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<thead>
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<th>No</th>
<th>Date</th>
<th>Media</th>
<th>Journalist / Presenter</th>
<th>Headline</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>30Sep16</td>
<td>CNBC Asia</td>
<td>Bernie Lo</td>
<td><strong>How can Asian companies improve corporate governance?</strong>&lt;br&gt;<a href="http://video.cnbc.com/gallery/?video=3000555408&amp;play=1">http://video.cnbc.com/gallery/?video=3000555408&amp;play=1</a></td>
</tr>
<tr>
<td>2.</td>
<td>30Sep16</td>
<td>South China Morning Post</td>
<td>Enoch Yiu</td>
<td><strong>Hong Kong loses out to Singapore in corporate governance survey</strong> (Online version)&lt;br&gt;<a href="http://www.scmp.com/business/companies/article/2023697/hong-kong-loses-out-singapore-corporate-governance-survey">http://www.scmp.com/business/companies/article/2023697/hong-kong-loses-out-singapore-corporate-governance-survey</a>&lt;br&gt;Singapore pips HK in corporate governance rankings (Print version)</td>
</tr>
<tr>
<td>3.</td>
<td>30Sep16</td>
<td>Nikkei Report</td>
<td>Joyce Ho</td>
<td><strong>Singapore pips HK to Asia corporate governance crown</strong></td>
</tr>
<tr>
<td>4.</td>
<td>30Sep16</td>
<td>The Edge Financial Daily</td>
<td>Cindy Yeap</td>
<td><strong>1MDB drags down Malaysia's CG ranking</strong></td>
</tr>
<tr>
<td>5.</td>
<td>30Sep16</td>
<td>The Business Times</td>
<td>Michelle Quah</td>
<td><strong>Singapore tops regional corporate governance rankings</strong></td>
</tr>
<tr>
<td>6.</td>
<td>30Sep16</td>
<td>The Australian Financial Review</td>
<td>Vesna Poljak</td>
<td><strong>Two big glitches noted in Australian regulation</strong></td>
</tr>
<tr>
<td>7.</td>
<td>29Sep16</td>
<td>Thomson Reuters Breakingviews</td>
<td>Quentin Webb</td>
<td><strong>Powerful owners hobble Asia's governance reform</strong></td>
</tr>
<tr>
<td>8.</td>
<td>29Sep16</td>
<td>Financial Times</td>
<td>Hudson Lockett &amp; Jennifer Hughes</td>
<td><strong>Australia (good) to China (poor) - Asia corporate governance in charts</strong></td>
</tr>
<tr>
<td></td>
<td>Date</td>
<td>Source</td>
<td>Article Title</td>
<td>Summary</td>
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<td>------------------------------------------------------------------------</td>
</tr>
<tr>
<td>9.</td>
<td>29Sep16</td>
<td>Bloomberg News</td>
<td>Benjamin Robertson</td>
<td>Singapore Beats Hong Kong in Corporate Governance: CLSA, ACGA</td>
</tr>
<tr>
<td>10.</td>
<td>30Sep16</td>
<td><em>Hong Kong Economic Times</em></td>
<td></td>
<td>CLSA: Corporate Governance in Hong Kong ranks second behind Singapore</td>
</tr>
<tr>
<td>11.</td>
<td>30Sep16</td>
<td><em>Hong Kong Economic Journal</em></td>
<td></td>
<td>Industry organization agrees reform of listing regime</td>
</tr>
<tr>
<td>12.</td>
<td>30Sep16</td>
<td><em>Ta Kung Pao</em></td>
<td></td>
<td>Singapore and Hong Kong lead the Corporate Governance in Asia-Pacific</td>
</tr>
<tr>
<td>13.</td>
<td>30Sep16</td>
<td><em>Apple Daily</em></td>
<td></td>
<td>Corporate Governance in Hong Kong is inferior compare to Singapore</td>
</tr>
</tbody>
</table>
CNBC Asia LIVE TV interview: How can Asian companies improve corporate governance?
Asian firms and investors need to get more involved and drive bottom-up corporate governance, says Asian Corporate Governance Association’s Jamie Allen.

http://video.cnbc.com/gallery/?video=3000555408&play=1
Hong Kong loses out to Singapore in corporate governance survey
30 September 2016

Hong Kong’s ranking in the Corporate Governance Watch 2016 suffered because it lacks an independent audits regulator
South China Morning Post

Singapore pips HK in corporate governance rankings

Erick Yee
eryee@scmp.com

Hong Kong lost out to Singapore in regional corporate governance rankings as it still does not have an independent audit regulator, according to a joint report by brokerage and investment group CLSA and the Asian Corporate Governance Association (ACGA).

