

THE PRI AND ACGA PRESENT

WEBINAR

**CORPORATE GOVERNANCE IN CHINA:
WHAT INVESTORS NEED TO KNOW**

Agenda

- **Opening & Housekeeping**
- **Presentation: Trends in Corporate Governance across Asia**
- **Panel Discussion**
- **Q & A**
- **Closing Remarks**

Housekeeping

Trends in Corporate Governance across Asia

- Speaker: **Jamie Allen**, Secretary General, ACGA



ASIAN CORPORATE GOVERNANCE ASSOCIATION

CORPORATE GOVERNANCE IN CHINA: WHAT INVESTORS NEED TO KNOW
11 MARCH 2021

Agenda

1. CG Watch 2020: Ranking the CG ecosystems of 12 Asia-Pacific markets
2. State of CG and ESG progress in Asia (ex-Australia)
3. “Corporate governance with Chinese characteristics”
4. Aligning CG codes, ESG reporting guidelines, stewardship codes

1. CG Watch 2020: Ranking CG ecosystems in Asia-Pacific

Rank	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	-

Source: ACGA

*ppt = percentage point

Positives:

- Scores mostly rising
- Taiwan, Japan rise in ranking
- Korea rises most in percent and percentage point terms

Negatives:

- Still a wide gap between Australia and HK/Singapore, whose scores should be higher
- Malaysia and Thailand fall in ranking
- No change in ranking of bottom four markets

2. State of CG and ESG progress in Asia (ex-Australia)

FIVE HOT TOPICS

- Board diversity
- Board skills
- ESG/sustainability reporting
- Investor stewardship
- Minority shareholder rights

BALANCED ASSESSMENT

Slowly improving; gender diversity very limited (10-15%)

Director training growing; little use of a “skills matrix”

Rapidly expanding; sharper focus on materiality needed

Potential game-changer; but what does “engagement” mean?

Regulators conscious of the need to strengthen the right to information; but markets vary on rights to approve major transactions, initiate law suits, be protected in takeovers

3. “Corporate governance with Chinese characteristics”

INTERNATIONAL NORMS IN CHINA

- Independent directors / CG Code
- Board of Director (BOD) committees: audit, nomination, remuneration, risk
- IFRS-aligned accounting standards and ISA-aligned auditing standards
- Prohibitions on insider trading, market manipulation, fraud

To come:

- A new ESG reporting guide?
- A stewardship code?

LOCAL CHARACTERISTICS

- **Party Committee** / Organisation leadership
- **Supervisory Boards** (to monitor BODs): drawn from German company law, but adapted
- **SOEs and POEs**: ownership styles vary, but many governance challenges similar from a minority shareholder point of view (eg, concentrated/controlling shareholder; communication challenges; limited ESG reporting)
- **Independent directors**: limited to one third representation in most issuers; low pay; many lack business background/experience

4. Aligning CG, ESG and stewardship in Asia

CURRENT SITUATION – POLICY DOCUMENTS ARE IN THREE “SILOS”

CG Codes

- Most CG Codes of Best Practice make only limited reference to ESG and sustainability factors
- They have nothing to say on investor stewardship

