



ASIAN CORPORATE GOVERNANCE ASSOCIATION

PLENARY 1: “ASIA OVERVIEW – AN ESG REALITY CHECK”
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Issues

1. Public and corporate governance need strengthening
2. Governance, ESG, and investor stewardship policies need more alignment
3. ESG/sustainability disclosure needs targeted assurance
4. Boards need more gender diversity!

Issue 1: Public and corporate governance need strengthening

CG Watch 2020	Total (%)	Change vs 2018 (ppt*)
1. Australia	74.7	+3.7
=2. Hong Kong	63.5	+3.5
=2. Singapore	63.2	+4.2
4. Taiwan (previously 5 th)	62.2	+6.2
=5. Malaysia (previously 4 th)	59.5	+1.5
=5. Japan (previously =7 th)	59.3	+5.3
7. India	58.2	+4.2
8. Thailand (previously 6 th)	56.6	+1.6
9. Korea	52.9	+6.9
10. China	43.0	+2
11. Philippines	39.0	+2
12. Indonesia	33.6	-

- Rising scores due in part to improving ESG reporting and board oversight of ESG.
- Medium to low absolute scores indicate the region still has much work to do in public and corporate governance.
- Differing views about what the “G” in ESG means.

Source: ACGA

*ppt = percentage point

Issue 2: Governance, ESG, and investor stewardship policies need more alignment

CHALLENGE – POLICIES STILL SITTING IN “SILOS”

CG codes

- References to ESG and sustainability starting to become more explicit in some CG codes, but still generally limited
- Many codes have little or nothing to say on how issuers could implement stronger climate governance mechanisms

ESG reporting guidelines

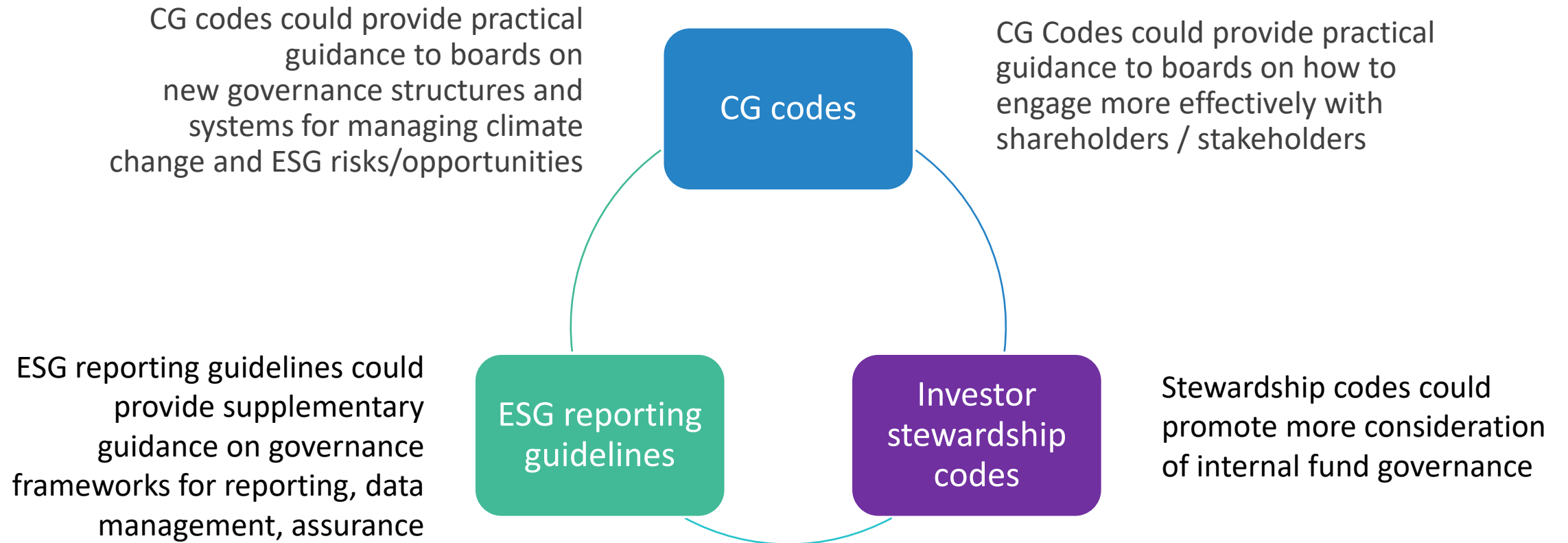
- Most now emphasise the importance of board oversight of reporting, strategy and materiality. But provide little practical guidance to issuers on how to do this
- Regulators not always aligned on disclosure policy and reporting standards (eg, TCFD)