The findings were revealed in the Corporate Governance Watch 2016, a biannual study that tracks corporate governance of more than 1,000 companies across 12 Asia-Pacific markets.

Australia, which was included in the survey for the first time, was ranked top with a total score of 70. Singapore grabbed the second spot with a score of 67, edging ahead of Hong Kong on 65. Mainland China ranked ninth in the report on 45, ahead of the Philippines on 38 and Indonesia on 36.

Hong Kong topped the last survey in 2014, and was also placed first in 2007. Singapore has come out on top in five of the last seven surveys before Australia was included.

The results are based on a survey of fund managers and institutional investors who give scores that evaluate accounting and auditing, corporate governance culture, enforcement and regulatory environment, and corporate governance rules.

Speaking at the launch of the report yesterday, Jamie Allen, secretary general of ACGA, said Hong Kong lost out mainly due to the lack of an independent body to handle the regulation of auditors.

The Hong Kong Institute of Certified Public Accountants, an industry body, currently acts as the regulator.

The government wants to shift regulatory responsibility to the independent Financial Reporting Council, but this is unlikely to happen until 2018.

"Singapore’s accounting and auditing standards are of a high quality and policed by an effective regulator in the Accounting and Corporate Regulatory Authority," according to the report.

Allen said: "Hong Kong, India and Philippines are the worst last markers not yet to have independent audit regulators."

But Singapore’s recent decision to consider allowing companies with dual-class shares to raise funds on the stock exchange may lead to a decline in its corporate governance standing, he said.

"Hong Kong got a high corporate governance rating as its securities regulator effectively polices dual-class shares, which violate the ‘one share, one vote’ principle. Many institutional investors will discount a market if there is dual-share structure," Allen added.

Hong Kong lost out on the world’s largest IPO two years ago when mainland e-commerce giant Alibaba opted to list on the New York Stock Exchange which allows dual-share structures. Hong Kong blamed dual-class stocks...
HONG KONG -- Singapore has regained its crown in the corporate governance rankings of 11 Asian economies, according to research released on Thursday.

The city-state saw its corporate governance rating rise to 67 points from 64 two years ago, dislodging Hong Kong, which remained at 65 points. Japan came third on 63 points, followed by Taiwan, which made the greatest leap and scored 60 points. China dropped further to ninth, while Indonesia ranked at the bottom with only 36 points.

The findings were released by Hong Kong-based brokerage CLSA and the Asian Corporate Governance Association, a non-profit organization largely funded by the investment community. They are based on a survey of 1,047 companies across Asia, which included Australia for the first time, as a benchmark with 78 points. Countries are judged against five broad categories -- corporate governance rules, enforcement, political and regulatory environment, accounting and auditing standards, and corporate governance culture.

The ACGA said Singapore's performance was helped by its revamped securities enforcement strategy, as the Monetary Authority of Singapore is taking a much tougher approach to insider trading and market manipulation by joining in a closer partnership with the Commercial Affairs Department of the Singapore Police Force. It also saw merits in local regulators providing greater disclosure of their actions, and in the Singapore Exchange hiring a new regulatory chief while moving its regulatory arm into a separate company, much like Australia did in 2010.

But the association warned that the SGX's possible introduction of dual-class shares, a system which awards founders and executives more voting power despite holding a relatively small amount of total equity versus other shareholders, might cast a shadow on the country's good standing in corporate governance, and add regulatory risks.

"We would be disappointed if they introduced dual-class share," said Jamie Allen, secretary general at the ACGA. "Any company that's been in dual-class shares is immediately seen as having problematic corporate governance because you have a team of owner-managers who want to control the companies with their small shareholdings," said Allen. "Immediately investors start distrusting them. They also distrust the market that brings that in," he added, citing research which suggested institutional investors tend to discount markets with dual-class shares system by 13% on average.

