Activating Asia

A regional survey of listed companies and investors

Corporates perform better where regulators set higher standards but do not generally advance governance without external pressure; investors stewardship voice needs to be louder for impact.

- **Listed companies and investors are among the weakest in ACGA's market CG eco-system ratings; investors coming out the lowest**
- **Companies' practices on governance tend to follow market regulations and rarely go beyond compliance**
- **Australian companies are ahead followed by Malaysia, India, Singapore, Taiwan and Hong Kong in our CG ratings**
- **Common weaknesses relate to board diversity, lack of independent chairs or Lead INEDs, unimpressive CG reports, poor disclosures on board evaluation and executive remuneration**
- **Activism and domestic owner leadership have resulted in improved ratings on investors for Japan and Korea**
- **Domestic and retail investors are generally not seen actively pursuing stronger governance in Asia**
- **Our research shows more active stewardship is correlated with advancing overall CG in the markets**

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Summary

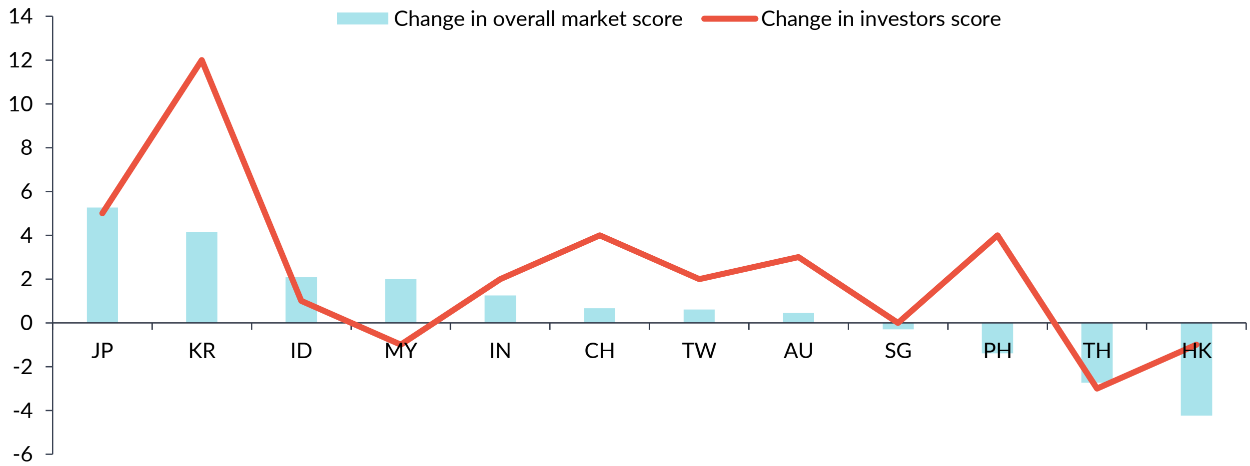
In this report we bring ACGA's 2023 CG Watch research on listed companies and investors into sharper focus. Of the seven aspects of corporate governance we rate in our CG Watch rankings of 12 Asia Pacific (APAC) markets, investors as a category came out lowest. Meanwhile our analysis of 180 issuers prompted the biggest percentage drop for the listed companies category. Instead, it is other aspects, in particular CG rules, regulatory efforts and auditor oversight that we see driving overall progress in Asian markets.

Japan and Korea saw the biggest improvements in our overall 2023 market ratings; these two markets registered notable gains in the investors category, underscoring the momentum that can be gained from voting, enhanced engagement and shareholder activism. Domestic and foreign investors generally score well in the region as active voters, not simply rubber-stamping resolutions. They also emerge as credible stewards due to their own CG or ESG policies. However, we find retail investors raise the bar on AGM participation and are increasingly helping to move the dial on CG, supporting activist campaigns and shareholder proposals.

Institutional investors meanwhile lag on AGM participation, and two potential catalysts for change—domestic asset owner leadership and the presence of activist funds in the market—remain relatively fragile in the region.

Figure 1

Changes in overall ACGA market score and the investors category score (%-pt), CG Watch 2023 vs 2020



Among the listed companies there were common weaknesses: boards lacking independent leadership (chairs or Lead INEDs), a dominance of male directors and superficial diversity policies, CG and annual reports which tick compliance boxes but offer shareholders little tangible insight into how the board operates and makes decisions. There were some promising indicators. ACGA research[1] suggests that more female directors tend to join companies where the nomination committee is led by a woman. While only 9% appointed a woman to chair the nomination committee, it is encouraging that 102 of the 180 companies surveyed did have at least one female director on the committee.

Other positive findings include listed companies generally maintaining independent audit committees with relevant financial expertise. Several markets require nomination committees which are independently led. Companies also keep INED pay structures relatively free of factors which can compromise director independence such as stock options. An improving trend is that nearly half of the companies surveyed disclose remuneration on a named basis. Still, many of these developments have tended to benefit from a regulatory push: an overarching theme is that issuers rarely go beyond what is required in listing rules or what CG Codes enjoin them to take heed of.

Contents

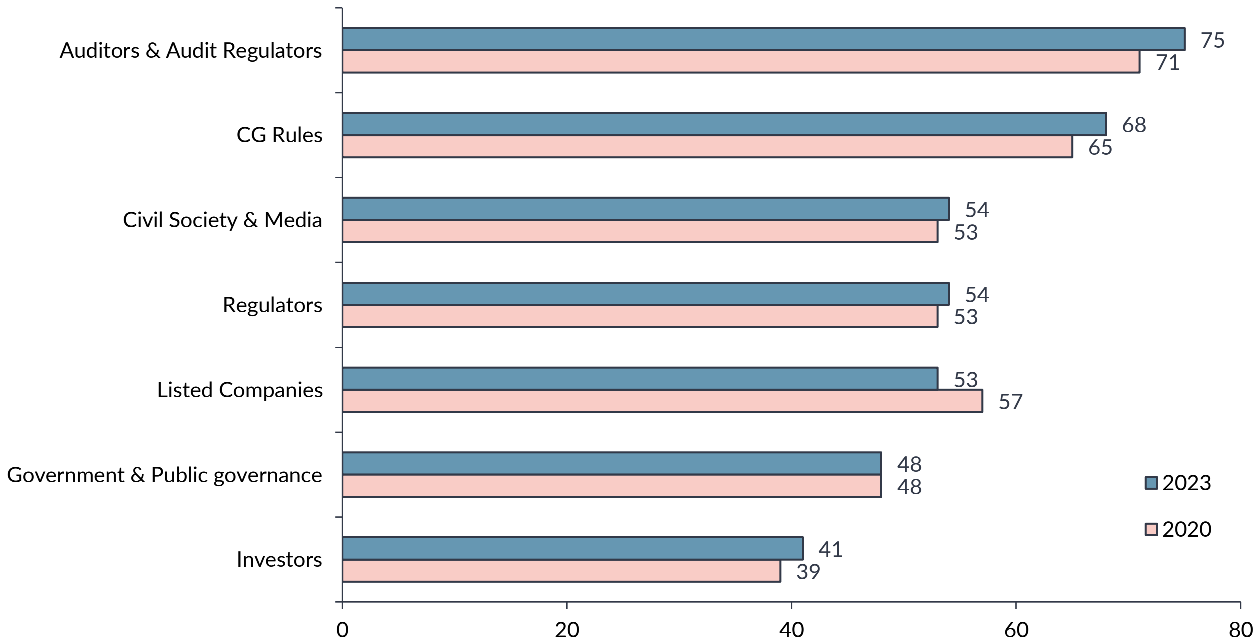
[1] Please see board diversity at the top 100 companies by market cap in China and Hong Kong

Background and methodology

For more than 20 years, ACGA has surveyed corporate governance in 12 markets in the region, tracking the highs and lows in our biennial “CG Watch” report. In this deeper dive into our CG Watch 2023[2] research we consider two of seven categories: listed companies and investors.

Figure 2

CG Watch APAC markets average category scores in %, 2023 vs 2020

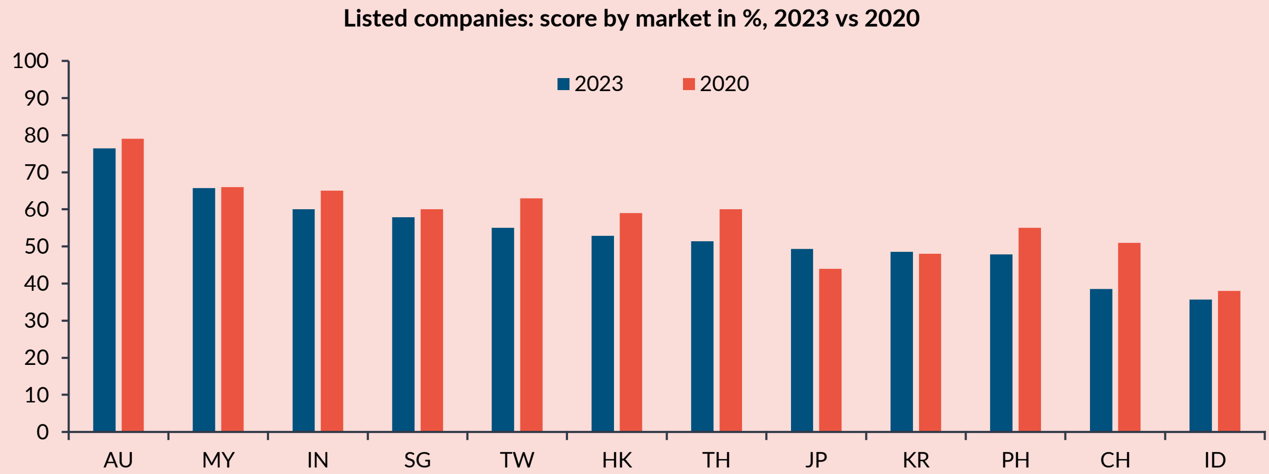


The listed companies category dropped four percentage points to score 53% in 2023, making it the third lowest of the seven categories. Some of the decline can be attributed to changes in our scoring methodology, including a tightening of our criteria. The survey took stock of disclosure and governance practices among 15 of the large listed companies in each market, 180 across the 12 markets. In 2023 we adopted a streamlined 14-question survey, with eight questions from our 2020 survey removed and two new questions relating to nomination committees added.

For the investors category we ask a series of 17 questions, including whether domestic as well as international institutional investors (asset owners and managers) are playing a role in raising standards of corporate governance in the region. There are also four questions on retail investors. There is no change to our scoring criteria in this category. The extent to which investors contributed to CG in Asia resulted in a modest two percentage point gain in score to 41%; this was our lowest-scoring category in 2023 as it has been in prior years.

[2] In our latest survey, “A New Order,” the overall rankings saw their biggest reshuffle in 20 years

Listed companies: compliance-oriented governance



Australia leads on many of our categories. Malaysia, India, Singapore, Taiwan and Hong Kong follow in the upper half of our market rankings for listed companies. Two key areas that put Australia ahead are independent board chairs and transparency regarding director remuneration and executive remuneration policies. It is worth highlighting the role of regulatory requirements here: the CG principles call for independent chairs and the Corporations Act requires detailed remuneration reporting in Australia.

In Malaysia, independent chairs appear to becoming the norm: 10 out of the 15 issuers we examined have an independent director leading their boards. Among the five without an independent chair, three appointed a senior independent director, following the recommendation of the Malaysian CG Code. Furthermore, Malaysia excelled in disclosing director training and director remuneration, as well as in having independent nomination committees (NCs).

