OECD ASIAN ROUNDTABLE ON CORPORATE GOVERNANCE

Focus Group

Background Notes

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Focus group 1 discussion
Flexibility, proportionality and growth companies

Background

This focus group on flexibility, proportionality and growth companies will address how flexibility and proportionality (F&P) can be a useful tool for creating an effective legal environment that supports the ultimate policy objectives of the Principles, namely to improve investment, economic growth and financial stability.[1]

Some questions that will be relevant to the discussion:

- What are some ways in which jurisdictions have used flexibility and proportionality as an effective tool in their corporate governance frameworks?
- How might policy makers address the reduced rates of listing on stock exchanges (with the exception of Chinese companies), and in particular for SMEs?
- Should policy makers in Asia redesign standards and rules with the aim of adapting to the particular corporate governance patterns adopted by growth companies?

1. The public policy rationale

Irrespective of their legal form, publicly traded companies are not a homogenous group. They differ greatly with respect to size, ownership structure, stage of development and the industries in which they operate. This is why the G20/OECD Principles of Corporate Governance state that policy makers have a responsibility to make sure that the corporate governance framework for listed companies is flexible enough to meet the needs of firms that operate under widely different circumstances. F&P is a necessary prerequisite for creating an effective legal environment that can support the ultimate policy objectives of the Principles, namely to improve investment, economic growth and financial stability.

One development that is of particular concern for long-term growth is the decrease in the listings of smaller growth companies in advanced markets. These companies rely heavily on short-term debt as a source of funding and would in general benefit from access to public equity, which could boost their risk taking, long-termism and innovation. However, since the early 2000s, the number of small company IPOs in advanced markets has declined even more than the general decline in IPOs. And there is nothing to indicate that this fall has been compensated for by an increase in various forms of private equity supply.

Between 1994 and 2000 there were 6,425 IPOs in advanced economies with a size less than USD 100 million in real terms. This fell to 4,852 in the period 2001-2007 and further to just 2,272 during the period 2008 to 2014. But small company IPOs have not only decreased in absolute numbers. They also receive a shrinking share of all the equity raised in public equity markets. In the period 1994-2000 about 20% of all public equity raised in advanced economies went to support smaller companies. In 2014 that share had decreased to only 10 percent. There are probably several explanations for this decline in small company IPOs and some of them may relate to the design of the corporate governance framework. In light of this, the

[1] The OECD Corporate Governance Committee (the "Committee") decided, at its meeting in November 2016, to conduct a thematic peer review on the use of flexibility and proportionality ("F&P") in corporate governance frameworks. This background note is adapted from a background paper prepared for the Committee's roundtable discussion on Flexibility and Proportionality of Corporate Governance Frameworks in March 2017.

G20/OECD Principles of Corporate Governance point to the need to put in place a policy framework that is flexible enough to meet the needs of companies operating under widely different circumstances. The corporate governance framework, including listing rules, should therefore allow for proportionality, particularly with respect to the size of listed companies and the company's stage of development.

2. Flexibility and proportionality in company regulation

Regulatory F&P of several kinds exists among joint stock companies, i.e. companies that may turn to the public to raise capital. Here, proportionality may relate to, inter alia, the size of the company. In such cases certain provisions in the company legislation makes a distinction between companies of different sizes. In Sweden, for example, in companies of a certain size workers representation on the board is mandatory. In Chile, independent directors are only mandated if a company has market capitalisation and a free float above a certain minimum.

In the same vein, we find F&P following from corporate governance codes. In many jurisdictions all listed companies (or only companies listed on regulated markets) must adhere to a corporate governance code on a "comply or explain" basis, while typically no such codes exists for non-listed companies or companies the shares of which are traded only on alternative trading platforms.

Another important development, with potential implications for the implementation of corporate governance rules, is the fact that an increasing number of corporations today have a controlling or dominant owner. This is particularly accentuated in emerging markets, but controlling owners are also common in most advanced economies, including the US and Continental Europe. It has been argued that the focus on dispersed ownership is of limited help when addressing corporate governance issues in companies that have controlling owners. Their presence is generally assumed to provide strong incentives for informed ownership under a certain size. In Italy, for example, smaller companies may enjoy differential treatment with respect to engagement and to overcome the fundamental agency problem between shareholders and managers. There are also arguments that the incentives for controlling owners to assume the costs for this ownership engagement are weakened by restrictions on the controlling owners to exercise their rights and be properly compensated for their efforts to monitor.