Investor stewardship codes

- Most encourage investors to develop policies on responsible investment, to vote, and engage with companies
- Few focus on internal governance of investors beyond the conflict of interest issue

Aligning governance, ESG, and stewardship in Asia

WAYS TO INTEGRATE THE THREE POLICY AREAS



Aligning governance, ESG, and investor stewardship

In November 2020, we made 8 recommendations. Comparing performance in three markets today:

	Topic	HK	Japan	Malaysia
1	Acclimatising CG codes	×	×	✓
2	Linking ESG reporting guidance and CG codes	✓	✓	✓
3	Supporting ESG reporting	✓	✓	✓
4	Nudging ESG assurance	-	-	-
5	Aligning CG and stewardship codes	×	✓	✓
6	A focus on investor internal governance	-	-	-
7	Improving investor stewardship reporting	×	✓	-
8	Aligning policy aspirations	-	-	-



CG WATCH 2020

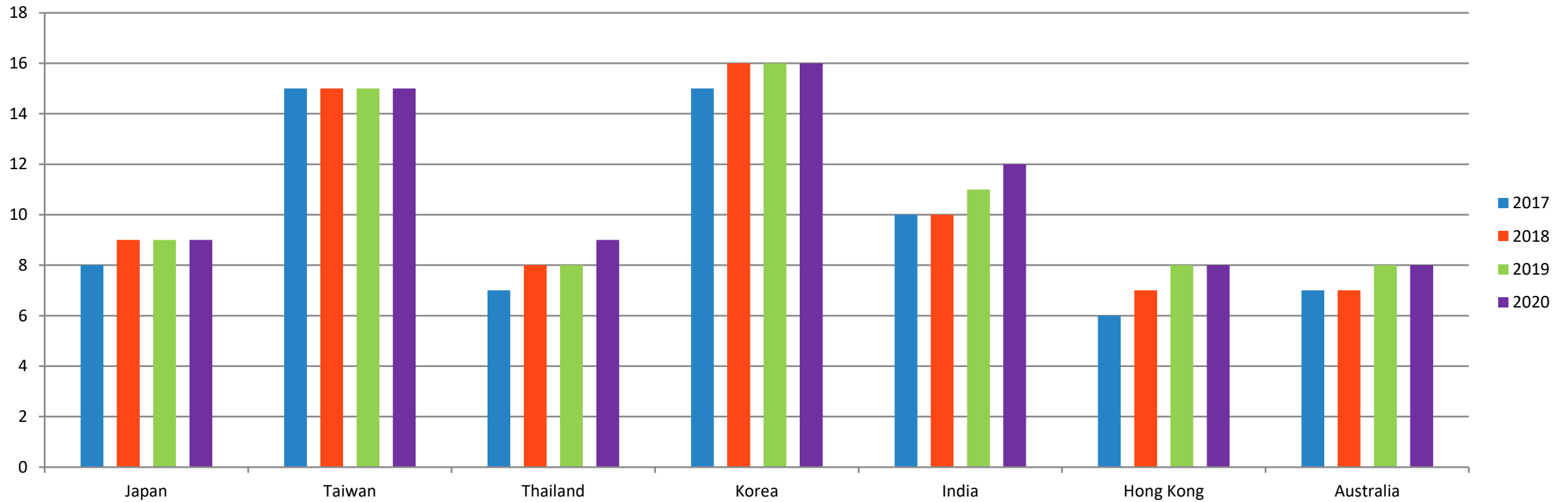
Future promise

Aligning governance and ESG in Asia

Issue 3: ESG/sustainability reporting needs targeted assurance

The current state of assurance in Asia-Pacific:

1. Currently voluntary in all markets
2. Top-ranked markets are not leading the way
3. Volume of assurance varies across markets
4. Scope of assurance generally covers only a limited number of economic, environmental, and social metrics – selected by companies
5. Assurance reports are often brief (1-2 pages) and not very informative
6. There are different assurance standards for auditing firms and specialist assurers; terminology and procedures not directly comparable
7. Almost no ESG reports are qualified