Room for improvement

On Hong Kong, Allen said its strong regulatory enforcement, which ranked highest among all markets covered in the survey, was encouraging. But the city's lack of clear government strategy on corporate governance, problematic financial reporting in terms of frequency and timing, and above all the absence of an independent audit regulator were undermining the city's standing.
He pointed out that Hong Kong, along with the Philippines and India, is one of the few markets in Asia that is still without an independent audit regulator. "There are changes going through, but it's just taking an awfully long time," said Allen.

The survey found that Indonesia, South Korea, and the Philippines have most room for improvement. In South Korea, the introduction of an investor stewardship code has stalled, while the Philippines is suffering from a culture of weakness when confronting management. It has never seen resolutions proposed by management be rejected. Indonesia continues to be affected by poor financial reporting standards and loose enforcement. "Indonesia has rarely, if ever, convicted anyone of insider trading, even though market practitioners will all tell you that it remains a key problem," the report said.

Although the survey was not able to establish linkage between companies' share price and the quality of corporate governance, it found a high correlation between better governance and better financial fundamentals, which was especially valid during market downturns.

Companies the survey highlighted as showing strong governance include: JD.com, Tencent, and CNOOC in China; AIA, Swire Pacific, Wharf, and CLP in Hong Kong; NAVER, Shinhan, LG Household & Health Care, LG Chem, and KB Financial Group in South Korea; IHH, Maxis, Axiata, Petronas Chemicals Group, and Sime Darby in Malaysia; Ayala Corp., Ayala Land, SM Investments, JG Summit Holdings, and SM Prime Holdings in the Philippines.

In Singapore the survey highlighted Singapore Telecommunications, CapitaLand, Oversea-Chinese Banking Corp., United Overseas Bank, and Wilmar International. Taiwan Semiconductor Manufacturing, MediaTek, Uni-President Enterprises, and LARGAN Precision were highlighted in Taiwan; and Siam Cement, Advanced Info Service, Bangkok Dusit, Kasikornbank, and PTT in Thailand.
KUALA LUMPUR: Malaysia fell two notches to sixth place in the biennial Corporate Governance (CG) Watch 2016 ranking of 11 Asia-Pacific countries, undermined by the 1Malaysia Development Bhd (1MDB) saga, which "cast a pall over [the] country and key government institutions".

Malaysia, with 56 points, came behind Singapore (67), Hong Kong (65), Japan (63), Taiwan (60) and Thailand (58), according to data released by investment banking group CLSA and the Asian Corporate Governance Association (ACGA) in Hong Kong yesterday morning. Australia, which was included as a benchmark but not in the final ranking, scored 78 points.

"In 2014, we noted that Malaysia was unique in consistently improving in score across each of our four CG Watch surveys since 2007. Unfortunately, this trend has now come to an end.

"While we upgrade Malaysia this year for enforcement of capital market offences and several favourable regulatory and policy changes, the fallout from the 1MDB crisis has had an adverse effect on the political and regulatory environment for public and corporate governance. This has resulted, on balance, in a modest decline in the overall score," Benjamin McCarron, ACGA specialist consultant wrote in the biennial report resulting from a 95-question survey covering five pillars: CG rules and practices, enforcement, political and regulatory environment, accounting and auditing, and CG culture.

Malaysia's 56 points placed it just ahead of India (55), South Korea (52), China (43), the Philippines (38) and Indonesia (36).

Malaysia would have scored 58 points, the same as Thailand, had its score under the "political and regulatory" pillar been the same as that in the 2014 survey, ACGA secretary-general Jamie Allen told The Edge Financial Daily in a phone interview. Malaysia's score rose from 55 to 58 in 2014.

Malaysia would have done "much better" had there been no 1MDB, Allen said. "1MDB has affected capital markets' perception of Malaysia. People are concerned about what's going on. When public governance standards drop, over the medium-to-long term, it does have an impact on [investment] decisions."

It is learnt that Malaysia's overall score was dragged lower by a sharp 11-point fall under the "political and regulatory" pillar, under which public governance-related questions were asked - cancelling out a commendable seven-point climb under "enforcement", which covers listing rules and security laws.
"Notwithstanding the trouble at the top, regulators in Malaysia managed a strong showing on new reforms and a number of wins in enforcement," McCarron wrote in the report, referring to new regulation and improvements on disclosure requirements and sustainability reporting as among notable positives.

