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Asian Corporate Governance Association (ACGA)

"CG Watch 2016 – Ecosystems Matter"

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Methodology

- A systemic survey. 95 questions over five categories.
- Based on ACGA's monthly tracking of CG developments in Asia and additional research for CG Watch
- Scoring based on both objective and subjective criteria
- The survey integrates two perspectives: internal progress over previous two years; and relative performance against other markets in Asia.
- The survey considers multiple dimensions: regulatory improvements, enforcement, corporate practices, investor involvement, views of stakeholders, and so on.
- Introduction of Australia set higher benchmarks on many questions.

CG Watch 2016 – Key Conclusions

1. **"Ecosystems matter"**
   - Healthy corporate governance systems need the balanced participation of a range of different stakeholders: financial regulators, listed companies, auditors, investors (institutional and retail), and civil society groups.
   - These different interests act collectively to drive both top-down and bottom-up improvements, leading to better policymaking and faster adoption of new ideas.

2. **Public governance matters**
   - Several Asian markets are suffering from self-interested political leadership, high levels of corruption, and weak public governance norms. This weakens CG ecosystems over time.
   - Financial regulators are <u>not</u> responsible for public governance scores in our survey.

3. **Investor stewardship**
   - Investors have been given an opportunity through new "stewardship codes" to significantly enhance the quality of CG culture in Asia.
   - Asia will not achieve a higher level of corporate governance if this area continues to underperform. We still depend too much on top-down regulatory reform.

Market rankings & scores, 2016

CG Watch market scores: 2010 to 2016

(%)	2010	2012	2014	2016	Change 2014 vs 2016 (ppt)	Direction of CG reform
Australia	-	-	-	**78**	-	
1. Singapore	67	69	64	**67**	(+3)	Mostly sunny, but storms ahead?
2. Hong Kong	65	66	65	**65**	-	Action, reaction: the cycle of Hong Kong life
3. Japan	57	55	60	**63**	(+3)	Cultural change occurring, but rules still weak
4. Taiwan	55	53	56	**60**	(+4)	The form is in, now need the substance
5. Thailand	55	58	58	**58**	-	Could be on the verge of something great, if…
6. Malaysia	52	55	58	**56**	(-2)	Regulation improving, public governance failing
7. India	49	51	54	**55**	(+1)	Forward movement impeded by vested interests
8. Korea	45	49	49	**52**	(+3)	Forward movement impeded by vested interests
9. China	49	45	45	**43**	(-2)	Falling further behind, but enforcement better
10. Philippines	37	41	40	**38**	(-2)	New policy initiatives, but regulatory strategy weak
11. Indonesia	40	37	39	**36**	(-3)	Losing momentum after progress in past survey

Source: Asian Corporate Governance Association

Category scores:
A wide gap between the best in Asia and Australia

Market category scores

(%)	Total	CG Rules & Practices	Enforcement	Political & Regulatory	Accounting & auditing	CG Culture
Australia	**78**	80	68	78	90	74
1. Singapore	**67**	63	63	67	87	55
2. Hong Kong	**65**	63	69	69	70	53
3. Japan	**63**	51	63	69	75	58
4. Taiwan	**60**	54	54	64	77	50
5. Thailand	**58**	64	51	45	77	50
6. Malaysia	**56**	54	54	48	82	42
7. India	**55**	59	51	56	58	49
8. Korea	**52**	48	50	53	70	41
9. China	**43**	38	40	36	67	34
10. Philippines	**38**	35	19	41	65	33
11. Indonesia	**36**	35	21	33	58	32