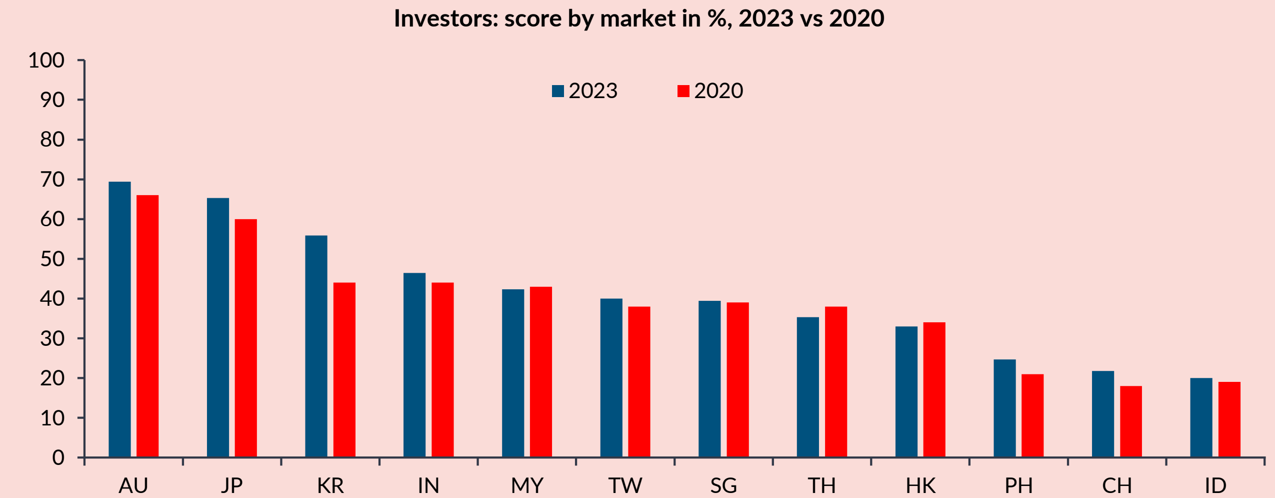
India, at third place, demonstrated strong transparency in director remuneration and scored highly on the independence of NCs. The banking sector performed particularly well, driven by stringent requirements from the Securities and Exchange Board of India (SEBI) and the Reserve Bank of India (RBI).

Common weaknesses at most companies in Asia are in respect of board diversity, including not having women on NCs, a lack of independent chairs or Lead INEDs, unimpressive CG reports and poor disclosures on board evaluation as well as lack of transparency on executive remuneration (see page 7).

The bottom three markets in the listed companies category—the Philippines, China and Indonesia—all fell short on board diversity policies. All 15 large caps in Indonesia merely repeated the OJK's guidelines on board diversity, while only one company surveyed in China set a target for gender diversity on its board. Independent chairs or Lead INEDs were absent in companies surveyed in the Philippines and China. Additionally, the disclosure of director and commissioner remuneration remained opaque in Indonesia.

Japan and Korea saw significant improvement in various aspects of our ratings; however, they remain in the lower half for listed companies, ranking equal eighth of the 12 markets. Japan scores poorly on independent leadership of boards and Korea on board evaluations and gender diversity. Both markets are also lagging on director remuneration as well as director training, a significant concern given the push by regulators for boards to take a bigger role in driving shareholder value.

Investors: nascent stewardship



Australia enjoys a substantial head start in investor stewardship: institutional investors scored well for having robust CG policies and actively voting their shares. Asset owners in Australia play a leadership role in stewardship and the retail shareholder environment is also vibrant.

Japan emerges as the leading market within Asia where investors drive better governance. It benefits from the Government Pension Investment Fund (GPIF), which acts as a powerful stewardship catalyst through its policies for external managers and original research. Recently, the Pension Fund Association (PFA) has emerged as a stronger voice in the stewardship dialogue. There has also been an increase in voting and engagement activity by both domestic and foreign institutional investors, alongside a notable rise in shareholder proposals.

The key driver behind Korea's improved rating is a surge in institutional shareholder activism. Publicly reported cases against companies rose from eight in 2019 to 49 in 2022 and 77 in 2023. This momentum has been strengthened by a new wave of retail investors.

Elsewhere, domestic investors are less vocal stewards, including Singapore and Hong Kong as well as China, the Philippines and Indonesia. Retail investors make themselves heard in Singapore and Taiwan but in most other Asian markets are not seen pursuing better governance at companies. Meanwhile, institutional investors do not score well in the region on AGM participation (underscoring difficulties they face with clustered meetings and other logistical hurdles) while shareholder activism and domestic asset owner voice are also generally muted (see page 22).

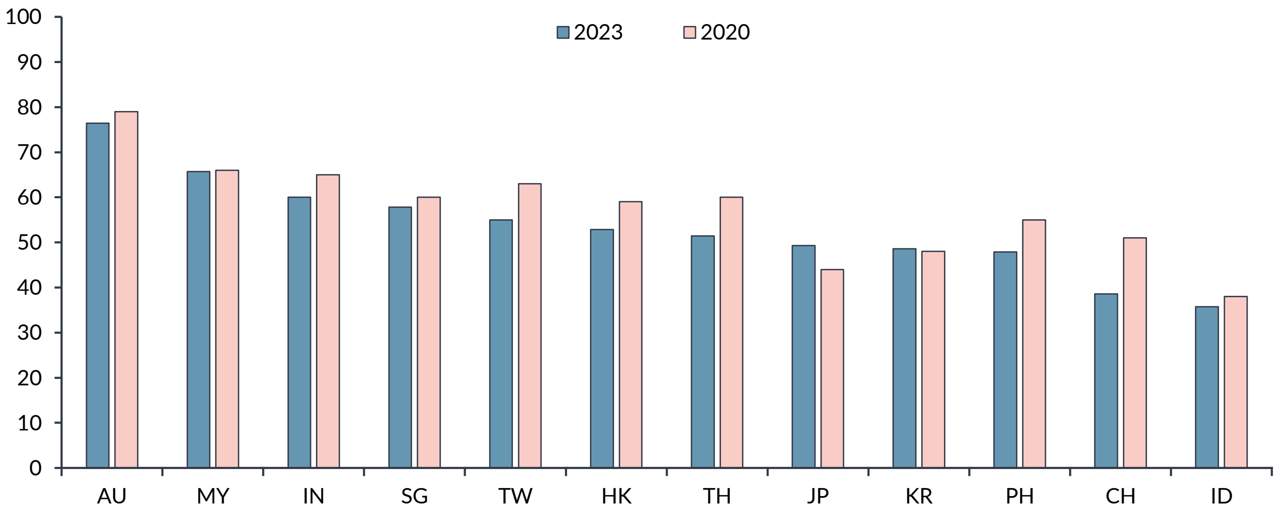
A critical question arises for the lower-ranking markets: where are the driving forces for investor stewardship? Notably, none of the bottom three markets—Indonesia, China and the Philippines—has a stewardship code. Domestic asset owners have yet to play a strong leadership role in these markets. China, however, is showing encouraging signs with leading asset owners and managers beginning to embrace their stewardship responsibility. A stronger drive on stewardship is needed for corporates to perceive governance not just as a compliance matter but as essential and sought after by investors for advancing shareholder value.

Listed companies: market analysis and criteria

Only two markets gained ground in the listed companies category compared to 2020: Japan and Korea. Japan rebounded by five percentage points in 2023, reclaiming the 8th position and tying with Korea, which saw a modest increase in score of one percentage point to 49%. Korean companies performed well on sustainability reporting, with issuers publishing detailed GRI-based reports which address materiality in greater detail. Companies also keep remuneration for INEDs simple and largely unconflicted. Japanese corporates also did reasonably well in their approach to sustainability reporting. Another bright spot was the high proportion of independent chairs on their nomination committees.

Figure 3

Listed companies: score by market in %, 2023 vs 2020



China posted the biggest decline in the listed companies category, shedding 12 percentage points to score 39% in 2023, slipping from 10th to 11th place. This reflects not only changes in our evaluation methodology but also long-standing areas of weakness, such as the quality of ESG reporting, board diversity, director training, independent chairs and the disclosure of executive remuneration policies. China scored better on questions related to independent director pay and the independence of audit and nomination committees. Thailand meanwhile dropped two places to rank fifth in the category on a score of 51%, a nine-percentage point slide: the companies we surveyed came up short on both board and ESG/sustainability disclosure, while the lack of independent chairs on boards and gender diversity also dragged down its score.

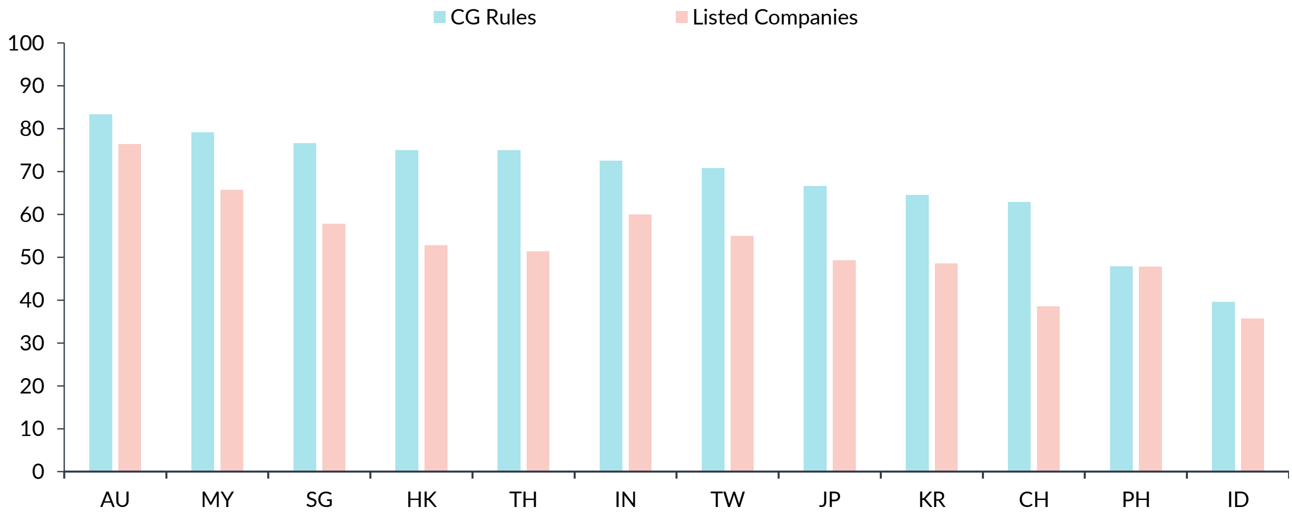
The impact of our revised scoring criteria

Thailand, China and India saw the largest drops in scores as a result of implementing stricter criteria in the questions we ask. Other factors being equal, the adjustments to our question set did not significantly impact scoring, with the exception of Taiwan. It excelled in the eight questions we eliminated but performed poorly on the two newly added questions on nomination committees (NC), largely due to the lack of a standalone NC or its equivalent at the 15 companies surveyed. This underscores weaknesses at both the corporate and governance system levels: establishing a NC remains voluntary in Taiwan, and corporate shareholders retain the right to nominate representatives to boards under the legal entity director mechanism.

Figure 4 shows the ranking of the 12 markets for one of the other main categories in our market ratings, CG rules, together with how these markets performed on the listed companies category. Australia and Malaysia are the top two markets on our ratings for CG rules as well as for their listed companies. Singapore, India and Taiwan scored well for CG rules (71% to 77%) and similarly had companies that rated above average in the region. The bottom five markets, scoring below 70% for CG rules—Indonesia, the Philippines as well as China, Korea and Japan—were also the bottom five on our listed company ratings. This reflects the compliance approach of companies to governance in the region: markets with stronger regulations have companies that generally do better on CG criteria, conversely for markets with less strict regulations.