"The enforcement score for Malaysia increased significantly as we took a more positive view of efforts by the Securities Commission Malaysia and Bursa Malaysia in a number of areas, including insider trading, market manipulation and audit oversight, and to a lesser extent market enforcement from institutional investors. A broader interpretation of enforcement would include accountability at non-listed companies such as 1MDB, and the role of banks in facilitating payments. However, we have covered this in the political and the regulatory section," McCarron said.

"Frankly, it has been a shame to see the fallout from the 1MDB crisis in Malaysia. There has been a stark difference in findings and approach between international and domestic investigations into the organisation, with many leadership changes at the organisations responsible for domestic investigations. It is worth noting that the direct financial impact of these incidents appears to have been contained.

"And they have not tarnished the entire Malaysian capital market: There remain many listed companies both under family and state control that are well removed from the issues. However, the 1MDB saga carries implications for the integrity of some key government institutions," he wrote, adding that the suspension of The Edge weekly and The Edge Financial Daily in 2015 "also led to concerns of a reduction in press freedom in Malaysia".

The report went on to say that Malaysia's score under the "political and regulatory" pillar fell on "the lack of a clear, consistent and credible government policy on CG, a perception of reduced effectiveness on the part of the central bank in exercising its powers, the depth of media skill and freedom in reporting on CG, the independence of anti-corruption commission, and whether [the] government was making progress in improving standards of public governance".

Factors that could force Malaysia's score to fall in the next survey in 2018 include a lack of improvement in public governance, a slowdown in the pace of regulatory reforms and "continued slow adoption of stewardship practices at the leading funds", the report read.

"A lot of markets are moving forward. If you don't improve, scores would be lower next time," Allen said.
SINGAPORE has pipped its closest competitor, Hong Kong, to emerge at the top of closely watched regional corporate governance rankings, "Corporate Governance (CG) Watch 2016".

But the city-state's top spot could potentially be in jeopardy, if it decides to proceed with plans to allow listed companies here to adopt dual-class share structures.

The much-anticipated CG Watch 2016 was released by brokerage and investment group CLSA and independent, non-profit organisation, the Asian Corporate Governance Association (ACGA), yesterday morning. The report is produced once every two years.

This year's report analysed and rated 1,047 Asian companies and 12 key Asia-Pacific markets on their performance in corporate governance, over February to August this year.

The markets are assessed based on their cumulative score across five categories: CG rules and practices, enforcement, political and regulatory environment, accounting and auditing, and CG culture.

Singapore beat fiercest rival Hong Kong, as well as Japan, Taiwan, Thailand, Malaysia, India, South Korea, China, Philippines and Indonesia.

Singapore and Hong Kong tied for top spot in the previous rankings in 2014, while Singapore had been ranked ahead of Hong Kong in 2012.

ACGA secretary-general Jamie Allen said that Singapore regained the ground it lost in 2014 because it revamped its enforcement strategy and brought its overall CG regime more up to date.

"Singapore seems to have undergone a period of existential self-reflection about its CG and capital-markets strategy over the past two years. A reinvigorated Monetary Authority of Singapore (MAS) and new regulatory leadership at the Singapore Exchange (SGX) have brought significant tightening in regulation and enforcement and a renewed sense of direction."

Mr Allen noted that the MAS has substantially rethought its approach to tackling securities crime and joined in a closer partnership with the Commercial Affairs Department (CAD) of the Singapore Police Force. He also cited, as winning points, the appointment of the SGX's new regulatory chief (Tan Boon Gin), the exchange's recent decision to move its regulatory arm into a separate company, and the greater disclosure by regulators about their actions.
Hong Kong, he noted, despite some "courageous regulatory decisions", lost points because it still lacks any sort of overarching government strategy on CG, remains one of the few markets in Asia without an independent audit regulator, and the culture of governance in companies, while improving, is moving forward glacially.

"Singapore is a beneficiary of Hong Kong's dysfunctionality, really," Mr Allen said.

