Asian Corporate Governance Association (ACGA)

"Dual-class Shares in Asia: Unsuitable for Public Markets"

Presentation by:
Jamie Allen, Secretary General, ACGA

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Agenda

1. ACGA work on dual-class shares (DCS)
2. Six investor concerns about the SGX proposal
3. The challenge posed by passive
4. An entrenched market discount
5. Global alignment
6. Conclusion

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**.

ACGA

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 focussing 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

Contact details

Jamie Allen
Secretary General
Asian Corporate Governance Association Ltd

Room 1801, 18th Floor, Wilson House
19-27 Wyndham Street, Central, Hong Kong

Tel: (852) 2160 1789 (D)
Fax: (852) 2147 3818
Email: jamie@acga-asia.org
Website: www.acga-asia.org