

# Asian Corporate Governance Association (ACGA)

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## “Voting for Change: Bringing Proxy Voting Systems in Asia in the 21<sup>st</sup> Century”

Presentation by  
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at  
HKU Law Faculty LLM Programme  
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# Agenda

1. Voting principles and trends
2. What is wrong with voting systems in Asia?
3. "ACGA Asian Proxy Voting Survey 2006"
  - Key results and country rankings
4. Solutions and recommendations
5. Quick quiz

# 1. Voting principles and trends

- For institutional investors, voting is an obligation and voting rights are an asset.
- Voting is a fundamental way to hold directors to account.
- Voting is a useful way to start an “engagement” process with companies.
- Incidence of voting in Asia is increasing as more institutional investors take their fiduciary responsibilities seriously, and as foreign ownership levels rise in Asia.
- Proxy voting—and resolving impediments to it—has become an international issue.

## 2. What is wrong with voting systems in Asia?

Why ACGA became involved in researching proxy voting:

- Increasing concerns about the “show-of-hands” voting system prevalent in Asia.
- Apparently insoluble problem of meeting date clustering in Japan and Taiwan.
- Input from ACGA members on the many problems they faced in trying to vote their shares: late notice of meetings, insufficient time to vote, changing agendas, insufficient information...and so on
- Obviously antiquated nature of voting systems in the region—partially electronic, partially paper-based.

# As we looked deeper...

## ■ Eye-opening stories:

- The Taiwan sub-custodian bank that will not vote on a show of hands if asked to vote “against”.
- The possibility of lost votes (or proxy votes not being passed on by the sub-custodian).
- The changing of meeting agendas right up until the day of the meeting.
- The investor agent thrown out of a meeting in Thailand just before a key vote.

# Technical mysteries...

- Why do custodian banks have to manually input meeting information into “Swift”? Why can’t they just send a PDF of the meeting notice?
- Why are global custodian deadlines so early (10-14 days before meetings)?
- Why is it so difficult for share registrars to issue a simple confirmation to shareholders that their proxy votes have been received?

### 3. ACGA Asian Proxy Voting Survey

- Survey tested in April 2006. Sent out in early May. Completed in May and June.
- 48 major institutional investors selected (a mix of ACGA members and non-members).
- 22 responses received.
  - Combined assets under management globally of US\$3 trillion
  - Average AUM of around US\$156 billion, with a range from a few hundred million dollars to US\$1 trillion.
  - Between 6-21% of their assets invested in Asia (for most respondents). The Asian investors have 100% of their assets invested locally.
  - Eight institutions had dedicated “corporate governance units”.

# Reasons for not responding

- 'We do not vote our shares.' (Indeed, some recipients only discovered this when asked to participate!)
- 'We vote in the US and Europe, but not yet in Asia.'
- 'We vote only some Asian markets.' Or 'only in Japan.'
- 'We have only just started voting in Asia and do not yet have sufficient experience to comment.'
- 'Our voting is handled by colleagues outside the region.'



# Survey focussed on 10 key impediments

1. Notice of shareholder meetings
2. Time to vote before meetings
3. Information on which to vote
4. Availability of translated material
5. Confirmation that vote has been received
6. Voting by show of hands vs voting by ballot/poll
7. Clustering of meeting dates
8. Bundling of resolutions
9. Publication of detailed vote results
10. Independent audit of vote results

# Scope and scoring

- 11 Asian stock markets:
  - China, Hong Kong, India, Indonesia, Japan, Korea, Malaysia, Philippines, Singapore, Taiwan, Thailand
- 3 “benchmark” stock markets:
  - Australia, UK, US
- Scoring:
  - Respondents asked to rate each market on a five-point scale from “best global practice” to “worst global practice” for each of the 10 questions (ie, impediments). Points then converted into a percentage.
  - Criteria provided for “best” and “worst global practice” (p20).

