

[www.acga-asia.org](http://www.acga-asia.org)

Asian Corporate Governance Association (ACGA)

## “CG Watch 2016 – Ecosystems Matter”

Presentation by:

Jamie Allen, Secretary General, ACGA

Chris Leahy, Ben McCarron – Specialist Consultants

OJK, Jakarta

February 9, 2017

# Methodology

- A systemic survey. 95 questions over five categories.
- Based on ACGA's monthly tracking of CG developments in Asia and additional research for CG Watch
- Scoring based on both objective and subjective criteria
- The survey integrates two perspectives: internal progress over previous two years; and relative performance against other markets in Asia.
- The survey considers multiple dimensions: regulatory improvements, enforcement, corporate practices, investor involvement, views of stakeholders, and so on.
- Introduction of Australia set higher benchmarks on many questions.

# 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 not 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.

# Market rankings & scores, 2016

## CG Watch market scores: 2010 to 2016

(%)	2010	2012	2014	2016	Change 2014 vs 2016 (ppt)	Direction of CG reform
<b>Australia</b>	-	-	-	<b>78</b>	-	
<b>1. Singapore</b>	67	69	64	<b>67</b>	(+3)	Mostly sunny, but storms ahead?
<b>2. Hong Kong</b>	65	66	65	<b>65</b>	-	Action, reaction: the cycle of Hong Kong life
<b>3. Japan</b>	57	55	60	<b>63</b>	(+3)	Cultural change occurring, but rules still weak
<b>4. Taiwan</b>	55	53	56	<b>60</b>	(+4)	The form is in, now need the substance
<b>5. Thailand</b>	55	58	58	<b>58</b>	-	Could be on the verge of something great, if...
<b>6. Malaysia</b>	52	55	58	<b>56</b>	(-2)	Regulation improving, public governance failing
<b>7. India</b>	49	51	54	<b>55</b>	(+1)	Forward movement impeded by vested interests
<b>8. Korea</b>	45	49	49	<b>52</b>	(+3)	Forward movement impeded by vested interests
<b>9. China</b>	49	45	45	<b>43</b>	(-2)	Falling further behind, but enforcement better
<b>10. Philippines</b>	37	41	40	<b>38</b>	(-2)	New policy initiatives, but regulatory strategy weak
<b>11. Indonesia</b>	40	37	39	<b>36</b>	(-3)	Losing momentum after progress in past survey

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
<b>Australia</b>	<b>78</b>	80	68	78	90	74
<b>1. Singapore</b>	<b>67</b>	63	63	67	87	55
<b>2. Hong Kong</b>	<b>65</b>	63	69	69	70	53
<b>3. Japan</b>	<b>63</b>	51	63	69	75	58
<b>4. Taiwan</b>	<b>60</b>	54	54	64	77	50
<b>5. Thailand</b>	<b>58</b>	64	51	45	77	50
<b>6. Malaysia</b>	<b>56</b>	54	54	48	82	42
<b>7. India</b>	<b>55</b>	59	51	56	58	49
<b>8. Korea</b>	<b>52</b>	48	50	53	70	41
<b>9. China</b>	<b>43</b>	38	40	36	67	34
<b>10. Philippines</b>	<b>38</b>	35	19	41	65	33
<b>11. Indonesia</b>	<b>36</b>	35	21	33	58	32

Source: Asian Corporate Governance Association

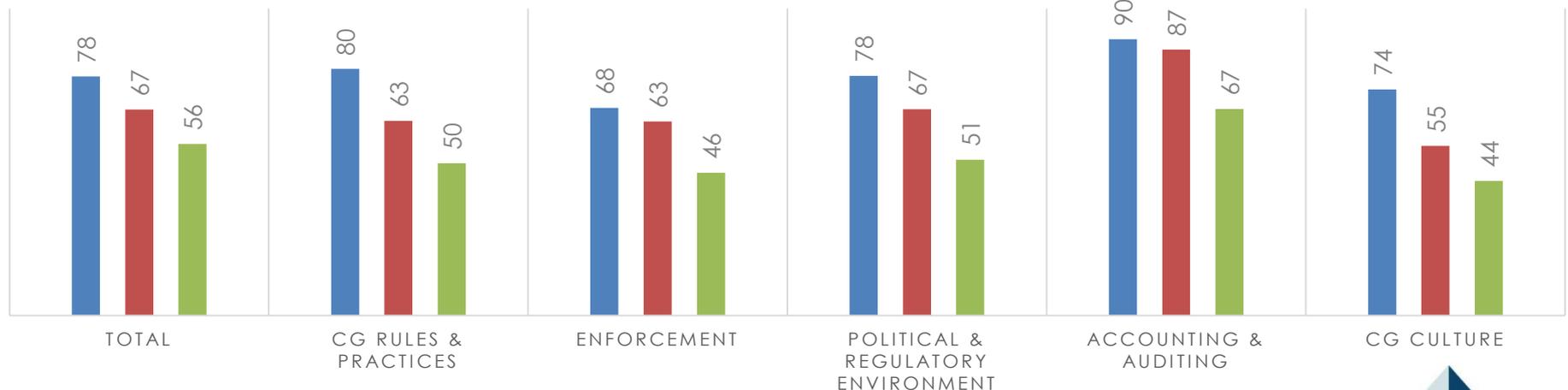
# Strategic priorities to strengthen ecosystems

