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Asian Corporate Governance Association (ACGA)

“CG Watch 2018 – Hard decisions”

Presentation by:

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CG Watch 2018 – Key Conclusions

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

CG Watch 2016	CG Watch 2018
1. CG Rules & Practices	1. Government & Public Governance
2. Enforcement (public, private)	2. Regulators 2.1 Funding, Capacity Building, Regulatory Reform 2.2 Enforcement
3. Political & Regulatory Environment	3. CG Rules
4. Accounting & Audit	4. Listed Companies
5. CG Culture	5. Investors
	6. Auditors & Audit Regulators
	7. Civil Society & Media

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.

New company survey

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

2016	2018
1. Australia	1. Australia
2. Singapore	2. Hong Kong
3. Hong Kong	3. Singapore
4. Japan	4. Malaysia
5. Taiwan	5. Taiwan
6. Thailand	6. Thailand
7. Malaysia	=7. Japan, India
8. India	-
9. Korea	9. Korea
10. China	10. China
11. Philippines	11. Philippines
12. Indonesia	12. Indonesia

Source: Asian Corporate Governance Association

Market rankings & scores, 2018

CG Watch market scores, 2018

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

Source: Asian Corporate Governance Association

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

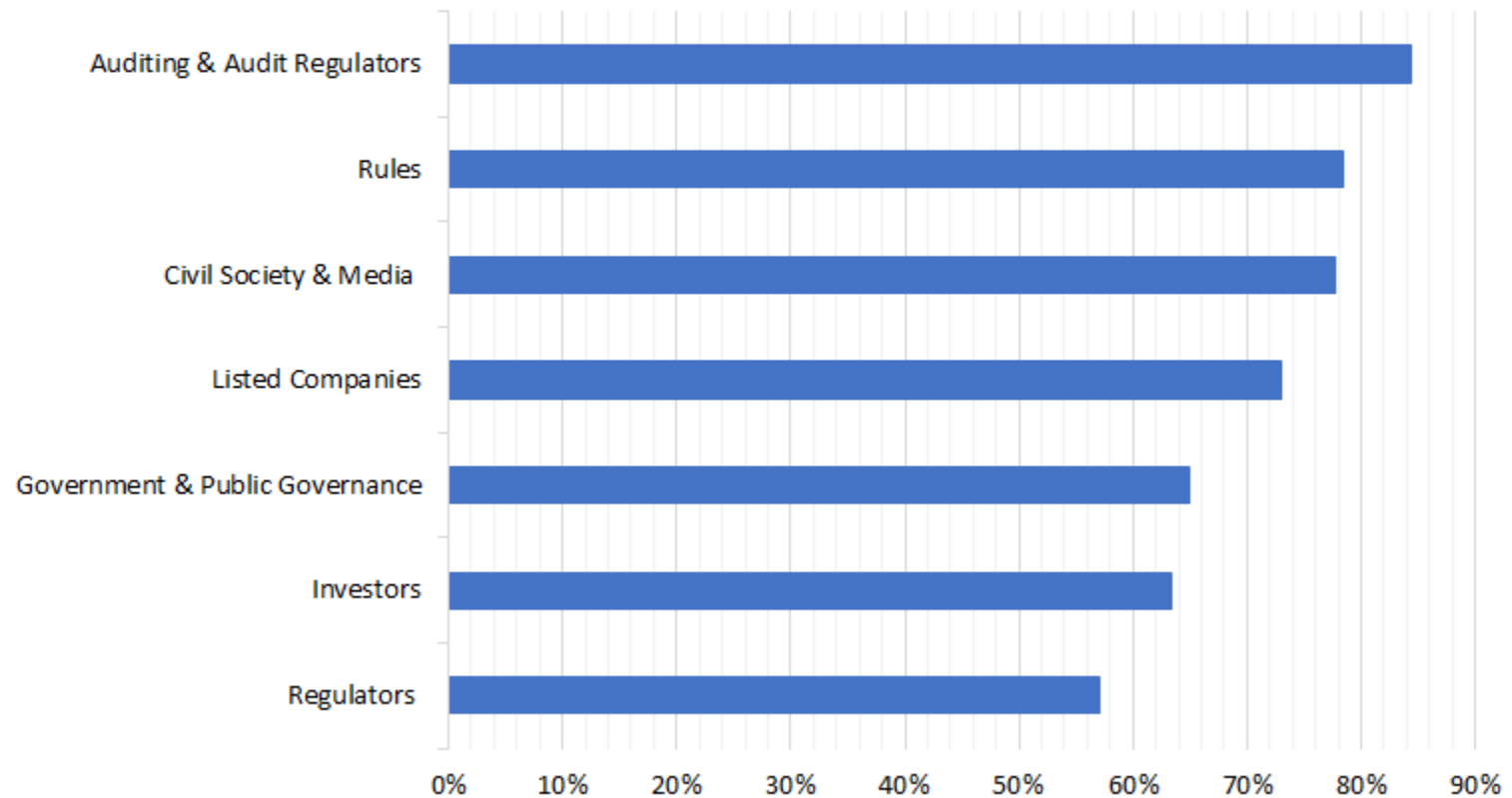
Category scores, 2018

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

Source: Asian Corporate Governance Association

Australia Scores

Australia category scores



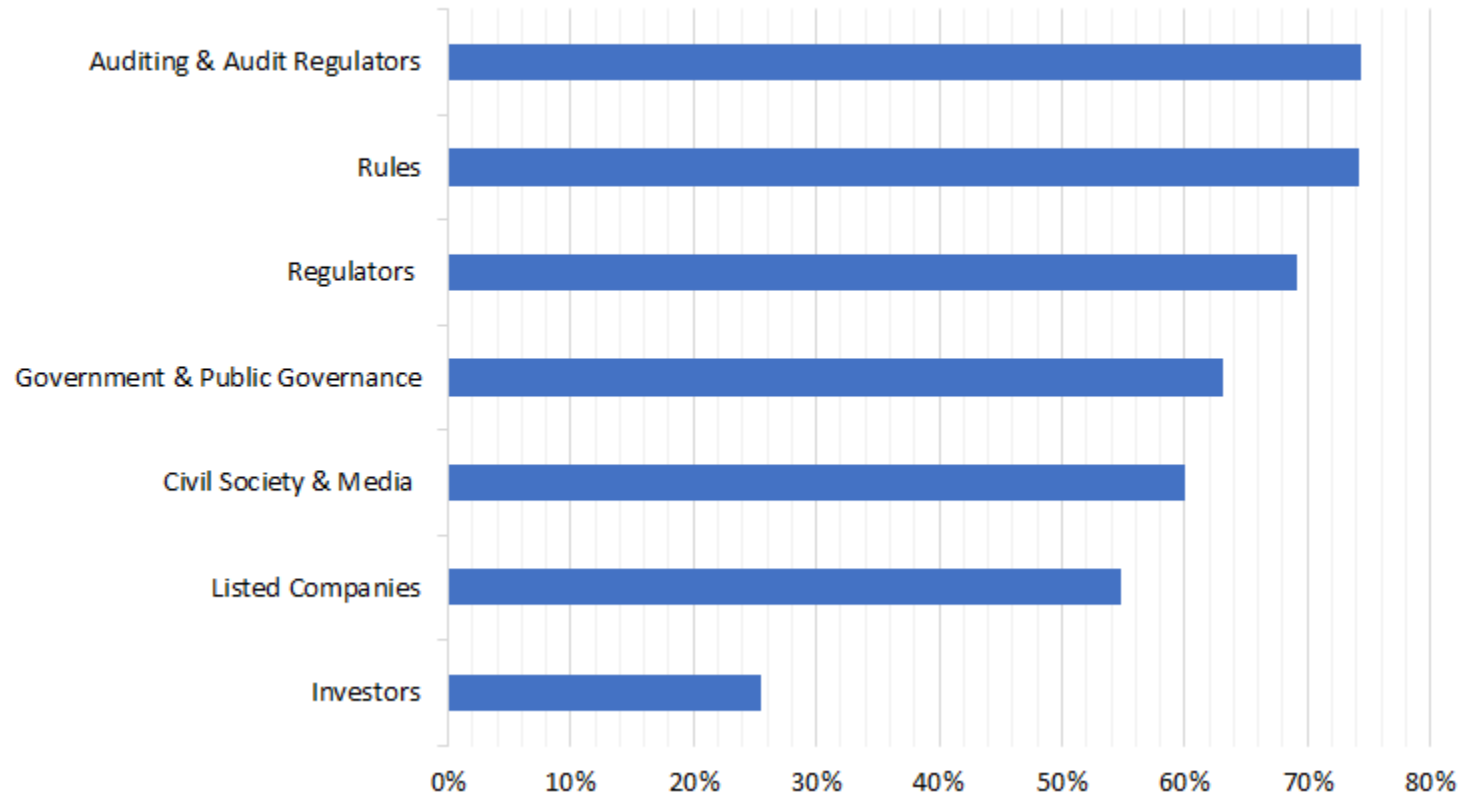
Source: Asian Corporate Governance Association

Australia Highlights

- 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



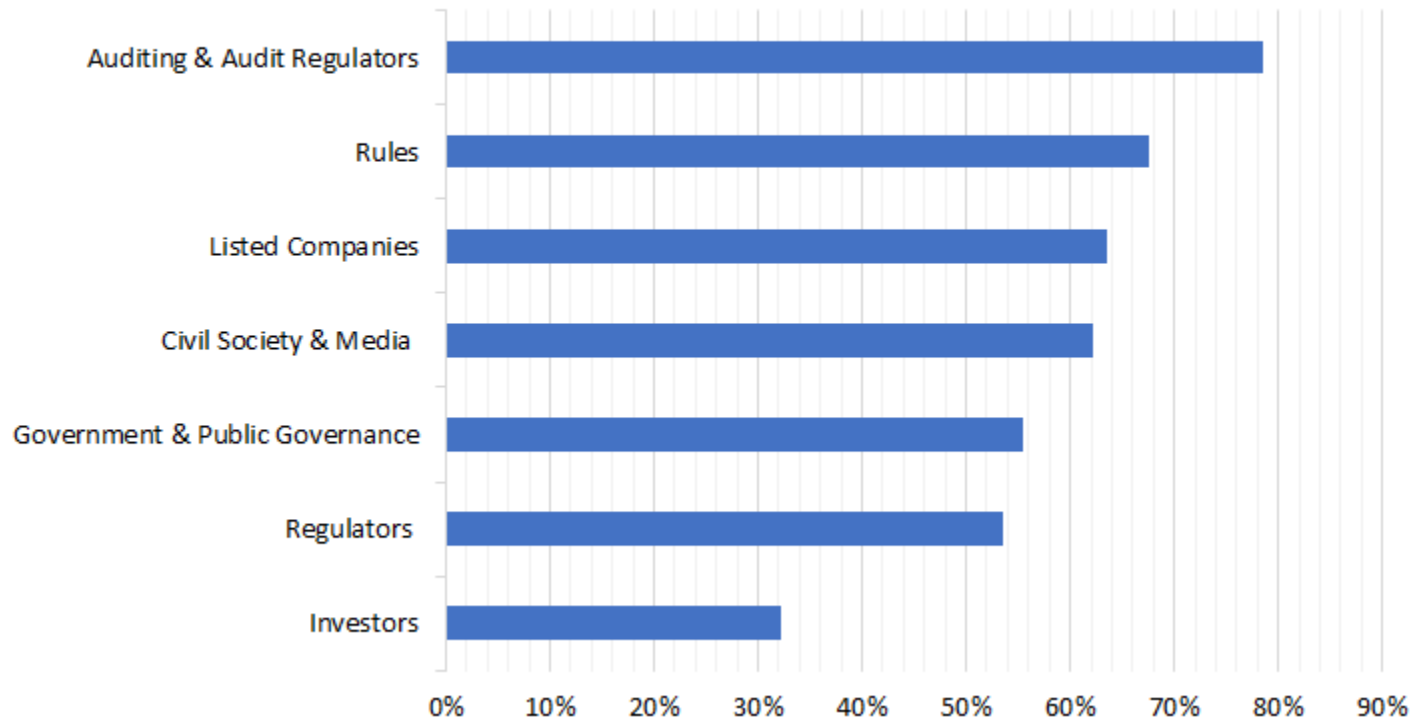
Source: Asian Corporate Governance Association

