, December 2012, https://www.hkex.com.hk/-/media/HKEX-Market/News/Market-Consultations/2011-to-2015/September-2012-Consultation-Paper/Conclusions/cp201209cc.pdf

[4] HKEX Consultation Conclusion on Review of the Environmental, Social and Governance Reporting Guide, December 2015, https://www.hkex.com.hk/-/media/HKEX-Market/News/Market-Consultations/2011-to-2015/July-2015-Consultation-Pape/Conclusions/cp201507cc.PDF

[5] See n.1. See also Consultation Conclusions on Review of the Corporate Governance Code and Related Listing Rules, July 2018, https://www.hkex.com.hk/-/media/HKEX-Market/News/Market-Consultations/2016-Present/November-2017-Review-of-the-CG-code-and-Related-LRs/Conclusions-(July-2018)/cp2017111cc.pdf

[6] HKEX Guidance Letter HKEX-GL86-16, https://en-rules.hkex.com.hk/rulebook/gl86-16

total workforce by gender and employee turnover rate by gender, which, as noted, was an optional recommendation in 2016.

In January 2022, the Listing Rules were amended, stating that no single-gender board will be permitted for new applicants to list on HKEX. Existing listed issuers have a three-year transition period to the end of 2024 to comply with this requirement[7]. Also, there were other new mandatory disclosure requirements. Specifically, listed issuers must set numerical targets and timelines for gender diversity for their boards. There is a need to disclose and explain the company's gender ratio in the workforce (including senior management), the company's plans for setting measurable objectives on gender diversity, and any forseen challenges to achieve these objectives.

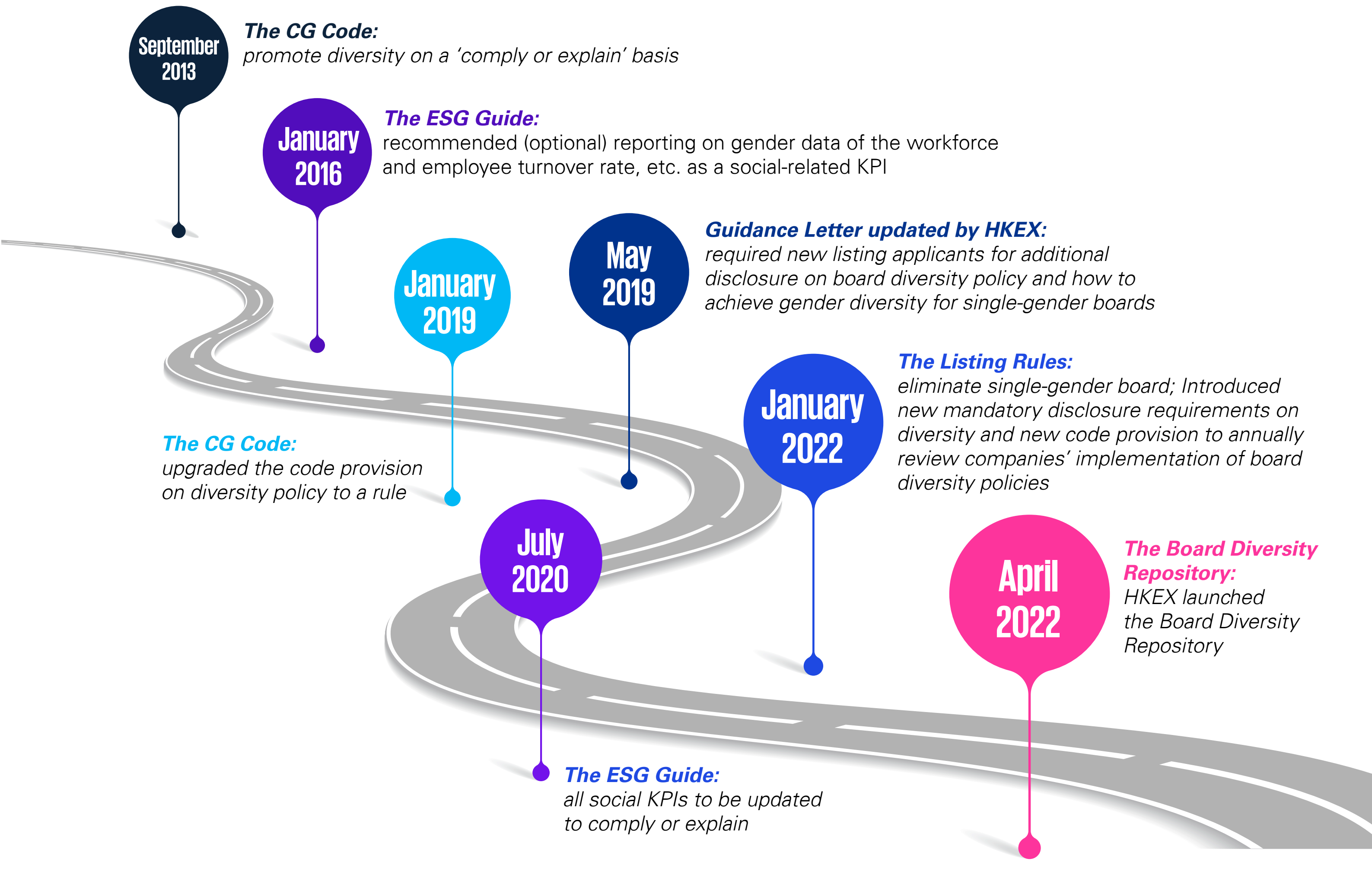
There is also a new code provision to annually review companies' implementation of their board diversity policies, and the effectiveness of those policies. The need to include directors' gender information, which now reads 'male/female/non-binary/others'[8], is also a step in the right direction to recognise broader DEI issues. In April 2022, HKEX launched the Board Diversity Repository[9], which publishes report cards on the gender diversity of listed issuers, providing greater transparency on board diversity.

