



Proactive Governance: Shaping Hong Kong's Boards of Tomorrow

Insights for nominating committees on board performance, succession planning, and diversity in Hong Kong's evolving governance landscape.

On 19 December 2024, the Hong Kong Stock Exchange (HKEx) released the [conclusions](#) to its consultation on proposed enhancements to the Corporate Governance Code and related amendments to the HKEx Listing Rules. Most of these enhancements come into effect on July 1, 2025, and to a large extent will impact listed boards and their nominating committees in the areas of performance assessments as well as strategies for board renewal and succession planning.

In responding to these updates, boards have to strategically manage the six-year transition period to prevent a sudden overhaul of long-tenured INEDs, while also considering appointments for key roles like lead independent directors to maintain leadership continuity and regulatory compliance.

Nominating committees will need to start early to examine their board succession strategies, and proactively engaging with the talent pool. We believe that they could therefore consider:

- Initiating a comprehensive board effectiveness exercise, focusing on board composition analysis to determine necessary skillsets and experiences for future strategies, and develop a detailed board skills matrix; and
- Reassessing their succession plans, considering the tenure of current independent directors to enhance future board profiles and ensure diversity that is in line with policy.

How will boards in the Hang Seng Index be impacted?

The enhancements contain specific limits around tenure, overboarding, independence, and board diversity, including:

1. Board directors serving more than nine years will no longer be considered independent (following a six-year transition period with an interim arrangement after three years requiring boards to maintain a majority of non-long serving independent directors)
2. Directors will be limited to a maximum of six publicly-listed boards (following a three-year transition period)
3. Nominating committees must be comprised of directors of different genders, with a minimum of one director of a different gender (comply or explain)

Additionally, there are other mandatory disclosure requirements on director training, the board's annual review of its workforce diversity, and women's representation within senior management.

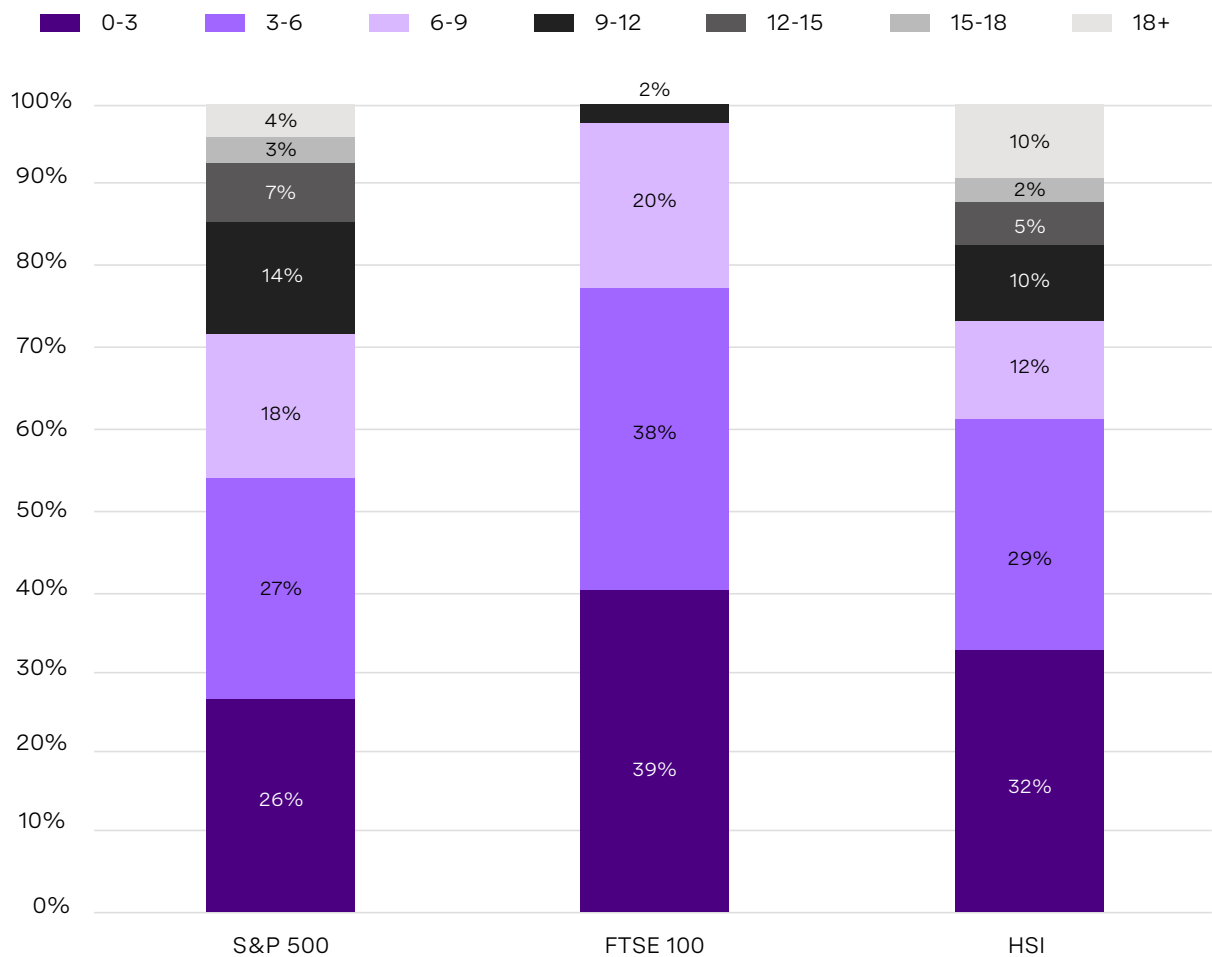
Russell Reynolds Associates conducted a comparison of the Hang Seng Index (HSI) — an index of the 82 largest companies listed on HKEx— with other leading global indices to guide HKEx listed boards towards embracing proactive governance. Our analysis of the Hang Seng Index is indicative of the extent of change required for boards listed in Hong Kong.