# Market rankings and scores

	Score (%)	Qualitative assessment
1. Hong Kong (SEHK)	67	Fair
2. Singapore (SGX)	61	Fair
3. Malaysia (BM)	58	Poor to Fair
4. India (BSE/NSE)	57	Poor to Fair
5. Philippines (PSE)	56	Poor to Fair
6. Thailand (SET)	54	Poor to Fair
7. Indonesia (JSX)	53	Poor to Fair
8. Korea (KRX)	51	Poor to Fair
9. Taiwan (TSEC)	50	Poor
10. Japan (TSE)	47	Poor
China (SSE/SZSE)	47	Poor
<b>Benchmark markets</b>		
1. US (NYSE/NASDAQ)	79	Fair to Good
2. UK (LSE)	77	Fair to Good
3. Australia (ASX)	76	Fair to Good

Source: Asian Corporate Governance Association

# “Polls apart”

Difference between voting by poll in Hong Kong and Singapore:

## ■ Hong Kong

- 30 of the 33 companies in the HSI automatically conduct polls at their AGMs for all resolutions and publish a detailed breakdown of the voting results by resolution.

## ■ Singapore

- Just two of the 49 companies in the STI conduct voting by poll—Noble Group and TPV Technology.
- Almost all the others vote by show of hands and simply announce that all the resolutions proposed at their meeting have passed. One exception is Singtel, which votes by show of hands, but also discloses the total number of proxies it receives and how they voted.

## 4. Solutions and recommendations

- A series of recommendations on each of the 10 key impediments outlined in the report.
- Most of these issues could be resolved quickly by companies if they chose to do so, with pressure from investors.
- Some would require regulatory intervention and/or support (eg, electronic voting platforms, voting by poll)

# Actions points for issuers

1. Publish final and detailed notices/agendas *at least* 28 calendar days before general meetings.
2. Produce more informative and clearly written meeting agendas and circulars.
3. If you have foreign ownership, ensure that all your meeting notices, agendas and circulars are fully translated into English.
4. Bring forward your AGM if clustering is a potential problem.
5. Avoid combining items that are substantially different into one meeting resolution (ie, “bundling”).
6. Vote all resolutions by poll at your shareholder meetings, even so-called routine resolutions.
7. Announce the detailed results of your AGM the next day.
8. Engage independent auditors to scrutinise your AGM vote.

# Action points for investors

1. Encourage issuers to release their detailed meeting notices and circulars no later than 28 days before a meeting.
2. Ask regulators to upgrade listing rules to require a sufficiently high standard of information is provided in meeting circulars.
3. Encourage governments and stock exchanges to give serious consideration to national electronic voting systems.
4. Develop as much Asian-language capacity as possible.
5. Vote against bundled resolutions as a matter of policy (unless the bundled items are innocuous).
6. Routinely call for polls at AGMs.
7. Ask issuers to publish full announcements of the results not more than one day after the meeting.
8. Have a policy of voting all your shares.
9. Review your internal voting processes to isolate strengths and weaknesses.
10. Examine the feasibility and cost of setting up a corporate governance unit to support voting.

## 5. Quick Quiz

Q 1: In Asian markets where listed companies release final agendas 14 days before their annual meetings, foreign institutional investors will typically have:

- A: 10-12 days in which to cast their proxy vote;
- B: 5-8 days in which to cast their proxy vote;
- C: 2-3 days in which to cast their proxy vote.



## Quick Quiz

Q 2: After sending in their proxy vote for the annual meeting of a typical listed company in Asia, institutional investors:

- A: Always receive a confirmation from the company that their votes have been received and counted;
- B: Never receive a confirmation from the company that their votes have been received and counted;
- C: Sometimes receive a confirmation from the company that their votes have been received and counted.

## Quick Quiz

Q 3: Most listed companies in Asia count the votes cast at their annual meetings by:

- A: "Poll" (ie, a ballot where each vote is counted);
- B: Show of hands;
- C: Handclap.

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