

POLICY REVIEW

Policy targets boards of directors

Notice clarifies and enhances role of members who act independently

By ZHANG YUE
zhangyue@chinadaily.com.cn

A newly-issued guideline on reforming the corporate governance system for independent directors of listed companies is likely to improve quality and accelerate the development of listed firms in China and in the long run, catalyze the growth of China's capital market, officials and experts said.

On April 14, the General Office of the State Council, China's Cabinet, released a notice on reforming the system, defining the legal role of independent directors and strengthening the leadership of the Communist Party of China in the process.

An independent director is a member of a company's board of directors who does not have a material relationship with the company, and is not part of its executive team.

The notice stated that the move is aimed at addressing matters such as the unclear role of independent directors, unequal rights and responsibilities and insufficient supervision.

It was made clear that independent directors should participate in decision-making and management, and help preserve checks and balances and the quality of consultation among the board members, as they are in a better position to protect the company's overall interests. Independent directors should also focus on the rights and interests of minority shareholders.

The China Securities Regulatory Commission, the national stock market regulator, stated in a notice that the move is significant as it marks the first time that the role, scope of responsibilities and evaluation criteria of independent directors have been clearly defined since the country adopted the current system in 2001.

The goal of the reform is to accelerate the formation of a more effective system of independent directors, optimize their functions, strengthen their supervisory abilities and improve the process by which they are appointed to company boards.

Officials and experts, particularly those in the fields of finance and corporate governance, hailed the move, which they believe will improve the overall quality of listed companies in China and help better align corporate governance with international standards.

Tian Xuan, associate dean and a professor at the PBC School of Finance at Tsinghua University, said that although the current system governing independent directors has been in place for two decades, previous government documents failed to clarify their position, and the market is still uncertain as to what role they play.

"With China steadily expanding its registration-based initial public offering system, the governance of listed companies has entered a new stage that requires tailored advancement through more precise efforts," he said.

In early February, the CSRC published draft rules on expanding the IPO system, marking a big step toward reforming the world's second-biggest stock market. This



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means the system, which has been adopted by Shanghai's STAR Market, the Shenzhen ChiNext board and the Beijing Stock Exchange on a pilot basis, will be adopted by the boards of more companies.

Tian added that reforming the independent director system will improve overall capital market conditions, resolving problems such as the lack of professionalism and the subpar performance of duties, and will usher listed company governance in China into a new era.

Tian Lihui, a chair professor of finance at Nankai University, also said that expanding the IPO system was a catalyst in the creation of the new guideline, which marks the start of corporate governance

reform and optimization.

"The development of listed companies is an integral part of the development of the capital market. Corporate governance is the foundation and key to company development, and independent directors are a vital link in the governance of listed companies," he said.

"Only when listed companies develop and minority shareholders are properly protected can China's capital market achieve substantial development. The long-term, healthy growth of the capital market is also an important fulcrum in China's economic recovery and the development of strategic emerging industries," Tian Lihui continued.

The notice also encourages list-

ed companies to optimize the composition of their boards of directors and stated that independent directors should account for a third of the boards, while external directors should make up the majority of the boards of State-owned listed enterprises.

Overall management of independent directors will be improved, as will the mechanism used to nominate them for board membership.

In addition, the accountability mechanism for independent directors needs to be improved, and violations of securities laws and regulations should be cracked down upon. The notice also stressed the need to follow the CPC's overall leadership of the reform process.

Experts welcome guideline to improve corporate governance

By ZHANG YUE

Experts believe that a notice outlining policies related to corporate law and governance should improve the level of governance in China, as reform has come a long way, and its impact should be significant.

Tian Lihui, a chair professor of finance at Nankai University in Tianjin, said that the key to capital market growth lies not only in the company's initial public offering in a market-oriented manner but, more importantly, in the proper development of listed companies.

"Sound corporate governance is the foundation of a company's growth, and independent company board directors are key to ensuring its proper governance," Tian said. "Only when listed companies are able to grow healthily and the rights and interests of minority shareholders are protected can the capital market in China realize steady, long-term growth."

Tian said that compared to previous efforts to introduce and improve the independent director system, the new guideline covers several important areas.

"The selection process for independent directors has been improved, and the process in which they are chosen has been clarified," he said.

"Regarding the way independent directors play their role, the new notice also stressed that listed companies are obliged to support independent directors and underscored their right to know about company affairs," Tian continued.

Zhu Chuanlu, a partner at the Beijing Zhonglun W&D Law Firm, which specializes in taxation law and corporate governance, said

that the new guideline is an essential step toward protecting the rights and interests of investors, as it calls for improving the responsibilities of independent directors, enhancing their independence and objectivity, and strengthening the accountability mechanism.

"Independent directors play a crucial role in monitoring and protecting the interests of minority shareholders in listed companies," he said. "A well-functioning independent director system can help prevent corporate malfeasance, improve corporate trans-

parency and enhance investor confidence in the market."

Zhu said he hopes the reform will be successful.

"This will largely hinge on how well the guidelines are implemented and enforced. For example, sufficient training and resources need to be provided to independent directors. A robust system is also needed to evaluate their performance and hold them accountable," he said, adding that the diligence of all stakeholders, including regulators, listed companies and independent directors, is indispensable.

Policy Digest

Progress continues for cross-border e-commerce

China's cross-border e-commerce system continues to develop rapidly, with volume increasing nearly 10-fold over the past five years, an official said on Sunday, adding that this momentum was sustained during the first quarter of this year.

Li Xingqian, an official with the Ministry of Commerce, told a news conference in Beijing that the international market has undergone many changes over the past three years, and one significant change is that an increasing number of consumers are becoming accustomed to online shopping. Through e-commerce platforms, consumers can purchase goods from across the world, he said.

As many countries are boosting efforts to promote cross-border e-commerce, the ministry will work with the China National Intellectual Property Administration to accelerate the creation of guidelines targeting IPR protection.

Student loan interest to be exempted this year



About 2.3 billion yuan (\$337 million) of interest on State-subsidized student loans will be exempted this year, and repayments of student loan principals, a total value of 5.5 billion yuan, can also be deferred, an official said Friday.

Ou Wenhan, an official with the Ministry of Finance, told a news conference that the measures are part of the national efforts to ease the financial pressure on college graduates, and about 4 million will benefit.

Since a subsidized student loan program was launched in 1999, more than 400 billion yuan of loans have been issued to over 20 million students from households in need.

Country deepens cooperation with WIPO

The National Copyright Administration of China (NCAC) and the World Intellectual Property Organization (WIPO) on Tuesday signed an updated memorandum of understanding (MoU) on bilateral cooperation.

The updated MoU aims to consolidate the existing exchanges and cooperation in the field of copyright and expand the bilateral cooperation in formulating and implementing international copyright treaties, discussing digital copyright protection issues, improving the risk prevention and control capacity of the copyright industry, sharing copyright to encourage creation and innovation among the small and medium-sized enterprises, and promoting the inheritance and development of folk literature and art.

The NCAC and WIPO have been cooperating in international copyright affairs. Since the two sides signed the MoU in 2015, they have made fruitful achievements in strengthening international copyright exchanges and cooperation.

On April 28, 2020, the Beijing Treaty on Audiovisual Performances, the first international intellectual property treaty named after a Chinese city, took effect. The Marrakesh Treaty, the first and only human rights treaty with copyright so far, came into force in China on May 5, 2022.

This year marks the 50 anniversary of the cooperation between China and WIPO. The NCAC and WIPO have pledged to further deepen their relations.