3. Recent F&P changes to corporate governance frameworks

Several initiatives have been taken to analyse and adjust elements of the corporate governance framework that may work against access to capital markets for smaller growth companies. These initiatives have used an F&P approach to target aspects of laws and regulations that may be of particular importance to companies of a particular size and at a certain stage of development where the funding entrepreneurs wants to maintain control of the company's strategic direction.

For example, the United States Congress passed the Jumpstart Our Business Start-ups (JOBS) Act, aiming at easing the regulatory process for passing the listing threshold and lowering the costs to remain listed. Another example is the changes in UK regulations following the Kay Review of UK Equity Markets and Long-Term Decision Making. Other initiatives include regulatory adjustments in Israel to allow for a longer transition period to implement corporate governance rules that are associated with a full IPO and scaling with respect to disclosure for companies issues such as the disclosure of major shareholdings, mandatory bid thresholds and procedures for related party transactions.

Several jurisdictions are also reconsidering their attitude toward the one-share-one-vote principle with a view to allow and/or encourage long-term investments which can be particularly relevant for growth companies and, in general, for all companies which are more dependent on intangible assets and on human capital resources. Examples in this direction are provided by France, where the Loi Florange has made the loyalty shares with double voting rights the default standards for listed companies; by Italy, where loyalty share have been made available to listed companies and the ban for multiple voting rights has been removed for IPOs, and by Singapore, whose Stock Exchange is considering the possibility to list companies with dual class shares and the introduction of possible safeguards against risks that come with such a listing structure.

In conclusion, flexibility and proportionality are at the centre of some of the significant trends shaping corporate governance frameworks and can be an effective policy tool to address some of the challenges ahead.

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Focus group 2 discussion

Enhancing board diversity

Background

This focus group will discuss board diversity as a topic that has entered in the discussion of corporate governance and international business. While there is a growing consensus that diversity is necessary for effective board performance, most of the debate has focused on gender diversity. However, the diversity issue is not limited to gender and the discussion needs to be broadened to include other dimensions of board diversity: age, experience, ethnicity, educational background and nationality.

In order to conduct an enriching discussion on board diversity is important to understand the current situation, the global trends and the challenges associated with the lack of diversity as well as to reflect on what can be the impact of diversity in today's capital market structure and sound corporate governance practices. Only with a deep understanding of the role of board diversity, new tools can be developed and new policies enforced, taking into considerations the particularities of each jurisdiction and each company.

Among the lessons of the 2007 global financial crisis is that exceedingly cohesive and entrenched boards may fail to identify risk factors, detect problems, protect the interest of all stakeholders and act in consequence. "Groupthink" is more likely to occur among homogeneous groups lacking diversity in areas related to gender, nationality, age, and educational backgrounds. In this context, the discussion about board diversity becomes relevant to improve corporate governance in companies in a globalised world, particularly when boards now need to construct resilience for future challenging events. Board diversity has also been correlated with better stakeholder management and transparency. In this sense, links have been established between board diversity and sustainability initiatives, claiming in some cases that diversity is an essential building block of sustainability.

While policies have been introduced at both company and national levels to address some of the diversity dimensions, a concerted effort among stakeholders could be stepped up.

Some questions that will be relevant to the discussion include:

- What are policy makers, regulators, firms and investors doing to enhance board diversity?
- How is the discussion on board diversity being framed?
- Is there a connection between board diversity, sustainability and corporate social responsibility? Can this link boost board diversity?
- What are the obstacles to achieving diversity in corporate leadership roles?
- How can incentives be construed to engage companies in a discussion about board diversity?
- Can institutional investors lead by example and act as a key stakeholder for the diversity agenda?
- How companies can find suitable candidates with diverse backgrounds?
- What concrete actions can be taken to enhance board diversity?

1. The G20/OECD Principles of Corporate Governance

Chapter IV of the G20/OECD Principles of Corporate Governance refers to the responsibilities of the board of directors, stating that the corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders. In this context, the Principles highlight that the board should be able to exercise objective independent judgement on corporate affairs and avoid groupthink. In order to avoid groupthink and bring a diversity of thought to board discussion, boards should consider in their evaluation processes if they collectively possess the right mix of background and competences (OECD, 2015a).