---

[7] See n.1. See also Consultation Conclusions on Review of Corporate Governance Code & Related Listing Rules, and Housekeeping Rule Amendments, https://www.hkex.com.hk/-/media/HKEX-Market/News/Market-Consultations/2016-Present/April-2021-Review-of-CG-Code-and-LR/Conclusions-(Dec-2021)/cp202104cc.pdf

[8] See n. 1, p.36

[9] HKEX Launches Board Diversity Repository and Enhances ESG Academy, April 2022, https://www.hkex.com.hk/News/Regulatory-Announcements/2022/220429news?sc_lang=en



Using a board matrix for diversity planning

A board matrix can help structure the size, age, years on the board, gender, ethnicity, type of directors, and other considerations, of a listed issuer. Listed issuers are recommended to consider using a board matrix example below as a working tool to identify diversity gaps to fill them. The names of the directors and their corresponding personal details, along with contributions to committees, skills and expertise, are checked off the board matrix. The company can then holistically consider if there are any gaps (unchecked boxes) and seek to fill them with suitable board candidates. The parameters could be tweaked to suit the requirements of the particular listed issuer. For example, different issuers may have various committees requiring special skills and expertise, which can be built into the board matrix.

For example, CK Hutchison Holdings had its first female director in 1993 (Hutchison Whampoa Limited), and its proportion of female board members was 7% then, and today, it is 29.4%. This was a successful case where a board matrix helped plan the company's evolution as a more gender-diverse organisation.

Figure 1: Example of a board matrix used to assess board diversity

Structure and Size						Committees				Skills and Expertise				
Name	Age	Years on Board	Gender	Ethnicity	ED/NED/INED	Audit	Nomination	Remuneration	Sustainability	Business Management	Strategic Planning & Risk Management	Financial Reporting/ Banking	Legal/Regulatory	Related industry Knowledge/Experience

Source: CK Hutchison Holdings Limited

Beyond gender

While the overall gender diversity of boards in Hong Kong — which currently stands at approximately 17%[10] female compared to a global average of 30% female[11] — needs addressing, achieving true board diversity goes beyond gender, race, and age. Expertise, experience, skill set, and knowledge must also be considered. For example, if all board members are engineers for a construction company or everyone is a pharmaceutical industry specialist, they will tend to think alike.

A lack of diversity in this sense can limit organisations' ability to think critically, view situations from multiple perspectives and ultimately develop innovative solutions to problems. As such, there is a need to expand the pool of potential directors to include candidates who have worked across various sectors and job types and are gender-, age- and ethnically-diverse.

In turn, board diversity helps to build a more positive corporate image. Employees of diverse boards are more likely to see companies as equal-opportunity employers responsive to various stakeholders' needs. Research also suggests that inclusive and diverse boards, leadership and workforces can drive innovation and result in a better business performance and growth in market share[12].

> "*It is normal for listed issuers to look for accountants, lawyers, or bankers to create diversity. But how about if we look farther out – what about sales and marketing experts, academics and scientists? Diversity means thinking outside the box to enable companies to expand beyond their traditional horizons.*"

Edith Shih FCG(CS, CGP) HKFCG(CS, CGP)(PE)
Past International President, The Chartered Governance Institute;
Honorary Adviser to Council and Past President, HKCGI;
Executive Director and Company Secretary, CK Hutchison Holdings Limited

An example of forward thinking on board diversity was exhibited recently by a telecoms company. A director was appointed who was not a telecoms expert, but rather from an education background. As an expert in child education, she had gained vast experience running schools and communicating with parents on school initiatives. This proved useful over the COVID period, when many classes were held virtually on video call platforms, necessitating telecoms providers to work closely with educational institutions.

[10] See supra n.2.