Number of assurance reports for large-cap companies 2017-2020

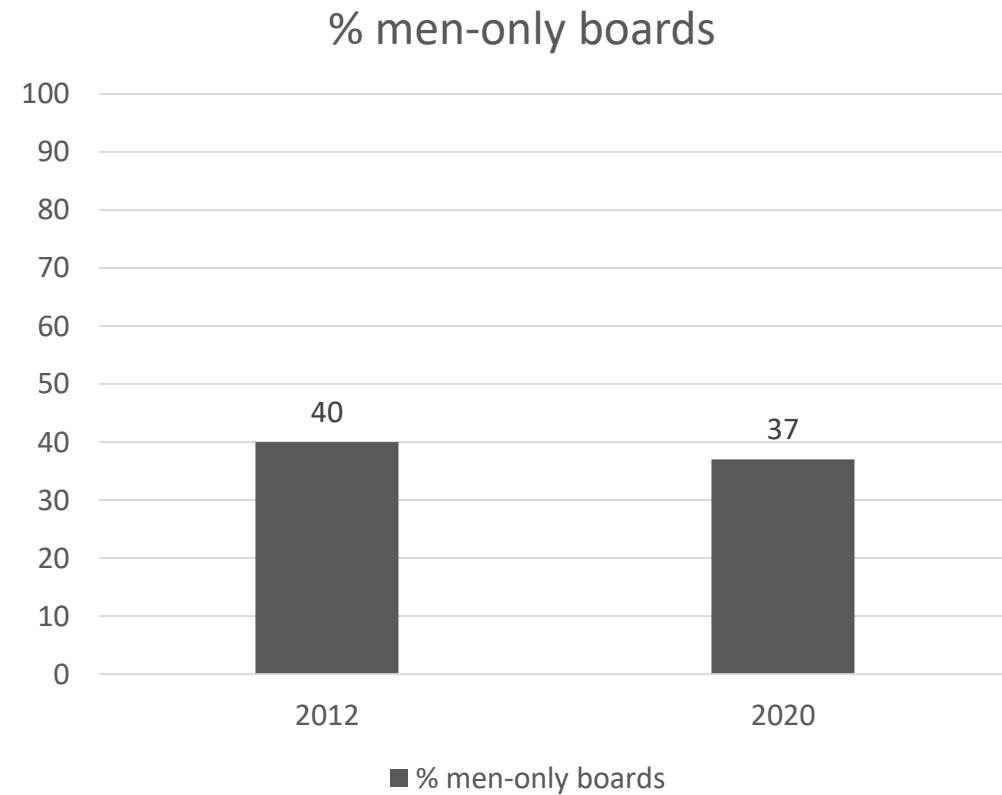
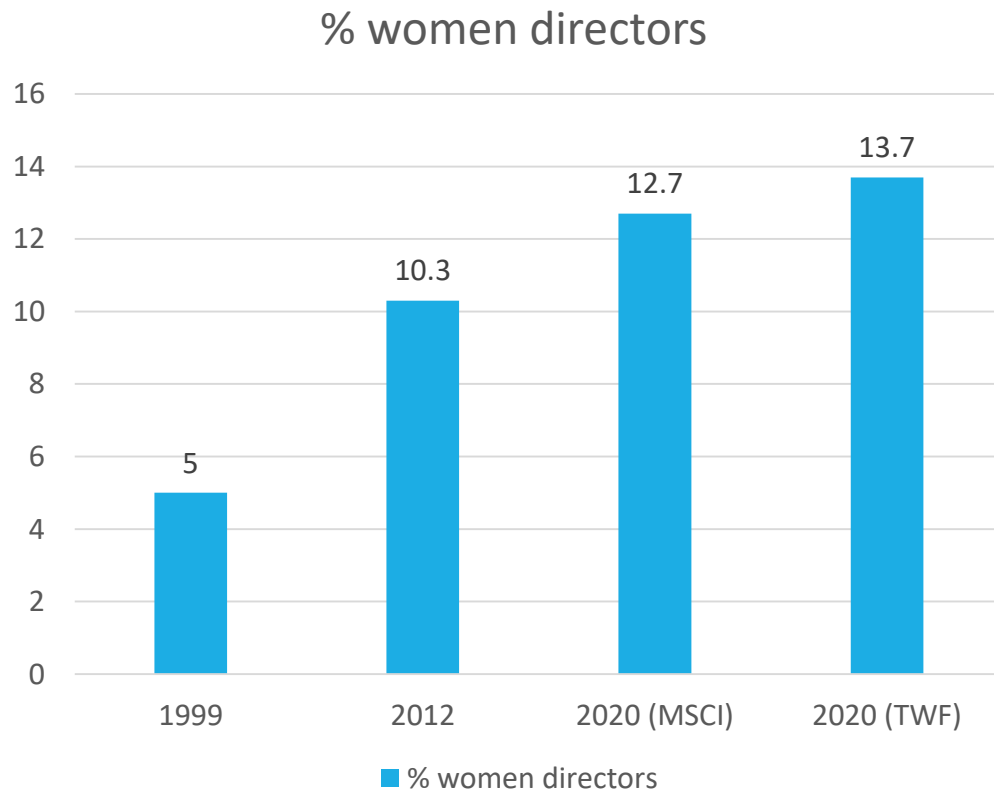
Based on ACGA survey of 15 representative large-caps per market. (18 in Korea)

