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Asian Corporate Governance Association (ACGA)

“CG Watch 2016 – Ecosystems Matter”

Presentation by:

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CG Watch 2016 – Key Conclusions

1. “Ecosystems matter”

- Healthy corporate governance systems need the balanced participation of a range of different stakeholders: financial regulators, listed companies, auditors, investors (institutional and retail), and civil society groups.
- These different interests act collectively to drive both top-down and bottom-up improvements, leading to better policymaking and faster adoption of new ideas.

2. Public governance matters

- Several Asian markets are suffering from self-interested political leadership, high levels of corruption, and weak public governance norms. This weakens CG ecosystems over time.
- Financial regulators are not responsible for public governance scores in our survey.

3. Investor stewardship

- Investors have been given an opportunity through new “stewardship codes” to significantly enhance the quality of CG culture in Asia.
- Asia will not achieve a higher level of corporate governance if this area continues to underperform. We still depend too much on top-down regulatory reform.

Winners, improvers, flatliners, decliners

- **Winners:**
 - Singapore, Taiwan
- **Improvers:**
 - Japan, India, Korea
- **Flatliners:**
 - Hong Kong, Thailand
- **Decliners:**
 - Malaysia, China, Philippines, Indonesia

*North Asia doing much better than Southeast Asia this time.
In 2012, the opposite held true. 2014 was mixed.*

Market rankings & scores, 2016

CG Watch market scores: 2010 to 2016

(%)	2010	2012	2014	2016	Change 2014 vs 2016 (ppt)	Direction of CG reform
Australia	-	-	-	78	-	
1. Singapore	67	69	64	67	(+3)	Mostly sunny, but storms ahead?
2. Hong Kong	65	66	65	65	-	Action, reaction: the cycle of Hong Kong life
3. Japan	57	55	60	63	(+3)	Cultural change occurring, but rules still weak
4. Taiwan	55	53	56	60	(+4)	The form is in, now need the substance
5. Thailand	55	58	58	58	-	Could be on the verge of something great, if...
6. Malaysia	52	55	58	56	(-2)	Regulation improving, public governance failing
7. India	49	51	54	55	(+1)	Forward movement impeded by vested interests
8. Korea	45	49	49	52	(+3)	Forward movement impeded by vested interests
9. China	49	45	45	43	(-2)	Falling further behind, but enforcement better
10. Philippines	37	41	40	38	(-2)	New policy initiatives, but regulatory strategy weak
11. Indonesia	40	37	39	36	(-3)	Losing momentum after progress in past survey

Source: Asian Corporate Governance Association

Australia – Key points

- Australia's CG regime is broader, deeper and more developed than its counterparts in Asia, but it has some clear weaknesses
- High scores for corporate reporting, political/regulatory environment (overall), accounting/auditing, and CG culture
- Lower scores for enforcement, regulatory funding, anti-corruption efforts
- Shareholder rights are robust, but urgent fixes needed in minority protection in reverse takeovers, voting by poll
- Australia's faster CG evolution a reflection of deeper regulatory foundations, stronger public-sector accountability, and a more open CG culture

Singapore – Key points

- Revamped securities enforcement strategy, MAS joins with the Commercial Affairs Department (CAD) of the Police
- New chief regulatory officer at SGX, signalling more commitment
- SGX forms three independent committees to bolster regulatory function – arguable whether these are helping CG with the greenlight to SGX for a consultation on dual-class shares
- Mandatory voting by poll finally arrives in August 2015
- The Accounting and Corporate Regulatory Authority (ACRA) introduces eight “audit quality indicators”
- SingPost debacle an embarrassment

Hong Kong – Key points

- Regulator nudges institutional investors towards more active ownership and says a firm no to dual-class shares
- Controversy around consultation on new listing regime highlights the two competing camps in Hong Kong's CG ecosystem
- Regulators put more weight on non-financial reporting, especially ESG/Sustainability, but boilerplate remains in basic CG reporting
- Frequency and timing of financial reporting remains a concern, disclosure around large expenses items problematic
- Still no independent audit regulator!!
- Some positive improvements in company CG culture (eg director training, risk reporting), but board composition remains conservative

(In)consistency of performance

- Highly ranked markets (top 5) vary in their degree of consistency across our survey:
 - *Singapore and Taiwan quite consistent*
 - *Hong Kong, Japan and Thailand inconsistent*
- Why does this matter?
 - *Points to obvious areas for improvement.*

Category scores 2016: Asian markets by rank

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:

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

Strategic priorities to strengthen ecosystems

	# 1	# 2
Australia	Enforcement	Anti-corruption
Singapore	CG culture	Enforcement
Hong Kong	Audit regulator	CG culture
Japan	CG rules	CG practices
Taiwan	CG culture	CG practices
Thailand	Public governance	Enforcement
Malaysia	Public governance	CG culture
India	Accounting/auditing	Enforcement
Korea	CG culture	CG rules
China	Regulatory governance	CG rules
Philippines	Enforcement	Public governance
Indonesia	Enforcement	Public governance

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