[11] The 30% Club, Hong Kong Chapter is at the forefront in promoting at least 30% gender diversity with KPMG as a member https://30percentclub.org/chapters/hongkong/

[12] KPMG, 'Boardroom Questions, Inclusion and diversity for growth and innovation', 2019 https://assets.kpmg.com/content/dam/kpmg/be/pdf/2019/11/boardroom-questions-inclusion-and-diversity-for-growth-and-innovation.pdf

Harnessing the transformative power of diversity

In a recent KPMG global survey of CEOs, 77% saw it as their responsibility to help with social mobility[13]. In addition, in a separate KPMG survey, 80% of customers prefer brands that are aligned with their social values[14]. These findings suggest that organisations must closely examine their existing values and assumptions. Further, they emphasise that addressing ESG concerns, including diversity and inclusion, is no longer "nice to have" but rather a fundamental governance and risk management issue.

> *Communication with stakeholders and investors about diversity and inclusion and other ESG topics, such as in an annual report, should not be viewed simply from a "compliance" perspective. Instead, there is a need for an honest assessment of where the business sits and where it wants to be. Will it be a trailblazer or follower?" These are decisions that businesses must consider as they adopt their diversity and inclusion strategy.*

Edith Shih FCG(CS, CGP) HKFCG(CS, CGP)(PE)
Past International President, The Chartered Governance Institute;
Honorary Adviser to Council and Past President, HKCGI;
Executive Director and Company Secretary, CK Hutchison Holdings Limited

ESG issues, including diversity, often drive decision-making when it comes to capital deployment. This is especially the case in Europe but also increasingly prevalent in other markets. For example, when companies pitch sovereign wealth funds or a large insurance companies for investment, the conversation might start with ESG issues, including diversity, approach to governance, best practices, and purpose. Subsequent conversations and investment decisions may only follow after investors are satisfied with the company's ESG positioning.

[13] KPMG 2022 CEO Outlook, Great ESG Expectations, https://home.kpmg/xx/en/home/insights/2022/08/kpmg-2022-ceo-outlook/esg-and-diversity-trends.html
[14] KPMG 2021 Does Purpose Matter?, https://home.kpmg/xx/en/home/insights/2021/10/kpmg-trust-article.html

Harnessing the transformative power of diversity in leadership, including at the board level, can provide massive business opportunities. While the pace of change will differ by organisation, stakeholders should recognise this shift as an inevitability they should wholeheartedly embrace.

Alva Lee
Partner, Head of Governance,
Risk & Compliance Services, Hong Kong, KPMG China

Search firms can provide support to identify suitable board candidates, depending on the kind of business. But attention should also be placed on the internal grooming of candidates. In addition, colleagues can be a good pool of potential directors. As set out under the Listing Rules, the company secretary is part of the senior management of listed companies[15] and they advise the board through the chairman and/or the chief executive on governance matters[16].

At the board and workforce levels, a roadmap should be set to improve diversity and representation in businesses. Regular training and workshops can be provided to share market insights from different institutes and industry thought leaders about diversity to boards.

Edith Shih FCG(CS, CGP) HKFCG(CS, CGP)(PE)
Past International President, The Chartered Governance Institute;
Honorary Adviser to Council and Past President, HKCGI;
Executive Director and Company Secretary, CK Hutchison Holdings Limited

[15] Listing Rules 2A.09(2)(c)
[16] CG Code, Code Provision C.6

Technical questions

Frequently asked questions:Key considerations for boards

Below are some questions on board diversity that executives raised during the recent KPMG/ HKCGI seminar. We have summarised responses to these questions based on the current trends we see in the market. As every organisation's specific considerations may differ, this summary is for reference only.

The Listing Rules require that issuers set numerical targets and timelines for gender diversity. Do you have any suggestions on the target number?

If you start from zero, your target must be your first female director, and you shouldn't rest there. Companies should review their specific circumstances and aim to fix the target percentage, with an emerging global minimum of 30% as a target.

They should also aim to increase transparency by establishing better, comparable information on diversity. In the company's corporate governance report, there should also be data to enable investors to assess listed companies' progress on diversity better.

In one recent example, a prominent female director was the only woman on a board, and found it difficult to get her perspectives across. However, this became easier as more female board members were appointed. Thus, it is ideal to progress from ending a single-gender board to having more than one woman on the board, eventually reaching the target of 30% or more.

How can I help improve gender diversity at the board level?

A roadmap or a pathway is an intelligent way of doing it. For boardroom training, companies should try to share the current trends regarding diversity, including where international and local regulations are heading, what investors are looking at, and what the company's peers are doing. The key is to get this discussion on the board agenda.

It can be a lot of work done to effectively change the board's mindset. It is a gradual process. Companies may need to send reading materials to directors to muster their interest. In this respect, numerous materials are available from the HKEX, KPMG China, and HKCGI.