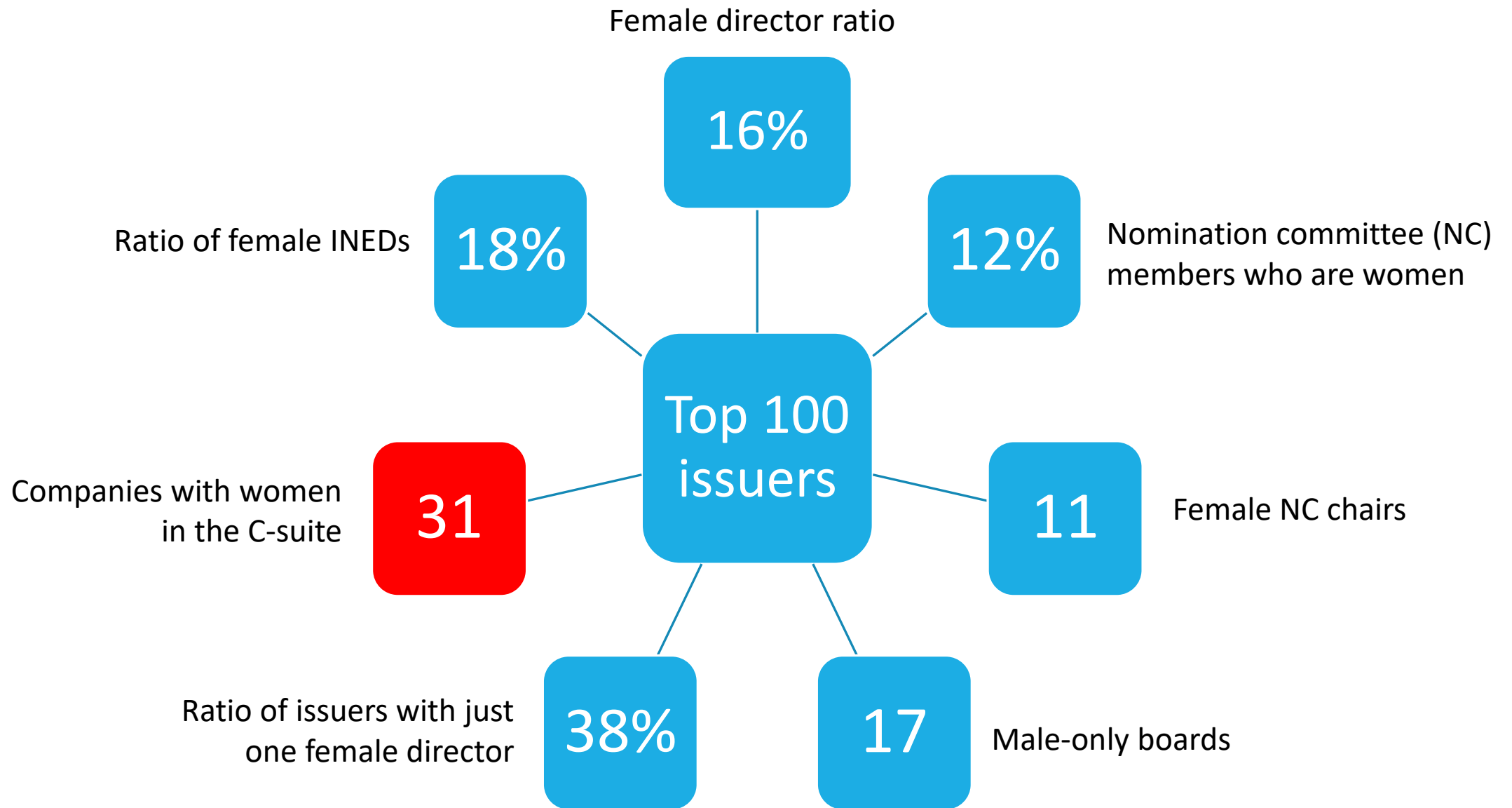
Gender diversity in Hong Kong

The following results are based on an ACGA survey of gender diversity in the boards of the top 100 issuers by market cap on HKEX in October 2021.

Issue 4: Boards need more gender diversity!

If board diversity continues on its current organic growth trajectory—2.4% every 9 years—we will reach gender parity in Hong Kong listed-company boards in the year 2161.





Any better at the top 50 companies?

No, it gets worse.

- Just **15%** of directors are women (top 100 = 16%)
- More male-only boards: **12** out of 50 (vs 5 for the second 50)
- Companies with females in the C-Suite? **14**
- Among the **top 20** companies, one in four have MOBs
- In the **top 3** companies, there is **one** MOB (Meituan—online retailer/home-delivery)
- Between them, the top 3 firms have just **3 women** out of **24 directors**

Planes, trains and automobiles?

To an extent these are the worst offenders. MOB at three auto firms, gaming, logistics.

BUT: contrast with JD Logistics, which has 44% women, Hansoh Pharma 57%, Greatwall Motor 43%

No excuse? A few of the MOB firms target a **female** clientele: Mengniu Dairy, HK & China Gas (Towngas)

And several are gender neutral in their clientele: ecommerce, mobile phones, banking, insurance

More depressing data:

- Of the 17 MOB, **10** have **never** had a female board director
- MOB also less likely to have women in senior management (8 out of 17 have none)
- Longest tenure for a director at a MOB issuer: **37 years!** And he is an INED

New economy, old school attitudes?

Top 20 large caps today: dominated by tech, e-commerce, consumer electronics, fintech, banking, biotech/pharma

An old boy's network 2.0?

- **Meituan** founder Wang Xing is 42 years old, **Xiaomi** founder Lei Jun is 51, **Kuaishou** founders Su Hua (39) and Cheng Yixiao (37)
- These are **MOBs** *and* Weighted Voting Rights (**WVR**) companies
- Of the top 50 issuers, one in five are WVR companies
