



ASIAN CORPORATE GOVERNANCE ASSOCIATION

PLENARY 1: “CG REFORM IN ASIA: THE NEXT 10 YEARS”
JAMIE ALLEN, SECRETARY GENERAL, ACGA
“ASIAN BUSINESS DIALOGUE ON CORPORATE GOVERNANCE 2022”
THURSDAY, 10 NOVEMBER 2022, 116 PALL MALL, LONDON

1. Agenda

1. Flashbacks

2. The next 10 years: What won't change or improve (much)

3. The next 10 years: What will change and improve

4. Is there an Asian form of CG?

5. Investors then and now

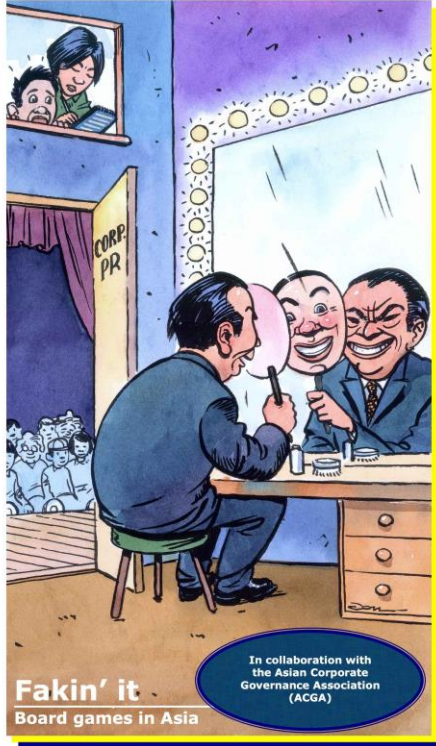
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April 2003
Asia
Special report

CG stars
HSBC
Infosys
TSMC
KT Corp
KT&G
BAT Malaysia
Public Bank
Singapore Press
ST Engineering
Standard Chartered

Higher-ranking CG markets
Singapore
Hong Kong
India
Taiwan
Korea



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2003

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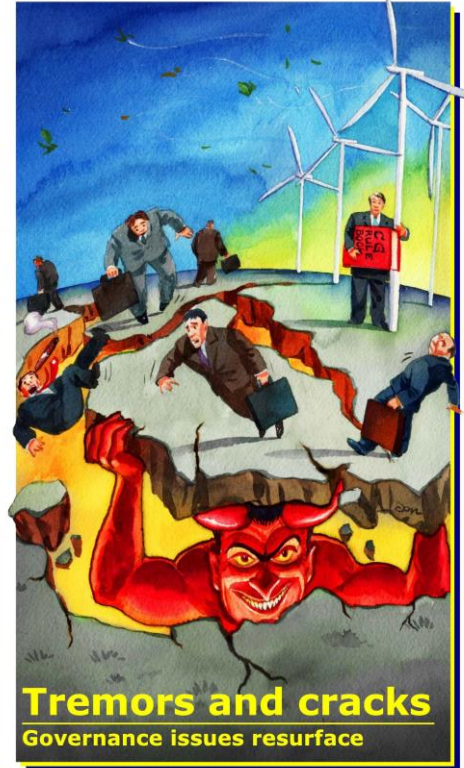
10 September 2012
Asia Pacific
Corp governance

Highest-ranked markets
Singapore
Hong Kong
Thailand
Japan
Malaysia

Top-scoring CG stocks
TSMC (2330 TT)
Newcrest (NCM AU)
Brambles (BXB AU)
Tokyo Gas (9531 JP)
BHP Billiton (BHP AU)
Public Bank (PBKF MK)
HSBC (5 HK)
Standard Chartered (2888 HK)
OCBC (OCBC SP)
Mitsubishi Electric (6503 JP)
Singapore Airlines (SIA SP)
Hang Seng Bank (11 HK)
UOB (UOB SP)
Nippon Steel (5401 JP)
AIS (ADVANC TB)

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2012



CG WATCH 2020

Future promise
Aligning governance and ESG in Asia

Special report - May 2021

Founding Sponsor of ACGA

2020

What we* said in 2003

(Year 4)

Positives:

- Swathe of new CG codes and rules in many markets (esp. HK, Singapore, India)
- Blue-chip governance improving
- Scope for investors to play a bigger role
- Regulatory enforcement improves a bit
- High CG stocks (top quartile) outperform in 7 markets over 5 years (1998-2002)

Negatives:

- Risk of cosmetic CG reform
- Controlling shareholders regularly taking advantage of minorities
- Most investors passive and apathetic
- Regulatory enforcement objectively weak
- Low CG stocks (bottom quartile) outperform in 3 markets! (HK, Singapore, Korea)

* "We" is ACGA and CLSA. (Source: CG Watch 2003: "Fakin' It: Board games in Asia")