What kind of challenges can companies face from proxy advisors and investors related to diversity issues?

Proxy advisors are influential, and many investors listen to them. Specific directors, including the nomination committee chair, could face criticism if they do not have a diversity plan or proposal in place. Sometimes the net can get cast even wider with votes against other resolutions. This is a potent tool that proxy advisors and investors use against directors that don't align with their values. As such, there is a need for companies to consider how to strengthen stakeholder communications. Enhancing stakeholder communication on diversity issues is an essential aspect of investor relations.

How can I gently persuade my chairman and directors to consider diversity-related initiatives?

Training and knowledge sharing are vital aspects. The key message should be that governance topics such as diversity are no longer "nice-to-have" and not about minimum disclosures under CG Reports. Instead, they are essential to the overall business strategy.

Organisations need to get up to speed on how they speak about diversity to investors, banks, and other stakeholders, providing a straightforward narrative and answers to questions.

About KPMG China

KPMG China is based in 31 offices across 28 cities with around 14,000 partners and staff in Beijing, Changsha, Chengdu, Chongqing, Dalian, Dongguan, Foshan, Fuzhou, Guangzhou, Haikou, Hangzhou, Hefei, Jinan, Nanjing, Ningbo, Qingdao, Shanghai, Shenyang, Shenzhen, Suzhou, Taiyuan, Tianjin, Wuhan, Xiamen, Xi'an, Zhengzhou, Hong Kong SAR and Macau SAR. Working collaboratively across all these offices, KPMG China can deploy experienced professionals efficiently, wherever our client is located.

KPMG is a global organisation of independent professional services firms providing Audit, Tax and Advisory services. We operate in 144 countries and territories with more than 236,000 partners and employees working in member firms around the world. Each KPMG firm is a legally distinct and separate entity and describes itself as such. KPMG International Limited is a private English company limited by guarantee. KPMG International Limited and its related entities do not provide services to clients.

In 1992, KPMG became the first international accounting network to be granted a joint venture licence in mainland China. KPMG was also the first among the Big Four in mainland China to convert from a joint venture to a special general partnership, as of 1 August 2012. Additionally, the Hong Kong firm can trace its origins to 1945. This early commitment to this market, together with an unwavering focus on quality, has been the foundation for accumulated industry experience, and is reflected in KPMG's appointment for multi-disciplinary services (including audit, tax and advisory) by some of China's most prestigious

Contact us

Andrew Weir
Regional Senior Partner,
Hong Kong
+85228267243
andrew.weir@kpmg.com

Frank Mei
Partner,
Head of Governance,
Risk and Compliance, China
+86 (10) 8508 7188
frank.mei@kpmg.com

Alva Lee
Partner,
Head of Governance,
Risk and Compliance, Hong Kong
+852 2143 8764
alva.lee@kpmg.com

Johnson Li
Partner,
Governance, Risk and Compliance
KPMG China
+86 (10) 8508 5975
johnson.li@kpmg.com

Kelvin Leung
Partner,
Governance, Risk and Compliance
KPMG China
+86 (755) 2547 3338
kelvin.oc.leung@kpmg.com

About HKCGI

(Incorporated in Hong Kong with limited liability by guarantee)

The Hong Kong Chartered Governance Institute (HKCGI), formerly known as The Hong Kong Institute of Chartered Secretaries (HKICS), is the only qualifying institution in Hong Kong and Mainland China for the internationally recognised Chartered Secretary and Chartered Governance Professional qualifications.

With over 70 years of history and as the Hong Kong/China Division of The Chartered Governance Institute (CGI), the Institute's reach and professional recognition extends to all of CGI's nine divisions, with about 40,000 members and students worldwide. HKCGI is one the fastest growing divisions of CGI, with a current membership of over 7,000, 300 graduates and 2,600 students with significant representations within listed companies and other cross-industry governance functions.

Believing that better governance leads to a better future, HKCGI's mission is to promote good governance in an increasingly complex world and to advance leadership in the effective governance and efficient administration of commerce, industry and public affairs. As recognised thought leaders in our field, the Institute educates and advocates for the highest standards in governance and promotes an expansive approach that considers all stakeholders' interests.

Better Governance. Better Future.

For more information, please visit www.hkcgi.org.hk.

Contact us

Ellie Pang FCG HKFCG(PE)
Chief Executive
+852 2830 6029
ellie.pang@hkcgi.org.hk

Mohan Datwani FCG HKFCG(PE)
Deputy Chief Executive
+852 2830 6012
mohan.datwani@hkcgi.org.hk

kpmg.com/cn/socialmedia

For a list of KPMG China offices, please scan the QR code or visit our website:
https://home.kpmg.com/cn/en/home/about/offices.html

Publication number: HK-MARKETS23-0001

Publication date: May 2023