	# 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

# Australia – General comments

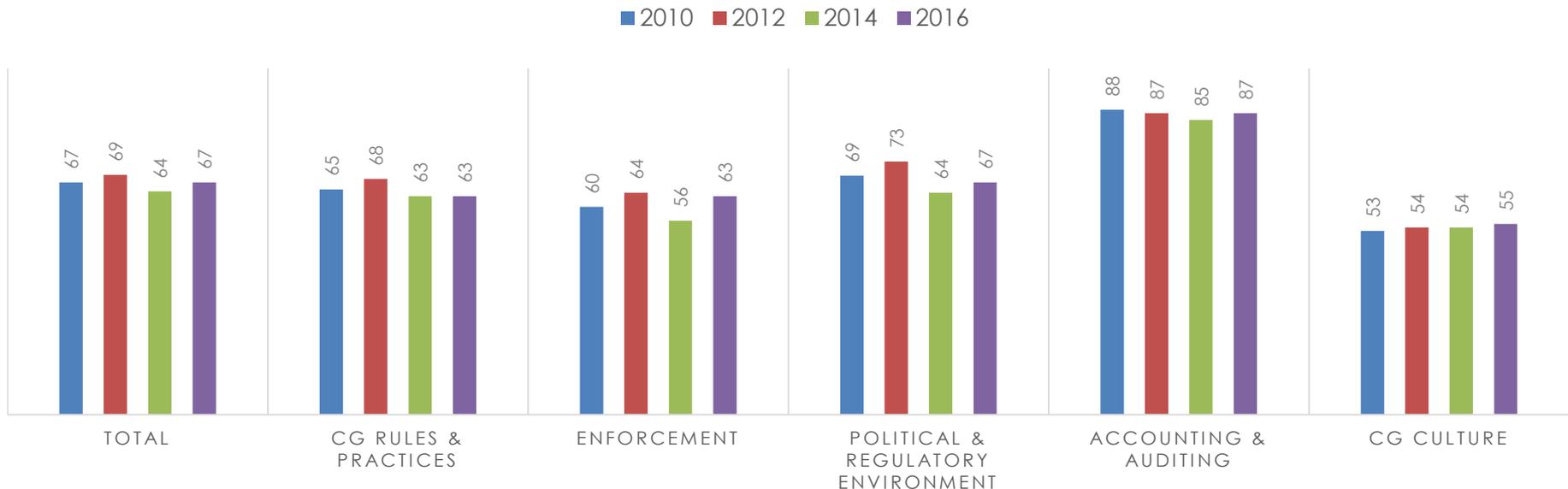
- Australia's CG regime is broader, deeper and more developed than its counterparts in Asia, but it has some clear weaknesses
- High scores for corporate reporting, political/regulatory environment (overall), accounting/auditing, and CG culture
- Lower scores for enforcement, regulatory funding, anti-corruption efforts
- Shareholder rights are robust, but urgent fixes needed in minority protection in reverse takeovers, voting by poll
- Australia's faster CG evolution a reflection of deeper regulatory foundations, stronger public-sector accountability, and a more open CG culture