Tenure caps will impact Hong Kong’s board composition

One of the corporate governance updates that will significantly impact board composition in Hong Kong: the nine-year tenure cap for independent directors. Our analysis shows that 27% of INEDs on the HSI boards have served for over nine years.

In contrast, FTSE 100 boards regularly refresh their composition, with 98% of INEDs serving nine years or less (Figure 1). And while it may seem that boards on the HSI share a similar tenure distributions with those of the S&P 500, it needs to be viewed in the context that the Nasdaq and NYSE generally require boards to comprise a majority of independent directors.

Figure 1: Tenure distribution of INEDs across the S&P 500, FTSE 100, and HSI



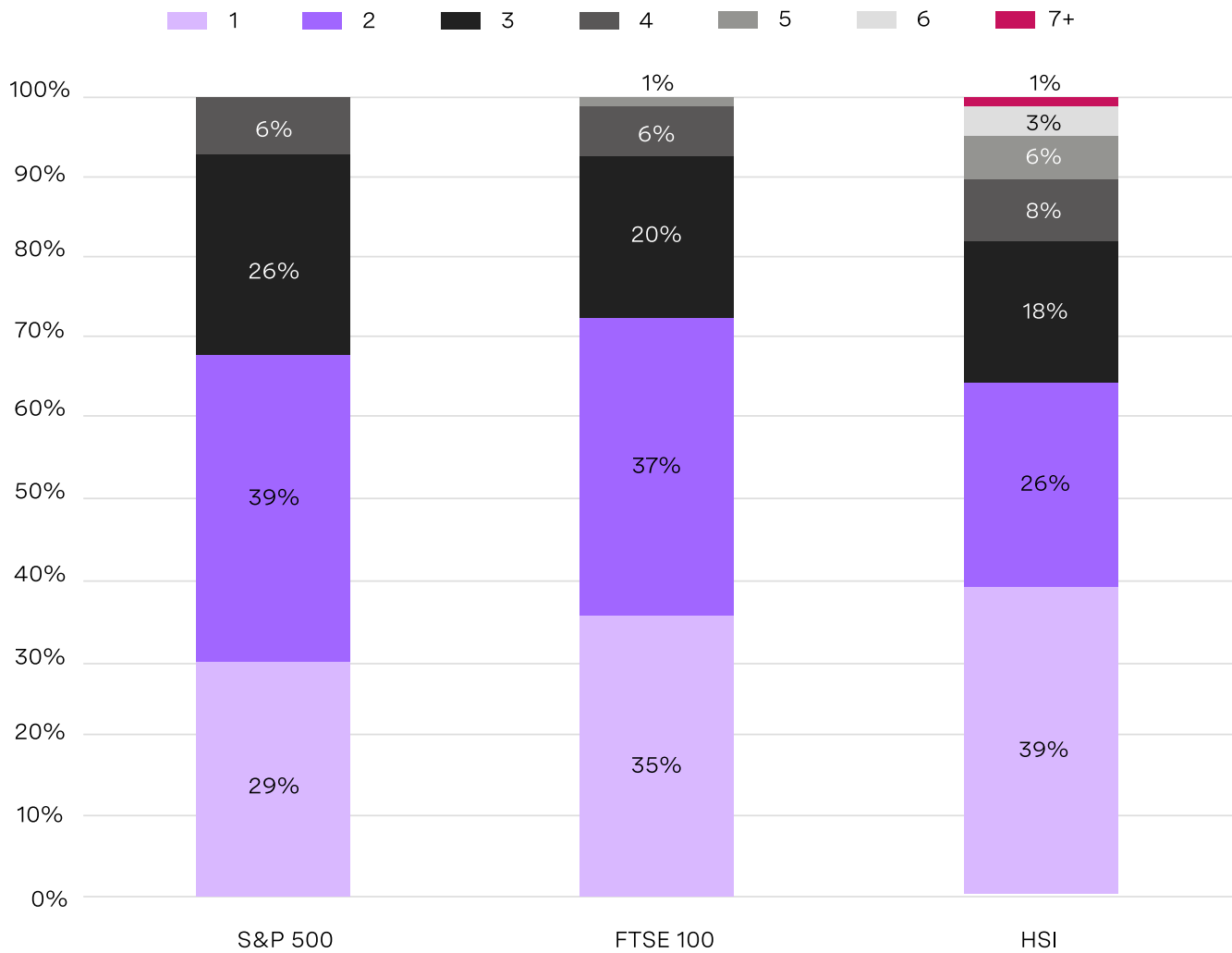
Source: RRA analysis of BoardEx data, collected in October 2024. n = 4699 S&P 500 INEDs; n = 773 FTSE 100 INEDs; n = 416 HSI INEDs.

The HKEx has introduced a two-phase transition period for up to six years, allowing boards ample time to implement necessary adjustments. Nonetheless, we recommend that boards begin planning for succession as early as possible to ensure smooth transitions and sustained governance excellence.

Overboarding limits: Limited disruption

The next enhancement involves limiting the maximum number of listed boards directors can sit on to six. In examining the S&P 500 and FTSE 100, we see that over 90% of INEDs sit on three or less public boards (Figure 2). In Hong Kong, only four out of 82 HSI boards have directors who sit on more than six boards.

Figure 2: Number of concurrent public board seats an INED has across the S&P 500, FTSE 100, and HSI



Source: RRA analysis of BoardEx data, collected in October 2024. n = 4699 S&P 500 INEDs; n = 773 FTSE 100 INEDs; n = 416 HSI INEDs.

