



## Principles of Responsible Ownership

### Introduction

1. The Principles of Responsible Ownership (**Principles**) are a set of principles and guidance to assist investors to determine how best to meet their ownership responsibilities.
2. The Principles are non-binding and are voluntary. Investors are encouraged to adopt the Principles by disclosing to their stakeholders that they have done so, and then they either apply the Principles in their entirety and disclose how they have done so, or explain why aspects of the Principles do not, or cannot, apply to them. Investors who do not think that the Principles are relevant to or suitable for them at the outset are encouraged to provide their stakeholders with disclosure which clearly explains why the Principles have not been adopted and, if applicable, explain what alternative measures they have in place.
3. Investors should avoid stating that they have adopted the Principles but then disclose why each and every Principle does not apply to them. Similarly, where an investor decides not to have a policy on shareholder engagement, they cannot be said to have adopted the Principles. Instead, investors are encouraged to explain to their stakeholders why the Principles have not been adopted at the outset and, if applicable, explain what alternative measures they have in place.
4. Ownership of shares brings with it important responsibilities, particularly the right to speak and vote on matters that can influence the way in which a business is conducted. Owners of company equity should not blindly delegate these responsibilities. Even when they employ agents, directly or indirectly, to act on their behalf, owners should ensure that their ownership responsibilities are appropriately discharged by those agents.
5. Investors may choose to appoint external service providers to help them perform some of their shareholder engagement activities but they cannot delegate their responsibilities as shareholders to the service providers. In particular, investors remain responsible for ensuring those activities are carried out in a manner consistent with their own policies.

### The Principles of Responsible Ownership

6. To discharge their ownership responsibilities investors should engage with the companies in which they invest to promote the long-term success of these companies; investors should:
  - (a) establish and report to their stakeholders their policies for discharging their ownership responsibilities;
  - (b) monitor and engage with their investee companies;
  - (c) establish clear policies on when to escalate their engagement activities;
  - (d) have clear policies on voting;
  - (e) be willing to act collectively with other investors when appropriate;



- (f) report to their stakeholders on how they have discharged their ownership responsibilities; and
- (g) when investing on behalf of clients, have policies on managing conflicts of interests.

## **Principle 1**

### **Investors should establish and report to their stakeholders their policies for discharging their ownership responsibilities**

- 7. Investors should establish policies on how they will discharge the ownership responsibilities described in Principles 2 to 7. In determining its policies an investor should consider what policies best reflect its role and the scope of its activities taking into account the costs of implementing a policy. It may be appropriate for an investor to have a nuanced policy that applies different policies to its investments depending on factors such as their size, nature and location.

### ***Stakeholders***

- 8. Where a company or entity invests its own funds, its stakeholders will include the board of directors or equivalent body. Depending on the size and relevance of the overall holdings to the entity, stakeholders may include shareholders. In cases where the entity is accountable to the public, stakeholders may also include the public generally.
- 9. Where an investor manages clients' funds, stakeholders will include such clients. Retirement funds and investors who accept funds from third parties for investment fall into this category of investors, whether or not they have direct responsibility for investment decisions or appoint third party asset managers to manage their investments.
- 10. An investor's stakeholders will include the beneficiaries of the funds received from the investor's direct clients. Therefore, where an asset manager is responsible for portfolios of funds on behalf of a retirement fund or a unit trust holder, the asset manager's stakeholders will include the members of such retirement scheme and the holders of such unit trust.
- 11. The return or value of certain retail investment products, such as investment-linked assurance schemes issued by insurance companies and equity-linked structured products issued by banks, may be linked (directly or indirectly) or calculated with reference to the performance of listed shares in Hong Kong. Whilst investors in these products do not have any rights over or ownership of such shares or funds investing in such shares, the engagement policies of product issuers may be relevant to them. Accordingly, issuers of retail investment products should consider whether investors in such products should be regarded as stakeholders for the purpose of applying the Principles.

### ***Reporting***

- 12. In deciding how best to report to stakeholders an investor should consider whether it is more efficient to do so generally by disclosure on a website rather than to stakeholders individually.



13. Where investment activities are outsourced, for instance where funds are placed with asset managers, the report on the engagement policy to stakeholders should disclose what steps are taken to ensure that the ownership responsibilities are discharged in accordance with the policy. Investors should disclose what minimum policy requirements are expected of those discharging ownership responsibilities. An investor should inform its stakeholders how and where its asset managers disclose their policies on discharging ownership responsibility or should include information provided by the asset managers in its reports.
14. It is generally sufficient for an investor to disclose its ownership responsibility policy when this is established and only update this disclosure when changes are made to the policy.

## **Principle 2**

### **Investors should monitor and engage with their investee companies**

15. Investors' ownership responsibilities extend beyond voting. They include monitoring and engaging on matters such as strategy, performance, risk, capital structure and corporate governance. Engagement with investee companies is a process through which shareholders as owners share their views and concerns directly with their investee companies.
16. Investors should have clear policies on corporate governance principles and practices and on how they will engage with their investee companies if they have concerns about their investee companies' corporate governance practices. Investors should consider carefully any departures from the Corporate Governance Code<sup>1</sup> set out in the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (**Listing Rules**).
17. Investors should encourage their investee companies to have policies on environmental, social and governance (**ESG**) issues and engage with investee companies on significant ESG issues that have the potential to impact on the companies' goodwill, reputation and performance.
18. When monitoring companies, investors should aim to:
  - (a) keep abreast of the companies' performance;
  - (b) keep abreast of developments, both internal and external to the companies, that drive the companies' value and risks;
  - (c) satisfy themselves that the companies' leadership is effective;
  - (d) satisfy themselves as to the corporate governance structures and practices adopted by the companies;
  - (e) consider the quality of the companies' reporting; and
  - (f) attend shareholder meetings of companies where appropriate and practicable.

