

June 1, 2021

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Corporate Communications Department

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Via electronic submission: response@hkex.com.hk

Re: Consultation Paper on Review of Corporate Governance Code and Related Listing Rules

Dear Sir/Madam,

State Street Global Advisors, the investment management arm of State Street Corporation, appreciates the opportunity to comment on the *Review of the Corporate Governance Code and Related Listing Rules* (the “Consultation Paper”), in which the HKEX (the “Exchange”) outlines proposed enhancements to the Corporate Governance Code and Corporate Governance Report (the Code), as well as related amendments to the Listing Rules

We are active participants in the ongoing market dialogue that has informed the latest revisions to the Code, submitting a [comment letter](#) on the previous round of changes in July 2019. We appreciated the Exchange’s attention to the Task Force on Climate-Related Financial Disclosures (“TCFD”) and supported the requirements for additional disclosure. These steps set the stage for developments in Hong Kong, including the Green Finance Taxonomy and 2025 TCFD-compliant mandates established by the SFC and Hong Kong Monetary Authority.

While we commend the Exchange for its progressive efforts to enhance Environmental, Social and Governance (“ESG”) disclosure requirements for listed companies, we continue to recommend consideration for the Exchange’s adoption of the Sustainability Accounting Standards Board (“SASB”) standards in establishing a common reporting framework. SASB is a proven framework widely adopted by both companies and investors, and this would ensure that ESG disclosures are material, comparable and consistent. The implementation of SASB’s guidance removes opacity around ESG materiality and encourages companies to focus on issues appropriate to their sector, and we continue to believe this is a mechanism to foster sustainable markets and create long-term value for investors.

In addition to the continued changes to the Code, we have also participated in Exchange consultations on topics including [Corporate-Weighted-Voting-Rights](#) and a [New Board Concept](#). We appreciate the opportunity to continue to provide our perspective, and look forward to our continued dialogue with the Exchange as these issues evolve.

For four decades, State Street Global Advisors has served the world's governments, institutions and financial advisors. With a risk-aware approach built on research, analysis and market experience, we build from a breadth of active and index strategies to create cost-effective investment solutions for institutional investors. As stewards, we help portfolio companies see that what is fair for people and sustainable for the planet can impact long-term performance. And, as pioneers in index, exchange traded funds, and environmental, social and governance investing, we continue to explore new ways to invest. As a result, we have become the world's third largest asset manager with nearly US \$3.47 trillion assets under management¹.

Corporate Culture: Board Oversight and Alignment with Purpose, Values and Strategy

We appreciate the Consultation Paper highlighting the importance of corporate culture alignment with vision, purpose and strategy to deliver long-term sustainable performance. We also acknowledge the Exchange's proposed mechanisms to facilitate this alignment through the required establishment of whistleblowing and anti-corruption policies.

To this end, we believe this alignment is most effectively achieved through robust board and management oversight as part of the broader human capital management program at the company.

In our engagements with investee companies, we encourage boards to proactively review and monitor corporate culture and challenge management to take corrective action when necessary. To achieve effective human capital management, we established a list of preliminary questions management and boards need to consider, one of which is "how would you describe your culture, and what opportunities exist for employees to voice concerns to management and the board?"²

Particularly for Hong Kong listed companies with significant customer bases in emerging markets like Mainland China and Southeast Asia, the cultivation of corporate culture is critical to enhancing long-term value.

Worldwide growth is primarily rising from emerging markets, where applying a local approach to the consumer journey is critical to success. Given consumers' particular preferences, tailoring products to meet their local needs will be key. Human capital management practices focused on promoting both local expertise and global, unified corporate culture are also likely to prove crucial.

In addition, the Covid-19 pandemic has shown how a global health crisis can

¹ This figure includes approximately \$75.17 billion of asset with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Global Advisors are affiliated

² <https://www.ssga.com/library-content/pdfs/asset-stewardship/asset-stewardship-report-2020.pdf> (Page 59)

become a profound social issue with disruptive financial implications. We have [long believed](#) that addressing material ESG issues is good business practice and essential to a company's long-term financial performance – a matter of value, not values.

As a result, we have renewed our focus on human capital, employee health, safety, inequality, diversity and inclusion. In our engagements, we encouraged our investee companies to articulate how the pandemic might impact or influence their approach to these material issues as part of their long-term business strategy. We believe that companies should consider redeploying talent by reskilling and upskilling the workforce. We also think companies should re-evaluate their purpose, culture, and portfolios to deliver more sustainable business models in the post-pandemic era. We are confident that forward-looking companies with strong ESG practices will use this crisis as an opportunity to test such practices, and position themselves for sustainable long-term growth.

Beyond the context of the global health crisis, another important topic in our human capital engagements was employee attraction and retention. Industries and companies with less appealing cultures, compensation practices, and benefits can lose employees to competitors.

