



ASIAN CORPORATE GOVERNANCE ASSOCIATION

CG Watch 2023: A New Order

ACGA & CLSA PRESS BRIEFING

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CG Watch 2023



Our biennial report card on CG systems across 12 markets in the Asia-Pacific region



108 questions in 7 categories; completed by the research team of the ACGA Secretariat



Desktop + field research from April to November 2023.



ACGA met with regulators, stock exchanges, auditors, civil society groups, investors, other stakeholders.



We analyzed annual, sustainability and other reports, notices and websites of 180 large listed companies. New company survey.



Scrutinised the work of the largest asset owners and asset managers who invest in the region.

7 categories; 12 markets

1. Government and public governance

2a. Regulators: Funding, capacity building, reform

2b. Regulators: Enforcement

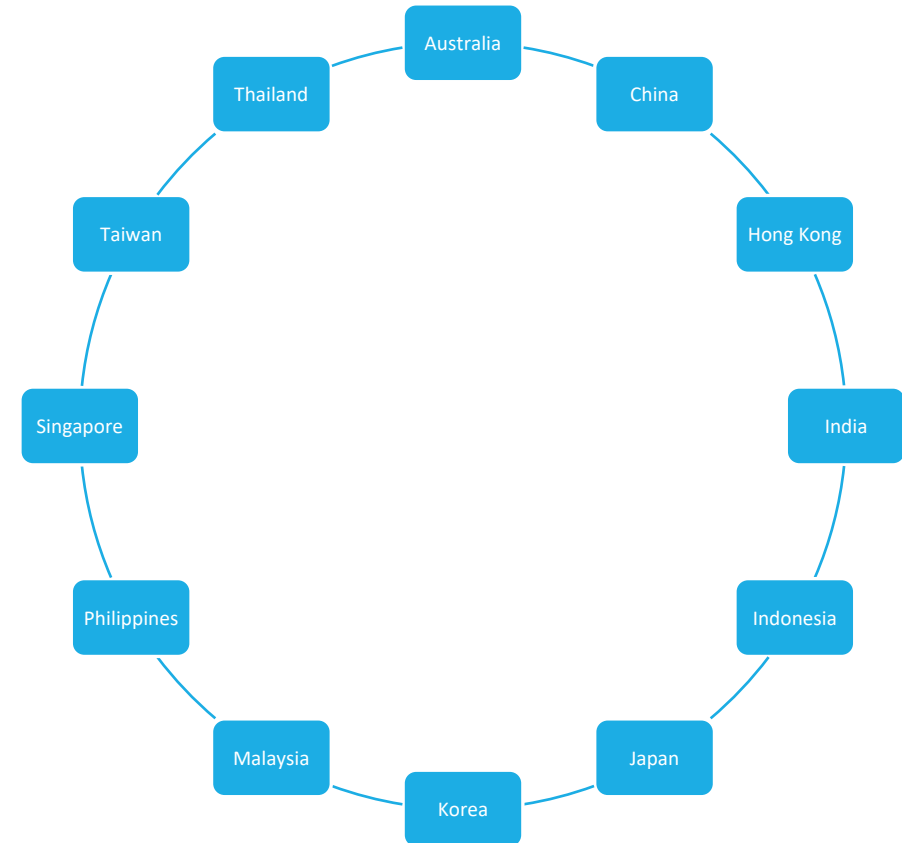
3. CG Rules

4. Listed companies

5. Investors

6. Auditors & audit regulators

7. Civil society & media



“CG Watch 2023”: Regional trends

- Japan’s ranking rises; Hong Kong’s ranking falls.
- Seven of 12 markets changed places. More than the five in 2018 or 2020.
- **Gaining ground:** Taiwan, India, Korea
- **Losing ground:** Singapore, Thailand

- **Category average rising:** Regulatory Enforcement / CG Rules / Investors / Auditors & Audit Regulators / Civil Society & Media
- **Category average steady or falling:** Public Governance / Regulatory Capacity / Listed Companies

- **Worst categories:** Investors, Listed Companies
- **Best categories:** Auditors & Audit Regulators, CG Rules

CG Watch 2023	2023 Total (%)	2020 Total (%)	Change vs 2020 (ppt*)
1. Australia	75.2	74.7	+ 0.5
2. Japan (previously =5 th)	64.6	59.3	+5.3
=3. Singapore (previously =2 nd)	62.9	63.2	-0.3
=3. Taiwan (previously 4 th)	62.8	62.2	+0.6
5. Malaysia	61.5	59.5	+2.0
=6. Hong Kong (previously =2 nd)	59.3	63.5	-4.2
=6. India (previously 7 th)	59.4	58.2	+1.2
8. Korea (previously 9 th)	57.1	52.9	+4.2
9. Thailand (previously 8 th)	53.9	56.6	-2.7
10. China	43.7	43.0	+0.7
11. Philippines	37.6	39.0	-1.4
12. Indonesia	35.7	33.6	+2.1

Source: ACGA

Rising market: Japan

Japan is trying to seize the moment:

