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Asian Corporate Governance Association (ACGA)

“Asia Overview – Strengthening the Ecosystem”

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Market rankings & scores, 2016

CG Watch market scores: 2010 to 2016					
(%)	2010	2012	2014	2016	Change 2014 vs 2016 (ppt)
Australia	-	-	-	78	-
1. Singapore	67	69	64	67	(+3)
2. Hong Kong	65	66	65	65	-
3. Japan	57	55	60	63	(+3)
4. Taiwan	55	53	56	60	(+4)
5. Thailand	55	58	58	58	-
6. Malaysia	52	55	58	56	(-2)
7. India	49	51	54	55	(+1)
8. Korea	45	49	49	52	(+3)
9. China	49	45	45	43	(-2)
10. Philippines	37	41	40	38	(-2)
11. Indonesia	40	37	39	36	(-3)

Source: Asian Corporate Governance Association

CG Watch 2016 – Key Conclusions

1. Ecosystems matter

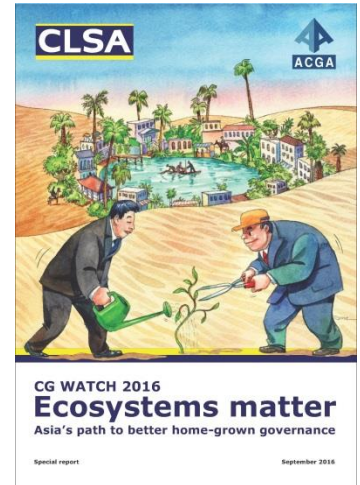
- Strong institutions: regulators, judiciary, companies, investors, auditors, civil society, media
- Balance among the parts of the system
- Flow of information (dialogue) between them
- Robust enforcement and consistent, predictable law
- Acceptance that directors have a fiduciary duty

2. Public governance matters

- Governments must be accountable and not corrupt
- A leading indicator of CG quality over the longer term

3. Investor stewardship matters

- More power, more responsibility
- Reform in Asia still too “top down”. A healthy and more open investor-company relationship could be transforming



Systemic inconsistency

Asian markets by category and rank, CG Watch 2016

Market category ranks					
Total	CG Rules & Practices	Enforcement	Political & Regulatory	Accounting & auditing	CG Culture
1. Singapore	= 2	= 2	3	1	2
2. Hong Kong	= 2	1	= 1	= 6	3
3. Japan	7	= 2	= 1	5	1
4. Taiwan	= 5	= 4	4	= 3	= 4
5. Thailand	1	= 6	8	= 3	= 4
6. Malaysia	= 5	= 4	7	2	7
7. India	4	= 6	5	= 10	6
8. Korea	8	8	6	= 6	8
9. China	9	9	10	8	9
10. Philippines	= 10	11	9	9	10
11. Indonesia	= 10	10	11	= 10	11

Source: Asian Corporate Governance Association

Category scores, CG Watch 2016

A wide gap between the best in Asia and Australia

Market category scores						
(%)	Total	CG Rules & Practices	Enforcement	Political & Regulatory	Accounting & auditing	CG Culture
Australia	78	80	68	78	90	74
1. Singapore	67	63	63	67	87	55
2. Hong Kong	65	63	69	69	70	53
3. Japan	63	51	63	69	75	58
4. Taiwan	60	54	54	64	77	50
5. Thailand	58	64	51	45	77	50
6. Malaysia	56	54	54	48	82	42
7. India	55	59	51	56	58	49
8. Korea	52	48	50	53	70	41
9. China	43	38	40	36	67	34
10. Philippines	38	35	19	41	65	33
11. Indonesia	36	35	21	33	58	32

Source: Asian Corporate Governance Association

China – Reform highlights 2015-16

1. 2015 stock crisis led to more enforcement and a regulatory policy rethink
2. Discussion about more coordination between key regulatory agencies: PBOC, CSRC, CBRC, CIRC
3. A new CG Code finally in the works – has not been amended for 14 years
4. SOE reform disappointing; mega mergers bad for enterprise governance
5. Takeovers may not produce better governance (eg, Vanke case)

China – Five issues to focus on

1. New CG Code
2. Improved regulatory consultation and consistency of policymaking
3. Corporate reporting badly in need of improvement (financial/non-financial)
4. Adopt new long-form audit report
5. More English disclosure on regulatory websites

Korea – Reform highlights 2015-16

1. New Act on the Corporate Governance of Financial Companies (2015/6)
2. Revised Corporate Governance Code from the Korea CG Service (KCGS) in August 2016 + “comply or explain” soon to be introduced by KRX
3. Enhanced enforcement against *chaebol* related-party transactions
4. New anti-corruption law
5. A stewardship code in the works (now led by KCGS)