Figure 4

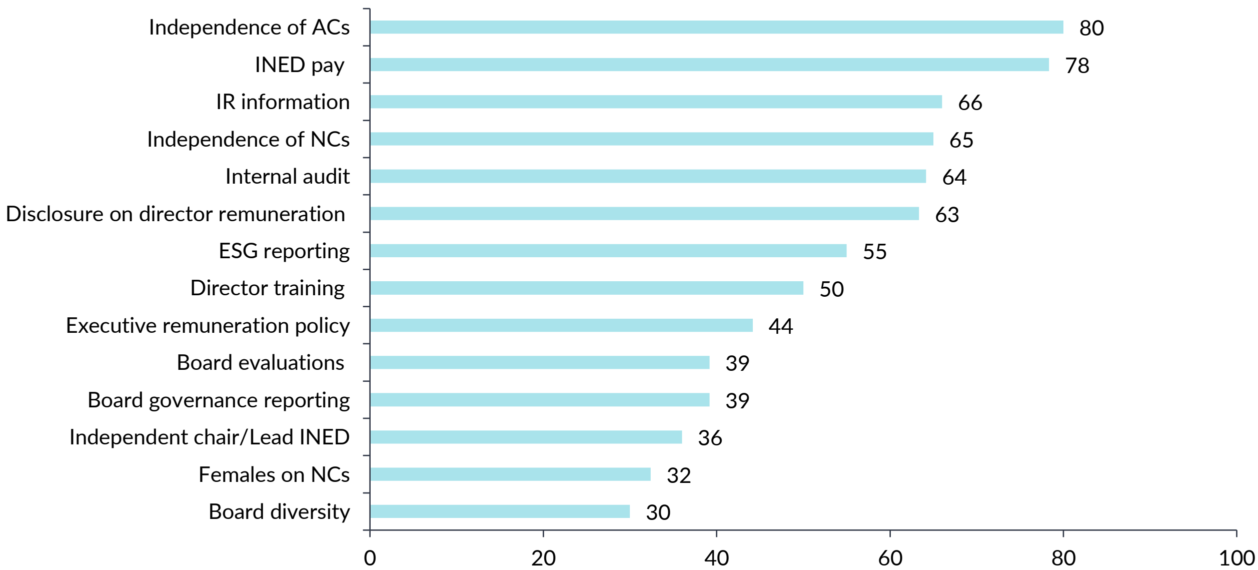
Scores (%) for listed companies and CG rules, CG Watch 2023



Of the 14 questions constituting our criteria for this section, listed companies in the region generally rate well on forming independent audit committees, keeping INED remuneration structures free of conflicts, maintaining easily accessible investor relations materials and having nomination committees which are independently led. The main weak spots for issuers are in respect of board diversity, including having women on NCs, independent chairs or Lead INEDs, the quality of board CG reports and board evaluation disclosure.

Figure 5

Average scores of listed company questions in %, CG Watch 2023



Board independence; audit and nomination committees

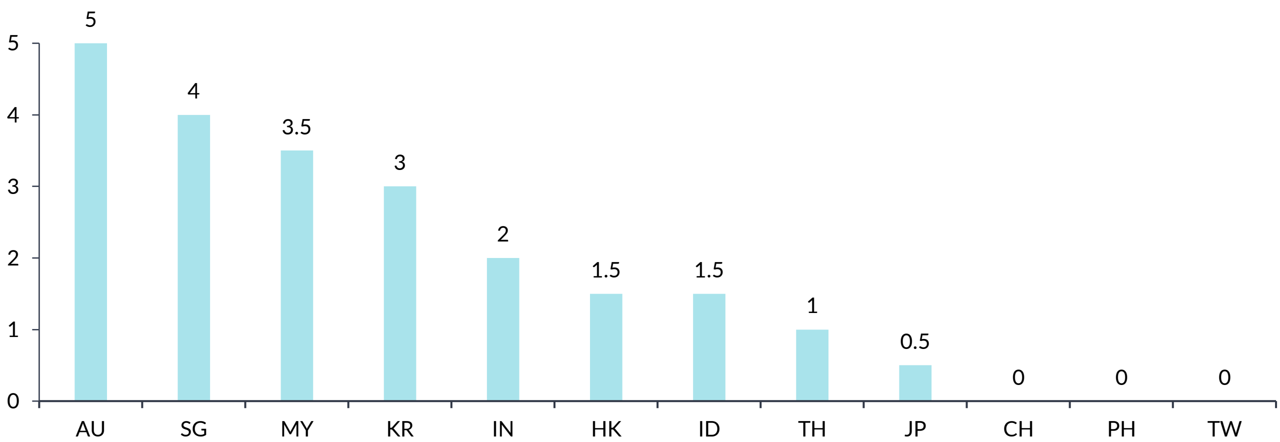
Three of the questions in our listed company survey focus on the independence of the board and its committees. While companies perform relatively well in having autonomy on audit and nomination committees, having an independent chair remains elusive and the concept of Lead INEDs has only gained ground in markets where regulators actively encourage the practice.

Independent chair/Lead INED

The question on whether companies have an independent chair or Lead INED netted the third-lowest score in the listed companies category, although there was an improvement on the 2020 performance: the score edged up by five percentage points to 36% in 2023.

Figure 6

Is there an independent chair/Lead INED? CG Watch 2023



Australia scored top marks with all 15 companies having an independent chair. Singapore and Malaysia also fared well on this question, reflecting the fact that all three markets have adopted or promoted the concept of independence. Both Australia and Singapore promote Lead INEDs on a comply or explain basis where the chair is conflicted or not independent, while Malaysia's CG Code has since 2000 recommended the appointment of a senior independent director (SINED).

Among the 15 Malaysian companies surveyed, 10 had a SINED. Of these, one SINED also chaired the company: Alwi Jantan at Genting Malaysia who held the post of chairman from August 2020. However, after our research was completed the 89-year-old retired in June 2024 and was replaced by a non-independent executive.

In Singapore, there were four independent chairs among the 15 companies, with a further nine having Lead INEDs. Singapore's Provision 3.3 of the Code of Corporate Governance provides on a comply or explain basis that there should be a Lead INED where the chair is conflicted, and particularly where the chair is not independent. Two companies had neither an independent chair nor a Lead INED—DFI Retail Group and property and hospitality company UOL Group. UOL Group is currently chaired by 63-year-old Wee Ee Lim who took the helm of the family-run group when his father passed away in February 2024. In explaining its deviation from the CG Code, the company's 2023 Corporate Governance report says it takes the view that a Lead INED is not necessary as the INEDs "are able to function effectively and provide objective feedback to the Chairman.'' This is a typical refrain we hear across the region from companies reticent to appoint a Lead INED.

Hong Kong had one company—Hang Seng Bank—that we considered to have a truly independent chair. In our scoring, we do not consider chairs to be genuinely independent if they are appointed by government or if they are long-tenured board members. None of the companies surveyed adopted the practice of having a Lead INED. In a recent CG consultation, Hong Kong Exchanges and Clearing (HKEX) reported that as of 31 December 2023, 24% of companies had an overlapping chair and chief executive. The bourse in June 2024 sought market views on requiring a Lead INED[3] and ACGA advocated for the adoption—as it did previously in CG consultations which took place in 2017 and 2021.

Audit committees

Companies achieved the highest score of the listed companies category for the question on whether they have audit committees (AC) which are independently led by directors with competence in accounting, auditing or financial management. The overall score was 80%. Ten markets saw an improvement in our 2023 scoring, while Australia retained its top score of five points out of five. Only China saw a decline in score: while all companies had an independent chair of the audit committee, it lagged on the question of auditing/accounting and financial competence.

Companies from five of the 12 markets surveyed—Taiwan, Thailand, Australia, Korea and Indonesia—had fully independent audit committees. Japan is a notable outlier as the lowest scorer, although its performance on this question improved compared to our 2020 findings. A disparity in the quality of disclosure between the three board structure models adopted in Japan continues to pose a challenge. Identifying who chairs a *Kansayaku* board can still be problematic; the hybrid "audit and supervisory committee company" and the internationally more typical "three committees" corporations are more transparent. The introduction of a skills matrix requirement in the June 2021 redraft of Japan's CG Code has led to a broad description of qualifications and experience.

Figure 7

Are audit committees independently led and competent in financial matters? CG Watch 2023

It however remains evident that there is a lack of accounting or financial management expertise among directors in Japan; digging deeper into their respective bios suggests the picture is much worse. Only six companies met the criteria of having independent audit committees with competence in accounting, auditing or financial management. The top scoring companies were MUFG, Honda Motor and Takeda Pharmaceutical, earning four points out of five.

Singapore had a notable gain in score, regaining ground it lost in 2020 when it scored just two out of five. Of the 15 companies surveyed, 11 had fully independent audit committees. Auditing/accounting competency improved although a handful of companies still had AC members who had consultancy, construction and legal backgrounds.

[3] At the time of publication, Hong Kong Exchanges and Clearing (HKEX) had not released its conclusions on the consultation.

The issue of working experience of auditing/accounting contributed to China's lower score of 3.5 out of 5. It was an example of where markets lean heavily on academic backgrounds. All 15 companies surveyed had an INED as chair of the audit committee. But twelve of the companies drew heavily from academia with committee members who were professors, or academics in accounting, economics, and management.

Nomination committees

Companies had nomination committees (NC) which were independently led in seven of the 12 markets surveyed: Australia, Malaysia, Singapore, Thailand, India, China and Korea. This question in our survey yielded the fourth-best result—a score of 65%.

Figure 8

Are nomination committees independently led? CG Watch 2023

Hong Kong does not require an independent nomination committee chair. Three listed companies had a nomination committee chaired by the board chairman: Tencent, China Mobile and CITIC. In ACGA's August 2024 submission to HKEX on the CG Code and Listing Rules consultation, we reiterated concerns that nomination committee chairs be independent.

Within the question on nomination committees, we measure how often they meet. Australian companies shed a few points on the frequency of these meetings: four companies surveyed only held two NC meetings during the year (Wesfarmers, Origin, Cochlear and Tabcorp) while most other Australian companies had between four and six NC meetings in a year.

Companies in markets such as India lost a few points because their NCs, while independently led, were not entirely comprised of INEDs: this was the case in seven of the companies surveyed.

In Taiwan, nine companies scored a zero for this question. Taiwan Mobile was the only company to score top marks as it has a nomination committee which is entirely independent and met frequently. Underscoring the poor result on this question is the fact that several companies bundle multiple roles into the nomination committee: their work includes remuneration, corporate governance, sustainability, and ethical management among others. Others had no nomination committee but did have a remuneration committee.