Regarding gender balance in the board of directors, the Principles states that countries may wish to consider measures enhance gender diversity on boards and in senior management. Among the different measures that the Principles recommend are the following: voluntary targets, disclosure requirements, boardroom quotas and private initiatives (OECD, 2015a). Further, the OECD Guidelines on Corporate Governance of State-Owned Enterprises encourages the ownership entity to consider the OECD Recommendation on Gender Equality. It recommends that jurisdictions encourage measures such as voluntary targets, disclosure requirements and private initiatives that enhance gender balance on boards and in senior management of listed companies and consider the costs and benefits of other approaches such as boardroom quotas (OECD, 2015b).

2. Some relevant data to start the discussion

The question of board diversity and globalisation is crucial for the analysis of trends in corporate governance and international business, however up to now the evidence is weak. While there is extensive research on gender diversity, less attention has been devoted to other dimensions of diversity. This background note does not pretend to present extensive research on the different dimensions of board diversity, but to only highlight some relevant data to further discuss the topic.

2.1. Gender diversity

All public available data highlights the gender imbalance in the corporate world and the fact that *the glass ceiling* remains intact. Women make up only about one-third of managers in OECD countries and are also far less likely than men to become CEOs, sit on boards of private companies, or hold public leadership positions, although government quotas (and, to a lesser degree, targets) have led to relatively quick changes in the share of private and public leadership positions held by women (OECD, 2017).

Globally, women only account for approximately 14.7% of board seats among the world’s largest companies (Credit Suisse Research Institute, 2016). In the OECD-wide context[2], the percentage of women in board seats is modestly higher, reaching a 20% in 2016, up slightly from 16.4% in 2013. On average, 4.8% of CEOs were women in 2016, double the 2.4% in 2013 (OECD, 2017).

Most OECD countries have initiated policies to promote gender balance on boards and in senior management. As of 2016, nine OECD countries had introduced gender quotas for the boards of publicly listed and/or state-owned enterprises. Other countries have taken an approach that is not legally binding, involving voluntary targets, corporate governance codes and/or disclosure rules.

The percentage of women occupying board seats in Asia is low: 7.8% (Deloitte, 2017). Despite that the percentage has improved from past years, the pace of change is still slow compared to global progress– about half the average of the US and Europe. In the region, India and Pakistan require a number of board

[2] OECD-wide includes South Africa, India, Colombia, China, Hong Kong, Brazil and Indonesia in addition to the 35 OECD member countries.

seats to be offered to woman and China and Malaysia have a target. Japan, China, Chinese Taipei, India, Malaysia and Pakistan have requirements to disclose statistics on gender.

In Japan, women hold 3.5% of the board seats (Credit Suisse Research Institute, 2016), up from 0.9% in 2010. Japanese PM Shinzo Abe announced in 2013 a 30% soft target for women in senior management to be achieved by 2020 as part of the "Abenomics" programme. In 2015 Japan issued a law to promote women's participation in the workplace. Companies listed on the Tokyo Stock Exchange are required to disclose the number of women on boards.

In India, the revised Companies Act (2013) for the first time made it mandatory for all listed companies and other large public limited companies to appoint at least one woman director to their boards. Companies were given until 31 March 2015 to comply with this legislative provision. With this new policy, the number of women on boards in India increased by 4.7% in the past two years from 7.7% to 12.4% (Deloitte, 2017).

Malaysia holds the highest percentage of women on boards in the region. In 2011, a gender quota rule was introduced, mandating a 30% women representation in senior management and board positions in companies with more than 250 employees by 2016. Bursa Malaysia's data indicate that as of 2016, women held 16.6% of board seats in the top 100 publicly listed companies. Other data suggest that the percentage reach 17% in government-linked companies (Deloitte, 2017).

Table 1. Gender data in Asian countries (excluding Japan)

Jurisdiction	**Requirements to disclose statistics on gender composition**		**Quota/target for companies to achieve gender balance on boards**	
	Of boards	*Of senior management*	*Quota or target*	*Objective and Year*
Bangladesh	No	No	No	N/A
China	Yes	Yes	No	N/A
Chinese Taipei	Yes[3]	No	Target	One-third
Hong Kong, China	No	No	No	N/A
India	Yes	No	Quota	1
Indonesia	No	No	No	N/A
Korea	No	No	No	N/A
Malaysia	Yes	Yes	Target	30% by 2020
Mongolia	No	No	No	N/A
Pakistan	Yes[4]	No	Quota	1

[3] As per information kindly provided by the jurisdiction to the last edition of the Asia Corporate Governance Survey (October 2017), according to the Regulations Governing Information to be Published in Annual Reports of Public Companies dated February 9, 2017, the contents of an annual report should include a corporate governance report that provides directors' and managers' information, such as names, gender, principal work experience, and so on.