Board Composition: Enhancing Independence through Annual Review

As a long-term investor in more than 10,000 public companies across the world, State Street Global Advisors believes that the most important driver of long-term value is a strong, independent and effective board exercising high-quality oversight. Unsurprisingly, our stewardship team sees a range of board effectiveness and best practices across public companies in every jurisdiction around the world, and recognizing local governance traditions is central to our approach.

Hence, we support the Consultation Paper's proposal to require listed issuers to have a policy that ensures independent views are available to the board, and annual review of its effectiveness. Independent directors are crucial to robust corporate governance and help management establish sound corporate governance policies and practices. A sufficiently independent board will most effectively monitor management and perform oversight functions that are necessary to protect shareholder interests.

This is evidenced by our Stewardship team's long-standing focus on holding companies accountable for increasing their board independence through transparency, publicly communicated proxy voting guidelines.³ All of our voting guidelines and policies are publicly available on [our website](#).

As Environmental, Social and Governance ("ESG") issues evolve and potentially become more significant drivers of shareholder value, in addition to their degree of independence, boards also need to critically evaluate their collective skill set and

³ <https://www.ssga.com/library-content/pdfs/ic/proxy-Voting-and-engagement-guidelines-ja.pdf>

oversight processes. For example, State Street's CEO Ron O'Hanley established a framework outlining the [ESG Opportunity for Corporate Directors](#) which includes five questions necessary to determine appropriate ESG board oversight.

An additional area the Exchange may consider for future revisions to the Code includes boards disclosing their governance structure around ESG risks and opportunities in this annual review process. This would ensure the responsible party is accountable to shareholders while reducing the risk that these issues be de-prioritized.

Gender Diversity: Promoting Accountability Through Quantitative Targets at Board & Workforce Level

We acknowledge the inclusion of new language in the Code that requires establishing and disclosing numerical targets and timelines for achieving gender diversity at the board, senior management and workforce level.

The positive correlation between diversity of the workforce and board levels, effective boards and oversight, as well as sustainable long-term financial performance is something that we have endorsed for some time. For example, in 2020, we brought our ["Fearless Girl"](#) campaign to Hong Kong in order to raise awareness about the importance of gender diversity and encourage the promotion of women in corporate leadership. We continuously engage with investee companies on these issues and, through our proxy voting, hold companies accountable for improving diversity practices. At the time of our initial call to action, 22% of companies (11 issuers) within the Hang Seng index lacked a female director. In 2020, 17% (2 issuers) added a woman to their board, and we voted against 8 companies who maintained a single gender board. We will continue to engage with, and hold these accountable through our vote and voice.

Starting in 2021, we enhanced our board gender diversity voting guidelines designed to further encourage companies to diversify their boards. In Japan, Canada and continental Europe, we will vote against the entire slate of incumbent board members on the Nominating Committee if a company does not have at least one woman on its board, and has not engaged in successful dialogue on State Street Global Advisors' board gender diversity program for three consecutive years. Issuers in Hong Kong and the rest of the world should expect that they will be held to this same standard in the near future.

We have learned the effectiveness of measurable targets first-hand through our engagement with companies listed in the Asia-Pacific region. During our conversations, many companies explained that they could not identify qualified, internal female candidates to appoint to their board in the next three-to-five years. However, we helped companies to establish a pathway to improve gender diversity levels within their organizations.

This pathway included establishing organizational goals, improving hiring practices, and enhancing disclosure related to each company's position on gender

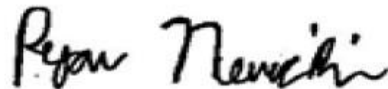
diversity. Coupled with this ongoing dialogue, we will further enhance our voting guidelines in the coming years to encourage further diversifying of company boards in Hong Kong.

Conclusion

As long-term shareholders of the companies that comprise the world's primary indices, we have a fiduciary responsibility to promote sustainable returns for clients. We have therefore designed a stewardship program focused on long-term value creation. We welcome the Consultation Paper as it facilitates enhanced board independence, promotes greater gender diversity among corporate leadership and the broader workforce and encourages companies to align their corporate culture with their purpose, value and long-term strategy.

We appreciate the efforts of the Exchange and its willingness to consider our perspective. Thank you again for providing the opportunity to comment on the important matters you have addressed in the Consultation Paper. We hope that the Exchange finds our feedback useful. If you would like to discuss any of these topics in further detail please contact Ryan Nowicki, Assistant Vice President, Asset Stewardship covering APAC via email at ryan_nowicki@ssga.com, Kevin Anderson, Head of Investments, Asia-Pacific at kevin_anderson@ssga.com or the Asset Stewardship team via email at GovernanceTeam@ssga.com.

Respectfully,



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