General comments

Overall the candidates displayed reasonable competence in responding to the questions in Section A although the degree of specificity and sophistication in application is somewhat lower than that which ought to be expected for an exam of this nature and at this advanced level. Three questions stood out for their relative poor responses namely 1(c), 1(e) and 1(i) as candidates struggled to address the precise requirements. It seems that the candidates were not familiar with the corporate governance developments in other parts of the world.

Section A

1a. Quite a number of candidates stated that it was important for a company’s annual report and accounts to show a true and fair view of the company’s financial conditions because those documents were essential for making investment decisions. They had missed out the important point that those documents were mainly prepared for communication with shareholders who could monitor the stewardship of the directors based on the information contained therein.

1b. Generally the candidates could point out that the “considered use” of their votes and their influence were the major contributions of institutional investors to corporate governance.

1c. All candidates unequivocally affirmed that ethics was central to corporate governance but, rather surprisingly, failed to articulate the reasons in a precise manner. Only a few were able to mention that ethics could guide directors to tackle problems of conflict of interests (especially potential ones).

1d. The general quality of the answers showed that the candidates were not familiar with foreign developments.

1e. A noticeable number of candidates totally misunderstood the question and thought that it was asking them why the prohibition on making loans to directors by the company should be justified.

1f. The general performance was satisfactory, though some candidates made the mistake that the external auditor is under a duty to actively investigate and confirm whether the company accounts are free of fraud.

1g. Most candidates readily identified the drawbacks of using company profit performance as a basis for directors’ remuneration such as short-termism and creative accounting, but much less could suggest alternative bases other than share options.
The candidates generally did very well on this question, may be because this was the easiest one in Section A.

The very poor quality of the answers suggests that the candidates were generally unaware of the concept and principles of sustainability reporting. Hardly one candidate attempted to explain what the King II Report means as sustainability. Some candidates simply treated sustainability reporting as the same as corporate governance reporting. As mentioned in the General Comments, the candidates seemed to have paid inadequate attention to the foreign practices and developments.

The performance was satisfactory; the better candidates were able to point out that control culture is the key to success of an effective internal control system.

Section B

General Observations

The questions in Section B require the identification of corporate governance issues raised by the given facts, a discussion of the relevant principles and practices, their application to the given facts and, of course, the conclusion. Majority of the candidates failed to attain this standard with the main causes of failure being: (a) the adoption of a descriptive response which lacks evidence to support an appreciation of the relevance of the issues; and/or (b) an inability to apply knowledge to the facts or specific requirements as outlined in the questions. Although commonsense reasoning may render a 'correct' conclusion, a lack of succinct analysis is always fatal to surviving a professional paper.

Question 2

On explaining the importance of disclosure most candidates only cited financial accounts as a source of important information. Other information such as the shareholding of majority shareholders and directors’ remuneration were hardly mentioned. Financial accounts were important, claimed most candidates, because they helped investors to identify good companies for investment. As in Q.1(a), disclosure as a means of enhancing shareholder communication and shareholder monitoring was ignored.

Question 3

As expected, this was a very popular question in Section B. Generally the candidates found no difficulty in laying out the routine duties of the company secretary, and were able to mention the important fact that the Listing Rules require company secretaries of listed companies to have proper professional qualifications. However, not many could manage to state sufficiently the corporate governance roles of the company secretary. Therefore they failed to argue convincingly why the job of the company secretary was a professional one (at least for listed companies). Obviously, this inadequacy is to some degree inexcusable as this is a corporate governance paper for candidates seeking membership in the HKICS.
**Question 4**

On designing a whistleblowing procedure, many candidates attempting this question knew no more than the “commonsense” points like keeping the identity of the whistleblower confidential and discouraging malicious complaints. For example, the need to gain employees’ trust in the whistleblowing procedure was ignored by most candidates. The fact that textbook cases were cited as examples of whistleblowing failure may show that candidates did not read broadly and might have relied too much on the study text.

**Question 5**

Within a handful of candidates chose this difficult question; and almost all those candidates did not know what the issues were. The performance here was very disappointing.

**Question 6**

Generally, the candidates were able to explain the importance of the corporate governance roles of the non-executive director and, to a less satisfactory degree, why at least one-third of the board should be comprised by them. However, they were rather weak at making suggestions on ensuring and maintaining the effectiveness of those directors.