[4] As per information kindly provided by the jurisdiction to the last edition of the Asia Corporate Governance Survey (October 2017), public interest companies are required by Companies Act 2017 to have female directors on board as specified by SECP.

Philippines	No	No	No	N/A
Singapore	No	No	No	N/A[5]
Thailand	No	No	No	N/A
Viet Nam	No	No	No	N/A

Source: OECD Survey of Corporate Governance Frameworks in Asia (October 2017).

2.2. Nationality diversity

In a globalised word board members from different countries will help a company develop a better understanding of the legal and business complexities of different regions. Foreign directors (and managers to an even greater magnitude of importance) speak foreign languages, are familiar with foreign cultures and unwritten rules, calculate in different currencies and with different financial regulations, understand the political attitudes of foreign governments, and so on. They are therefore better placed to provide the advice that is necessary when considering internationalization. Research on board diversity has found international directors and national directors with international experience to be complementary. To simplify, the former group serves a monitoring role, related to financial internationalization of the firm, whereas the latter advises on commercial internationalization.

In 2015, the OECD embarked in an internal analysis of a large sample of the world's 500 largest public-listed companies, as ranked by Forbes, to understand the challenges of board diversity. From this internal research, results showed that Europe is by far the most "globalised" region, with 82% of companies reporting at least one non-national director, followed by Latin America (83%), sub-Saharan Africa (75%) and MENA (56%). Percentages are well below 50% elsewhere: 39% in North America (excluding Mexico) and 37% in Asia-Pacific.

2.3. Other dimensions of board diversity

There is no consolidated data that analyses all the dimensions of board diversity in companies globally. The information is still fragmented and does not follow single criteria to show comparable results. Despite the lack of numerical information, we highlight in this section practices in the Asian region that go in the direction towards board diversity.

After a consultation period, on September 2013, the Stock Exchange of Hong Kong issued a Corporate Governance Code, which for the first time introduced a disclosure requirement on board diversity on a *"comply or explain"* basis. Under the new rules, companies must have policies concerning diversity in the board, which according to the Code can be achieved through consideration of a number of factors, included but not limited to gender, age, cultural and educational background, and professional experience. To comply with the Code Provision, the company should also include any measurable objectives that it had set for implementing the policy, and progress on achieving those objectives.

[5] As per information kindly provided by the jurisdiction to the last edition of the Asia Corporate Governance Survey (October 2017), the Diversity Action Committee (DAC) is a committee comprising corporate leaders and professionals from business, people and public sectors, was formed to encourage greater representative of women on boards of companies in Singapore. DAC has adopted a set of targets for 20% of seats in boardroom to be filled by women by 2020, 25% by 2025 and 30% by 2030.

In the Philippines, the Securities and Exchange Commission released a revised Code of Corporate Governance for publicly listed companies that entered into force on 2017. It contains recommendations of a policy on board diversity that should cover, age, ethnicity, culture, skills, competence, and knowledge. In a similar approach, the Singapore Code of Corporate Governance requires companies to consider diversity as part of the board nomination process.

Japan's corporate governance code, which took effect in 2015, expressly states the importance of ensuring the existence of diverse perspectives and values reflecting a variety of experiences, skills and characteristics within the board of directors. In August 2016, the Ministry of Economy, Trade and Industry (METI) established a Study Group for Ideal Approaches to Diversity Management as a Competitive Strategy[6]. The study group issued its report in March 2017 which highlights the need to implement diversity management as a competitive strategy to boost corporate growth and profitability. The group also prepared "Diversity 2.0 Action Guidelines", a compilation of actions that companies should take for diversity management.

3. Re-framing the diversity discussion: solution facilitator

Reframing the diversity debate as an economic and business opportunity can facilitate solutions and the incorporation of measures in different jurisdictions. The benefits of diverse leadership relate not only to global growth, but also company performance, better risk management, company reputation, innovation and talent leverage.

