www.acga-asia.org

Asian Corporate Governance Association (ACGA)

"CG Watch 2016 – Ecosystems Matter"

Presentation by:
Sharmila Gopinath, Research Director, India

BSE Launch of CG Scorecard

Agenda

1. Key conclusions
2. Market rankings
3. (In)consistency of performance
4. Strategic priorities for improved

Who is ACGA

- Founded in 1999 as a response to the Asian Financial Crisis of 1997-98.
- An independent, non-profit membership association dedicated to facilitating systemic and long-term improvements in corporate governance in Asia through independent research, advocacy and educational initiatives.
- We work with key constituencies—regulators, listed companies, institutional investors, accounting auditors and others—to bring about tangible improvements in governance practices.
- ACGA's growing membership base reflects increasing interest in corporate governance in Asia and globally—112 organisations; 1,200 individual contact persons receiving our material; and a global AUM of more than US$24 trillion among our investor members.

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.

Winners, improvers, flatliners, decliners

- Winners:
  - Singapore, Taiwan
- Improvers:
  - Japan, India, Korea
- Flatliners:
  - Hong Kong, Thailand
- Decliners:
  - Malaysia, China, Philippines, Indonesia

North Asia doing much better than Southeast Asia this time.
In 2012, the opposite held true. 2014 was mixed.

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

(In)consistency of performance

- Highly ranked markets (top 5) vary in their degree of consistency across our survey:
  - *Singapore and Taiwan quite consistent*
  - *Hong Kong, Japan and Thailand inconsistent*
- Why does this matter?
  - *Points to obvious areas for improvement.*

Category scores 2016:
Asian markets by rank

Market category ranks					
Total	**CG Rules & Practices**	**Enforcement**	**Political & Regulatory**	**Accounting & auditing**	**CG Culture**
1. Singapore	= 2	= 2	3	1	2
2. Hong Kong	= 2	1	= 1	= 6	3
3. Japan	7	= 2	= 1	5	1
4. Taiwan	= 5	= 4	4	= 3	= 4
5. Thailand	1	= 6	8	= 3	= 4
6. Malaysia	= 5	= 4	7	2	7
7. India	4	= 6	5	= 10	6
8. Korea	8	8	6	= 6	8
9. China	9	9	10	8	9
10. Philippines	= 10	11	9	9	10
11. Indonesia	= 10	10	11	= 10	11

Source: Asian Corporate Governance Association

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

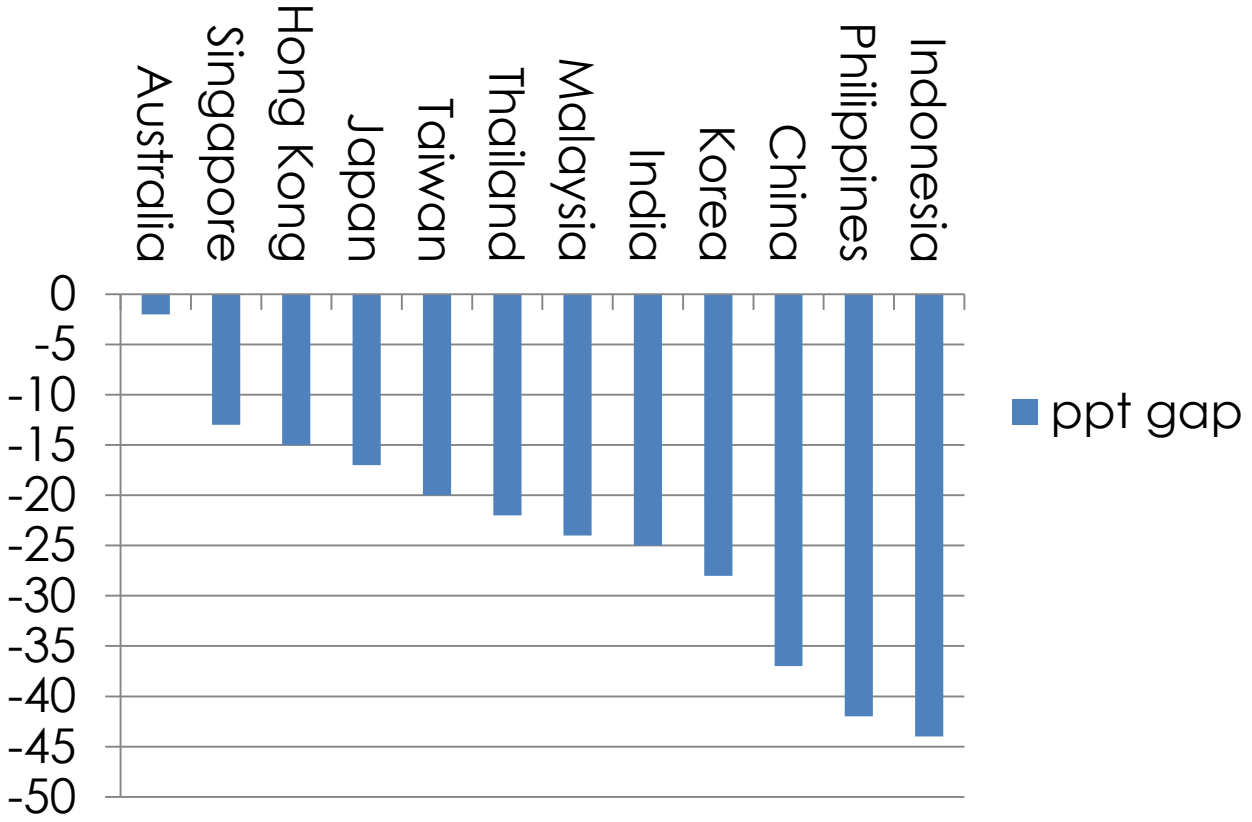
Market category scores

(%)	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

ACGA

How far to go?
Percentage points needed to achieve a score of 80%



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