Hong Kong Highlights

- 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



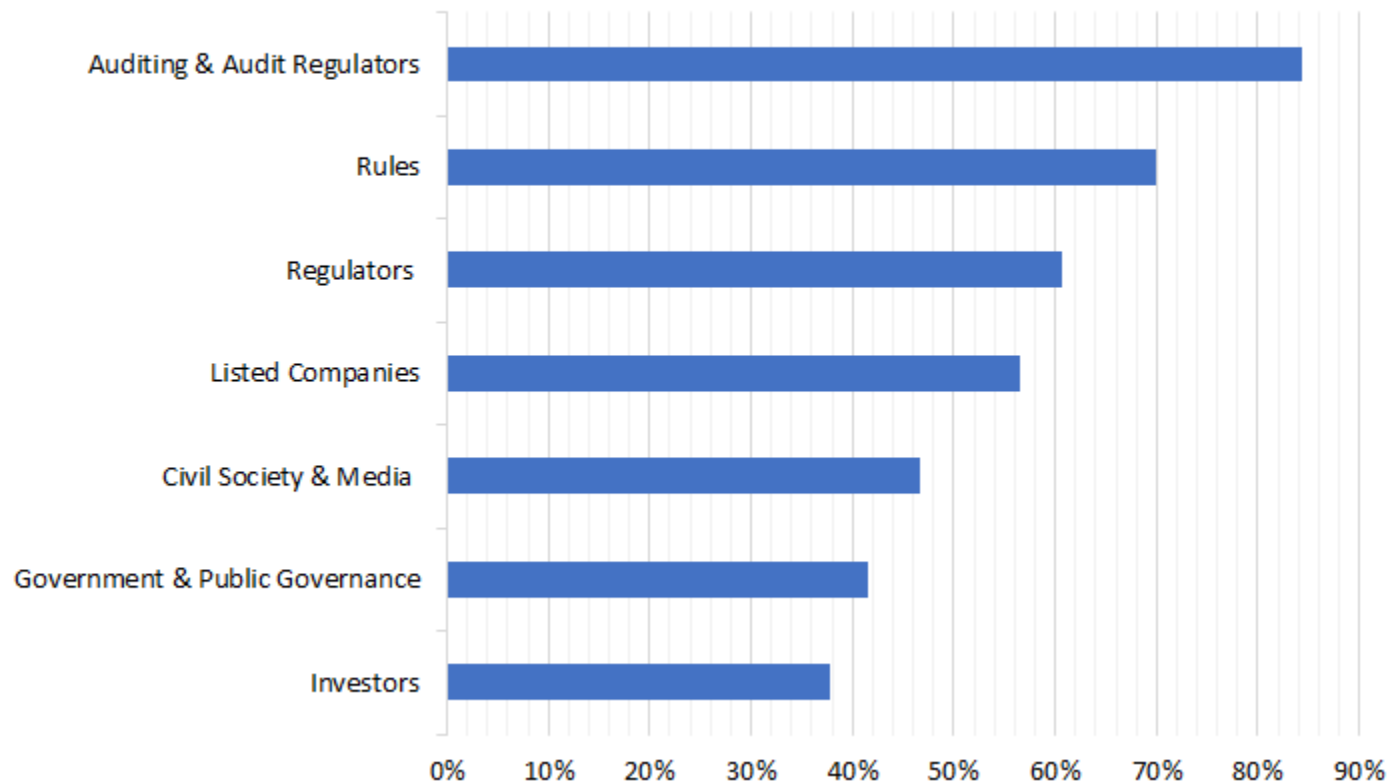
Source: Asian Corporate Governance Association