Board and committee reports, investor relations and director training

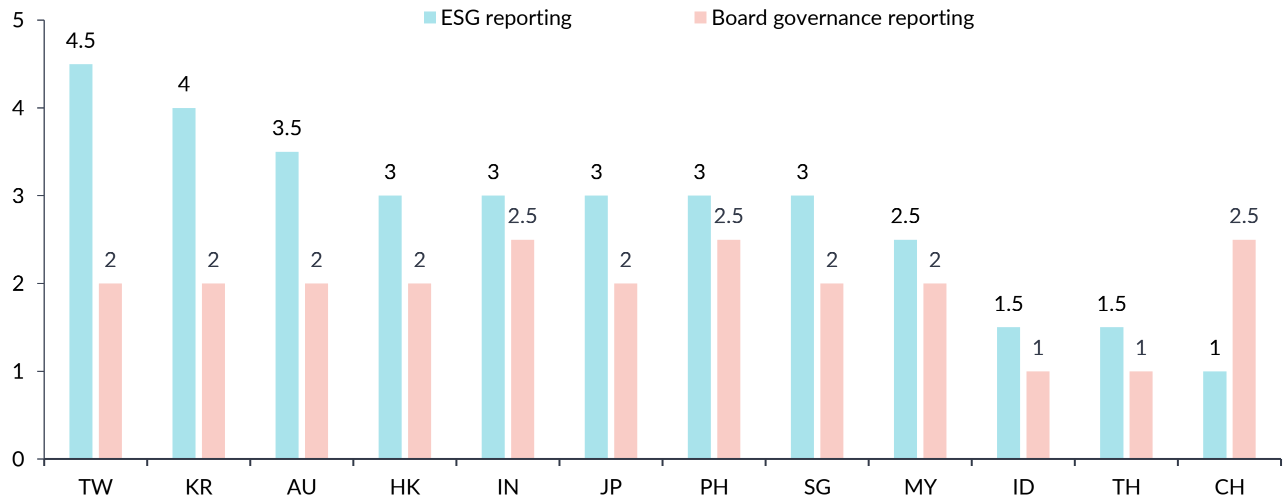
A series of questions we ask in the survey examine the quality and breadth of disclosure companies are making in respect of corporate governance and ESG, the training directors receive and the degree to which they make information easily accessible for investors. A common theme is that issuers largely comply with what they are required to disclose and show little creativity in providing additional insight. Understanding what the average board or committee discusses and the significant issues in any given year is not something typically gleaned from annual or CG reports. It seems companies do not feel compelled to provide an extensive narrative on their activities, training and evaluations. In contrast, ESG and sustainability reports are sharpening their focus and widening their scope to include climate disclosure and some financial analysis—a reflection of the regulatory backdrop as markets gear up for full ISSB sustainability disclosure.

Board and committee reports: pro forma and cursory

Companies performed below average in producing a resourceful narrative on what boards and committees have on their agenda in a given year. Board reports repeat boilerplate statements, PR jargon and lengthy descriptions of terms of reference, or roles and responsibilities. It seems clear that most issuers feel under no great pressure to provide a substantive narrative on what their boards actually do. In contrast they are under huge pressure to disclose their efforts on sustainability and climate. In 11 markets, companies performed better in releasing informative ESG/sustainability reports than CG reports.

Figure 9

Board governance reporting vs ESG/sustainability reporting, CG Watch 2023



The imbalance between these two types of reporting leaves investors no wiser as to how the board contributes to a company's strategy and performance. The shallow nature of traditional board reporting extends to newer areas such as a requirement for skills matrices and board evaluation reports. The basics are reported, but not much more.

The quality of board and committee reports resulted in a score of 39%, the fourth-lowest ranking question we ask in our listed company survey. In comparison, the score for ESG/sustainability reports was 55%. Across all 12 markets, the average score companies received was two points out of five.

For board and committee reports we look for specific information on the previous year, with key issues discussed, in addition to director bios which make it clear why they were selected and re-elected. Typically there are broad statements rather than particular agenda items and bios list out just directors' qualifications and experience. Typical examples of what we found are:

- Long, bullet point lists of each committee's role and responsibilities
- Exhaustive terms of reference
- How authority is delegated between the board and committees
- Generic review on financial statements, the work of committees and risk management
- How board meetings are conducted in procedural terms.

In contrast, ESG and sustainability reports tend to have a more tangible narrative, reflecting investor and regulatory focus on how companies are preparing for climate issues. Taiwan companies excelled in this question. Most follow global sustainability standards and publish separate TCFD reports. Several address materiality in some detail: for example, TSMC offers an unflinching analysis of flood and drought as key issues while Taiwan Mobile maps out all its premises and suppliers with a review of the risk for each. Some companies in Taiwan are also providing financially relevant sustainability information. Chunghwa Telecom for example has concrete numbers such as the additional expenditure impact of strong typhoons.

At the other end of the spectrum, companies surveyed in Thailand provided disappointing ESG or sustainability reports. Few provide separate TCFD reports, and materiality assessments tend to be generic. The Thai company with the highest score of 3 out of 5 was Minor International: it provided a standalone ESG report and was candid about its goals and how they had been met, albeit only in bullet point form. It published a separate TCFD report, GRI content index and committed to set SBTi targets. The company discussed materiality in a broad context.

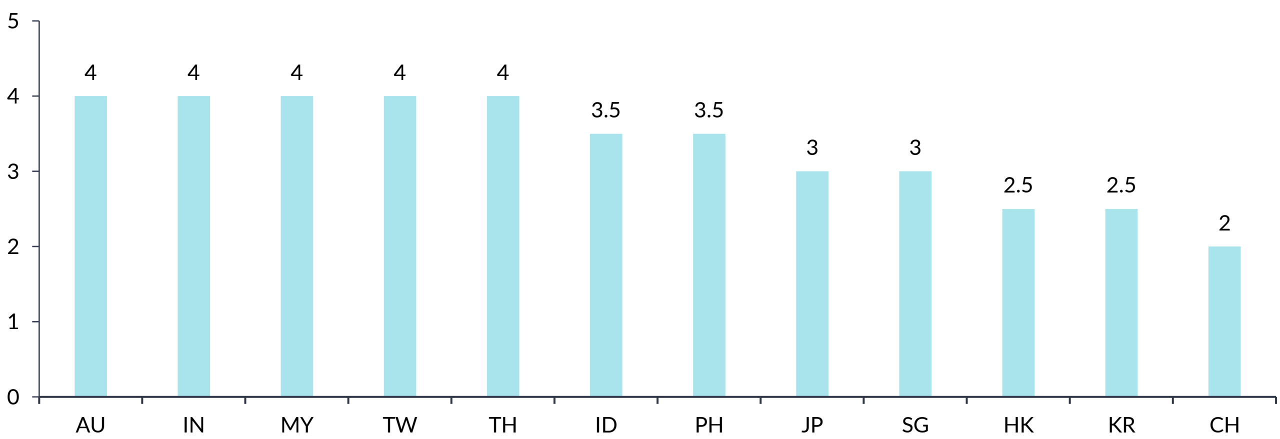
Among the companies we surveyed in China, few managed to score more than half a point in total. Shanghai International Airport did not publish an ESG report. Only a handful of companies earned points for addressing materiality: Jiangsu Hengrui Pharmaceuticals, Luxshare Precision Industry, BOE Technology Group, Baoshan Iron & Steel and Muyuan Foods identified material issues and published a matrix or gave some kind of analysis.

Investor Relations 101

Our survey question on investor relations yielded the third-highest score of 66% in the listed companies category. It asks whether companies provide comprehensive, timely and quick access to information for investors. This includes assessing whether its website has a clear and easily accessible IR page, complete with annual, ESG and financial reports as well as AGM materials (or easy access to these via other pages). We also score companies on whether they provide the name, title and contact details of the IR head—companies receive just half a point for a generic email or phone number and zero marks for a web form.

Figure 10

How do companies fare on investor relations? CG Watch 2023



While no market scored top marks, most companies provided easy access to financial statements, annual reports and ESG reports. Where companies lost points was in making their IR teams easily accessible to investors, offering only generic contact details or a web form. Even in Australia, only two companies in our sample—Westpac and Aristocrat—provided the full names and titles of their heads of IR. In Thailand, seven companies provided names and contact details of the lead IR contact while of the Malaysian companies we surveyed, Dialog Group and IJM Corp were the only companies to provide full IR names, emails and phone numbers.

In China, none of the 15 companies named their IR contact person. Kweichow Moutai was among several issuers only providing a general phone and fax number for its IR—others such as Gree Electric Appliances provide only an online feedback form and general enquiry number. China Yangtze Power has an investor hotline—but no annual report or AGM materials are easily accessible on its website. We note that at an IR event in December 2022 Daqin Railway was asked about the accessibility of the company's IR website. The company scored zero points in this question. The website was still inaccessible at the time of writing.

Board training

We consider whether there is induction and/or ongoing training for all directors, considering the depth of reporting disclosed to investors, including content of training and attendance by individual directors. Australia, India and Indonesia were the only markets to see improved scores, while Malaysia and the Philippines remained flat.

Figure 11

Do directors receive induction/ongoing board training? CG Watch 2023

Low scorers Japan and Korea arguably could do with more director training given the regulatory focus on improving corporate valuations and the financial acumen this requires of the board. In Japan, companies tend to give generic statements on director training, with details such as the content or attendees lacking. Korea similarly makes limited disclosure: even those reporting that training takes place do not make it clear which directors are attending.

Malaysia consistently scores well on this question, with ten of the 15 issuers providing details of the courses, seminars and conferences attended by directors on a named basis. India's score improved as a result of some granular reporting by companies, setting out the exact hours directors spend on training and the nature of sessions attended.

The description of director training given by Hong Kong-listed Towngas in its 2023 annual report is however not uncommon among listed companies in the region. It states that all directors participated in training "which included reading regulatory updates or information relevant to the Group or its businesses and attending or giving talks at seminars and/or conferences.'' Under the heading 'training' in a table, all directors received a tick.

Board evaluations, gender diversity and remuneration

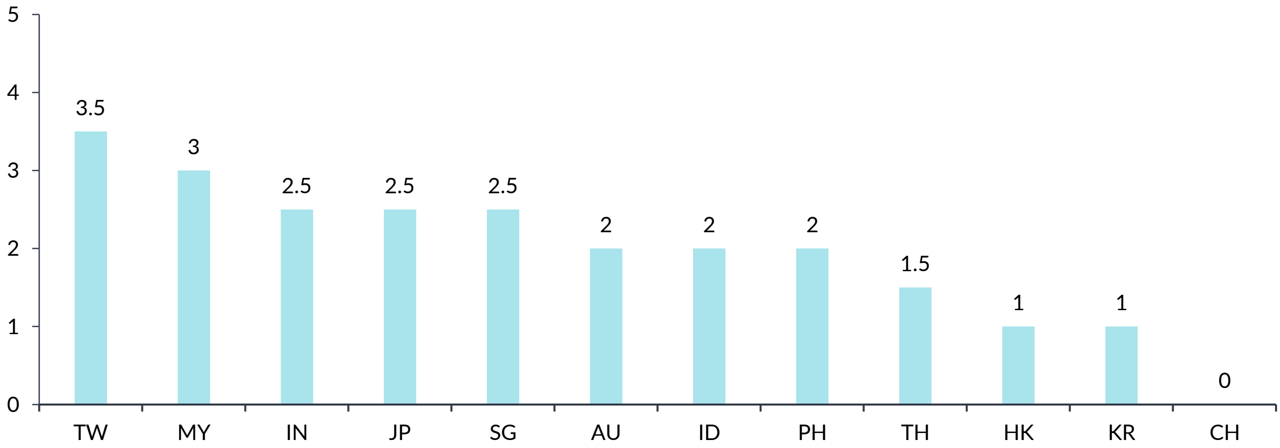
The survey question on board evaluations resulted in a low score of 39% in the listed companies category. While most companies are undertaking board evaluations across the region, they tend to leave this process to the directors themselves and broadly conclude that all is fine. A minority utilize outsiders to assess directors' performance. Of the 180 companies surveyed, 76% disclosed that they performed board evaluations. Just over 36% made use of external consultants, typically engaging outside assessors every two to three years.

China had the lowest rate of board evaluations (only two out of 15 companies we surveyed conducted them), while all 15 issuers in Indonesia, Australia, Malaysia, Taiwan, the Philippines and Thailand evaluated their boards. Still, except for Australia and Taiwan, this was done by a self-assessment usually in the form of an internal questionnaire.

Taiwan scored the highest in this question. The companies surveyed all completed evaluations and provided details of the scope and method of the process. Weighted average scores were provided by some companies, including TSMC, Taiwan Mobile and Hon Hai which gave them high scores on this question. Still, other issuers such as Formosa Petrochemical only reported that there was an evaluation, with some content of the scope, but the results were simply reported as "good."