Source: Asian Corporate Governance Association

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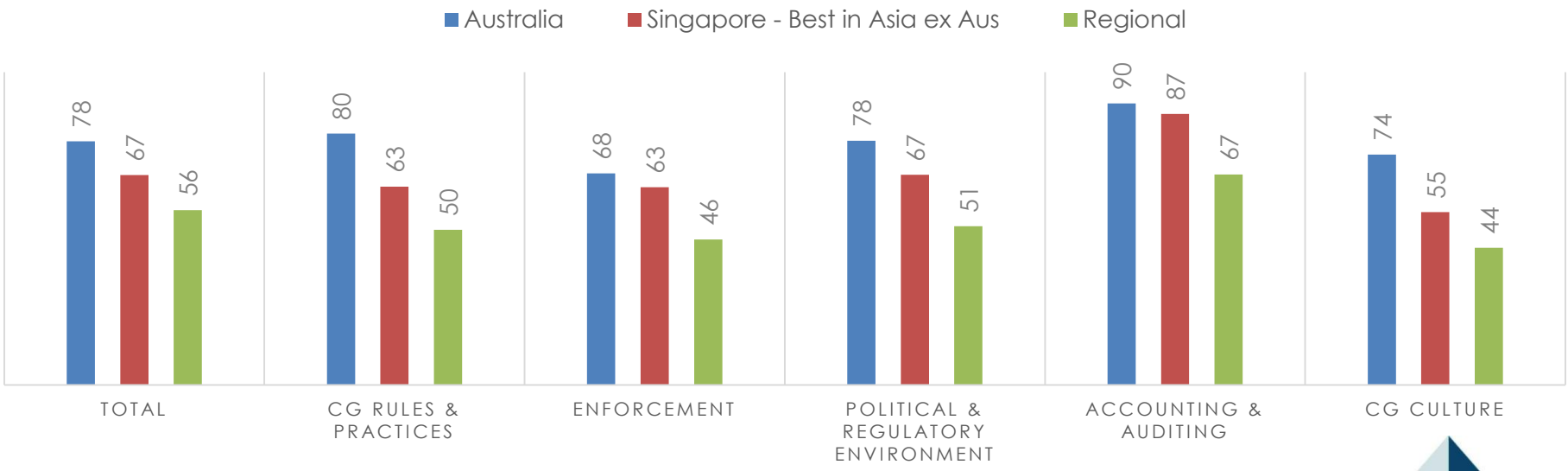
Strategic priorities to strengthen ecosystems

	# 1	# 2
Australia	Enforcement	Anti-corruption
Singapore	CG culture	Enforcement
Hong Kong	Audit regulator	CG culture
Japan	CG rules	CG practices
Taiwan	CG culture	CG practices
Thailand	Public governance	Enforcement
Malaysia	Public governance	CG culture
India	Accounting/auditing	Enforcement
Korea	CG culture	CG rules
China	Regulatory governance	CG rules
Philippines	Enforcement	Public governance
Indonesia	Enforcement	Public governance