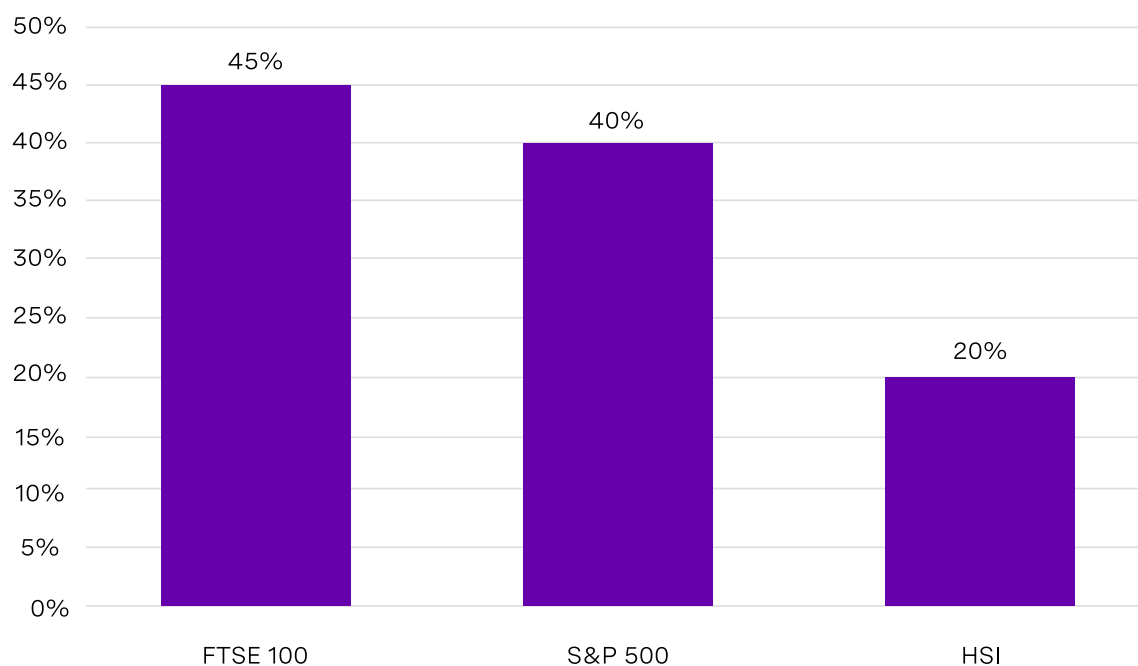
If what we are seeing on the HSI boards is reflective of the state of play in Hong Kong, then it is unlikely that most boards will be affected by the six-board limit. Regardless, given the increasingly complex business environment over the years, the reality is that boards today do require more of a director’s bandwidth. As such, the cap of six boards per director appears reasonable.



Enhancements will improve nominating committee diversity in Hong Kong

While there has been recent progress when it comes to board diversity, Hong Kong boards still have a long way to go before reaching gender parity. Currently, 40% of HSI boards' nominating committees are composed entirely of men. We also found that women directors hold only 20% of the HSI's nominating committee seats, compared to women holding 48% in the FTSE 100 and 40% in the S&P 500 (Figure 3). Under the new enhancements, these boards will need to appoint a women director or explain to HKEx (Figure 4).

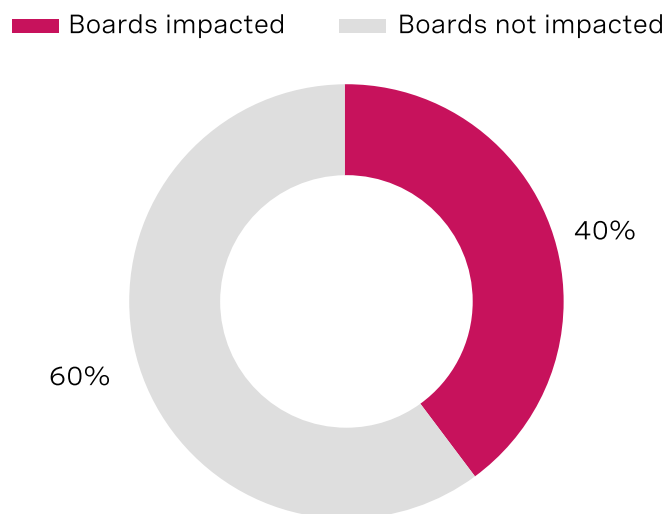
Figure 3: Percentage of women directors holding nominating committee seats across the S&P 500, FTSE 100, and HSI



Source: RRA analysis of BoardEx data, collected in October 2024. n = 1600 S&P 500 nominating committee seats; n = 583 FTSE 100 nominating committee seats; n = 328 HSI nominating committee seats.



Figure 4: HSI boards that need to appoint a NomCo member of a different gender



Source: RRA analysis of BoardEx data, collected in October 2024, n = 82 HSI boards.