Some of Singapore's moves, however, "are starting to cast an unwelcome shadow over all the good progress". Mr Allen was particularly critical of the recent decision by the SGX's Listings Advisory Committee (LAC) to give the market regulator the go-ahead to permit dual-class share structures among listed companies - calling it "disappointing" and "opportunistic".

"While officially this is not a done deal, it is certainly being viewed as such by market practitioners in Singapore and elsewhere; and with just one mainboard listing in 2015, the pressure to drive new foreign listings is strong.

"Any company with dual-class shares is immediately seen as having problematic corporate governance . . . When you bring in dual-class shares, you create more corporate governance problems for the market; if you want to make your life more difficult as a regulator, then bring in dual-class shares."

SGX has said that it would conduct a public consultation before deciding on the issue. Mr Allen also said that SGX has raised eyebrows by proposing to scrap its own Minimum Trade Price regime and reopening a discussion on whether to do away with quarterly reporting.

And, while it's difficult to say if these moves will necessarily cost Singapore the top spot in future rankings, because much will depend on how its competitors Hong Kong and Japan perform, Mr Allen said that these developments may be enough to drop Singapore to below its neighbours.

Commenting on these results were two corporate governance advocates who have been very vocal about Singapore's move towards allowing dual-class share structures. NUS associate professor of accounting Mak Yuen Teen told The Business Times: "The big downside going forward is the introduction of dual-class shares. I believe over time that will not only affect shareholder rights, but affect other areas of CG, like the effectiveness of CG rules and enforcement. So, we could see a quite significant impact on our future rankings."

David Smith, head of corporate governance at Aberdeen Asset Management Asia, said: "If adopted, (having dual-class share structures) would be a step backwards, and it would be no surprise if it impacted Singapore's standing in the eyes of the investment community in terms of corporate governance. This is perhaps the biggest shame given the very hard work that Singapore has rightly been recognised for over the years."

Also of note in this year's CG Watch was the inclusion of Australia for the first time, due to "popular demand". But it was excluded from the rankings, so as not to skew past results - as its CG score was significantly higher than top-ranked Singapore's.

It will, however, be included in the 2018 rankings - and, given that its score currently far surpasses the scores of Singapore and Hong Kong, there is "no question" that Australia will top the rankings in two years, Mr Allen said.
He said that Australia, which possesses the most robust governance ecosystem in Asia, provides a benchmark of the deficiencies in the region's governance. “There is such a big difference in CG culture between Australia and the rest of the region. In Australia, you have companies talking to investors, investors being very active earners, lots of director training, accountant training, strong investor bodies, and a very strong civil society.

“In contrast to Australia, the controlled and hierarchical management-shareholder communication system in Asia may become, if it does not evolve, a significant impediment to corporate governance and capital market development in Asia.”

Still, Mr Allen added, Singapore has much to be commended. "Singapore and Hong Kong do not consistently top the survey by accident, they do it because they have the best institutions - legal, regulatory and economic - for CG in the region. But this year, the inclusion of Australia brought many things into sharper focus, allowing us to look at old issues from a fresh perspective.

"If there is a single message from our survey this year, it is that the ecosystem of CG in any market is not just important, it is the differentiating factor between long-term system success and failure."
The Australian Financial Review
Two big glitches noted in Australian regulation
30 September 2016

BY VESNA POLJAK

Australia has been urged to fix two major shortfalls in its corporate governance standards centred around show-of-hands voting on remuneration at annual meetings, and the absence of protections for minority shareholders in reverse takeovers.

Findings by the Asian Corporate Governance Association (ACGA), published on Thursday in conjunction with CLSA, also highlight the haphazard structure of the corruption watchdog ICAC, as well as the worrying trend of floats missing prospectus forecasts.

But it is in AGM polling and reverse takeover situations that ACGA finds Australia scores worse than its counterparts in Asia. On most other governance measures it leads the region.

When a strike is looming against a board at an AGM, a vote can be taken by a show of hands to decide whether to pass the remuneration report. This practice strikes Jamie Allen, secretary general of the Hong Kong-based ACGA as "just a really archaic way of running an AGM". A vote on a show of hands is a popular way to short-circuit shareholder meetings, if the chairman believes the strike is inevitable.

