Asian Corporate Governance Association (ACGA)

“CG Watch 2018 – Hard decisions”

Presentation by:

Jamie Allen, Secretary General, ACGA
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CLSA Hong Kong
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1. **“Hard decisions”**
- A long-held regulatory principle—that higher standards of corporate governance make markets more competitive—is under threat in Asia. So is the core principle of fairness.
- The opportunistic moves towards DCS by its two leading proponents in Asia, namely Hong Kong and Singapore, have taken a toll on their scores in this year’s CG Watch.
- One of our main concerns about dual-class shares being introduced in Hong Kong and Singapore was the potential for contagion around the region.
  - Korea
  - China

2. **Public governance matters**
- Several regulators have shown ambivalence towards minority shareholder rights again. The fairness principle has been unevenly applied in different markets.
- Structural unfairness is baked into corporate governance regulatory regimes around the region.

3. **Investor stewardship**
- Investors got the lowest points in our survey. A combination of no leading asset owner on engagement campaigns in some markets and insufficient focus on CG issues by investors.
Changes in methodology

1. **Size of survey**
   - 95 questions in 2016 to 121 questions in 2018.

2. **Structure of survey**
   - Five categories in 2016 to seven in 2018.
   - Restructured from “thematic” to the “stakeholder ecosystem”.

3. **A new and systematic company survey**
   - 15 large caps and 10 mid-caps per market.

4. **New scoring methodology**
   - A six-point scoring system (0,1,2,3,4,5), with no middle score.

5. **Bigger team**
   - 9 researchers in 2016; 20 researchers in 2018 (including support from ARE in Singapore and KPMG in Japan)
## New market survey framework

<table>
<thead>
<tr>
<th>CG Watch 2016</th>
<th>CG Watch 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Enforcement (public, private)</td>
<td>2. Regulators</td>
</tr>
<tr>
<td></td>
<td>2.1 Funding, Capacity Building, Regulatory Reform</td>
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<tr>
<td></td>
<td>2.2 Enforcement</td>
</tr>
<tr>
<td>3. Political &amp; Regulatory Environment</td>
<td>3. CG Rules</td>
</tr>
<tr>
<td>4. Accounting &amp; Audit</td>
<td>4. Listed Companies</td>
</tr>
<tr>
<td>5. CG Culture</td>
<td>5. Investors</td>
</tr>
<tr>
<td></td>
<td>6. Auditors &amp; Audit Regulators</td>
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<tr>
<td></td>
<td>7. Civil Society &amp; Media</td>
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</tbody>
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**Goal:** Assess the different components of the CG “ecosystem” more precisely and produce more comparable data on stakeholder groups in the 12 markets. “CG Culture” questions are now included under Listed Companies, Investors, and Civil Society/Media.
A new and more systematic company survey:

- A deep dive into 15 large caps per market representing a cross-section of sectors, size by market cap, and ownership models. (19 main questions with 74 sub-questions.)
- A review of 10 mid-caps per market, also representing a cross-section of sectors, sizes, ownership. (4 main questions, 27 sub-questions)
- A total of 180 large caps and more than 13,000 data points.
- A total of 120 mid caps and more than 3,000 data points.
- The results have been aggregated to produce market-level scores.

Our company survey was developed in collaboration with Asia Research & Engagement (ARE).
## Changes in market rankings

### Market rankings: CG Watch 2016 and 2018

**Blue = Rising market**  
**Red = Falling market**

<table>
<thead>
<tr>
<th>2016</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Australia</td>
<td>1. Australia</td>
</tr>
<tr>
<td>2. Singapore</td>
<td>2. Hong Kong</td>
</tr>
<tr>
<td>3. Hong Kong</td>
<td>3. Singapore</td>
</tr>
<tr>
<td>4. Japan</td>
<td>4. Malaysia</td>
</tr>
<tr>
<td>5. Taiwan</td>
<td>5. Taiwan</td>
</tr>
<tr>
<td>6. Thailand</td>
<td>6. Thailand</td>
</tr>
<tr>
<td>7. Malaysia</td>
<td>=7. Japan, India</td>
</tr>
<tr>
<td>8. India</td>
<td>-</td>
</tr>
<tr>
<td>10. China</td>
<td>10. China</td>
</tr>
<tr>
<td>12. Indonesia</td>
<td>12. Indonesia</td>
</tr>
</tbody>
</table>