Figure 12

Do companies undertake board evaluations? CG Watch 2023



Thirteen of the 15 Korean companies surveyed conducted a board evaluation: none used an external consultant, and two issuers said the evaluations extended to INEDs or specific committees only. In Hong Kong, eight companies of the 15 we surveyed evaluated their boards, with only three using external consultants. Markets where regulatory rules require board evaluations, such as India[4] and the Philippines, tended to rely on internal assessments: just four companies in each respective market made use of external consultants.

In general, companies are not particularly forthcoming in describing what the results of evaluations are, and whether remedial action has been taken in response. There were a few exceptions. In Japan, of the 12 companies completing board evaluations, eight used external consultants and two in particular—Seven & i and Hoya—provided disclosure on the evaluation results which investors could use to engage with the company.

In Hong Kong railway operator MTR Corp gave some insight into the results of the evaluation, noting that it led to a restructuring of board committees and revamp of terms of reference. In contrast several Hong Kong

[4] In India, government-owned companies are exempt from this requirement.

companies concluded that "the board is considered effective" with no other follow up action or conclusions. This was a similar line adopted among Singapore companies, including one which concluded "the board and board committees operated effectively, and each director contributed to the effectiveness of the board.''

We found two Malaysian companies disclosed scores and follow-up action. Directors at IJM Corp reported having an overall score of 4 out of 5 and areas of improvement included board mix and composition, and succession planning. Fraser & Neave Holdings meanwhile said the board scored an average of 4.14 out of 5. It identified areas for improvement, including cyber risk, and building human capital.

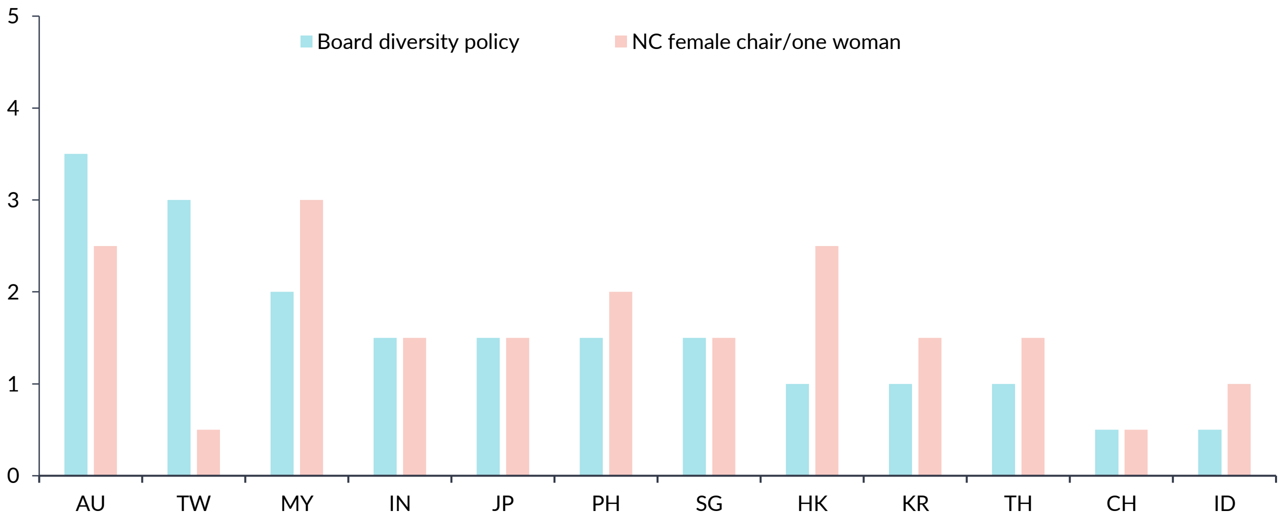
All Australian companies surveyed did an evaluation, frequently making use (10 companies) of external consultants. The Commonwealth Bank of Australia disclosed results in some detail, concluding that there could be better engagement between the board and the executive leadership. Further areas for improvement included "more time for unstructured discussion" and "more opportunity for education and study."

The gender deficit

Gender diversity on boards was not a strong point among the companies we surveyed. In fact, both questions related to gender—whether nomination committees have a female chair or at least one woman, and whether diversity policies are of credible quality—resulted in the lowest overall scores in the listed companies category of 32% and 30% respectively.

Figure 13

Gender diversity initiatives on boards, CG Watch 2023



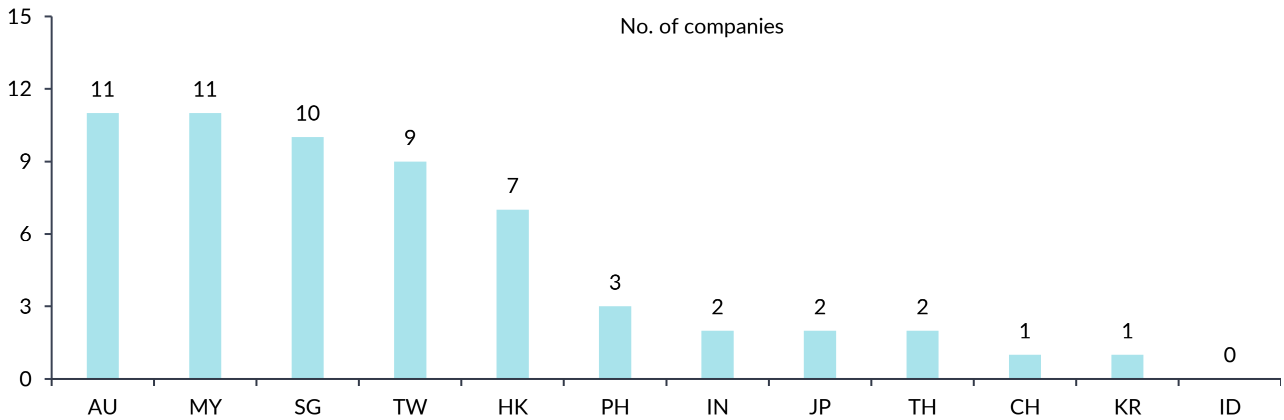
Gender diversity: where are the targets?

Of the 180 companies surveyed across the region, just under a third (59) disclosed a gender diversity target. Australia and Malaysia had the highest proportion of issuers—11 out of 15—with a target, followed by Singapore (10), Taiwan (9) and Hong Kong (7). It is worth noting that both the Australian and Malaysian CG Codes recommend at least 30% female directors on boards.

Issuers in the rest of the region are much less likely to set and report a target: only 11 did so across the remaining seven markets. In Japan, just two companies in our sample had a measurable objective for women on boards, the same number as in Thailand and India. Both China and Korea had only one issuer that set a target. On a more promising note, two-thirds of Japanese issuers disclosed a quantitative goal for female representation in management. Similarly, two Korean firms—Shinhan Financial and KB Financial—set targets for women in the director talent pool and management, respectively.

Figure 14

Companies diclosing a diversity target, CG Watch 2023



The quality of board gender diversity targets varies considerably across the region. Of the 59 companies that disclosed a target, more than half (38) aimed for 30% or higher female representation in the boardroom. Slightly less than one quarter (14) only sought to add at least one or two women to their boards.

Figure 15

Types of diversity targets disclosed by the 180 companies, CG Watch 2023

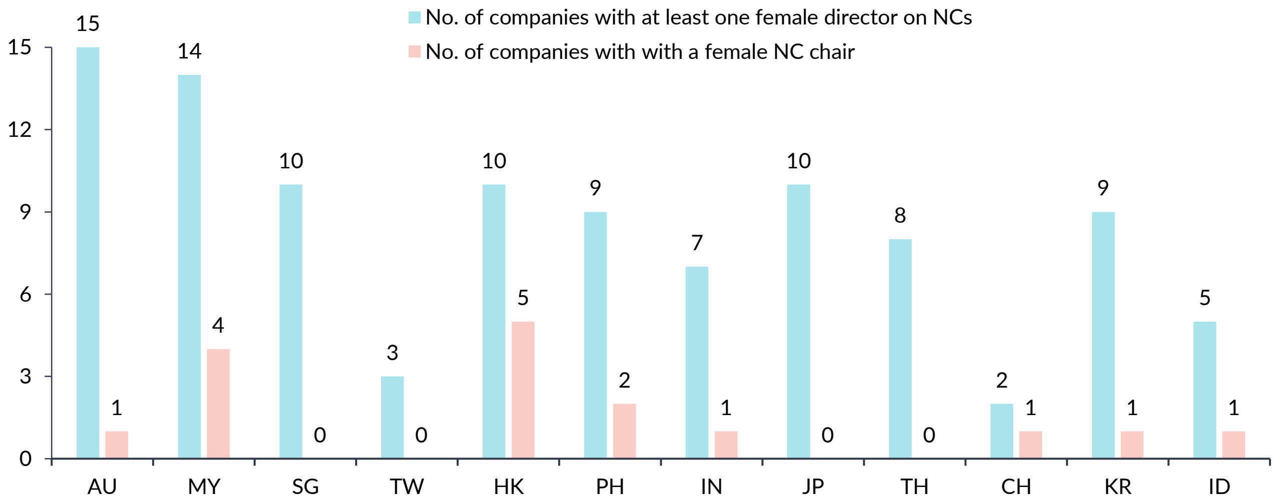
Greater China and Thailand also provide a few bright spots. HKEX, a listed company itself, reported an "ultimate" goal of achieving gender parity on its board without specifying a timeline. Additionally, two companies stood out for seeking a 33% target: Luxshare Precision Industry in China and Hotai Motor in Taiwan. Other notable adopters of the 30% goal included Tencent and CK Hutchison in Hong Kong, as well as Kasikornbank and Electricity Generating in Thailand.

At the lower end of the spectrum, 11 issuers sought to bring at least one woman onto their boards. Five of them were from Taiwan, including TSMC, and two from India. The Indian 2013 Companies Act mandates that listed companies have at least one female director. It is disappointing that none of the Indian issuers set a higher target than this minimum threshold. The situation in Taiwan meanwhile may improve in the near future. Starting in 2025, Taiwanese issuers will be required to fill one-third of their board seats with women on a comply or explain basis.

We also examined female representation on NCs, particularly whether issuers have a female NC chair. While nearly three-fifths of the 180 companies had at least one female director on their NCs, less than one in ten (9%) appointed a woman as NC chair. Other than Hong Kong and Malaysia, there were few if any female NC chairs.

Figure 16

The presence of women on NCs at the 180 companies, CG Watch 2023



The 16 firms with a female NC chair on average had 38% women on their boards, with all but three achieving a rate of 30% or higher. Although the sample size is relatively small, this finding is in line with those identified in our previous research on gender diversity on boards in Hong Kong and China.

Figure 17

Female composition on boards where there is a female NC chair, CG Watch 2023

Market	Company	% female directors on the board
Australia	James Hardie	44
Malaysia	Tenaga Nasional	55
	Telekom Malaysia	36
	AmBank	33
	IJM Corp	30
India	ICICI Bank	15
Korea	Kakao Corporation	57
Philippines	D&L Industries	43
	Shell Pilipinas	27
China	Luxshare Precision Industry	43
Hong Kong	Alibaba	30
	HKEX	31
	China Overseas Land & Investment	11
	Hang Seng Bank	80
	CK Hutchison	32
Indonesia	Kalbe Farma	33
Average		**38**

Companies are vague about why board diversity matters

One specific area relating to the quality of board diversity disclosures is whether and how companies link board diversity to their business strategies and needs. We found an abundance of generic statements in this regard.