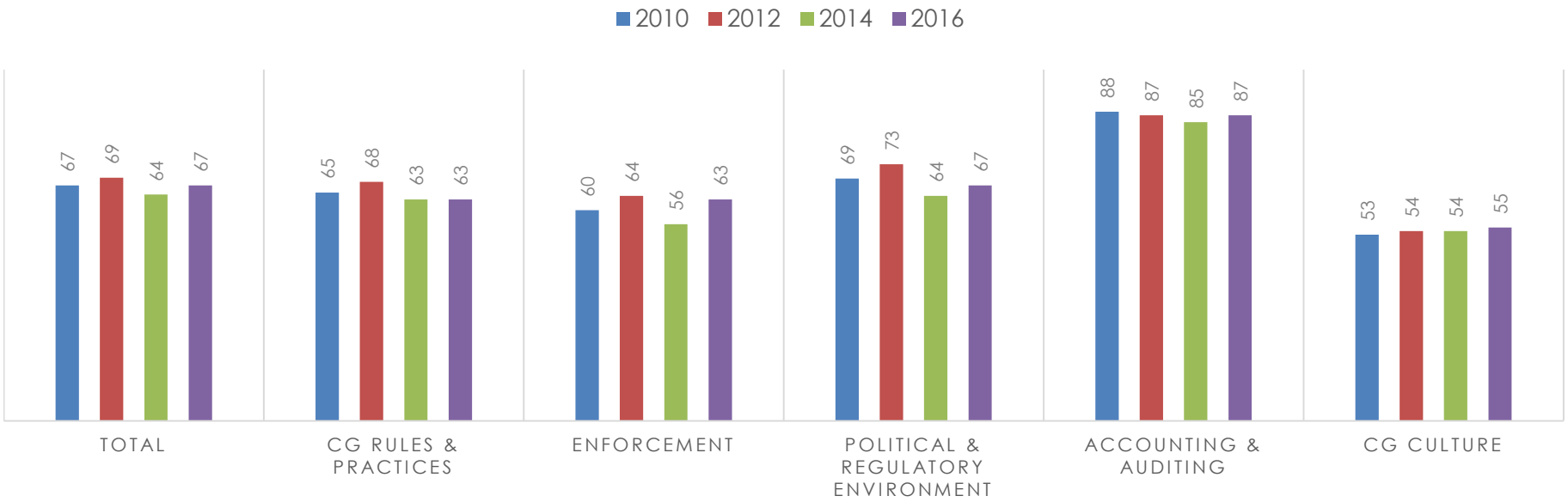
Australia – General comments

- Australia's CG regime is broader, deeper and more developed than its counterparts in Asia, but it has some clear weaknesses
- High scores for corporate reporting, political/regulatory environment (overall), accounting/auditing, and CG culture
- Lower scores for enforcement, regulatory funding, anti-corruption efforts
- Shareholder rights are robust, but urgent fixes needed in minority protection in reverse takeovers, voting by poll
- Australia's faster CG evolution a reflection of deeper regulatory foundations, stronger public-sector accountability, and a more open CG culture



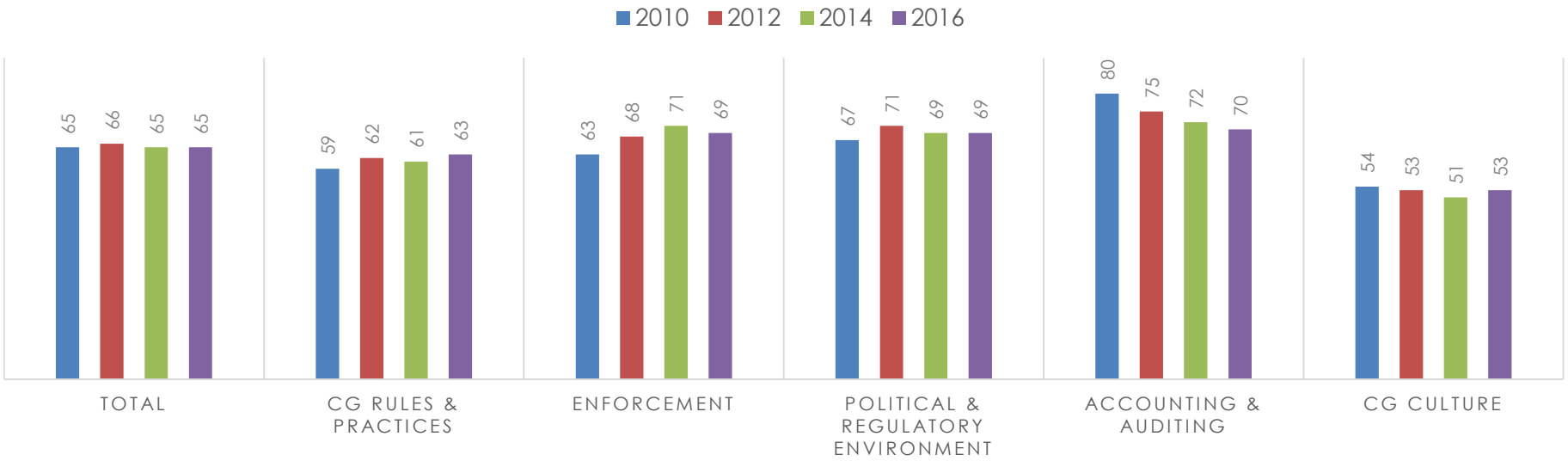
Singapore – General comments

- Revamped securities enforcement strategy, MAS joins with the Commercial Affairs Department (CAD) of the Police
- New chief regulatory officer at SGX, signalling more commitment
- SGX forms three committees to bolster regulatory function – arguable whether these are helping CG with the green light to SGX for a consultation on dual-class shares
- Mandatory voting by poll finally arrives in August 2015
- The Accounting and Corporate Regulatory Authority (ACRA) introduces eight "audit quality indicators"
- SingPost debacle an embarrassment