- Of the 10 WVR firms, four are MOBs and only Alibaba has more than one women director (BABA: 2 women directors)
- Back to the future: WVR, control and the **keyman** risk?

A few bright spots

- **Female nomination committee chairs:** if a woman chairs the NC, the % of female directors goes up to an average of **25%**
- **A family affair?** Not so much. In only **8** out of 83 issuers was a female director related to another board member
- **The 30% Club:** Now comprises **15** issuers out of 100, with **5** in the 40% club and **one** at gender parity or more: Hansoh Pharma, with 4 of 7 directors being female.
- **Female board chairs:** Only **6** in the top 100. But within these firms, on average 33% of directors are women.
- **One** company had a diversity officer: PRADA

Diversity policies: words, not deeds

We only found a few companies in the top 100 setting measurable diversity goals, imposing targets, reporting on progress. They tend to be companies following UK diversity goals. As for the rest:

- Boilerplate statements and no commitment
- “Board appointments will continue to be made on a merit basis”
- Many diversity policies have not been updated in 20 years
- Transparency needed on steps being taken by issuers to hire female directors, and whether they mandate a quota of female candidates
- A plan of action is needed
- Improved diversity data for investors to measure progress + benchmark against peers

Moving beyond a “meritocracy mantra”

- 1. Stewardship:** investors need to be more proactive on vetoing MOB mentality
- 2. Setting the tone at the top:** government-owned firms (eg, MTR 20%, HKEX 31%) could do better, government-linked (eg, Link Reit, Johnson Holdings) could be urged to do better, government could rethink contracts at companies with low female representation
- 3. IPOs:** No newbies to list without a woman director—HKEX already getting tough. Needs to get tougher. Fast.
- 4. Nomination committees:** encourage female chairs and members
- 5. Quotas:** it’s time

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