- TSE focus on capital efficiency and profitability to address low valuations of listed companies and improve investment options
- FSA new “Action Programme” to accelerate CG reform. Addressing several deeply entrenched problems: takeovers, collective engagement
- Government driving gender diversity and women’s empowerment: new TSE listing rules setting targets for gender diversity in companies
- METI pushing fairer and more transparent takeovers
- Listed companies are improving disclosure, albeit from a low level (rank in this section rose from 11th in 2020 to 8th in 2023)
- Investors (domestic and foreign) are strengthening individual and collective engagement—and using their votes in a more targeted way
- Big increase in the number of shareholder proposals
- Range of improvements to the audit regulatory system
- Civil society continues to expand (director training, advocacy) while the media continues to improve

Falling market: Hong Kong

Hong Kong lowers the bar on market quality:

- Market reputation for quality undermined by WVR, expansion of secondary listings, waiver culture, SPACs.
- Little being done to level the playing field for investors: class actions shelved, H share class rights subverted, few ambitious CG code changes.
- SFC less apparent as a dissenting voice on bad market reform; consultations losing credibility.
- Academics, media fear crossing red lines. Director details curtailed.
- Judiciary under pressure, Beijing says no to separation of powers. Court/MMT cases can take 10+ years to resolve.
- Activist investors close the shutters; short sellers pack their bags.

Yet some traditional strengths remain:

- SFC enforcement still robust. HK =1st with Australia.
- Functions of Accounting and Financial Reporting Council expanded to registration, good transparency in regular reports.
- CG Rules score relatively high.

Slightly falling market: Singapore

Singapore plays it safe:

- Follows its peer HK by introducing WVR and SPACs, both of which fail to take off. Few listings in 2023: time for a policy rethink?
- Kudos for putting a hard 9-year stop on INED tenure, finally introducing named disclosure on director remuneration; early mover on TCFD; but tweaks, rather than bold reform of CG rules.
- Lack of political will to deal with scandals: poor showing on Noble Group, Keppel corruption case. 100% conviction rate on corruption a concern.
- Regulator has resources (more visibility on the numbers would be welcome) and generous spending on tech.
- Listed companies uninspiring, follow the herd on disclosure. Some bright spots on climate disclosure.
- Retail investors a solid force, shareholders speak up and agitate, but it would be good to see some lawsuits hitting miscreants in the pocket.
- Well-developed training for directors via SID and ACRA and local media becoming more deft in reporting and explaining corporate scandals.

	AU	CH	HK	IN	ID	JP	KR	MY	PH	SG	TW	TH	Regional Average
1. Government & public governance	71	32	55	45	32	61	52	37	29	56	67	35	48
2. Regulators	66	56	62	53	29	65	57	58	25	63	65	50	54
- <i>Funding, capacity, reform</i>	61	44	54	52	35	67	51	56	25	56	61	45	51
- <i>Enforcement</i>	72	69	72	54	22	63	64	60	24	71	70	54	54
3. CG rules	83	63	75	73	40	67	65	79	48	77	71	75	68
4. Listed companies	76	39	53	60	36	49	49	66	48	58	55	51	53
5. Investors	69	22	33	46	20	65	56	42	25	39	40	35	41
6. Auditors & audit regulators	82	49	82	69	65	83	73	92	62	83	83	79	74
7. Civil society & media	82	26	50	74	44	66	43	53	33	64	62	46	54
Total	75.2	43.7	59.3	59.4	35.7	64.6	57.1	61.5	37.6	62.9	62.8	53.9	

Source: ACGA

Market scores by category: CG Watch 2023

Listed companies

'We report what we are told to report'. Few companies go above and beyond the requisite disclosure requirements.

Boilerplate reporting still the norm in describing board matters, committee reports, skills matrix. Few companies offer a descriptive narrative.

ESG reports in some markets are looking better than annual reports. Use of consultants, investor pressure?

Board evaluations: a mixed bag. Many companies do them (although the use of external parties is rare) but disclose little granular information. Tendency to give directors scores of 90/100%.

Board diversity policies lack bite (when companies do have them) but we are seeing some appointment of women directors to NCs.

Director training: most firms do both induction and ongoing training but scrimp on providing tangible detail, such as content and hours.

Nomination committees: independently led; independent in action?

	Nomination c'tee chair (typical)	INED as chair (# of 15)*	Board evaluation scores (0-5)
Australia	Independent	14 of 15	2
China	Independent	15 of 15	0
HK	Independent	11 of 15	1
India	Independent	15 of 15	2.5
Indonesia	Independent	11 of 15	2
Japan	Independent	11 of 15	2.5
Korea	Independent	12 of 15	1
Malaysia	Independent	14 of 15	3
Philippines	Non-independent	5 of 15	2
Singapore	Independent	13 of 15	2.5
Taiwan	Non-independent	3 of 15	3.5
Thailand	Independent	11 of 15	1.5

Source: ACGA research

*Review of 180 large caps across the region; 15 per market.

Mixed outcomes

On average, we are still finding:

- Significant imbalance of power between executive and independent directors
- Opaque corporate governance reporting (ie, what the board does)
- Inadequate training of directors + poor disclosure
- Limited board evaluations + poor disclosure
- Limited and unambitious board diversity policies
- Limited financial literacy and expertise on audit committees
- Superficial skill matrices

More positively:

- Sustainability reporting is improving rapidly
- Individual companies in each market are out-performing
- Companies pay very close attention to what the regulator wants, hence a well-designed rule can have an outside impact

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