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### CORPORATE GOVERNANCE WATCH 2020

#### ***Australia ranks no.1 by market; Materials & Capital Goods best performing sector 8% increase in APAC listcos' corporate governance performance***

**HONG KONG, 20 May 2021:** The Asian Corporate Governance Association ('ACGA') and CLSA Limited ('CLSA') today release their 10<sup>th</sup> biennial **CG Watch** report on environmental, social and governance (ESG) performance in the APAC region. Published as separate surveys for the first time, ACGA's "Future Promise" report delves into ESG performance and practices by market, while CLSA's "High Hopes" report reveals winners and losers by sector and examines how corporate ESG practices have evolved over the past two years.

Australia retains its first place ahead of Hong Kong and Singapore equal second; in the sector ranking, Materials & Capital Goods clinches the top spot, narrowly beating Technology. Findings across sectors show that region-wide corporate governance practices of listed companies have improved by 8% since 2018.

ACGA ranked the corporate governance standards of 12 APAC markets, while CLSA analysts surveyed 1,200 Asia-Pacific listed companies grouped in 13 sectors. CLSA is this year taking a fresh approach, examining corporate performance through the prism of sector classification, rather than markets, in line with investor demand for sector-based portfolio management.

#### 1. ACGA Market Survey Findings<sup>1</sup>

| Market      | 2020 | 2018 | Highlights  |
|-------------|------|------|---|
| Australia   | 1    | 1    | Banking commission spurs enforcement, still no federal Independent Commission Against Corruption (ICAC) |
| Hong Kong   | 2    | 2    | New audit regulator, enforcement remains strong, ICAC disappoints                                       |
| Singapore   | 2    | 3    | Enforcement firming, rules improve, company disclosure disappoints                                      |
| Taiwan      | 4    | 5    | Big CG reform push on multiple fronts, rules still complicated  |
| Japan       | 5    | 7    | Ahead on climate change reporting, behind on company CG disclosure                                      |
| Malaysia    | 5    | 4    | Political turmoil erodes government scores, other areas hold steady                                     |
| India       | 7    | 7    | New audit regulator, civil society surges, public governance disappoints                                |
| Thailand    | 8    | 6    | Political turmoil erodes government scores, rules strong, investors improve                             |
| Korea       | 9    | 9    | Public governance strengthens, CG disclosure improves, regulatory opacity                               |
| China       | 10   | 10   | Forging its own governance path, still waiting for ESG reporting guidelines                             |
| Philippines | 11   | 11   | Stronger regulatory focus on CG, investors and civil society disappoint                                 |
| Indonesia   | 12   | 12   | CG reform continues to struggle, some stronger rules, new e-voting system                               |

Rising market

Falling market

<sup>1</sup> For more information on individual markets, please visit <https://www.acga-asia.org/>



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Despite a marked improvement in scores across the region, small differences in overall market scores hide some big variations in stakeholder category performance. At the top, Australia maintains a tight hold on its first place, solidly ahead of Hong Kong and Singapore which rank equal second. Yet Australia continues to underperform in Government & Public Governance and Regulators, while Hong Kong and Singapore exhibit weaknesses in their public and corporate governance systems that result in lower total scores than expected from the region's two international financial centres. Beyond the top 3, Taiwan has made a concerted effort over the past two years to enhance its corporate governance ecosystem and moves from fifth to fourth; Japan has rebounded with a sustained effort across several of the stakeholder categories and rises from equal seventh with India to equal fifth with Malaysia. There is little change at the bottom of the ranking.

**Jamie Allen, Secretary General of ACGA**, commented: "There has been a marked improvement in ESG standards in Asia over the past two years, but corporate governance mechanisms remain fragmented and connections between CG and ESG policies are unclear, limiting meaningful ESG and sustainability efforts by companies, investors and policymakers. These issues need to be addressed in order to provide an effective governance foundation for ESG and sustainability in Asia."

