Corporate Finance Update
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Happy New Year! In this issue of Corporate Finance Update, we will provide updates on the following:

1. the Exchange's consultation conclusions on risk management and internal control;
2. the SFC's consultation conclusions on proposals to amend the Code on Unit Trust and Mutual Funds; and
3. Shanghai-Hong Kong Stock Connect.

CONSULTATION CONCLUSIONS ON RISK MANAGEMENT AND INTERNAL CONTROL: REVIEW OF THE CORPORATE GOVERNANCE CODE AND CORPORATE GOVERNANCE REPORT

The Exchange issued a Consultation Paper in June 2014 to seek comments on its proposed amendments to the Corporate Governance Code and Corporate Governance Report (**CG Code**) relating to risk management and internal controls. The proposed amendments intend to (i) enhance board accountability in determining and evaluating the risk level the board is willing to take; (ii) improve transparency of the issuer's risk management and internal controls; and (iii) strengthen oversight of internal controls by requiring issuers to adopt an internal audit function.

On 19 December 2014, the Exchange concluded that most of the proposals outlined in the Consultation Paper should be adopted (See Consultation Conclusions). The main changes to the CG Code are summarised below:

- incorporating risk management into the CG Code when appropriate;
- defining the roles and responsibilities of the board and management;
- clarifying that the board has an ongoing responsibility to oversee the issuer's risk management and internal control systems;
- upgrading items in relation to the annual review of the effectiveness of the issuer's risk management and internal control systems, and disclosures in the Corporate Governance Report from "Recommended Best Practices" (that is, best practice recommended for adoption) to "Code Provisions" (that is, subject to "comply or explain"); and
- upgrading the Recommended Best Practice that issuers should have an internal audit function, and those without to review the need for one on an annual basis to a Code Provision.

The amendments to the CG Code will apply to the accounting periods starting on or after 1 January 2016. Listed issuers are reminded to report on their compliance with the amended CG Code in their next published interim reports and annual reports.

CONSULTATION CONCLUSIONS ON PROPOSALS TO AMEND THE CODE ON UNIT TRUST AND MUTUAL FUNDS

The Securities and Futures Commission (**SFC**) issued the Consultation Paper on proposals to amend publication requirements relating to the offer and redemption prices or net asset value, and notices of dealing suspension under the Code on Unit Trusts and Mutual Funds (**UT Code**) on 24 June 2014.

The UT Code sets out various ongoing disclosure requirements for the collective investment schemes authorised by the SFC under the UT Code (**Schemes**). One of these requirements is the periodic publication of a Scheme's offer and redemption prices (**Prices**) or net asset values (**NAVs**). Currently, the UT Code requires that, among other things:

- a Scheme's latest available Prices or NAVs must be published at least once a month in at least one leading Hong Kong English language and one Chinese language daily newspaper;
- suspension of dealing must be published immediately following the decision to suspend is made and at least once a month during the period of suspension in the newspaper(s) in which the Scheme's prices are normally published.

The proposals set out in the Consultation Paper include:

- removing the requirement that mandates the use of newspapers to publish Prices or NAVs;
- allowing Schemes to use any appropriate means to make public their Prices or NAVs;
- requiring Schemes to make public their Prices or NAVs on every dealing day;
- removing the requirement that mandates the use of newspapers to publish a dealing suspension notice; and
- allowing Schemes to use any appropriate means, for example, websites, to publish a dealing suspension notice.

On 11 December 2014, the SFC concluded that all respondents to the Consultation Paper welcomed the proposals and the SFC will adopt them in full (See Consultation Conclusions). Subject to a six-month transitional period for the existing public funds, the amendments will become effective once they are gazetted.

UPDATE ON THE SHANGHAI-HONG KONG STOCK CONNECT

One of the major issues raised by investors since the launch of the Shanghai-Hong Kong Stock Connect in mid-November last year is whether the investors would have beneficial ownership in the A shares held through Hong Kong Securities Clearing Company Limited (**HKSCC**), a wholly-owned subsidiary of the Exchange, as a nominee. The Exchange has clarified that investors do have beneficial ownership under both Hong Kong law and PRC law. The rules of HKSCC also enable investors to enjoy their rights as beneficial owner, including receiving dividends and voting through HKSCC as nominee holder.

Meanwhile, the Exchange aims to complete the rollout of the short-selling service this month so as to provide investors with more flexibility in their trading strategy and risk management. The Exchange also plans to implement changes to the Stock Connect in March this year in order to enable institutional investors who hold their A shares through custodians to comply with the PRC's pre-trade checking requirement without transferring their shares to brokers before executing a sell transaction.

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