Asian Corporate Governance Association (ACGA)

“Dual-class Shares in Asia: Unsuitable for Public Markets”

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1. ACGA work on dual-class shares (DCS)
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4. An entrenched market discount
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About ACGA

- Formed in 1999 following Asian Financial Crisis to promote long-term improvements in corporate governance in Asia. We believe good governance facilitates market and economic development.

- Based in Hong Kong and carries out research, advocacy and education on corporate governance in 11 Asian markets (now 12 including Australia)

- Independently funded: more than 110 member companies, 70% of which are institutional investors with more than US$26 trillion global AUM

- For details, see: www.acga-asia.org
1. ACGA work on dual-class shares

- **April 2014**: “Survey on Alibaba and Non-standard Shareholding Structures” in Hong Kong – a survey of ACGA investor members

- **November 2014**: Submission to Hong Kong Exchanges on “Weighted Voting Rights”

- **September 2014 & 2016**: Coverage of DCS issue in our biennial CG Watch regional surveys

- **April 2017**: Submission to Singapore Exchange on DCS consultation
2. Six investor concerns about the SGX proposal

1. SGX will create regional contagion with DCS, leading to a race to the bottom.

2. An entrenched market discount will likely emerge if DCS stocks become common.

3. Restrictive IPO requirements and post-listing safeguards offer a false sense of security and will not work.

4. Asia lacks the counterbalancing investor protections operating in the US.

5. There is no logical link between DCS and the funding of innovative companies. Innovation can be funded in multiple ways and does not require DCS.

6. DCS are inappropriate for public markets in Asia and contradict stewardship codes.
3. The challenge posed by passive

The rise of passive investment increases the importance of corporate governance and sound policymaking:

- As returns to stock selection decline, the returns to market selection become more important.
- CG is highly correlated with improved market returns.
- With fees under pressure, the largest asset managers are increasingly focusing on fiduciary obligations and governance.
- Corporate governance initiatives are an effective fiduciary response to market globalisation and complexity.
- Passive investors cannot divest from badly governed companies and suffer the most when discounts are imposed on badly regulated markets.
4. An entrenched market discount?

ACGA 2014 survey: ‘Will non-standard shareholding structures lead to a market discount?’

- Yes: 25% of respondents provided a discount estimate: Average discount of 13%, with a range from 10-25%.
- Yes: 26% of respondents gave no estimate, but believed the market would suffer a discount.
- 7% believe discounts would be company, not market, based.
- No opinion: Remaining one third.
- No: 7% do not believe a discount would result.

ICGN 2016 survey:

- 84% opposed “differential voting rights”
- 67% believe DCS will affect share valuations
5. Global alignment

There is strong global alignment among investor and governance associations in viewing DCS negatively:

- Asian Corporate Governance Association, Hong Kong*
- Council of Institutional Investors (CII), Washington*
- International Corporate Governance Network (ICGN), London*
- The Investment Association, London*
- Australian Council of Superannuation Investors (ACSI), Melbourne
- Eumedion, Amsterdam
- Canadian Coalition for Good Governance (CCGG), Toronto
- Capital Market Investors Association (AMEC), Brazil

* All wrote to SGX opposing its plans for DCS.
6. Conclusion

We believe allowing DCS in public markets in Asia would be a significant strategic mistake and will undermine solid progress being made in corporate governance:

- Contagion / race to the bottom
- Entrenched market discount
- Safeguards will not work
- Asia lacks counterbalancing legal and regulatory protections
- Innovation funding does not require DCS
- Investor stewardship undermined
- Passive investors lack choice, cannot divest
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