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



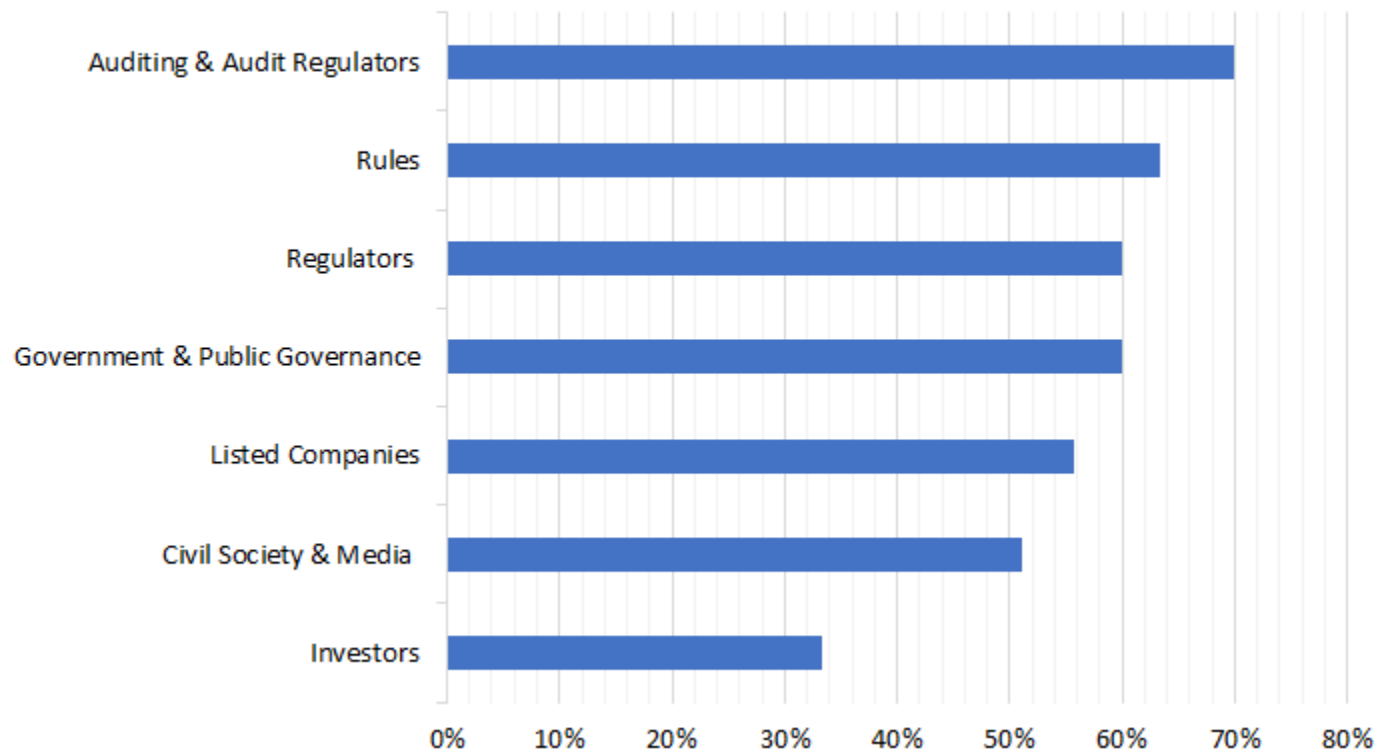
Source: Asian Corporate Governance Association

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



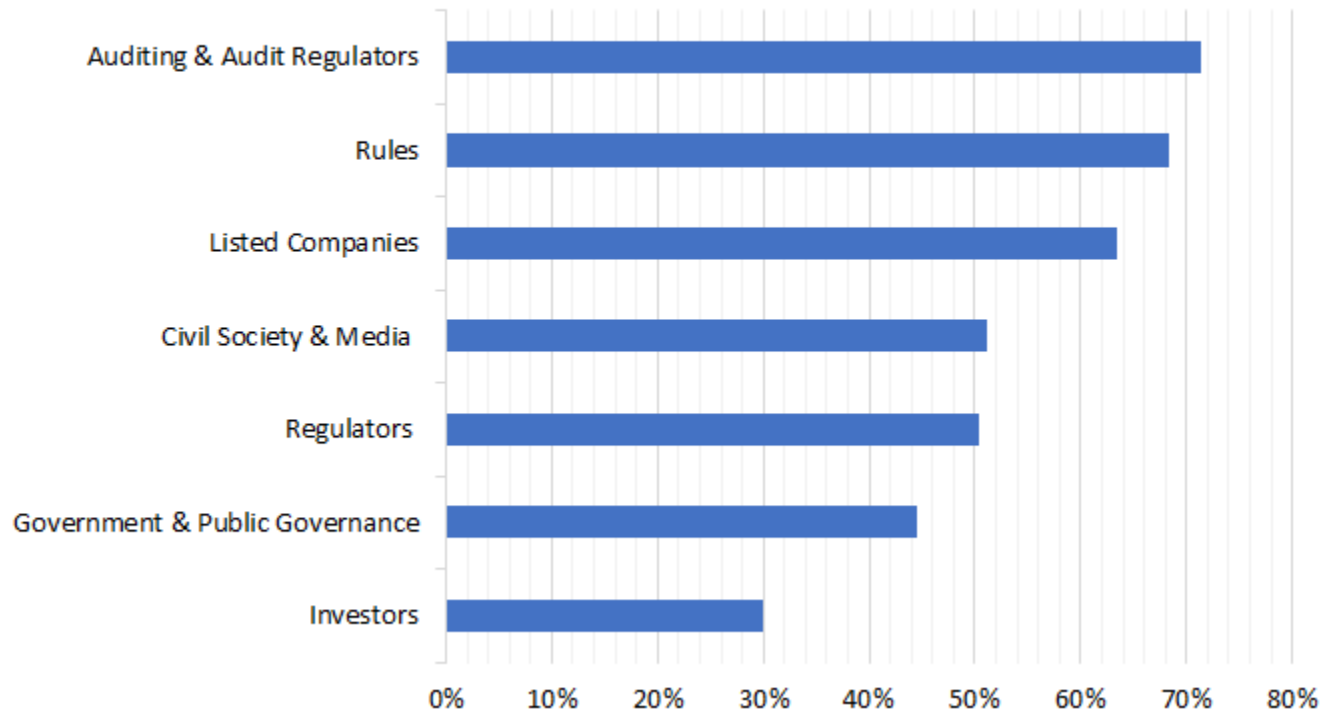
Source: Asian Corporate Governance Association