What we* said in 2012

(Year 13)

Positives:

- Reporting standards improving, ESG arrives (especially in North Asia)
- On balance, SOE governance was better (or more predictable) than private firm CG
- Laws and regulations more clearly written in South/Southeast Asia than North Asia
- Higher CG stocks outperform in falling markets (2004, 2008, 2011)

Negatives:

- Board independence still weak, prevalence of family members, chairs not independent
- Corporate fraud and cover-ups shock market (eg, Olympus in Japan)
- Rising questions about audit quality and auditor independence
- Corporate resistance to reform still high
- Higher CG stocks underperform in rising markets, when risk appetite for weaker stocks and markets grows

*“We” is ACGA and CLSA. (Source: CG Watch 2012: “Tremors and cracks: Governance issues resurface”)

What we said in 2020

(Year 21)

Positives:

- Strong market focus on ESG (mostly E+S)
- CG Codes start to reference ESG
- ESG reporting guidelines are improving
- Stewardship codes also improving
- Public governance scores for top 6 markets improving
- Regulatory enforcement scores improve in 6 markets, hold their own in 3 others
- ESG disclosure improving

Negatives:

- Weak market focus on governance of ESG
- CG Codes say little about climate governance
- ESG guidelines weakly aligned to CG Codes
- CG Codes say little about investor stewardship
- Public governance absolute scores disappoint
- Regulatory funding a major concern
- CG/board disclosure not improving

Market rankings, 2003 – 2012 - 2020

	2003 ranking
1	Singapore
2	Hong Kong
3	India
4	Taiwan
5	Korea
6	Malaysia
7	Thailand
8	China
9	Philippines
10	Indonesia

	2012 rankings
1	Singapore
2	Hong Kong
3	Thailand
=4	Japan
=4	Malaysia
6	Taiwan
7	India
8	Korea
9	China
10	Philippines
11	Indonesia

	2020 rankings
1	Australia
=2	Hong Kong
=2	Singapore
4	Taiwan
=5	Japan
=5	Malaysia
7	Thailand
8	India
9	Korea
10	China
11	Philippines
12	Indonesia

CG Watch categories: Overall, scores improving

	AU	CH	HK	IN	ID	JP	KR	MY	PH	SG	TW	TH	Average (%) increase vs 2018
1. Government & public governance													2.2
2. Regulators													1.4
3. CG rules													5.0
4. Listed companies													4.2
5. Investors													5.2
6. Auditors & audit regulators													2.8
7. Civil society & media													1.2

Sources: ACGA; and ACGA, ARE for listed companies

Key
Increased by 10 ppt or more
Increased within 10 ppt
No change vs 2018
Decreased within 10 ppt
Decreased 10 ppt or more

2. The next 10 years: What won't change or improve (much)

Public governance (including judicial, media freedom)