Source: Asian Corporate Governance Association
## CG Watch market scores, 2018

<table>
<thead>
<tr>
<th>Market</th>
<th>Total (%)</th>
<th>Key CG reform themes and questions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Australia</td>
<td>71%</td>
<td>Bank governance needs overhaul, time for a federal ICAC</td>
</tr>
<tr>
<td>2. Hong Kong</td>
<td>60%</td>
<td>Going backwards on DCS, about to go forwards on audit regulation</td>
</tr>
<tr>
<td>3. Singapore</td>
<td>59%</td>
<td>Going backwards on DCS, reform direction reflects contradictory ideas</td>
</tr>
<tr>
<td>4. Malaysia</td>
<td>58%</td>
<td>Can new government rid the system of corruption and cronyism?</td>
</tr>
<tr>
<td>5. Taiwan</td>
<td>56%</td>
<td>Moving forward, yet piecemeal reforms hinder progress</td>
</tr>
<tr>
<td>6. Thailand</td>
<td>55%</td>
<td>Moving forward, yet corruption and decline in press freedom are concerns</td>
</tr>
<tr>
<td>7. India</td>
<td>54%</td>
<td>Bank governance needs overhaul, new audit regulator disappoints</td>
</tr>
<tr>
<td>7. Japan</td>
<td>54%</td>
<td>Heavy focus on soft law needs to be balanced with hard law reforms</td>
</tr>
<tr>
<td>9. Korea</td>
<td>46%</td>
<td>Stewardship code gaining traction, but sadly so is DCS</td>
</tr>
<tr>
<td>10. China</td>
<td>41%</td>
<td>Reinforcement of Party Committees raises numerous questions</td>
</tr>
<tr>
<td>11. Philippines</td>
<td>37%</td>
<td>CG reform low on the government's priorities, direction unclear</td>
</tr>
<tr>
<td>12. Indonesia</td>
<td>34%</td>
<td>CG reform low on the government's priorities, direction unclear</td>
</tr>
</tbody>
</table>

**Source:** Asian Corporate Governance Association

Note: Total market scores are based on actual total scores, converted to a percentage and rounded.
## Category scores, 2018

<table>
<thead>
<tr>
<th>Categories</th>
<th>AU</th>
<th>CH</th>
<th>HK</th>
<th>IN</th>
<th>ID</th>
<th>JP</th>
<th>KR</th>
<th>MY</th>
<th>PH</th>
<th>SG</th>
<th>TW</th>
<th>TH</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Government &amp; Public Governance</td>
<td>65%</td>
<td>31%</td>
<td>63%</td>
<td>38%</td>
<td>26%</td>
<td>55%</td>
<td>52%</td>
<td>42%</td>
<td>23%</td>
<td>55%</td>
<td>60%</td>
<td>45%</td>
</tr>
<tr>
<td>2. Regulators</td>
<td>57%</td>
<td>56%</td>
<td>69%</td>
<td>60%</td>
<td>21%</td>
<td>52%</td>
<td>56%</td>
<td>61%</td>
<td>25%</td>
<td>54%</td>
<td>60%</td>
<td>50%</td>
</tr>
<tr>
<td>- Funding, Capacity, Reform</td>
<td>54%</td>
<td>48%</td>
<td>60%</td>
<td>60%</td>
<td>22%</td>
<td>48%</td>
<td>56%</td>
<td>62%</td>
<td>24%</td>
<td>48%</td>
<td>60%</td>
<td>52%</td>
</tr>
<tr>
<td>- Enforcement</td>
<td>60%</td>
<td>64%</td>
<td>78%</td>
<td>60%</td>
<td>19%</td>
<td>57%</td>
<td>55%</td>
<td>59%</td>
<td>26%</td>
<td>59%</td>
<td>60%</td>
<td>49%</td>
</tr>
<tr>
<td>3. Rules</td>
<td>78%</td>
<td>58%</td>
<td>74%</td>
<td>68%</td>
<td>35%</td>
<td>47%</td>
<td>45%</td>
<td>70%</td>
<td>43%</td>
<td>68%</td>
<td>63%</td>
<td>68%</td>
</tr>
<tr>
<td>4. Listed Companies</td>
<td>73%</td>
<td>36%</td>
<td>55%</td>
<td>62%</td>
<td>43%</td>
<td>48%</td>
<td>38%</td>
<td>57%</td>
<td>44%</td>
<td>63%</td>
<td>56%</td>
<td>63%</td>
</tr>
<tr>
<td>5. Investors</td>
<td>63%</td>
<td>18%</td>
<td>26%</td>
<td>36%</td>
<td>19%</td>
<td>53%</td>
<td>33%</td>
<td>38%</td>
<td>21%</td>
<td>32%</td>
<td>33%</td>
<td>30%</td>
</tr>
<tr>
<td>6. Auditing &amp; Audit Regulators</td>
<td>84%</td>
<td>50%</td>
<td>74%</td>
<td>39%</td>
<td>61%</td>
<td>71%</td>
<td>69%</td>
<td>84%</td>
<td>63%</td>
<td>79%</td>
<td>70%</td>
<td>71%</td>
</tr>
<tr>
<td>7. Civil Society &amp; Media</td>
<td>78%</td>
<td>22%</td>
<td>60%</td>
<td>71%</td>
<td>44%</td>
<td>62%</td>
<td>31%</td>
<td>47%</td>
<td>38%</td>
<td>62%</td>
<td>51%</td>
<td>51%</td>
</tr>
</tbody>
</table>