While many issuers waxed lyrical about the importance of board diversity, only a few touched on why it matters in their specific contexts. For example, one Taiwanese steel maker highlighted the benefits of board diversity to its "development goals," including "construction of a high-value industry chain" and "equipment replacement." Another Malaysian healthcare provider briefly mentioned the significance of board diversity to the "diversified portfolio of the Group's businesses."

Director remuneration: need to know basis

An area where disclosure rules have genuinely become more substantive in the region is in respect of director pay. Still, companies tend to divulge only what they must. Less than half (76) of the 180 companies we surveyed disclosed director remuneration on a named basis, with the quality of the disclosure clearly tied to regulatory requirements.

Figure 18

Director remuneration disclosure, CG Watch 2023

In Korea, the Philippines and Indonesia disclosure rules are far behind regional best practice: none of the large caps we examined disclosed individual director remuneration. Korean companies under the Financial Investment Services and Capital Markets Act (FSCMA), the main securities law, are only required to disclose the exact remuneration of an executive director earning more than KRW500m (approximately US$369,000) per year. Meanwhile, a rule dating to 2014 by Indonesia's financial regulator the OJK, only requires disclosure of the aggregate remuneration paid to directors. Only telecom firm XL Axiata provided greater transparency by disclosing director remuneration in bands. The Philippines provides a compelling case for stronger disclosure requirements that are mandatory. The Securities and Exchange Commission recommends that director remuneration be disclosed on "an individual basis". In practice, only one telecom company made a meaningful effort by providing remuneration figures for each non-executive director.

Japan and Taiwan are also at the lower end of the spectrum. In Japan, companies under a 2010 rule are still only required to disclose the pay packets of executives earning JPY100m (approximately US$660,000) or more. Meanwhile, regulators in Taiwan allow issuers to disclose director remuneration by name or in bands, except in certain specific scenarios where full disclosure is mandatory (including after-tax losses and poor CG performance as evaluated by the Taiwan Stock Exchange). In these two markets, only Takeda Pharmaceuticals, TSMC and Hotai Motor provided the exact remuneration for each director.

In contrast, Australia, Malaysia, Hong Kong, India, Thailand and China scored higher on this question—generally because the rules require a higher level of transparency. All the issuers surveyed in Australia and Malaysia disclosed the remuneration of each director by name, including breakdowns of key components, in line with their respective listing rules.

Similar gaps are also evident in China where the China Securities Regulatory Commission (CSRC) requires issuers to disclose the pre-tax remuneration paid to each director by "the company." While all 15 large caps complied, 13 did not report the remuneration for non-executive directors who were from parent companies or major shareholders, therefore not paid by the issuer.

In Singapore, a SGX rule change will require issuers to disclose exact amounts and breakdowns of remuneration paid to directors for financial years ending on or after 31 December this year, suggesting an improved score is forthcoming.

Executive remuneration policies: one sunny place

Our inquiry into the quality of executive remuneration policies yielded a score of 44% regionally, marking it as one of the weaker areas of disclosure. There is clear daylight between the top market Australia and the rest: Australia achieved a perfect score while the average score for the other markets was just 2.

Figure 19

Disclosure of executive remuneration policies, CG Watch 2023

All 15 Australian companies had comprehensive disclosure of executive remuneration policies, which included clear explanations of remuneration components and key performance targets. Regulatory requirements play a pivotal role here; the Corporations Act (sec 300A) mandates that listed companies provide a report outlining the policies governing the nature and amount of remuneration paid to key management personnel.

Trailing Australia as a distant second is Japan, where we noted an improvement in the clarity of short-and long-term targets and a greater use of stock incentives. Three companies—Hoya, Seven & i, and Kyocera—stood out with a perfect score of 5.

In contrast, the disclosure in other markets remains opaque. The vast majority of the 15 issuers in Malaysia were vague regarding the linkage between remuneration and performance, at best touching on broader aspects of KPIs. Meanwhile, none of the companies in China provided a clear explanation of the remuneration components and the parameters of KPIs. Generic statements abounded such as the remuneration for executives being based on "internal rules about remuneration management and performance evaluation." Promisingly, there is a growing trend in these markets to incorporate sustainability-related metrics into KPIs.

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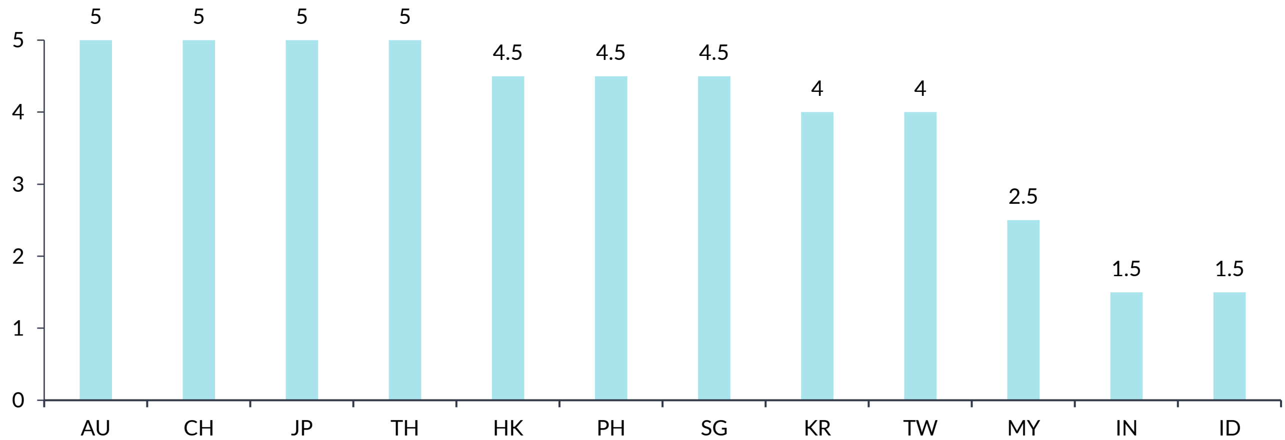
Independent director pay

Independent director pay emerges as the second-best performing area, achieving a score of 78% regionally. All but three markets (ie, Malaysia, India and Indonesia) earned a score of 4 or higher. For this question, we are particularly alert to bad practices such as stock options, bonuses, or a percentage of company earnings for independent directors. Two-thirds of issuers in Indonesia reported providing bonuses to independent commissioners, while a significant majority in India—13 out of 15—paid independent directors with profit-linked commissions.

In Malaysia, none of the independent directors at the 15 companies surveyed received stock options or bonuses. However, many enjoyed generous "benefits-in-kind" ranging from telephone bills and company cars to club memberships. One telecom company provided independent directors with benefits valued between MYR75,974 (US$17,420) and MYR97,267 (US$22,300) in the financial year 2022, accounting for 11-19% of their total remuneration.

Figure 20

Independent director pay, CG Watch 2023



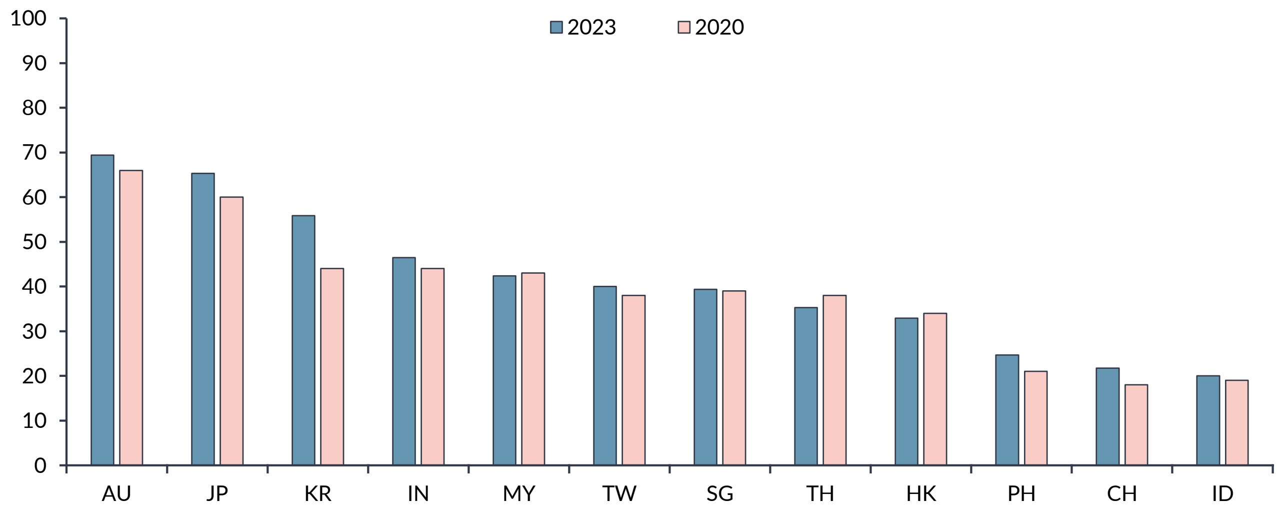
Investors: market analysis and criteria

The Investors category is the worst performing in our CG Watch research with a score of 41% in 2023. This was a slight improvement on the 2020 score of 39%. While Australia again scores highest in the region, Japan and notably Korea gained the most ground in this category. Japan's score increased by five percentage points to 65% and stays at second place on our ranking for investors. Korea meanwhile held on to third place in our rankings here but by a much wider margin, its score jumping to 56%, a 12-percentage point increase. This reflects the impact of a growing retail investor base in both markets.

Eight out of 12 markets saw some improvement in their 2023 scores compared to 2020. Singapore remained flat with a score of 39%, dropping one place to rank seventh. Malaysia and Hong Kong lost one percentage point to score 42% and 33% respectively. Thailand lost the most ground in this category, dropping from ninth to rank eighth on a score of 35% compared to 38% in 2020. This reflects a perception that as stewards, domestic investors in Thailand could benefit from greater granularity on disclosure, and that retail investors still have some way to go as a collective group.

Figure 21

Investors: score by market in %, 2023 vs 2020

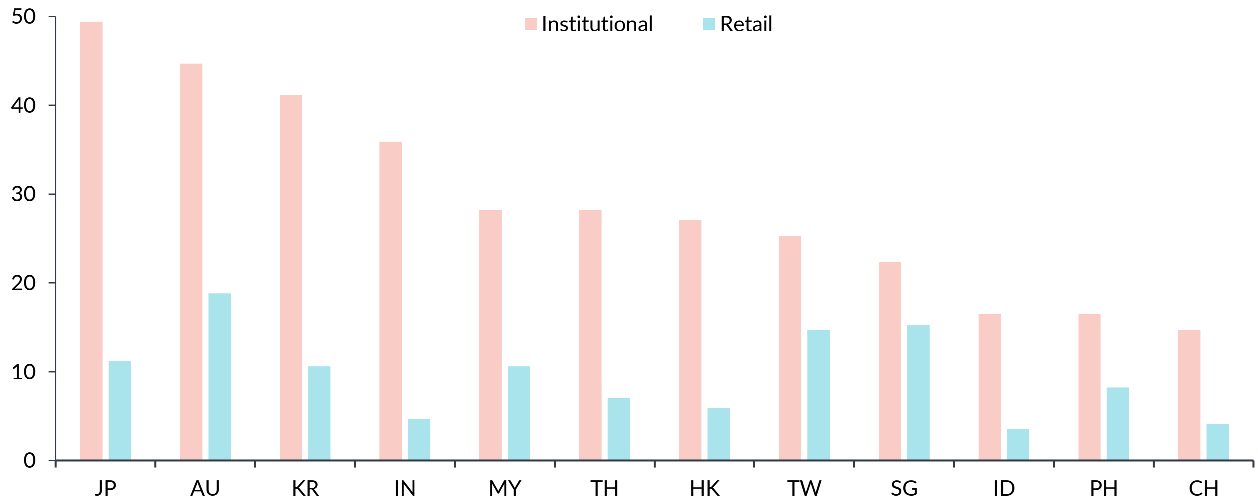


We found domestic investors more active in Australia and India followed by Japan, Korea, Malaysia, Taiwan and Thailand but significantly lagging in the other markets. Foreign institutions play a greater role in markets which are large and open to investor engagement.