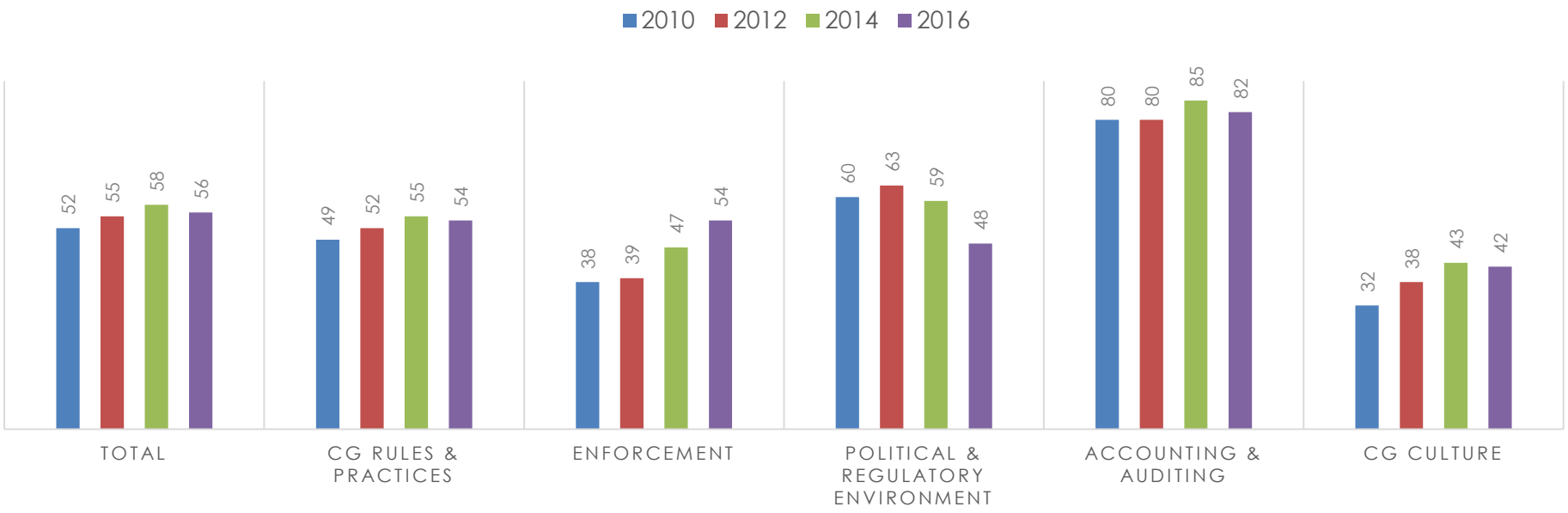
Hong Kong – General comments

- Regulator nudges institutional investors towards active ownership
- Firm no to dual-class shares – though HKEx struggling to accept this
- Controversy around new listing regime highlights two competing camps
- Regulators put more weight on non-financial reporting, especially ESG/Sustainability, but boilerplate remains in basic CG reporting
- Frequency and timing of financial reporting remains a concern, disclosure around large expenses items problematic
- Still no independent audit regulator!!
- Some positive improvements in company CG culture (eg director training, risk reporting), but board composition remains conservative



Malaysia – General comments

- Malaysia being pulled in opposite directions, lower score overall
- Regulators take strong steps on enforcement and regulation
- New mandatory voting by poll, MD&A and sustainability disclosure
- Securities Commission wins important court victories
- 1MDB saga casts a pall over country and key government institutions
- Suspension and closure of media outlets suggests lower press freedom
- After a slow start, domestic stewardship efforts are building



Ecosystem weaknesses in Asia

Selected issues:

- Corporate governance reporting
- Definitions of "independent directors"
- Protection of minority shareholder vs majority shareholder interests: most markets do not have the balance right yet
- Regulatory enforcement of insider trading and other misconduct
- Regulatory disclosure: new regulations; enforcement; financial and staff resources
- Public governance / corruption
- Independence of judiciary and media
- Involvement of institutional investors
- Independent audit regulation still evolving

CG reform priorities for Malaysia

1. Don't adopt dual class shares!
2. Improve CG disclosure - remuneration, board evaluation
3. Think about sustainability strategically and emphasise material issues in reporting
4. Rethink the definition of independent director to ensure that directors are genuinely independent
5. Think about enforcement related disclosure from a user perspective
6. Public governance
7. Renew the CG strategic roadmap

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