"Voting at AGMs in Asia used to be by show of hands, which is farcical in the modern business era," Mr Allen said. "We're big believers in voting by poll, mandatory voting by poll."

His report advocates mandating polls to properly recognise the will of shareholders on the two-strikes rule. A strike is recorded when more than 25 per cent of votes challenge a company's remuneration report.

"There have been cases where proxy votes against are more than 30 per cent, yet the resolution is passed on a show of hands. While such cases appear to be rare, requiring a poll would seem a sensible and relatively painless reform," the organisation says.

Reverse takeovers are the other area where Australian practice is lagging behind what protections are afforded in Hong Kong and Singapore, for example. In this case, it is the shareholders of the bidder company that are most overlooked.

"If you are shareholder of a bidder company then you don't get to vote on a transaction," Mr Allen said. "It became an issue a couple of years of ago with the decline of commodity prices; junior miners looking to sell themselves to overseas companies from China or elsewhere."
The state-based structure of ICAC is also singled out by the ACGA as inconsistent with the federal powers of ASIC and the ASX.

"Why wouldn't you have a federal ICAC which has stronger powers?" Mr Allen asked. "Creating strong anti-corruption commissions is a real challenge [in Asia]. Yet in Australia you still have a state-based system that is out of sync with the strong federal securities and company regulatory systems."

Australia is not alone in having several companies going public, only to miss forecasts. These include: McGrath, MYOB, Spotless, Integral Diagnostics and Estia Health. When the downgrade is disclosed, the share price falls, causing losses for investors.

Mr Allen thinks the investment banks have to lift their game. "I don't know that issue in great detail in Australia, but that comes down to the role of the sponsoring investment bank. Our view on pre IPO corporate governance preparation in companies generally is it's quite weak, that is an area where we'd like to see much more work done by IPO candidates."
Powerful owners hobble Asia's governance reform
29 September 2016

BY QUENTIN WEBB

HONG KONG, Sept 29 (Reuters Breakingviews) - Powerful owners hold back Asia's corporate governance push. A flagship review of the region's standards says it is gradually improving, despite frequent blow-ups. The assessment by regional brokerage CLSA and the Asian Corporate Governance Association urges institutional investors to speak up more. Fair enough - but unless outsiders get more say over independent directors, they remain at the mercy of majority shareholders.

The report recounts scandals from book-cooking at Toshiba to the crisis at Malaysian fund 1MDB. And it throws up arresting statistics. In Japan, India, South Korea and Indonesia, CLSA analysts doubt the cost of capital informs management thinking at a majority of companies - a worrying harbinger of future value-destruction.

Meanwhile, CLSA's scribblers in Seoul, Jakarta and Bangkok reckon a majority of firms in those countries have undertaken harmful related-party transactions. Thailand is the only place where they think even a fifth of directors behave independently.

There are signs of light. Japan in particular is improving, after a broad push to make companies better-run and more profitable. Overall, CLSA and ACGA reckon regional governance is getting better, and suggest investors and company executives could take the baton from regulators to drive future improvement.

True: they could. It's fair to say that money managers, especially domestic houses, often hesitate to call out bad behaviour, or vote against management. But a dose of realism is advised.

Corporate governance works best when ownership is diffuse and management is professional. However, many Asian companies remain controlled by powerful families, giant parent conglomerates or state actors. Sometimes outsiders get meaningful vetoes: as Hong Kong shareholders have for related-party deals, for example. But public grumbling and protest votes rarely work unless the board and the majority owner have enough conscience to be shamed into doing the right thing.

One useful idea floated in the report would be to let outside shareholders vote separately on independent directors. This already happens for controlled companies in Britain. Such a policy would surely encounter serious resistance from majority owners. All the more reason to support it.

On Twitter https://twitter.com/qtwebb

CONTEXT NEWS

- "Asia is getting better" when it comes to corporate governance, brokerage CLSA and the Asian Corporate Governance Association concluded in a biennial report released on Sept. 29.
- CLSA's "bottom-up" survey of companies covered by its equity analysts saw Japan move up the rankings to second place behind Australia, as domestic reforms "tangibly improve behaviour." Third, fourth and fifth place were taken by Singapore, Hong Kong, and Taiwan, followed by Thailand, India and Malaysia. The lowest scores in the CLSA survey, which covers 11 Asian nations and includes Australia for comparison, were awarded to China, the Philippines, Indonesia and South Korea.