Board diversity in general is a tool to avoid the group-thinking that occurs when leadership teams are homogeneous and that has been proved to be a problem for decision making in companies. Being attentive to board composition in terms of backgrounds, skills and nationalities will therefore help guard against groupthink, improve corporate governance and help to build the necessaire resilience for new upcoming challenging times.

In the case of gender, current inequalities represent missed opportunities for achieving inclusive economic growth. OECD research shows that achieving parity in labour force participation rates between men and women in OECD countries could boost global GDP by 12% over the next 20 years.

4. Pending challenges

4.1. Public policies towards diversity

As discussed previously, some countries are implemented public policies or disclosure policies to achieve the different dimensions of board diversity. There is not yet a consolidated study on international actions, but there is a growing international interest in the area. In France, for example, the Autorité des Marchés Financiers (AMF) invites listed companies to include nationality and international experience among their diversity goals, although, unlike gender, this is not a binding objective.

Regarding gender, most OECD countries have initiated policies that promote gender balance on boards and in senior management. Countries that adopted a quota saw a more immediate increase in the number of women on boards, while those that took a "softer" approach (disclosure rules or targets) have seen a more gradual increase over time.

[6] Information and part of report in English available in: http://www.meti.go.jp/english/press/2017/0323_002.html

4.2. Research and transparency.

Fill-in the data gaps on minorities in corporate leadership remains a challenge. Regarding gender, research from ILO (2015) finds that, in order to better frame the issue and inform areas for action, more targeted data on women in business is needed, including surveys on what governments, companies and women themselves see as effective measures. The same conclusion can be reached in relation to the other dimensions of board diversity. Moreover, OECD has found that pay transparency is a key lever and a good tool to close the gender wage gap (OECD, 2017).

4.3. Board Evaluation as an opportunity to discuss Board diversity

The introduction of new Codes and Practices in the region, including requirements to formally evaluate board offers a good opportunity to reflect upon board diversity, following the recommendations of the G20/OECD Principles. If the opportunity is seized, boards can incorporate actions to improve board diversity to match the needs of each specific jurisdiction and each specific company.

4.4. Changing policies, changing minds: The persistence of stereotypes as a barrier to equality

Achieving the appropriate diversity balance requires a complex and deep cultural change at both societal and organisational levels to address the social challenges undermining minorities' access to top management. These measures include a consideration of the underlying causes of the diversity gaps such as skewed perceptions and unconscious biases, and advocating for cultural and behavioural change in company culture. Some concrete actions include developing information campaigns and creating awareness-raising programmes about stereotypes, conscious and unconscious biases and the social and economic benefits of a more diverse board and management.

Regarding gender, public attitudes towards the roles of men and women have changed slowly over time as a consequence of an intense discussion on gender equality over the past years. However, gender stereotyping at work, at home, and in society at large continues to be a serious obstacle to greater gender equality (OECD, 2017b).

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Focus Group 3 discussion

Aligning incentives along the investment chain

Background

As noted in the *G20/OECD Principles of Corporate Governance* (hereafter the *Principles*), companies across the globe are witnessing changes in their ownership structures. Today, we find a number of intermediaries that stand between companies and the ultimate beneficiaries of their shares, often forming a long and complex interconnected investment chain. As such, there is no longer a direct and uncompromised relationship between the performance of a company and the income of the ultimate beneficiaries of its shares. The different economic incentives of these layers of intermediaries affect the quality of ownership engagement and bring new corporate governance challenges.

Since the *Principles* were revised and endorsed in 2015, assets under management by institutional investors have increased considerably. As a new emerging global trend, capital markets have also seen a surge in new types of institutional investors, investment vehicles and trading techniques, such as indexing as an investment strategy and so-called high frequency trading where the investment strategy and ultra-short holding periods do not motivate any corporate specific analysis or ownership engagement. Taken together, these developments have further affected the character and quality of ownership engagement, raising concerns about a level playing field among different categories of investors with respect to market information.

While these market developments in OECD countries have not yet fully reached Asian markets, Asian policymakers may want to reflect on how these emerging challenges may affect their own economies, particularly with a view to adjusting their corporate governance frameworks in the future. This focus group will discuss to what extent global trends apply to Asian economies where ownership concentration is high. The session can also explore what countries can do to address the challenges imposed by the presence of new institutional investors into these concentrated ownership structures, particularly with regards to the alignment of incentives along the investment chain, with the aim of contributing to sound corporate governance.