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

Thailand category scores



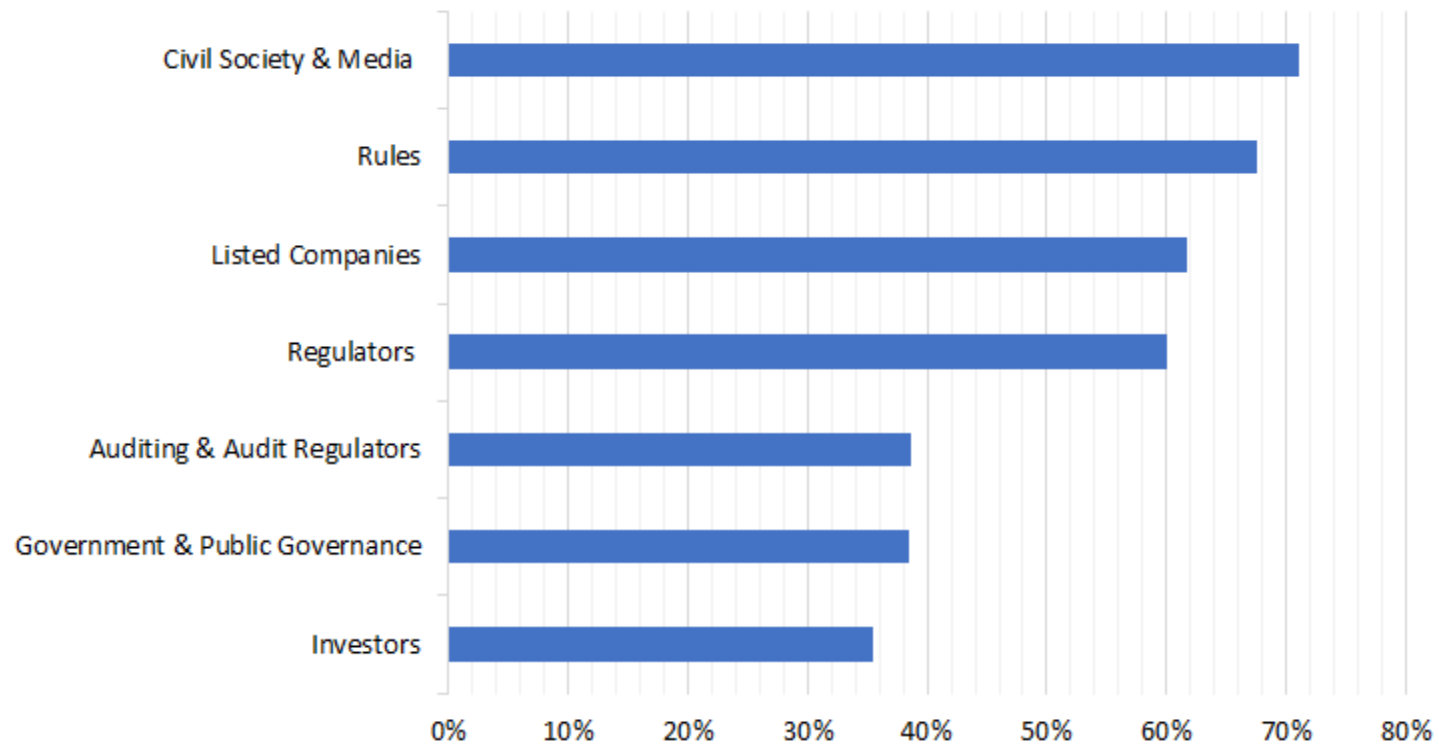
Source: Asian Corporate Governance Association