Stewardship Codes

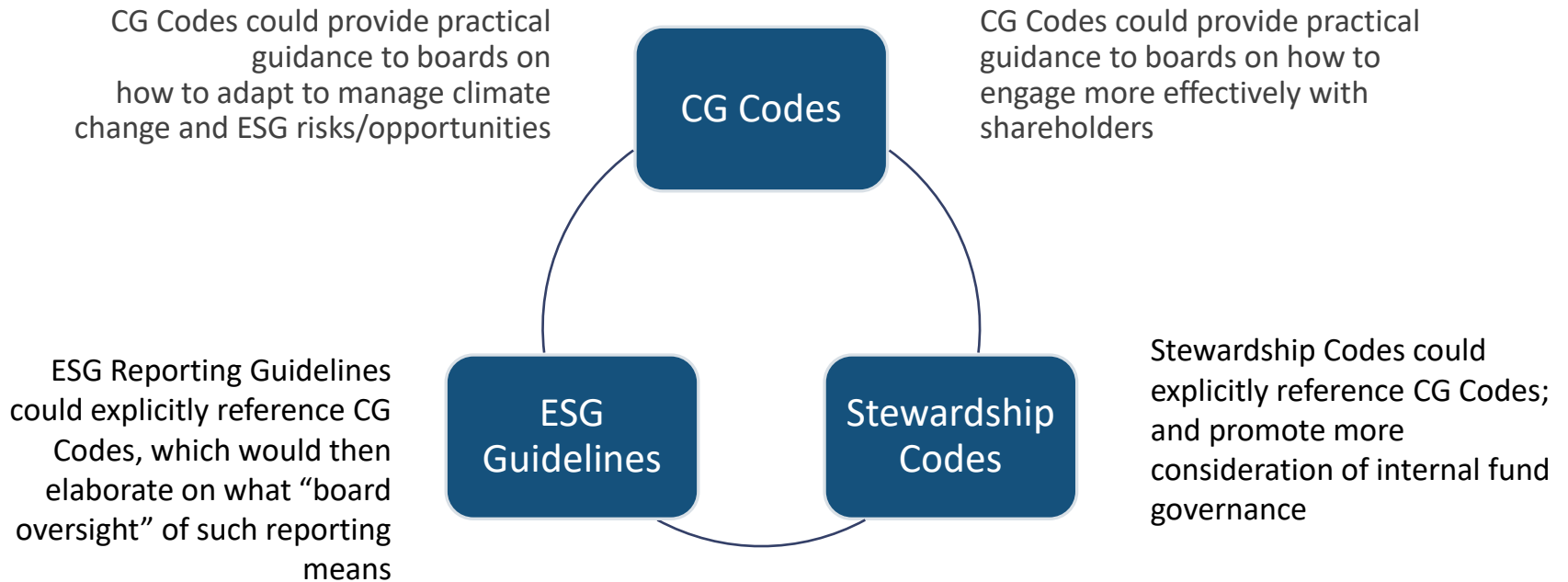
- Most encourage investors to develop policies, vote and engage
- Few focus on internal governance of investors beyond the conflict of interest issue

ESG Guidelines

- Most emphasise the importance of board oversight of reporting, strategy and materiality
- They provide little practical guidance to issuers on how to do this

Aligning CG, ESG and stewardship in Asia

WAYS TO ALIGN POLICY FOR BETTER GOVERNANCE



Coming soon!



For more information contact:

Jamie Allen

Secretary General

Jamie@acga-asia.org

Asian Corporate Governance Association Ltd

18th Floor, Wilson House

19-27 Wyndham Street, Central, Hong Kong

Tel: +852 2160 1788 (office)

Visit our website: www.acga-asia.org



Panel Discussion

- Moderator: **Vaishnavi Ravishankar**, Senior Analyst, ESG, PRI
- Panelists: **Nana Li**, Research and Project Director - China, ACGA
Karine Hirn, Partner, East Capital
Wilson Wei, ESG Analyst, E Fund Management Co., Ltd.
Zeng Ying, Partner, Ziding Proxy

2020 proxy voting in China: What investors need to know

400+ Companies Covered

- Market cap: CNY 10-100 billion
- A/H dual listed: 121 companies
- SOE and Non-SOE: 50% vs. 50%

1200+ Proxy Reports

- 45.5% AGAINST rate for meetings

8000+ Proposals

- 7% AGAINST
- Most commonly against resolutions: RPTs, financial service agreements, guarantees

Key Observations in 2020

- **Private placement became a hot resolution**
 - Relaxation of CSRC rules
 - Financing demand increased due to economic downturn
- **Stock-based incentive plans were broadly adopted**
 - Building long-term relationship with the key employees during the hard time
- **Donations increased with the outbreak of COVID-19**
 - Transparency of donations became critical

Q&A

Closing Remarks

- Speaker: **Jamie Allen**, Secretary General, ACGA