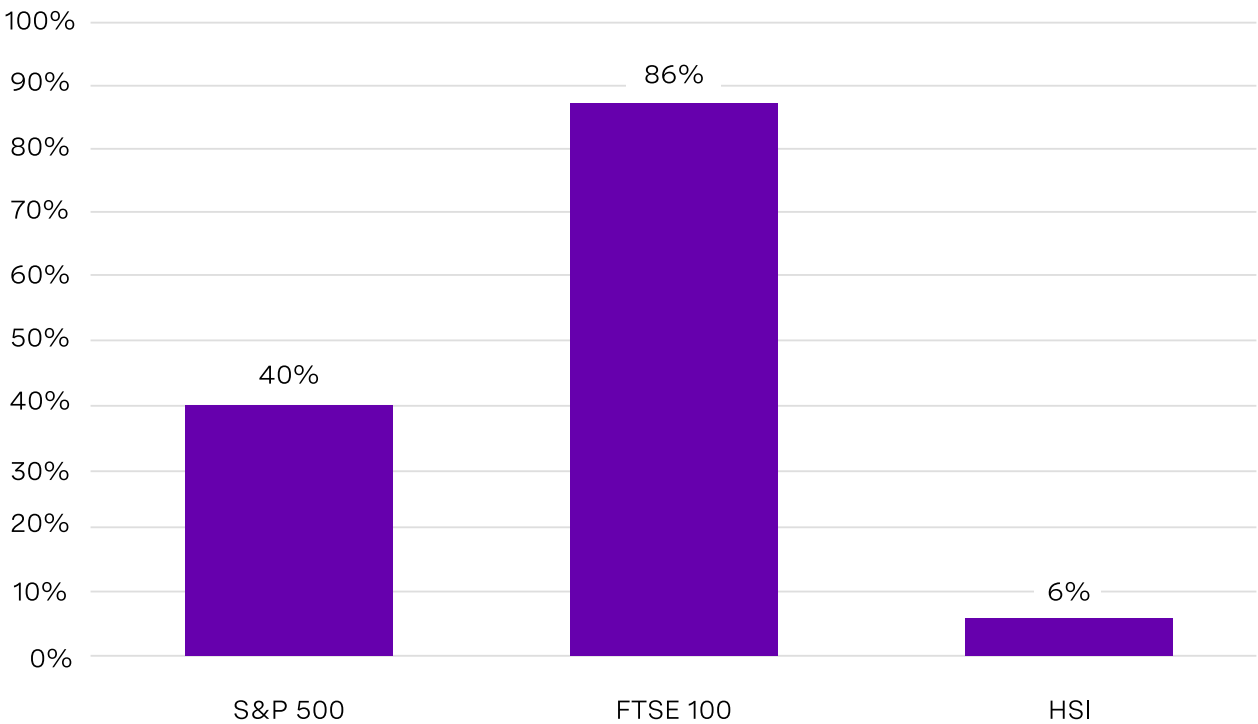
According to the [Institute of Directors \(IoD\)](#), markets with binding quotas have seen the most significant advancements towards gender parity over the past two decades. For instance, women's representation in FTSE 100 increased from 12.5% in 2012 to 40% by 2022, according to the [UK Government](#).

As such, the enhancements to 1) implement a gender-diverse nominating committee on a comply or explain basis and to 2) mandate disclosures of board diversity policies present a major step towards gender parity in the HSI.

Hong Kong is aligning with other OECD countries in LID recommendations

Under the new Corporate Governance Code, HKEx has introduced the designation of a lead independent director (LID) for boards whose chairs are non-independent as a Recommended Best Practices (RBP). This move is a step to directionally align Hong Kong with many OECD countries—like the United Kingdom, Germany, Netherlands, Norway, and Sweden—where board chairs are typically independent (Figure 5).

Figure 5: Percentage of boards that have an independent chair across the S&P 500, FTSE 100, and HSI



Source: RRA analysis of BoardEx data, collected in October 2024. n = 500 S&P 500 boards; n = 100 FTSE 100 boards; n = 82 HSI boards.

Looking inward: HSI boards will increase focus on their effectiveness and skillsets

The final set of enhancements centers on enhancing board effectiveness and upskilling.

Implementing a board skills matrix is a logical first step, as it clearly outlines the critical expertise and experiences necessary for the board’s effective functioning. This matrix not only informs shareholders and investors about potential areas where the board may need reinforcing, but also aligns with the mandatory director training disclosures. Furthermore, it offers valuable insights for board succession planning over the longer term.

What's next for HKEx-listed boards?

HKEx-listed boards are navigating a pivotal period marked by significant regulatory changes with listed boards actively determining their response strategies. It is crucial for HKEx-listed boards to carefully examine the corporate governance enhancements and evaluate the merits of implementing the changes proactively before the transition deadlines.