- The ACGA's "top-down survey" of overall market practice, which grades markets by their discipline, transparency, independence, responsibility, fairness and environmental and social responsibility, was led by Singapore and Hong Kong.

- "Reforms matter but how companies respond and deliver them is crucial. Investor engagement makes persistent improvement more likely," the authors wrote. "Asia is getting better and will continue to do so if stakeholders, including agitators, remain engaged."

**Financial Times**

**Australia (good) to China (poor) - Asia corporate governance in charts**

**29 September 2016**

BY HUDSON LOCKETT & JENNIFER HUGHES

Australia's corporate governance is streets ahead of the rest of Asia-Pacific, according to a regional benchmark that once more has China fighting with the Philippines and Indonesia for last place.

CLSA's biannual corporate governance report, compiled jointly with the Asian Corporate Governance Association, has been running for more than a decade and has become a region-wide marker on the topic, writes Jennifer Hughes.

Australia shows a clean pair of heels

Australia's full inclusion for the first time makes it clear how far the rest of the region can still improve. CLSA score on a bottom-up company basis while the ACGA measures governance on a top-down basis. Either way, Australian governance is more than 10 percentage points better than its nearest rival and more than twice as good as Indonesia in last place. And no, corporate governance isn't really a linear series of measurements, but the report scores it, so we'll use that.

At the other end of the scale...

Not all countries exhibit a strong trend over time, but China certainly does – and it is downwards.

Its falling score this time comes largely from its heavy-handed actions following the stock market crash a year ago, and the failure to materialise of much state-owned enterprise reform, in spite of promises. On the plus side, the weaker
markets have prompted China’s market regulator to step up its enforcement. In the first half of 2016, it issued 109 sanctions in 88 general enforcement cases – an 85 per cent increase year on year.

Form over substance

One problem the report highlights is the risk that companies meeting accepted standards may just be paying lip service to governance. In 2014, CG Watch counted the percentage of companies where half the board were independent – a widely used governance measure.

This time, CLSA’s analysts counted the number of companies where they found evidence of directors behaving independently – and in many cases, the percentage of companies halved. Not all companies where there was no evidence would be railroading their boards, but the charts show a marked difference between form and substance.

Warren Buffett, the Asia edition

Warren Buffett once said that companies ultimately get the shareholders they deserve. The more active end of the Asia shareholder spectrum might feel that applied better if they got any access whatsoever to management of directors at some of their investments. Korea and Taiwan stand out here as home to companies most leery of engaging with their investors.
Bloomberg News
Singapore Beats Hong Kong in Corporate Governance: CLSA, ACGA
29 September 2016

BY BENJAMIN ROBERTSON

By Benjamin Robertson

(Bloomberg) -- Improved securities enforcement strategy, cooperation between MAS and police, sees Singapore topping ranking of corporate governance in Asia ex-Australia, CLSA analyst Shaun Cochran and Asian Corporate Governance Association Secretary General Jamie Allen say at press conference.

* Singapore ranked No. 1 in Asia ex-Australia, outstripping H.K. vs last survey in 2014 when they both ranked first equal
* There is a positive correlation between high corporate governance and better fundamentals in firms; Asian markets remain weak overall on corporate governance issues
* Asia has "controlled and hierarchical" shareholder communications which become "significant impediment" to capital market development: Allen
* Japan, Taiwan, India, Korea improved vs 2014
* Malaysia, China, Philippines, Indonesia fell
* Hong Kong, Thailand unchanged
* Australia added to survey this year for first time
* There is "very big difference" between Australia vs rest of Asia: Allen
* Australia's corporate governance regime "broader, deeper" vs rest of Asia; Australian companies willing to talk to investors
* Singapore taking tougher strategy on market manipulation
* Negative is possible inclusion of dual class shares
* Hong Kong positives include stewardship code, block on dual class shares
* Negatives include lack of govt. strategy on corporate governance, frequency of financial reporting, no independent audit regulator

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Teo Chian Wei at cwteo@bloomberg.net
Hong Kong Economic Times

CLSA: Corporate Governance in Hong Kong ranks second behind Singapore
30 September 2016

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