■ Australia ■ Singapore - Best in Asia ex Aus ■ Regional



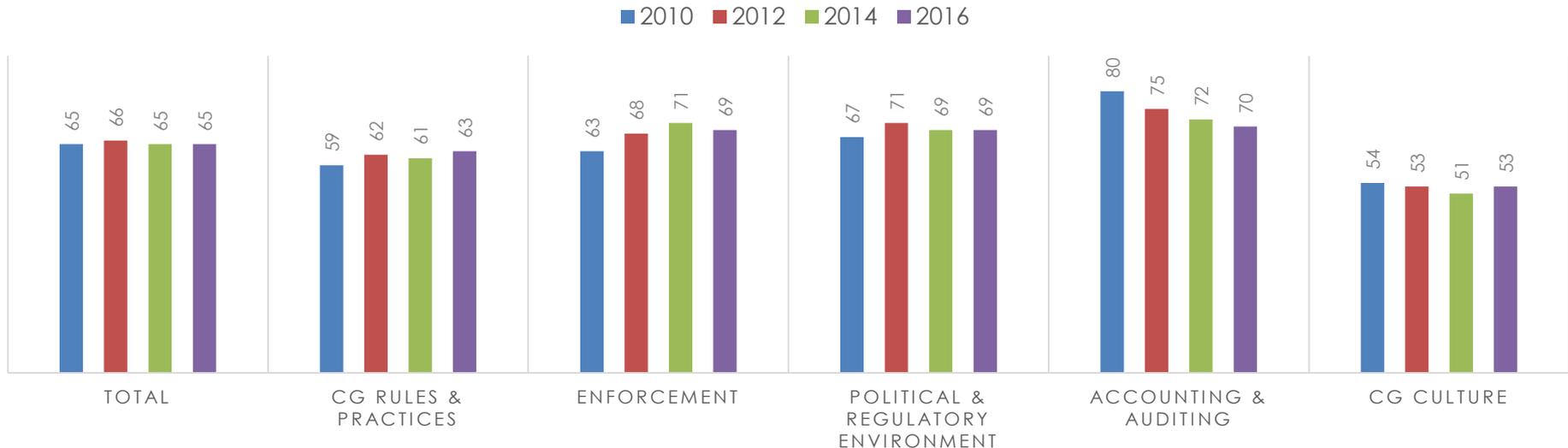
# Singapore – General comments

- Revamped securities enforcement strategy, MAS joins with the Commercial Affairs Department (CAD) of the Police
- New chief regulatory officer at SGX, signalling more commitment
- SGX forms three committees to bolster regulatory function – arguable whether these are helping CG with the green light to SGX for a consultation on dual-class shares
- Mandatory voting by poll finally arrives in August 2015
- The Accounting and Corporate Regulatory Authority (ACRA) introduces eight “audit quality indicators”
- SingPost debacle an embarrassment



# Hong Kong – General comments

- Regulator nudges institutional investors towards active ownership
- Firm no to dual-class shares – though HKEx struggling to accept this
- Controversy around new listing regime highlights two competing camps
- Regulators put more weight on non-financial reporting, especially ESG/Sustainability, but boilerplate remains in basic CG reporting
- Frequency and timing of financial reporting remains a concern, disclosure around large expenses items problematic
- Still no independent audit regulator!!
- Some positive improvements in company CG culture (eg director training, risk reporting), but board composition remains conservative



# Indonesia – General comments

- CG reform momentum not as strong as in 2014
- We do not see an overall government strategy on CG
- We are concerned about public governance / corruption
- While many new rules have been introduced, we do not see strong evidence that corporate practices have followed suit
- Shareholder rights remain weak in some key areas (private placements, takeovers, voting on RPTs)
- Enforcement of insider trading and market manipulation remains weak
- Regulatory disclosure limited: both on rules and enforcement. Issue of translation of regulation
- Limited participation of domestic pension and investment funds. Indonesia is falling behind on stewardship issue
- Regulation of auditors less active than other markets

# Ecosystem weaknesses in Asia

## Selected issues:

- Corporate governance reporting
- Definitions of “independent directors”
- Protection of minority shareholder vs majority shareholder interests: most markets do not have the balance right yet
- Regulatory enforcement of insider trading and other misconduct
- Regulatory disclosure: new regulations; enforcement; financial and staff resources
- Public governance / corruption
- Independence of judiciary and media
- Involvement of institutional investors
- Independent audit regulation still evolving

# CG reform priorities for Indonesia

1. Enforce rules more robustly
2. Enhance regulatory websites—timely, translated information
3. Tighten existing rules on RPTs and private placements (engage with institutional investors on their concerns)
4. Improve definition of independent director
5. Strengthen audit regulatory regime

# Contact details

Jamie Allen  
Secretary General  
Asian Corporate Governance Association Ltd

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

Tel: (852) 2160 1789 (D)

Fax: (852) 2147 3818

Email: [jamie@acga-asia.org](mailto:jamie@acga-asia.org)

Website: [www.acga-asia.org](http://www.acga-asia.org)