**Source:** Asian Corporate Governance Association
Australia Scores

Australia category scores

- Auditing & Audit Regulators
- Rules
- Civil Society & Media
- Listed Companies
- Government & Public Governance
- Investors
- Regulators

Source: Asian Corporate Governance Association
• Slim majority in the federal parliament impedes reform

• Whistleblower legislation stalled in Senate; calls increase for a federal ICAC

• Regulator forces banks to compensate customers for “fees-for-no-service” scandal, while banking royal commission exposes unethical practices

• Corporate reporting strong on financials and CG, somewhat weaker in ESG than expected; company scores stand head and shoulders above the region

• Institutional investor bodies publish their own stewardship codes

• ASIC highlights ongoing problems with audit quality
Hong Kong Scores

Hong Kong category scores

- Auditing & Audit Regulators
- Rules
- Regulators
- Government & Public Governance
- Civil Society & Media
- Listed Companies
- Investors

Source: Asian Corporate Governance Association
• Hong Kong loses points and credibility due to its introduction of dual-class shares in April 2018. Still no coherent government strategy on CG

• An independent audit regulator finally looks set to arrive in 2019

• Hong Kong shines on regulatory enforcement, with new “front-loaded” strategy from the SFC and high-quality disclosure from HKEX

• HKEX strengthens rules on capital raisings and delistings, but revised Corporate Governance Code disappoints

• Listed companies underperform in our new survey; board practices remain conservative

• Stewardship code has proved a disappointment, no local leadership
Singapore Scores

Singapore category scores

- Auditing & Audit Regulators
- Rules
- Listed Companies
- Civil Society & Media
- Government & Public Governance
- Regulators
- Investors

Source: Asian Corporate Governance Association
Singapore Highlights

- Introduction of dual-class shares (DCS) damages regulatory credibility and contradicts emphasis on investor stewardship

- CG policy contradictions apparent in revised CG Code, enforcement strategy and some listing rule changes

- Lack of transparency in MAS funding for securities regulation, while information sparse on certain proposed new laws

- Mixed results from regulatory enforcement: penalties for insider trading mostly low; new SGX RegCo has brought more vigour; but litany of corporate scandals raises doubts about deterrence effect of enforcement

- Listed company financial reporting mostly sound, CG reports quite good, some mid-cap sustainability reports better than large caps

- Ambition of independent audit regulator appears diminished
Malaysia Scores

Malaysia category scores

- Auditing & Audit Regulators
- Rules
- Regulators
- Listed Companies
- Civil Society & Media
- Government & Public Governance
- Investors

Source: Asian Corporate Governance Association
Malaysia Highlights

- New government creates strong focus on anti-corruption, arrests the former prime minister, his wife and other politicians
- Regulators continue with CG reforms, including a new Companies Act and significant revisions to the CG Code
- Regulation of listed-company audits is independent and robust, but development of the accountancy profession and regulation of unlisted audits need to be addressed
- Steady progress on investor stewardship, including among domestic funds, with many more signing up to the Malaysian Code for Institutional Investors
- Civil society strong overall, as shown in the election, but there is a limited focus on corporate governance
Taiwan Scores

Taiwan category scores

- Auditing & Audit Regulators
- Rules
- Regulators
- Government & Public Governance
- Listed Companies
- Civil Society & Media
- Investors

Source: Asian Corporate Governance Association
Taiwan Highlights

- Momentum continues on CG reform, agency integration, and enforcement, but anti-corruption regime remains fragmented
- FSC ups the ante on bank governance, a persistent problem area
- Constant changes in FSC leadership continue, limiting the perceived power and independence of the regulator
- Despite new Roadmap, CG reform is often piecemeal—a deeper systemic approach is needed that addresses remaining bottlenecks and issues
- New confiscation law adds teeth to enforcement measures
- CG rules improving, but old problems persist: still no proper 5% rule for disclosing substantial ownership, causing harm to some listed companies
- New civil groups starting to sprout up
Thailand Scores

Source: Asian Corporate Governance Association
Thailand Highlights

- SEC obtains civil sanctioning powers and better misconduct rules, leading to broader and deeper enforcement—yet the strike rate on criminal cases remains low

- An active period for reform in other areas, including rules on insider trading, anti-corruption and qualifications of CFOs—but new regulations hard to decipher

- A delay in the implementation of IFRS 9 on financial instruments raises questions about banking supervision and accounting regulation

- Thai companies continue to receive recognition for good sustainability disclosure, but do they fully address the key strategic issues?