Japan leads on questions related to institutional investors, followed by Australia and Korea. At the lower end of the scale are China, Indonesia and the Philippines—the three markets in the region that still lack a stewardship code. In terms of retail investor performance, Australia, Singapore and Taiwan are the top three scorers, while India, China and Indonesia rank at the bottom. Korea sits in the middle with a significantly improved score. Notably, both Taiwan and Singapore have a robust retail investor scene but a weak presence of institutional investors. In contrast, India performs decently on institutional questions, but its retail landscape remains lacklustre.

Figure 22

Scores in % for institutional and retail investor questions, CG Watch 2023

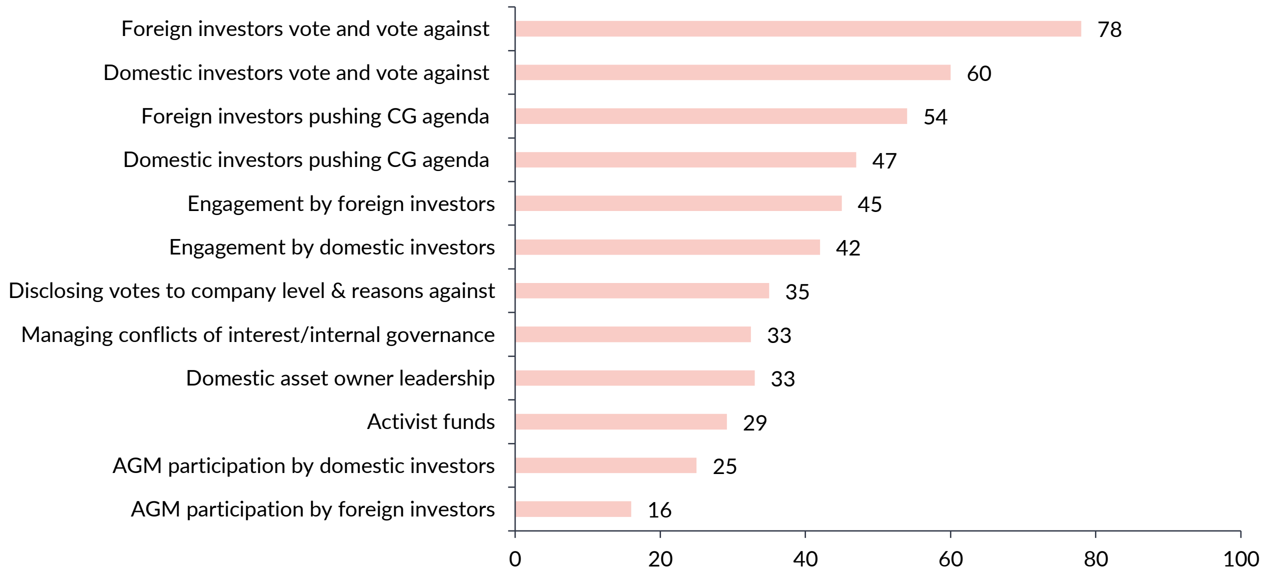


Investors: our criteria

This category comprises a series of 17 questions on the role played by institutional investors—both domestic and foreign—and retail investors in raising standards of corporate governance in the respective markets. A large focus of the questions, 12 out of 17, is on institutional investors, with the last four relating to retail. We also have a question about the presence of local proxy advisory services.

Figure 23

Average scores on institutional investor questions in %, CG Watch 2023



Institutional investors score well on the fundamentals of stewardship: voting (and voting against board resolutions), having their own CG and voting policies which contribute to the overall CG ecosystem and embarking upon individual or collective engagement. They remain weak in attending AGMs, however. Limited domestic asset owners leadership and a shortage of activist funds in the region also hold down the score.

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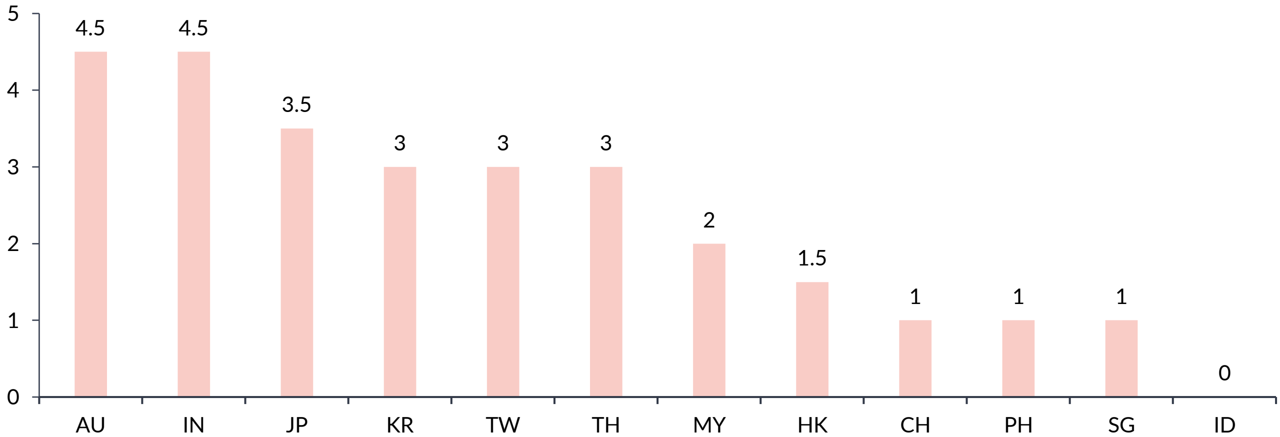
Institutional investors

We look for formal, published policy (or policies) adopted by asset owners and managers addressing how they think about governance and sustainability, how they vote their shares, the extent to which they engage with companies, and the associations of which they are members.

For each market, we examine the top five asset owners (pension, insurance or sovereign wealth funds) and top 5-10 asset managers by AUM. In particular we look for the endorsement of local stewardship codes, participation in regulatory consultations on CG and ESG issues, responsible investment (RI) or stewardship reports, as well as Principles for Responsible Investment (PRI) reports.

Figure 24

Are domestic investors pushing the CG agenda? CG Watch 2023



The question on domestic institutional investors advancing a CG agenda is more about the effort being made rather than outcomes. Only Australia saw an improvement in 2023 after its score dipped in 2020 amid limited participation in regulatory consultations by asset owners and managers. Four of the five top asset owners in Australia have a policy and publicise it. Nine of the top 10 asset managers have a policy and publicise them, and all bar one disclose their voting records.

India rates well on this question as well. All mutual funds must have voting policies in place and make them available on their websites. It is also mandatory to endorse SEBI's stewardship code for mutual funds, the Insurance Regulatory and Development Authority's (IRDA) stewardship code for insurers and the Pension Fund Regulatory and Development Authority's (PFRDA) stewardship code for its portfolio managers. While mutual funds do provide feedback on SEBI and the Ministry of Corporate Affairs (MCA) consultations, these are not usually made public.

Japan's domestic institutional investors have since the mid-2000s disclosed their proxy voting, CG and ESG policies, most initially following PFA voting guidance. The arrival of the Stewardship Code in 2014 led to more substantial policies. Wide endorsement of the stewardship code is encouraged by the Financial Services Agency (FSA) and a total of 329 had signed the code as of September 2023. Submissions on consultations are not published in Japan, and it seems that only a small minority participate, but all major institutional investors publish RI or stewardship reports.

Managing conflicts

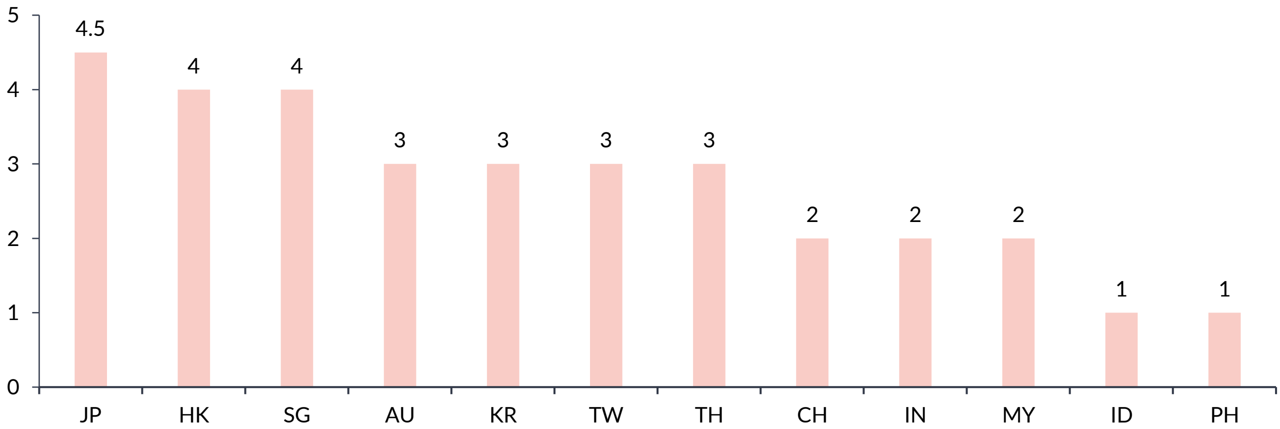
A critical element of domestic stewardship is the question of how institutional investors manage conflicts of interest. Examples include state pension and investment funds that cannot vote against or properly engage with SOEs, or undertake transactions which could disenfranchise minority shareholders. The basic fear of causing offence remains prevalent in the region.

We thus ask a question as to how conflicts are managed, with evidence of good internal fund governance—including independent boards and explicit policies on internal governance, as well as credible disclosure. The only clear and relatively compelling answers were found in Japan, which scored 3.5, and Australia, which scored 3 out of 5. Quite a few investment organisations focus their conflict policies on individual staff members. Far more important are firm-level policies and internal governance structures. China and Korea both scored a zero on this question, while the rest scored either a 1 or 2.

We apply the same criteria on the pursuit of CG agendas to foreign institutional investors, although we look for global policies which are implemented in Asia. Extra points are awarded where foreign investors adapt a policy to a local market.

Figure 25

Are foreign investors pushing the CG agenda? CG Watch 2023



Hong Kong lost ground in 2023 on the question of the extent to which foreign institutions were participating in consultations, while Japan showed steady progress due to upgraded internal voting and engagement policies. Most markets remained flat on this question compared to 2020.

In markets such as Singapore, foreign investors have policies in the public domain and those who are signatories to the Singapore Stewardship Principles (SSP) disclose theirs. Several foreign investors have also endorsed the SSP (although there are still many more who could). We also note that a few of the foreign institutional investors respond to major CG consultations: the last major consultation on climate and diversity in September 2021 had submissions from Fidelity International, Schroders and BlackRock, for example.

In Thailand, global asset managers have signed up to the stewardship code (the I code), have a local presence and apply global voting policies. In Taiwan, BlackRock, Manulife and Schroders have issued their materials in traditional Chinese: policies, voting records and stewardship reports but only BlackRock appears to have a voting policy adapted specifically for Taiwan. As of the end of August 2023 meanwhile there were 35 foreign signatories out of a total of 150 to the TWSE stewardship code.