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

India category scores



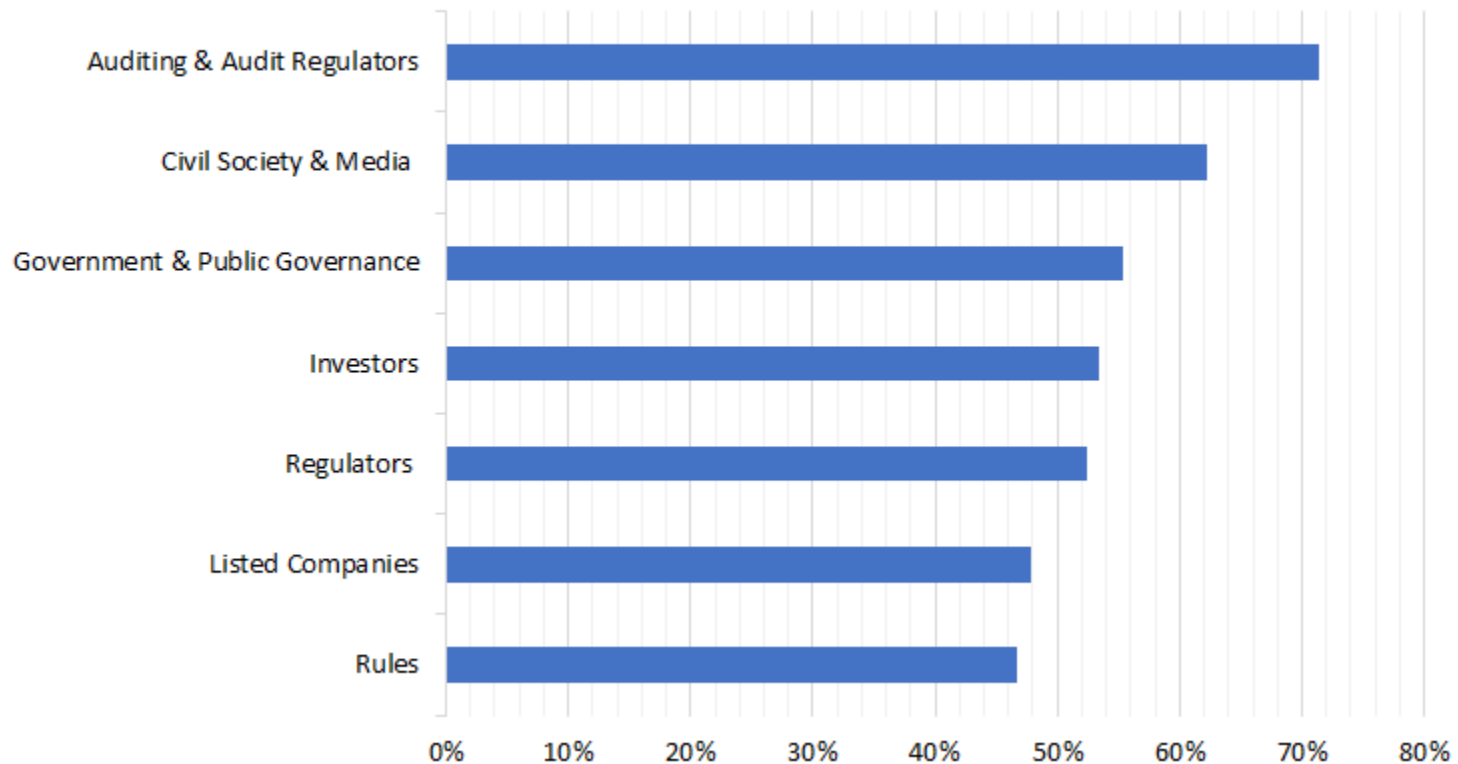
Source: Asian Corporate Governance Association

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



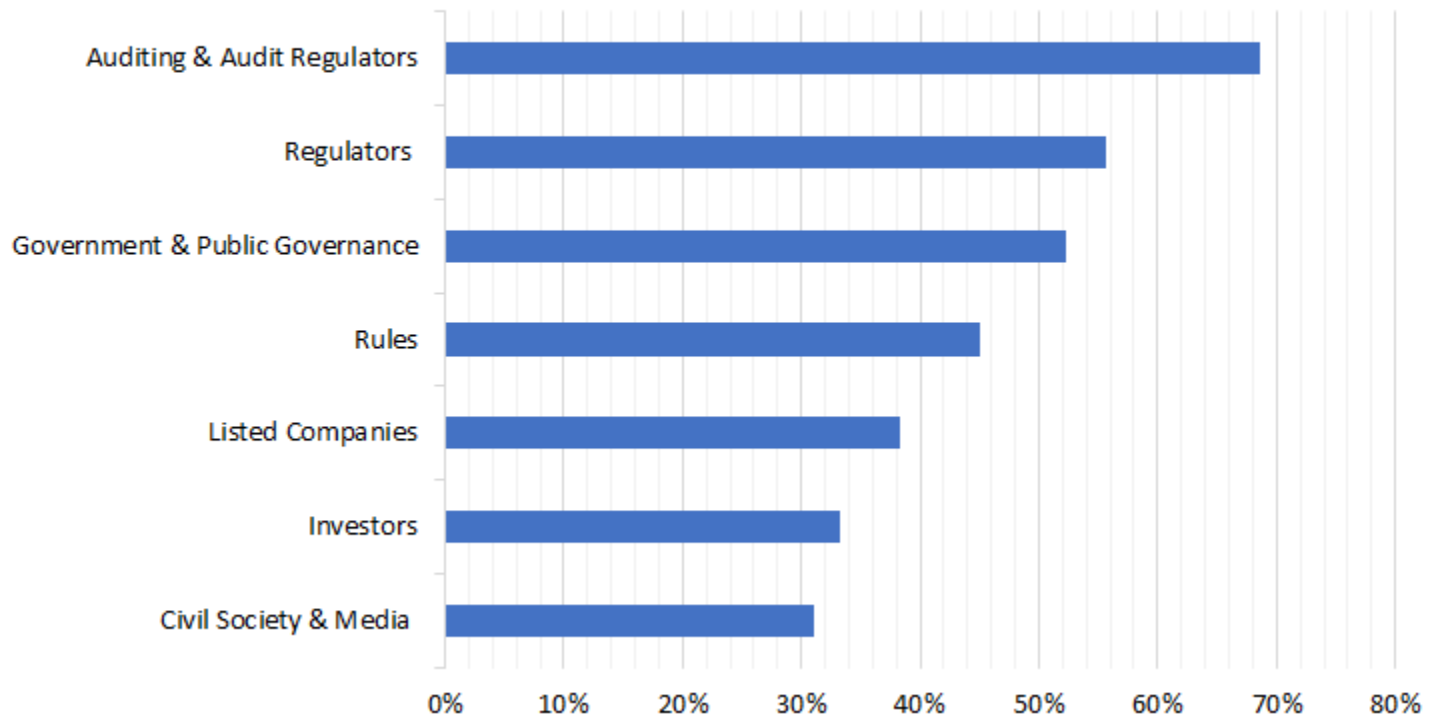
Source: Asian Corporate Governance Association