Some questions that will be relevant to the discussion:

- How are global trends affecting changes in the ownership structure of Asian companies and to what extent have Asian jurisdictions encountered new corporate governance challenges as a consequence of these changes?
- How do investors in Asia engage with investee firms today? How are their different business models influencing the way in which they engage? Is there a culture of responsible and meaningful engagement in creating value over the long term?
- What has been the response of Asian regulators to align incentives along the investment chain?
- Are there ways for public policy to influence the incentives of institutions to vote without interfering with the business model of the institution?
- Should policy makers in Asia address the lack of economic incentives among institutional investors to carry the costs associated with informed ownership engagement? What would be the rationale for such policies?

1. Global changes in ownership and the G20/OECD Principles of Corporate Governance

Institutional investors are financial intermediaries that accept funds from clients or beneficiaries for investment on behalf of these investors, such as mutual funds, pension funds, sovereign wealth funds and insurance companies among others (Çelik and Isaksson, 2013). With the rapid growth of global financial markets, recent decades have witnessed a tremendous increase in institutional ownership of public listed companies, which in turn increases their potential role in corporate governance.

The presence of intermediaries acting as independent decision makers, especially when there is a long investment chain, influences the incentives and their ability to engage in corporate governance. The various forms of shareholder engagement include strategic voting, proxy fights, and shareholder proposals. Institutional investors' engagement in corporate governance matters will depend on a number of features and choices, that together make up the institutional investor's "business model" (Çelik and Isaksson, 2013).

Research has shown that institutional investors can act as effective monitors of management and that firms have benefited from significant improvements in corporate governance after the proportion of institutional ownership increases (Chuang and Zhang, 2011). Yet despite the positive impacts on corporate governance, a large number of institutions remain passive investors. This passive approach goes against value creation in the long-term and raises questions for all parties involved, generating an interesting discussion among institutional investors, companies and policy makers, who find it challenging to align incentives among players to improve corporate governance and ultimately contribute to economic growth.

Recognising the new reality in ownership structures, the *Principles* incorporated a new chapter on institutional investors, stock exchanges and other intermediaries in 2015, stating that corporate governance frameworks should provide sound incentives throughout the investment chain to function in a way that contributes to good corporate governance.

The *Principles* recommend focusing on disclosure of corporate governance and voting policies (including the procedures in place for deciding on the use of their voting rights), conflicts of interest, and the corporate governance framework in the case of companies that are listed in a jurisdiction other than their jurisdiction of incorporation. The *Principles* also recommend that votes should be cast by custodians or nominees in line with the directions of the beneficial owner of the shares. Finally, the *Principles* emphasise the importance of prohibiting and enforcing vigorously insider trading and market manipulation.

2. Aligning incentives along the investment chain in Asia

The corporate sector in Asia is generally characterised by high ownership concentration. In this context, the role of institutional investors varies and challenges differ from those of less concentrated markets. While in some countries institutional investors are starting to play an increasingly important role, in others, the majority of ownership is by the state or family groups. For example, in the People's Republic of China, the state holds 47.67% of shares of all listed companies while shares held by individual shareholders and institutional investors accounted for 28.85% and 11.37%, respectively.[7] In others countries in the region, ownership structures remain highly concentrated in large family-owned firms, as is the case of Indonesia, Korea and Philippines.

[7] The data correspond to the month of August 2017 and has been kindly provided by China Securities Regulatory Commission for our Asia Survey on Corporate Governance (October 2017), stating as a source the Capital Market Statistic & Monitoring Center Co.

The variety of ownership structures in the region makes it difficult to provide a one-size-fits-all strategy for aligning incentives along the investment chain with the aim of boosting corporate governance practices. The concentrated capital market structure also brings into question the role of the controlling shareholder in finding effective tools for engaging institutional investors and the role of policy makers in balancing incentives across different types of shareholders.

Despite the intrinsic difficulties in analysing the role of institutional investors in the region, efforts have been made both by the private and the public sector to engage institutional investors in good corporate governance. The answer to the new investment chain reality has been characterised by the dialogue amongst stakeholders and by the development of tools to address the emerging challenges with a focus on long-term value creation, investor confidence and economic growth.