Korea – Five issues to focus on

1. Companies to review board composition, training and CG systems – and create a more open dialogue with shareholders and relevant stakeholders
2. Improved disclosure of regulatory action + English websites
3. Socialisation of CG and Stewardship Codes
4. Mandatory voting by poll
5. Adopt new long-form audit report

Taiwan – Reform highlights 2015-16

1. Stewardship Code adopted in June 2016
2. Electronic voting and poll voting expanding rapidly (partly because e-voting is mandatory for many firms)
3. Independent directors and audit committees becoming more widely established
4. Sustainability reporting turbo-charged by Taiwan Stock Exchange
5. Regulatory enforcement continues to expand

Taiwan – Five issues to focus on

1. Corporate reporting still highly formulaic, especially CG reporting
2. Domestic institutional investors on a steep stewardship learning curve. Do they have the internal staff and resources to implement the Code?
3. Lack of longevity in regulatory leadership – constant changes in the chairmanship of the Financial Supervisory Commission
4. Sustainability reporting – much reporting is superficial; need to build capacity for more substantive reports
5. Remove obstacles to cumulative voting in the voting chain

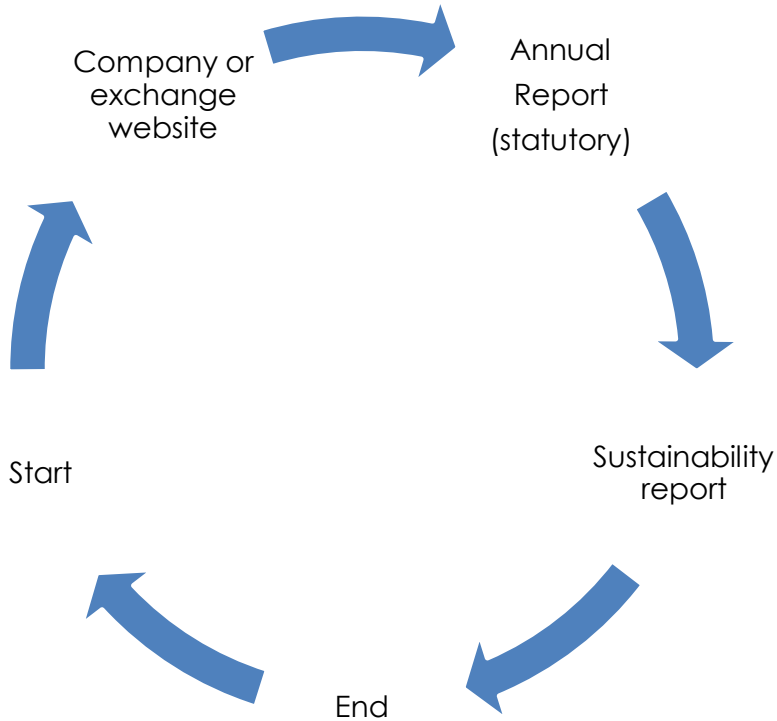
Japan – Reform highlights 2015-16

1. Corporate Governance Code (2015) + expanded CG reports
2. Implementation of Stewardship Code by domestic asset owners/managers
3. Expanded role of the Government Pension Investment Fund
4. Proposals for an audit firm governance code
5. Significant increase in the number of outside/independent directors

Japan – Five issues to focus on

1. Corporate Governance reporting – highly fragmented, formulaic
2. Shareholder rights – ongoing areas of weakness or confusion (eg, capital-raising rules, AGM attendance, concert-party rules / collective engagement)
3. Director nomination and training
4. Audit committees – three options; do they provide strong oversight of financial reporting and internal controls?
5. The institutional investor “voice” – does it need to be louder or clearer in Japan? Can investors overcome their conflicts of interest?

The circle of frustration



CG disclosure in most markets



CG disclosure in Japan

Japan – Then and Now

2008

ACGA's *White Paper on Japan* focussed on six issues:

1. Shareholders as owners
2. Capital efficiency
3. Independent supervision of management
4. Pre-emption rights
5. Poison pills / takeover defences
6. Shareholders meetings / voting

2016

Significant changes in policy and practice in most areas:

1. The relative importance of shareholders has risen; more balance with other stakeholders
2. ROE and share buybacks rising
3. The “independent director” concept is accepted
4. Pre-emption rules still problematic
5. Poison pill issue is less intense
6. Shareholder meetings more transparent, votes are now counted and results published

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