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

Korea Scores

Korea category scores



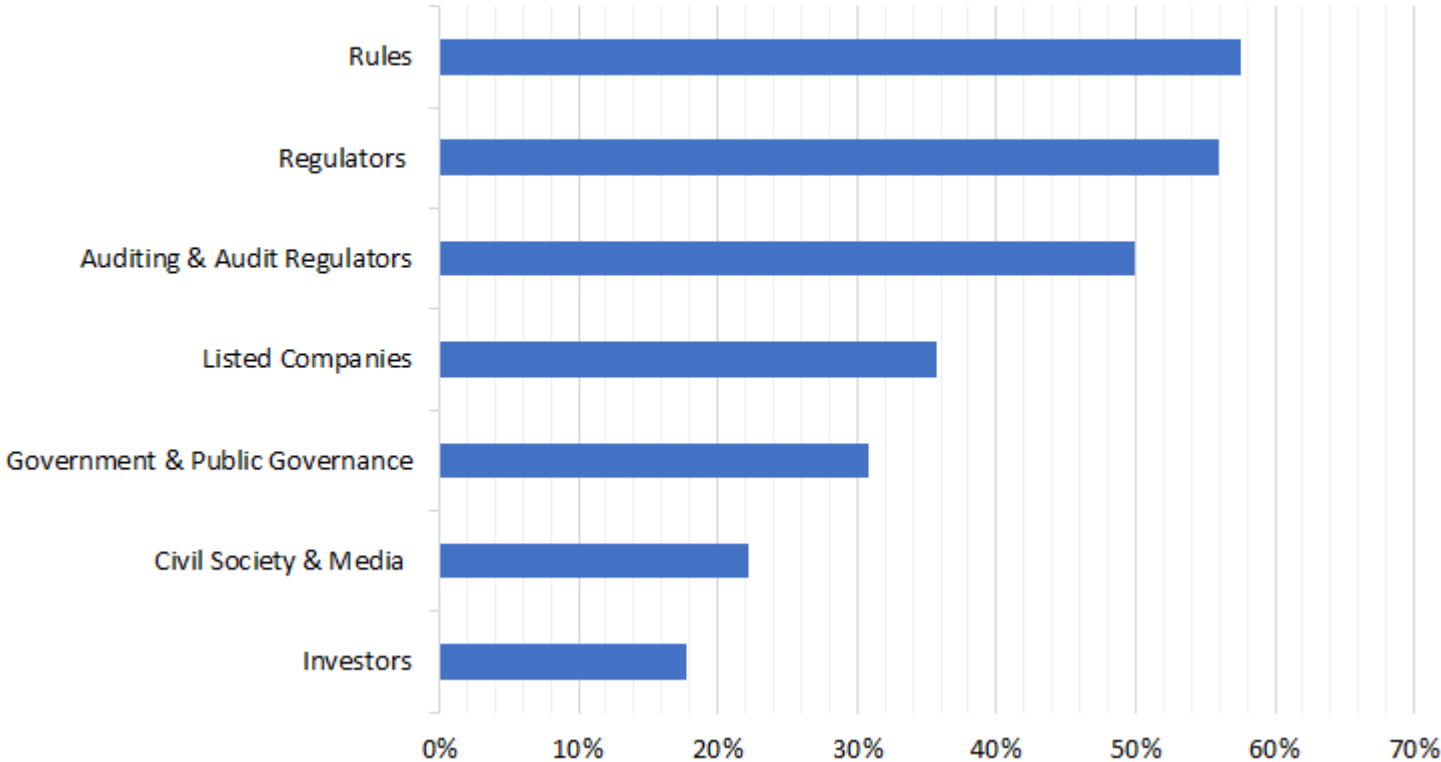
Source: Asian Corporate Governance Association

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 getting 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