Funding of financial regulators



Concentrated corporate ownership & control



Board and CG reporting

3. The next 10 years: What will change and improve

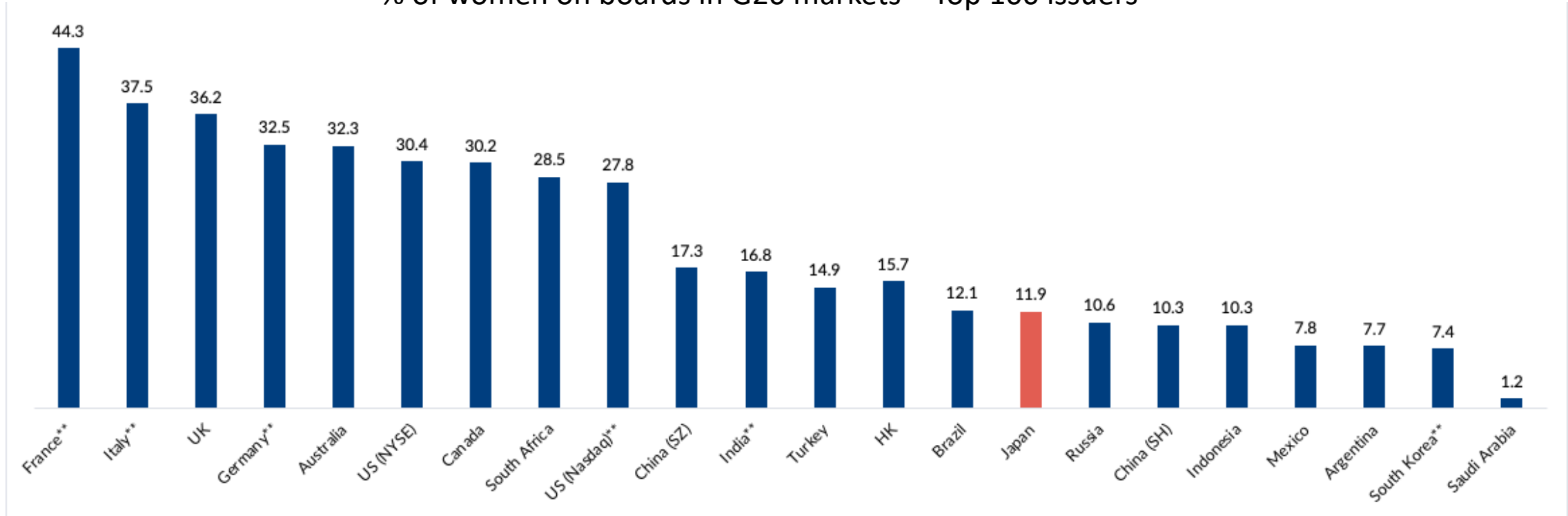
Gender diversity

Climate governance

Climate accounting, sustainability reporting, assurance

Investor voting, engagement, activism

% of women on boards in G20 markets – Top 100 issuers



Gender diversity lags in Asia

Source: Sustainable Stock Exchanges Initiative

*Note: average of top 100 issuers by market cap; all issuers included if the exchange has less than 100 issuers (eg, Argentina).

**Note: Markets with mandatory minimum rules.

New ACGA proposals on gender diversity in Japan

(Announced 19 October 2022; supported by members of the Investor Advisory Group, Japan 30% Club)

TSE Listing Rules (TSE Prime)

- Starting immediately, newly listed TSE Prime issuers must not have single-gender boards of directors.
- As soon as possible, all TSE Prime issuers to be mandated to have at least one (1) woman director, followed by a minimum of two (2) directors within a reasonable period of time (ie, two to three years).
- All TSE Prime issuers to be mandated to have at least 30% of all director positions filled by women by the close of their AGM in calendar 2030.

Japan Corporate Governance Code

Amend date: June 2024

Aspirational target: All TSE Prime issuers to have 30% of all director positions held by women as soon as possible. Other listed companies encouraged to appoint at least two.

Amend date: June 2027

Aspirational target: All listed companies to have 30% of all director positions held by women as soon as possible.

4. Is there an “Asian” form of corporate governance?

	Is this Asian?
Family ownership + control + hereditary board positions	No
State ownership / influence + political appointees to boards	No
Related-party transactions	No
INEDs appointed and known by chairman	No
Lack of gender diversity in boards	No
Hoarding of cash	No
Unwillingness to speak to investors	No
Unique board and committee structures	Yes, but only in certain markets. They are not regional.

What makes the region unique: local characteristics

China:	Party Committees
Indonesia:	Board of Commissioners, “INEDs” appointed by shareholders in proportion to ownership
Japan:	Kansayaku Boards; cross-shareholdings; high degree of shareholder activism for the region
Korea:	Early shareholder activism; business dominance by small number of chaebol; constant rotation of policy officials
Malaysia:	An Institutional Investor Council (IIC) that combines asset owners and managers, undertakes collaborative engagement on ESG issues
Singapore:	A central bank that is also the banking/insurance and securities regulator
Taiwan:	A state-owned investor protection agency (SFIPC), cumulative voting, legal entity directors
Thailand:	“A person of untrustworthy character”, Thai Investors Association (scores AGMs)

5. Investors then and now

In CG Watch 2003 we wrote a short essay called “Time to organise” on steps investors could take to improve CG in Asia. A lot has changed ...

Action	Achieved?
1. Develop a CG policy	✓
2. Develop a voting policy	✓
3. Develop a CG screen to assist in monitoring investee performance	✓
4. Form a team to lead CG policy and practice	✓
5. Nominate candidates for the board	Minimal
6. Promote audit committees	✓
7. Understand and seek meetings with INEDs	✓
8. Form a “focus fund” to turn around underperforming companies	Limited
9. Improve your internal governance	Ongoing

Appendix: ACGA's Impact: 2000 – 2022 (selections)

- Highlighted issue of unfair capital raisings through private placements in several markets.
- Sparked reform of Asia's antiquated proxy voting systems.
- Japan White Paper (2008) led to a rethink of government policy on corporate governance. Similar impacts in India (2010) and Taiwan (2011).
- "CG Watch" (10 surveys from 2003 to 2020) has influenced government and regulatory policy, and corporate practice, in 12 markets: better enforcement; better CG rules; board diversity.
- Focus on audit quality and the need for independent, non-conflicted audit regulators has strengthened system of auditing. Current focus on assurance of ESG reports.
- Targetted regulatory advocacy has had a positive impact on regulatory policy and corporate behaviour. Current focus on gender diversity in boards and management.
- Past 5 years we have been working with investor members to engage collectively with systemically important companies in China, Japan, Korea and India.

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