

Amendments to Practice Guidance 4 of the Code of Corporate Governance endorsed by the Corporate Governance Advisory Committee

The Corporate Governance Advisory Committee (CGAC) has endorsed the following amendments to Practice Guidance 4 of the Code of Corporate Governance (Code):

1. **Selection, Appointment and Re-appointment Process:** Subsection (b) of paragraph 2 has been amended for clarity.
2. **Multiple Directorships:** A paragraph in relation to directors who have previously served on the boards of companies with adverse track records has been added.
3. **Succession Planning:** A new section on Succession Planning has been added.

The changes to Practice Guidance 4 are set out in the Appendix.

-End-

Appendix

Legend: Insertions are underlined; deletions are struck through.

Practice Guidance 4: Board Membership

Selection, Appointment and Re-appointment Process

The process for the selection, appointment and re-appointment of directors should take into consideration the composition and progressive renewal of the Board, as well as each director's competencies, commitment, contribution and performance (e.g. attendance, preparedness, participation and candour) including, if applicable, his or her performance as an independent director (ID).

To facilitate investors' understanding of its nomination process, the Board should disclose the following:

- (a) the channels used in searching for appropriate candidates, whether through search services or personal networks; and
- (b) the criteria used to identify and evaluate potential new directors, including ~~whether only the~~ relevant experience and skillsets to the company's business which are considered, ~~or~~ and whether broader search criteria such as diversity and technological expertise are also included.

Boards are encouraged to go beyond their immediate circle of contacts, including using third party search firms and institutions, to identify a broader range of suitable candidates.

The company should disclose how the Board, with its collection of skills, experience and diversity, meets the needs of the company.

Appointment of Alternate Directors

A director should take on a directorship appointment only if he or she is able to commit the time to discharge the duties of a director, one of which includes attending all Board meetings. Alternate directors¹ should only be appointed in exceptional circumstances. In particular, companies should not appoint alternate directors for IDs.

Alternate directors bear all the duties and responsibilities of a director. All rules and procedures that apply to directors similarly apply to alternate directors.

¹ An alternate director is generally a person who is appointed to attend Board meetings on behalf of a director when the latter (usually referred to as the principal director) is unable to attend. Section 4(1) of the Companies Act defines a "director" to include alternate directors.

Multiple Directorships

The responsibilities of a director of a listed company are complex and demanding. Directors need to make the substantial time commitment required to fulfill their responsibilities and duties to the company and its shareholders. A director with other major commitments can be, or be perceived to be, ineffective because he or she is unable to allocate sufficient time to properly discharge his or her duties on the Board.

The Board and Nominating Committee (NC) should therefore take into account the number of directorships and principal commitments of each director in assessing whether he is able to or has been adequately carrying out his or her duties. The Board and NC should establish guidelines on what a reasonable and maximum number of such directorships and principal commitments for each director (or type of director) should be. For instance, directors who are full-time executives could have less capacity to take on listed company directorships, as compared to retirees who may be able to focus entirely on directorships. In addition, an appointment as a non-executive chairman of a listed company would likely require more time and commitment as compared to other non-executive directorships.

The Board and NC should take into consideration whether a director had previously served on the board of a company with an adverse track record or with a history of irregularities or is or was under investigation by regulators, and seek clarity on the director's involvement therein. The Board and NC should also assess whether a director's resignation from the board of any such company casts any doubt on the director's qualification and ability to act as a director of the Company.

The Board and NC should also consider other factors in determining the practicality of multiple directorships and principal commitments. For example, scheduling board and committee meetings may be challenging for a director sitting on four boards with similar financial year ends and/or reporting timelines.

Succession Planning

Provision 4.1(a) states that the NC should make recommendations to the Board on the review of succession planning for directors, in particular the Chairman and the CEO, as well as key management personnel (KMP).

It may be the practice in some companies for the CEO to take charge of the succession planning for KMP while the NC takes charge of succession planning for directors, the Chairman and the CEO. In such circumstances, the NC should still review the plans that the CEO has made for KMP succession.

Also, it may be the practice in some companies for a board committee other than the NC to review succession planning for KMP. The Board, having regard to the particular circumstances of the company, has the prerogative to determine that any other board committee should review the plans made for KMP succession.

In reviewing succession plans, it is necessary to have in mind the company's strategic priorities and the factors affecting the long-term success of the company.

In relation to directors, the NC should aim to maintain an optimal Board composition by considering the trends affecting the company, reviewing the skills needed, and identifying gaps (which includes considering whether there is an appropriate level of diversity of thought). The NC may use these considerations to set appointment criteria for successors.

In relation to KMP succession, the NC, or such other committee determined by the Board, should take an active interest in how key talent is managed within the organization. The committee can consider reviewing the mechanisms for identifying strong candidates and developing them to take on senior positions in the future.

Different time horizons should be considered for succession planning as follows: (1) long-term planning, to identify competencies needed for the company's strategy and objectives, (2) medium-term planning, for the orderly replacement of Board members and KMP, and (3) contingency planning, for preparedness against sudden and unforeseen changes.