



## JOINT MEDIA RELEASE

### CORPORATE GOVERNANCE WATCH 2018

#### *Hard Decisions: Asia Faces Tough Choices in CG Reform*

**HONG KONG – Wednesday, 5 December 2018:** The Asian Corporate Governance Association ('ACGA') and CLSA Limited ('CLSA') today release their ninth joint edition of **CG Watch**, a regional report on corporate governance ('CG') in Asia-Pacific published every two years. Titled "Hard Decisions", the report examines the difficult strategic choices that Asian market participants face in selecting the best way forward for CG reform, such as between dual-class shares and "one share, one vote", between greater powers for regulators and stronger rights for minority shareholders, and how to encourage more meaningful corporate disclosure on issues of governance and sustainability. With competition for initial public offerings ('IPOs') as intense as ever, governments and regulators are under pressure to lower standards, at the cost of long-term risks for investors and markets.

As in previous years, the report comprises two distinct surveys: a market-ranking survey carried out independently by ACGA on macro CG quality in 12 markets in Asia-Pacific, and a separate company survey conducted by CLSA analysts around the region on corporate governance practices among c.1,100 firms listed in Asia-Pacific.

#### **ACGA Market Survey Findings**

##### **Market rankings**

	<b>2018</b>	<b>2016</b>
Australia	1	1
Hong Kong	2	3
Singapore	3	2
Malaysia	4	7
Taiwan	5	5
Thailand	6	6
Japan	7	4
India	7	8
Korea	9	9
China	10	10
Philippines	11	11
Indonesia	12	12

**Best and worst performing categories:** In terms of regional average scores, the best performing category is Auditors & Audit Regulators, while the worst performing is Investors. Markets also tend to do well in CG Rules, while underperforming in Government & Public Governance. Regulatory Enforcement is also improving.



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**Jamie Allen, Secretary General of ACGA**, commented: “Asian corporate governance reform has made significant strides over the past 20 years through a balanced focus on three key pillars: transparency, accountability, and fair treatment of shareholders. However, the introduction of dual-class shares in Hong Kong and Singapore, and other markets possibly following suit, is undermining the principle of fairness. This could have a far-reaching adverse impact on investor trust in Asian regulatory systems.”

### **CLSA Company Survey Findings**

**Market movements:** Aggregate company scores moved most significantly for Malaysia, where improvements in the Enforcement sub-category and optimism about political change drove scores up 7% from 2016. Stricter interpretation of our Board Independence and Diversity questions dragged down Japan’s score by 7% from 2016 results, although CLSA Japan analysts are still encouraged by improving capital management and board accountability.

**Performance:** Firms with higher ESG scores consistently outperform peers, even after adjusting for market and sector differences. The impact is most extreme for companies that are called out for governance failures (fraud). Short-sellers have stepped up activity again in Asia lately, and the report highlights the most common red flags so as to avoid their next targets.

**Charles Yonts, Head of ESG Research at CLSA**, said: “Nearly all investors expect better ESG performance from companies, but few agree on how best to measure it. We have taken steps to make our ESG scoring process more robust, bringing in alternative data sets and engaging more with sector analysts, in order to fully integrate ESG into our stock calls.”

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### **About CG Watch 2018**

CG Watch is one of the most comprehensive market surveys of corporate governance in Asia-Pacific. It is published biennially and comprises two distinct surveys: a market ranking survey carried out independently by ACGA on macro corporate governance quality in 12 Asia-Pacific markets, and a separate survey conducted by CLSA analysts on the corporate governance practices of c.1,100 corporations listed across APAC.

This is the ninth joint CG Watch report. The first edition was published by CLSA and ACGA in 2003. CLSA published two earlier reports in 2001 and 2002.

### **CG Watch market ranking methodology**

The ACGA market survey in CG Watch 2018 is significantly different from the eight previous versions. The structure was reorganised from five thematic categories to seven categories based mainly around key stakeholder groups. The number of questions was increased from 95 to 121. A new and more rigorous six-point scoring system has replaced the earlier five-point system.



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### Structure

CG Watch 2018 structure based on seven categories	Previous market survey thematic approach
<ol style="list-style-type: none"> <li>1. Government &amp; public governance</li> <li>2. Regulators</li> <li>3. CG rules</li> <li>4. Listed companies</li> <li>5. Investors</li> <li>6. Auditors &amp; audit regulators</li> <li>7. Civil society &amp; media</li> </ol>	<ol style="list-style-type: none"> <li>1. CG rules &amp; practices</li> <li>2. Enforcement</li> <li>3. Political &amp; regulatory environment</li> <li>4. Accounting &amp; auditing</li> <li>5. CG culture</li> </ol>

The purpose of this reorganisation is to delineate more clearly the role that different stakeholder groups play in the Asian corporate governance ecosystem, to draw more informative and timely comparisons, and to produce more targeted recommendations for regulators, companies, investors and others.

### **About ACGA**

Established in Hong Kong in 1999, ACGA is an independent, non-profit membership organisation dedicated to promoting long-term and substantive improvements in corporate governance in Asia through research, advocacy and education. ACGA’s membership network comprises 113 blue-chip companies, including global investment institutions, listed and unlisted companies, insurers, financial intermediaries, professional firms and educational bodies based in Asia and around the world. Our investor members manage more than US\$30 trillion in assets globally.

ACGA is well known for producing high quality, independent research. In July 2018, we released our landmark China CG Report, *Awakening Governance: The evolution of corporate governance in China*, a 268-page report that gives a comprehensive picture of the corporate governance landscape in China. Our biennial regional survey, *CG Watch*, provides an in-depth analysis of corporate governance in Asia-Pacific and ranks the CG performance of each market against a range of CG benchmark. ACGA also carries out extensive advocacy and educational work on corporate governance around the region. [www.acga-asia.org](http://www.acga-asia.org)

### **About CLSA**

CLSA is Asia’s leading capital markets and investment group, providing global investors with insights, liquidity and capital to drive their investment strategies.

Award-winning research, an extensive Asia footprint, direct links to China and highly experienced finance professionals differentiate our innovative products and services in asset management, corporate finance, capital and debt markets, securities and wealth management.

As the international platform of CITIC Securities (SSE: 600030, SEHK: 6030), China’s largest investment bank, CLSA is uniquely positioned to facilitate cross-border capital flows and connect China with the world and the world to China.

Founded in 1986 and headquartered in Hong Kong, CLSA operates from 21 cities across Asia, Australia, Europe and the United States. [clsa.com](http://clsa.com)



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**Note to media:**

**CG Watch 2018** is distributed only at the discretion of CLSA and ACGA. To speak to the authors please contact CLSA's media team.

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