Table 1. Governance-related responsibilities of institutional investors

Jurisdiction	Exercising voting rights			Requirement to disclose 'conflicts of interest'	
	Disclosure of voting policy	*Existence of a stewardship code*	*Required to cast votes in line with the instructions of the beneficial owner of the shares*	*By institutional investors that may affect the exercise of ownership rights?*	*By proxy advisors, analysts, brokers, rating agencies and other*
Bangladesh	No	No	N/A	No	Yes
China	No	No	N/A	N/A	No
Chinese Taipei	Yes	Yes	Yes	Yes	Yes
Hong Kong, China	No	No	N/A	N/A	Yes
India	Yes	No	Yes	Yes	Yes
Indonesia	No	No	No	Yes	Yes
Korea	Yes	Under discussion	Yes	Yes	Yes
Malaysia	No[8]	Yes	Yes	Yes	Yes
Mongolia	No	No	N/A[9]	Yes	Yes
Pakistan	Yes	No	Yes[10]	Yes	Yes
Philippines	No	Under discussion	Yes	Yes	No

[8] Although, the Malaysian Code for Institutional Investors *encourages* signatories institutional investors to publish their voting policy.

[9] It depends on the agreement between custodians/ nominees and beneficial owner.

[10] Mutual Funds Mangers (Asset Management Company) are required to disclose proxy voting policy on their web site and also has to disclose summary of actual voting in mutual fund annual account.

Singapore	No[11]	Yes	No	No	Yes
Thailand	Yes	Yes	Yes	Yes	Yes
Viet Nam	No	No	Yes	No	No

Source: OECD Survey of Corporate Governance Frameworks in Asia (October 2017).

2.1. Changes in the policy framework

Institutional investors have an important role to play in the corporate governance of investee firms in Asia, both to boost economic growth opportunities and to balance a highly concentrated market. Asian countries are beginning to attract significant capital from institutional investors worldwide and there is also a growing presence of local institutional investors in recent years. If the region wants to continue on this path, it is indispensable to improve corporate governance policies, particularly regarding disclosure, to boost economic performance and raise investor confidence.

As a next step, jurisdictions could reflect on how to find the right balance between creating the legal and regulatory framework to attract investment while ensuring that sound corporate governance practices are adopted along the investment chain.

One particularly difficult aspect of engaging institutional investors in long-term value creation is that measuring the return on engagement in good corporate governance practices is not easy. In this context, policymakers face the challenge of inadequate economic incentives amongst institutional investors to carry the costs associated with informed ownership engagement.

2.2. Stewardship codes initiatives

A stewardship code is a set of principles that aims to encourage institutional investors to take an engaged approach in the corporate governance of the company on behalf of their beneficial owners. In 2014, Japan became the first country in Asia to release a code[12]. The Code defines stewardship as the responsibilities of institutional investors to enhance the medium- to long-term investment returns for their clients and beneficiaries by improving and fostering investee companies' corporate value and sustainable growth through constructive engagement or purposeful dialogue.

Subsequently, Chinese Taipei, Hong Kong (China), India, Malaysia, Thailand and Singapore also launched stewardship codes to promote more engagement by institutional investors, while the Phillipines is currently developing one.

Even if the impact of voluntary or non-binding stewardship codes on institutional shareholder engagement is still being assessed, *encouraging* institutional investors to adopt disclosure and other good practices to

[11]However, under the Singapore Stewardship Principles, investors *are encouraged* to have clear policies on communicating information pertinent to voting, such as voting policies, votes exercised and records of votes cast.

[12] The Japan Stewardship Code, known as the "Principles for Responsible Institutional Investors" was published by the Financial Services Agency (FSA). The seven good practice principles in the Japan Stewardship Code are modelled on the UK Stewardship Code and are implemented on a "comply-or-explain" basis.

enhance corporate governance in investee firms in meaningful ways in practice (rather than to become a pure "box-ticking" exercise). The next step for policymakers in the region might be to call for institutional investors to apply the principles of engagement with a long-term view on value creation rather than complying merely in form.

2.3. Private sector commitment

Improving corporate governance standards is a task that does not only belong to the regulator. It involves institutional investors themselves, companies that receive institutional investments and the rest of the stakeholders who see corporate governance practices as an opportunity to reach sustainable economic growth.

In markets with concentrated ownership, institutional investors could be seen as providing an invaluable contribution by demanding transparency, accountability and long-term value creation in their investee companies. Institutional investors could be motivated by this opportunity to engage in dialogue with actors around the region, collaborating responsibly with one another where appropriate.

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