To that end, HKEx-listed boards should consider the following:

Embark on a comprehensive board effectiveness exercise



- Tackling these new requirements hinges on the board's ability and willingness to embark on a **comprehensive board effectiveness exercise**, using the results to drive the response to the new proposed corporate governance requirements.
- Key to this exercise is a **board composition analysis**, through which the board articulates what skillsets and experiences are required for it to help the company navigate the business landscape over the medium to long-term based on its chosen strategies.
- The analysis will result in a fleshed-out **board skills matrix**. This provides the board with both a measure for its current team and structure, as well as a roadmap of key attributes for its future slate of directors.

Re-examine the succession plan



- Taking the tenure of current independent directors in account adds further color to the director succession plan, as the board now knows when each director—and their associated skillset—will have to exit.
- With that insight, the nominating committee can then deliberate over what future succession profiles should look like, including considerations around the diversity requirements. This will allow for future board appointments to be more robust and better able to withstand scrutiny.

Keep an eye on the transition



- The six-year transition allowance should not be taken lightly especially if the current board comprises exactly a third of long-tenured INEDs. Nominating committees will need to make use of this to avoid a "cliff" situation, in which the board suddenly has to swap out all the long-tenured INEDs at once.
- Where relevant, the appointment of lead independent directors (LIDs) also needs to be managed well, given the role expectations. Generally, a more seasoned and experienced director would be desirable—this is a factor the nominating committee needs to consider when succession-planning for this position. For example, should a sitting INED be appointed as LID or should the board embark on a search for one?



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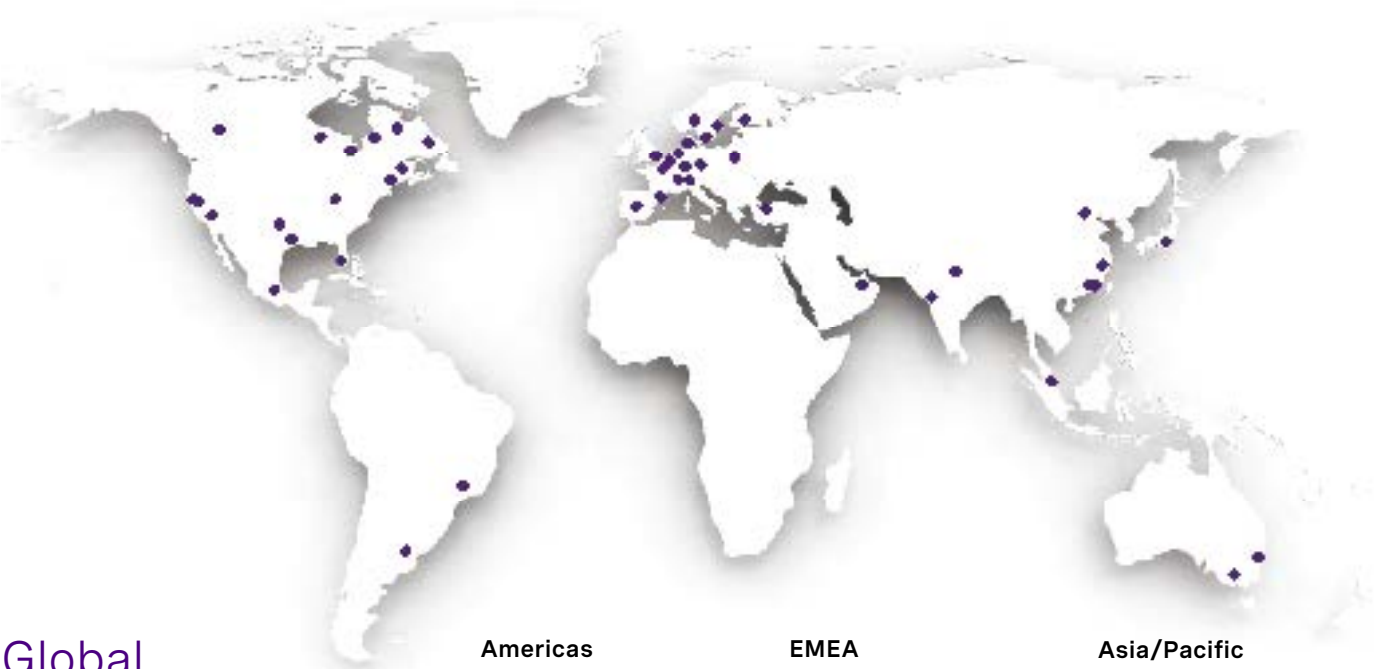
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