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Asian Corporate Governance Association (ACGA)

“Managing Risks in a Changing (Corporate Governance) Environment”

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Corporate Governance Roundtable
Companies Registry, Hong Kong
March 13, 2017

Some of what's new in Hong Kong

1. HKEx “ESG Reporting Guide” and an international focus on sustainability
2. SFC “Principles of Responsible Ownership”
3. More energised institutional investors: focus on board performance, director selection/quality
4. Stronger continuous disclosure rules (post 2013)
5. A tougher enforcement environment
6. A proposed independent audit regulator
7. A harder operating environment in China

“CG Watch” Market Rankings & Scores:

A risk barometer for regulators, companies, investors, others

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

What's wrong with CG Culture?

- Conservative corporate cultures—a strength, but also a weakness: outside ideas treated with suspicion
- CG seen as a compliance exercise, not a tool for company building
- Corporate reporting delivers minimal information
- Board composition is not linked to corporate strategy—and often out of proportion to ownership
- Board decisions are chairman-dominated
- Company structures are overly hierarchical
- Use of information technology is often poor

CG rules and practices*: Where Australia is clearly ahead

Activity/rule	Australia	Asia
Financial reporting (annual reports)	More thorough and readable. Many large caps audited in less than 60 days.	Fewer notes, large “unexplained” expenses. Few in less than 60 days.
Continuous disclosure	Regulation evolving, esp. since early 2000s.	A post-GFC issue. HK from 2013 (statutory).
CG / ESG reporting	High volume, original, quite substantive.	Low volume, boilerplate, boring in the extreme.
Remuneration	Detailed disclosure, “two strikes” rule.	Very limited in most markets. No say on pay.
Board composition	Diversity improving.	Diversity still lacking.
Financial literacy	All directors should be able to read accounts.	Only AC needs to be able to read accounts!
Rights issues	“Accelerated offers”.	Still in dark ages.

*“Practices” here refers to large-cap firms.

CG culture: How Australia compares

Activity	Australia	Asia
Company-investor dialogue	In a different world to Asia. Directors regularly speak to shareholders.	Most dialogue still with IR teams. Still rare for directors to meet you. But it is starting.
Civil society	A rich, array of NGOs and institutes supporting CG improvement.	Growing, esp. in HK, SG, Japan and ML.
Director accountability	Strong sense of fiduciary duty, at least among larger firms.	Only a few blue chips in most markets display the same sense of duty.
Pension industry	Huge. AUM is bigger than GDP.	Large in some markets (ML, KR, TH), but often politically constrained.
Cultural focus of boards	Many boards appear inward-focussed. Asia experience limited.	Most boards also inward-focussed. Language a big issue.

Managing risk intelligently

- View corporate governance as an exercise in continuous improvement—not a compliance game
- Market and social expectations of companies are rising and evolving—you need to be adaptable
- Investor stewardship / engagement is here to stay—send in your best players
- Civil society organisations play an increasingly important role in shaping perceptions
- Sustainability is about real risks, not an idealistic green agenda. Do you have a strategy?

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