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<sup>1</sup> Or from other similar codes against which a company discloses its corporate governance practices.



19. Engagement mechanisms include:
- (a) direct private communication with the companies such as writing letters to and dialogue with management;
  - (b) more public strategies such as using the media and proposing shareholder resolutions at general meetings;
  - (c) exercising their rights to speak and vote at general meetings;
  - (d) selling their shares; and
  - (e) in extreme cases, litigation.
20. Where the shareholder engagement activities are outsourced, investors should ensure these activities are compatible with the investors' engagement policies and take steps to ensure that these activities are carried out in a manner consistent with their shareholder engagement policies.
21. Engagement should not include seeking inside information<sup>2</sup>. Investors should manage their communication with their investee companies or potential investee companies so that they do not obtain inside information that has not been disclosed to the market in accordance with Part XIVA of the Securities and Futures Ordinance (Cap. 571) (SFO). When seeking to engage directly with management of an investee company, investors should be aware that the Principles do not give investors the right to information beyond that available in compliance with legislation or regulation. In answering requests for meetings or information investee companies have a duty to ensure that confidential inside information is not leaked and to ensure that investors are treated equally.
22. Where an investor considers that material information has been provided during discussions with a company, it must implement appropriate mechanisms to ensure that the information is strictly safeguarded and insulated from any other activity. This may include a temporary ban on trading in the company's shares or implementing 'Chinese Walls' until appropriate disclosures have been made to the market. The investor should consider whether it is necessary to warn the company that it may have breached the inside information provisions in the SFO.

### **Principle 3**

#### **Investors should consider and establish clear policies on when they will escalate their engagement activities**

23. Investors' engagement policies should set out the circumstances in which they will actively engage and regularly assess the outcomes of doing so. Shareholder engagement should be considered regardless of whether an active or passive investment policy is followed. Instances when investors may want to engage include, but are not limited to, when they have concerns about the company's strategy, performance, governance, remuneration or approach to risks, including those that may arise from social and environmental matters.

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<sup>2</sup> As defined in Part XIVA of the Securities and Futures Ordinance.



24. Initial discussions should take place on a confidential basis. However, if companies do not respond constructively when investors engage them, then investors should consider whether to escalate their action, for example, by:
- (a) holding additional meetings with management specifically to discuss concerns;
  - (b) expressing concerns through the company's advisers;
  - (c) meeting with the chairman or other board members;
  - (d) collaborating with other investors on particular issues;
  - (e) making a public statement in advance of general meetings;
  - (f) submitting resolutions and speaking at general meetings; and
  - (g) requisitioning a general meeting and, in some cases, proposing to change board membership.

#### **Principle 4**

##### **Investors should have clear policies on voting guidance**

25. Investors should seek to vote all shares held. Where it is not appropriate to vote all shares held, investors should disclose the reasons to their stakeholders. They should not automatically support the board.
26. Unless acting under a client-specific mandate, an institutional investor should vote all shares it holds in a company. Where shares are held for different purposes it may be appropriate for an investor to vote some shares in favour of a resolution and some against. In these cases it should vote all shares and not just a net number.
27. If they are unable to achieve an appropriate outcome through their engagement with an investee company, an investor should abstain or vote against relevant resolutions at shareholder meetings.
28. Where investors use proxy voting or other voting advisory services, they should consider whether the advice reflects their assessments of the issues before voting their shares.

#### **Principle 5**

##### **Investors should be willing to act collectively with other investors where appropriate**

29. At times collaboration with other investors may be the most effective manner in which to engage.
30. Collective engagement may be most appropriate at times of significant corporate or wider economic stress, or when the risks posed threaten to destroy significant value.



## **Principle 6**

### **Investors should report to their stakeholders on how they have discharged their ownership responsibilities**

31. At least annually investors should report to stakeholders on how they have discharged their ownership responsibilities. An investor may choose to give details of its voting on a company by company basis or to report on the extent to which it complies with its stated policy on voting with details of specific cases where significant departures from its stated policy were appropriate.
32. Where investment activities are outsourced, for instance where funds are placed with asset managers, the report on the engagement activities to stakeholders should disclose what steps have been taken to ensure that the ownership responsibilities are discharged in accordance with the policy. An investor should inform its stakeholders how and where its asset managers disclose their periodic reports on discharging ownership responsibilities or should include information provided by the asset managers in its report.

## **Principle 7**

### **When investing on behalf of clients, investors should have policies on managing conflicts of interests**

33. An investor investing funds on behalf of clients has a duty to act in the interest of its clients and/or the beneficiaries of the funds provided by its clients.
34. Conflicts of interests will inevitably arise from time to time, including votes that directly or indirectly impact the interest of the investor's group, and/or those of a client or the beneficiaries of the funds provided by a client.
35. Institutional investors<sup>3</sup> are obliged to have a policy for identifying and managing conflicts of interests in order to ensure that interests of clients, or where applicable the beneficiaries of those funds provided by their clients, are put first. The policy should address how matters are handled when the interests of clients diverge from those of the beneficiaries of the funds provided by their clients. They must manage material conflicts of interests that may affect the exercise of key ownership rights regarding their investments.

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<sup>3</sup> General Principle 6 of the Code of Conduct for Persons Licensed or Registered with the Securities and Futures Commission requires that when conflicts of interests arise a licensed or registered person should ensure that its clients are fairly treated.