- The decline in press freedom and draconian defamation laws hinder corporate accountability efforts

- An Investment Governance Code ushers in a new era of investor stewardship, while a revamped CG Code challenges companies to “apply” rather than “comply”
India Scores

Source: Asian Corporate Governance Association
India Highlights

- Modi’s “minimum government, maximum governance” slogan is questionable: “Digital India” (good); no Ombudsman (bad)
- Banking regulator suffers a fall from grace as NPAs continue to rise and bank scandals surface
- Independent audit regulator introduced, but in diluted form: ICAI, an industry body, still retains influence
- Corporate CG leaders stumble (Tata, Infosys)
- New Kotak Committee report made numerous recommendations for CG improvements: one woman INED; separation of chairman and CEO; more RPT disclosure
Japan Scores

Japan category scores

Auditing & Audit Regulators
Civil Society & Media
Government & Public Governance
Investors
Regulators
Listed Companies
Rules

Source: Asian Corporate Governance Association
Japan Highlights

- Unbalanced focus on soft law compared to hard law; CG rules and shareholder rights remain weak in many areas
- Regulatory enforcement outcomes limited and statistical trends not well explained
- Growth of “independent” directors and “audit committees” strong on paper, but board culture and practices remain largely the same in many firms
- Depth and quality of corporate reporting has significant gaps
- Stewardship Code and GPIF are forcing asset managers to be more active
- Civil society and media becoming more engaged on CG and ESG

Press Conference
December 5, 2018
Korea Scores

Source: Asian Corporate Governance Association
Korea Highlights

• New Moon administration brings hopes of deeper CG reform, delivers some changes, spectre of dual-class shares spoils the party

• Fair Trade Commission takes on unfair trading practices at chaebol, other regulatory enforcement getter better

• New external audit act brings strong government intervention in audit firms

• “Comply or explain” introduced for revised CG Code—but its scope is limited

• Stewardship Code introduced for investors; NPS signs up in July 2018

• No improvement in policy of rotating government officials quickly

• CG disclosure among top companies improving, but standards generally low
China Scores

Source: Asian Corporate Governance Association
China Highlights

• Party Committee leadership role is reinforced and anti-corruption campaign maintains momentum

• CBIRC formed to end the “one bank, three commissions” model, with CSRC continuing as a standalone entity

• CSRC finally releases revised CG Code, but postpones China Depository Receipts following cool market reaction

• Regulatory enforcement continues to strengthen

• Companies disclose more about investor engagement activities, but mixed-ownership plan for SOEs receives mixed assessment

• Retail investors still dominate share trading, show no inclination towards activism; but some quasi-class actions have occurred since 2015

• The long-form audit report is fully adopted, while the MOF faces a dilemma between enhancing audit quality and encouraging consultancy services in CPA industry
Philippines Scores

Philippines category scores

- Auditing & Audit Regulators: Highest score
- Listed Companies
- Rules
- Civil Society & Media
- Regulators
- Government & Public Governance
- Investors

Source: Asian Corporate Governance Association

Press Conference
December 5, 2018 29
Philippines Highlights

- Corporate governance very low on the government’s agenda
- Reform tends to be regulator-driven and reactive to external events
- Recent evidence of politicisation of the SEC is a real concern
- There have been few major CG reforms for two years
- CG disclosure has improved and accounting and auditing standards are high
- Enforcement remains weak and patchy at best
Indonesia Scores

Source: Asian Corporate Governance Association
Indonesia Highlights

- CG reform remains a low political priority – new impetus is needed
- The securities regulator is fighting a lonely CG battle promoting reforms
- ... with the stock exchange seemingly disinterested in CG itself
- Some good parts: company disclosure has (reluctantly) improved...
- ...and financial disclosure is also good...
- ... but some areas are awful: insider trading remains rife with no enforcement...
- ...and weak related party transactions rule are too easily abused by insiders
The next 20 years: Tough questions

- Government and regulators have some tough decisions to make about the strategic direction of CG reform in the next 20 years:
  - Will they continue to favour controlling shareholder interests or create more balanced, fairer systems?
  - Can they foster truly world-class financial and CG reporting?
  - Can they balance the introduction of dual-class shares with stronger legal tools for shareholders, so that investors can better protect themselves?

- The dilemma for Institutional investors: while opposed to dual-class shares in principle, they find it difficult in practice not to buy these shares.

- Companies need to work out whether the investment in good governance is worth it. Their current answer would appear to be no.

- Finally, a tough question we are often asked: Has corporate governance in Asia truly improved? Our answer is mixed.
Contact details

Jamie Allen
Secretary General
Asian Corporate Governance Association Ltd

Room 1801, 18th Floor, Wilson House
19-27 Wyndham Street, Central, Hong Kong

Tel: (852) 2160 1789 (D)
Fax: (852) 2147 3818
Email: jamie@acga-asia.org
Website: www.acga-asia.org