China category scores



Source: Asian Corporate Governance Association

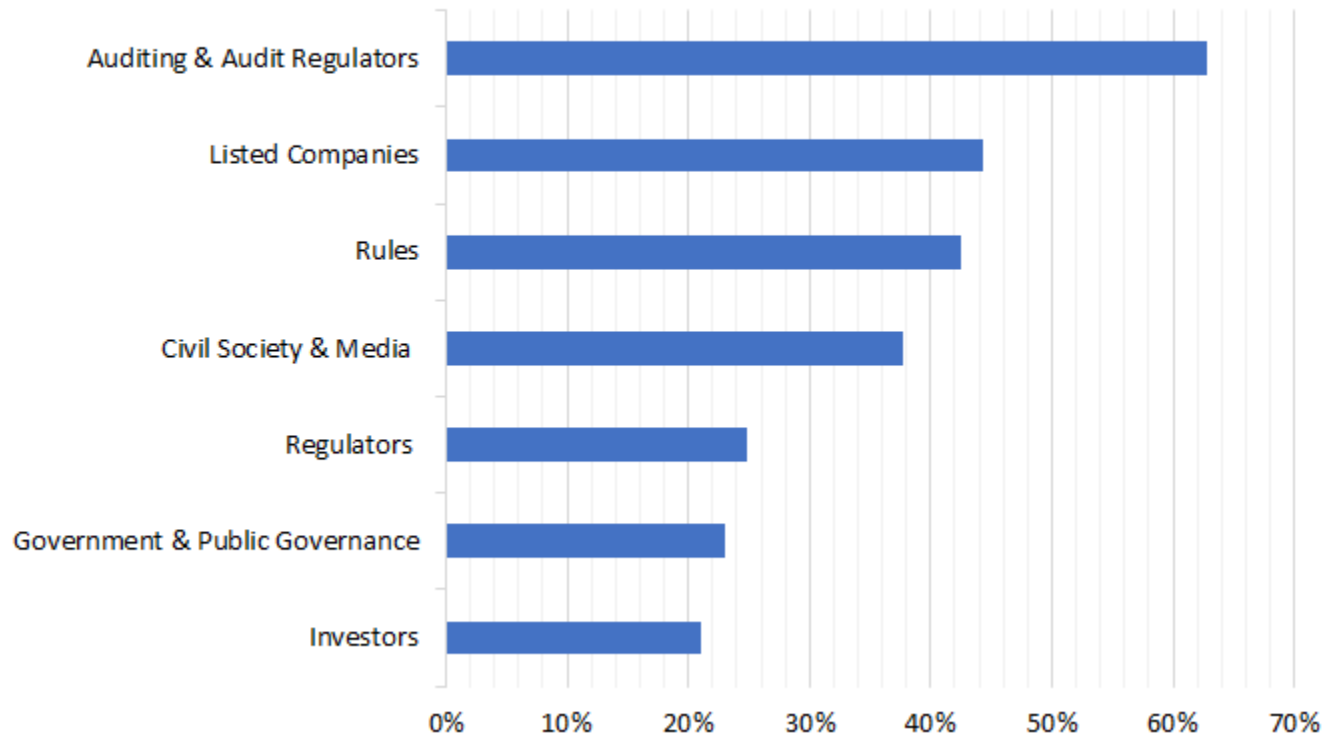


China Highlights

- 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



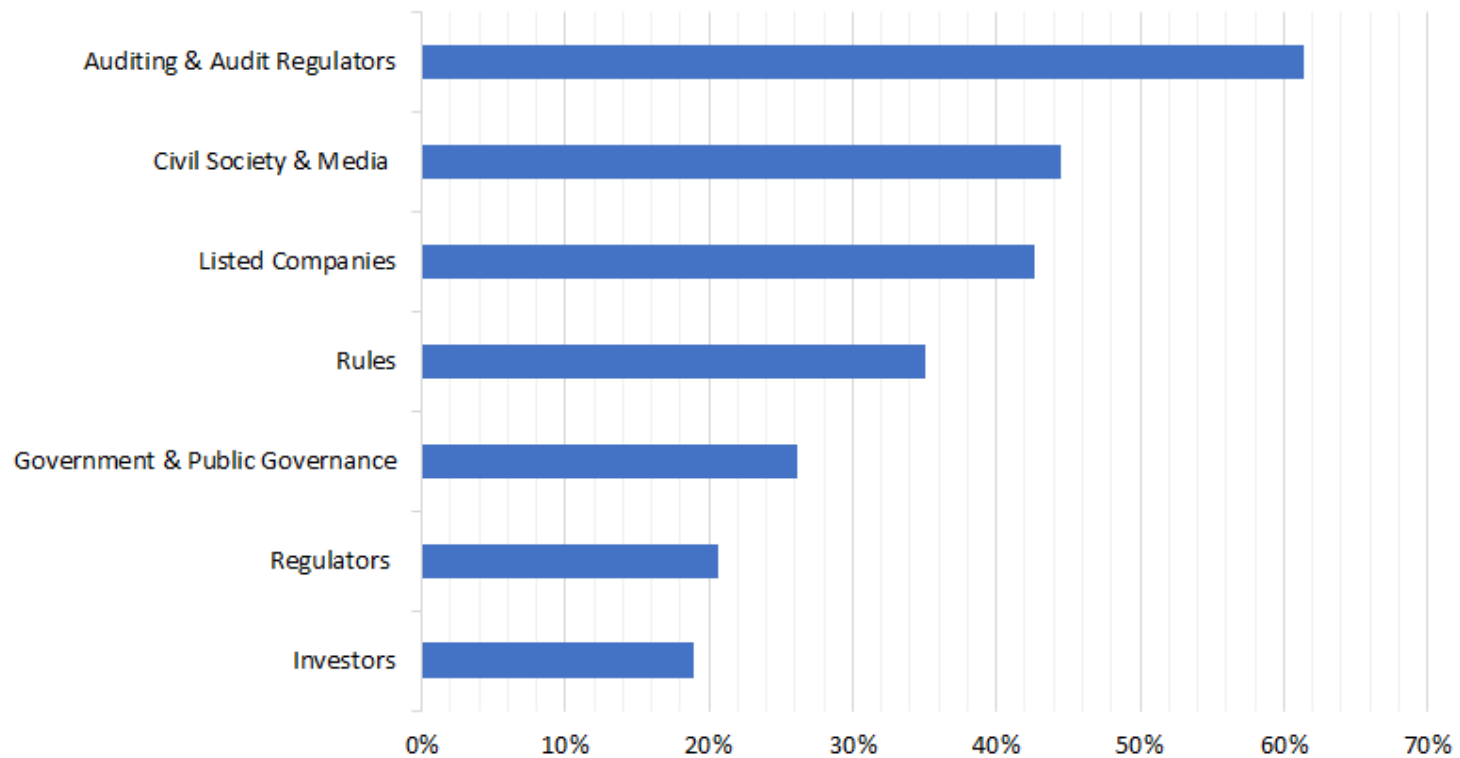
Source: Asian Corporate Governance Association

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

Indonesia category 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.

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