### 2. CLSA Sector Survey Findings

| Sector                       | 2020 | 2018 | 2016 | Change<br>2020 vs 2018 |
|------------------------------|------|------|------|------------------------|
| Materials & Capital Goods    | 1    | 1    | 4    | 9.3                    |
| Technology                   | 2    | 4    | 5    | 10.4                   |
| Healthcare & Pharmaceuticals | 3    | 2    | 2    | 9.3                    |
| Finance & Insurance          | 4    | 10   | 9    | 11.9                   |
| Autos                        | 5    | 8    | 8    | 7.5                    |
| Consumer                     | 6    | 7    | 1    | 7.4                    |
| Transport & Infrastructure   | 7    | 3    | 10   | 5.1                    |
| Energy                       | 8    | 6    | 11   | 5.7                    |
| Property                     | 9    | 5    | 3    | 4.1                    |
| Internet, Media & Telecoms   | 10   | 11   | 6    | 8.2                    |
| Hotels & Leisure             | 11   | 9    | 7    | 2.3                    |
| Power & Utilities            | 12   | 13   | 13   | 11.1                   |
| Conglomerates                | 13   | 12   | 12   | (1.6)                  |
| Average                      |      |      |      | 8.0                    |

**Biggest increase in ESG standards**

**Biggest decrease in ESG standards**

Surprisingly, Materials & Capital Goods won the top position driven by diversified boards, improving capital structures and a focus on efficiency and emissions. Technology is a close second, with some major multinationals making considerable gains. Heavy activist action within Autos has driven better governance, while a focus on mitigating systemic risks sees Financials & Insurance recording the highest improvement in



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score. At the bottom of the table, Power & Utilities scored low in Governance but the sector's commitment to renewable energy and reducing greenhouse gas emissions allows it higher scores in Environment and

Social. Last in the ranking is Conglomerates confirming that the sector is in need of genuine ESG reform. A lack of board diversity and dual CEO/chairperson roles are issues that show room for improvement across multiple sectors.

**Seungjoo Ro, Regional Head of ESG Research at CLSA**, said: "Good governance can drive outperformance. We continue to see a positive correlation between stock returns and governance scores, with companies in the top quintile of ESG scores outperforming those in the bottom by 7.5% over the past five years. Among the ESG pillars, governance has the highest positive correlation to returns, providing strong evidence that it remains the most important area for investors to focus on."

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### **About CG Watch 2020**

CG Watch is one of the most comprehensive surveys on corporate governance in Asia-Pacific. It is published biennially and comprises two distinct surveys: a market ranking survey carried out independently by ACGA on macro corporate governance quality in 12 Asia-Pacific markets, and a separate sector survey conducted by CLSA analysts on the corporate governance practices of c.1,200 listed corporations across APAC.

This is the tenth joint CG Watch report. The first edition was published by CLSA and ACGA in 2003. CLSA published two earlier reports in 2001 and 2002.

### **About ACGA**

Established in Hong Kong in 1999, ACGA is an independent, non-profit membership organisation dedicated to promoting long-term and substantive improvements in corporate governance in Asia through research, advocacy and education. ACGA's membership network comprises 110 leading companies, including global investment institutions, listed companies, financial intermediaries, and professional firms based in Asia and around the world. Our investor members manage more than US\$40 trillion in assets globally.

ACGA is well known for producing high quality, independent research. In July 2018, it released a landmark China CG Report, *Awakening Governance: The evolution of corporate governance in China*, a 268-page report that gives a comprehensive picture of the corporate governance landscape in China. Its biennial regional survey, *CG Watch*, provides an in-depth analysis of corporate governance in Asia-Pacific and ranks the CG performance of each market against a range of CG benchmark. ACGA also carries out extensive advocacy and educational work on corporate governance around the region. [www.acga-asia.org](http://www.acga-asia.org)

### **About CLSA**

CLSA, CITIC Securities' international platform, provides global investors and corporates with insights, liquidity and capital to drive their growth strategies.

Award-winning research, an extensive Asia footprint, direct links to China and highly experienced finance professionals differentiate our innovative products and services in asset management, corporate finance, equity and debt capital markets, securities and wealth management.



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As part of CITIC Securities (SSE: 600030, SEHK: 6030), China's leading investment bank, CLSA is uniquely positioned to facilitate cross-border capital flows and connect China with the world and the world to China. CLSA operates from 22 cities across Asia, Australia, Europe and the United States.

For further information, please visit [www.clsa.com](http://www.clsa.com).

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