Domestic asset owner leadership

In our investor research we include a question on whether state pension and investment funds play a leadership role in prompting responsible investment and investor stewardship. We are looking for a prominent asset owner, or owners, who take the lead on endorsing and implementing the local stewardship code or otherwise have their own well-established CG and ESG policies. Extra marks are earned where the asset owner makes regular public statements or reports.

From our experience, the existence of leading domestic pension and investment funds, particularly those which are state-owned or represent national systems, enables stewardship codes to gain traction in a market.

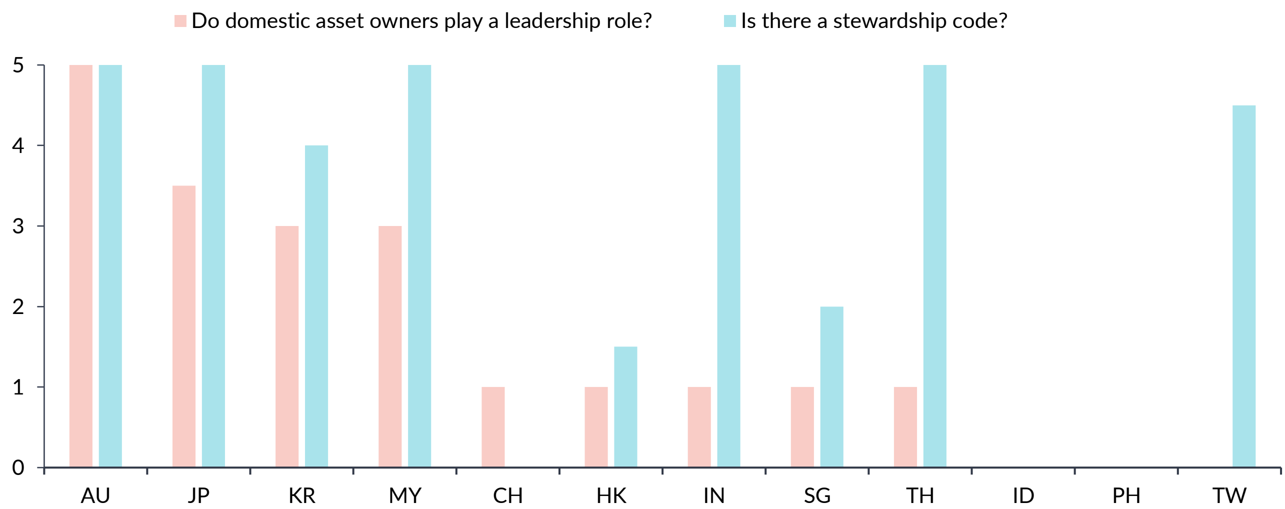
For example Japan's GPIF helped put stewardship on the map, while its directives to asset managers force them to act. The stewardship principles and its expectations of its external asset managers are extensively set out on GPIF's website.

Australia's industry "super funds" meanwhile have steadily built up policies and expertise around CG and ESG over the past few decades. Japan and Korea both have one major pension fund, Thailand has a few, though the largest is the Government Pension Fund (GPF). Malaysia has multiple funds, with one very large one, the Employees Provident Fund (EPF) which together with a number of the other government and private funds have set up the Institutional Investors Council (IIC) that aims to pursue better CG in the market and enhance returns for investors.

The Asset Management Association of China (AMAC) remains the main body promoting RI and ESG in China; under new leadership it appears to be taking a more nuanced approach to promoting stewardship. Meanwhile India's SBI Mutual Fund, owned by the largest government-controlled bank, State Bank of India, is seen as a leader on ESG and promoting RI to some extent.

Figure 26

Domestic asset owner leadership and implementation of stewardship code, CG Watch 2023



Linked to this question is the existence of stewardship codes—something we include in our research on CG rules—as a catalyst for domestic asset owner leadership. Australia, India, Japan, Malaysia and Thailand score full points for having a stewardship code. We credit scores of 4.5 for Taiwan and 4 for Korea. Of note are Hong Kong and Singapore on this question: both have stewardship codes, but Hong Kong has not updated its Principles of Responsible Ownership since March 2016 and both markets only seek affirmations of support, rather than taking a comply or explain approach. Both markets thus scored a point out of five for domestic asset owner leadership on our ratings and slightly better for having a stewardship code — an upgrade of the local stewardship codes could well boost this score. China, Indonesia and the Philippines have no stewardship code and domestic asset owners do not appear to provide leadership in this area.

Investors: AGMs and engagement

AGM participation in the region is led by retail investors, and partly reflects the work of shareholder associations in adding more focus and substance to meetings. Institutional participation however remains notably low, with only two markets—Japan and Korea—scoring marks greater than 1 out of 5. Overall, AGM participation results in the two lowest scores in our broader investor research. Investors are however engaging on an individual and collective basis in the region, earning a higher score.

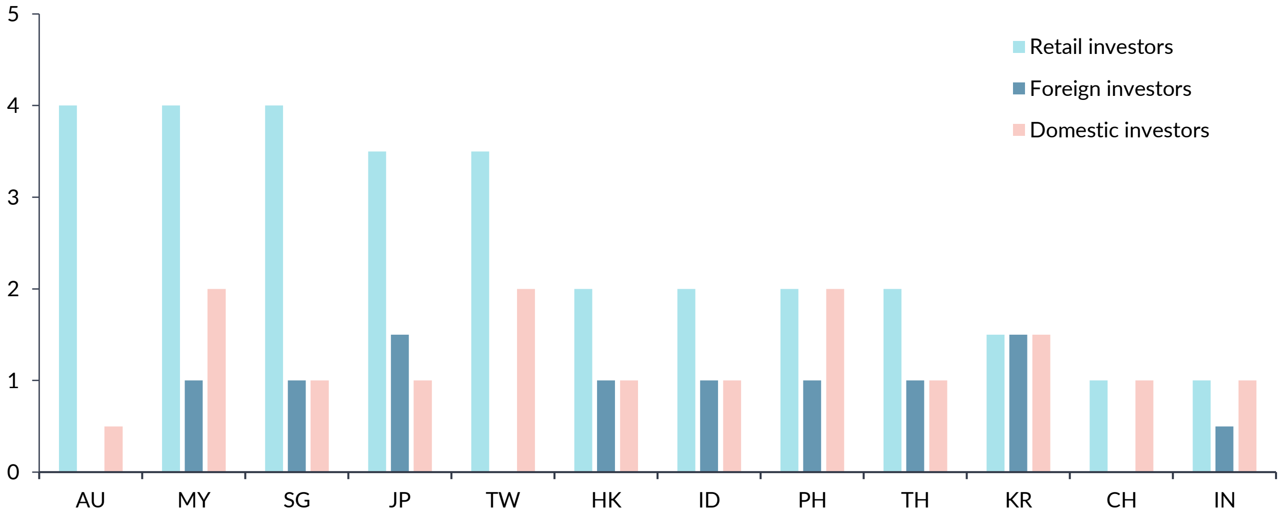
Who attends AGMs?

Physical participation in annual general meetings is a weak spot for both domestic and foreign investors across all markets. In large part this reflects capacity constraints that institutions face and the difficulties domestic asset owners and managers often face in asking questions at meetings. In our supporting evidence, we look for active participation—asking questions in real time and using the AGM platform to engage the board and management. One of the AGM challenges foreign investors face in certain markets is that shares are not held in their name but rather in an omnibus account which requires them to seek the support of custodian banks to be appointed as a proxy at a meeting. Over the years several of our members have written directly to companies and have been invited as observers, but this usually means they cannot vote at the meeting itself, or ask questions.

As a result of the structural challenges faced by investors, the two questions on attendance at AGMs of institutional investors in our survey resulted in the two lowest scores in the investors category 25% in the case of domestic and just 16% for foreign investors.

Figure 27

AGM participation by different types of investors, CG Watch 2023



We know from anecdotal experience that few domestic institutions use the AGM as a platform to ask questions of the board, management or the auditor. In 2023, no market scored more than two points out of five. China but also Australia scored zero on the foreign investor question: we did not find their active presence at AGMs.

In contrast, retail investors in the region to a greater extent use the AGM as an opportunity to engage with companies, ask substantive questions and put forward shareholder proposals. Among the four questions we ask on retail investors, this is the most impressive, attracting a score of 51%. We see a correlation between the existence of a national retail shareholder association, as seen in Australia, Malaysia and Singapore, and high retail participation at AGMs. The exceptions are Japan and Taiwan where retail shareholders attend AGMs and ask questions despite the lack of such associations.

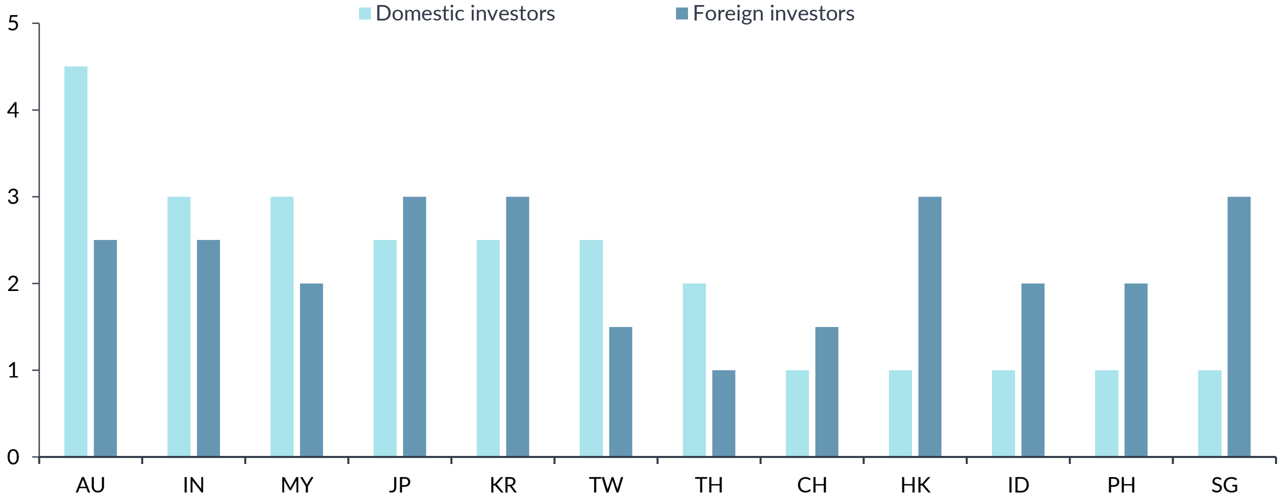
Collective engagement

Markets also vary in terms of the depth and breadth of both individual (single-fund) and collective (multiple-fund) engagement with listed companies. Australia scores highest among domestic investors, in part because it has investor organisations and alliances that help to facilitate collective engagement; these efforts complement the extensive individual engagement that investors do. India and Malaysia both score moderately well (3 out of 5), because we see some collective as well as individual engagement; while Japan, Korea and Taiwan only get a passing mark (2.5)—homegrown collective engagement is scarce. Scores for foreign investors on engagement are higher in most markets. Based on our observations, foreign investors engage less in Thailand and Taiwan while overall engagement by investors appears weakest in China.

In the two questions we ask on domestic and foreign institutional engagement with listed companies, (both individually and collectively), markets receive marks for effort rather than outcomes. Foreign investors perform marginally better with an overall score of 45% (and are more likely to engage on a collective basis than their domestic counterparts). Australia does well on the domestic front because of the work of the Australian Council of Superannuation Investors (ACSI), which was partly formed to engage with major companies on behalf of its members: it scores 4.5 out of 5. It is worth noting that Korea and Japan have stipulations against concert party actions which dampen collective engagement.

Figure 28

Individual and collective engagment by domestic and foreign investors, CG Watch 2023



Where are the activist funds?

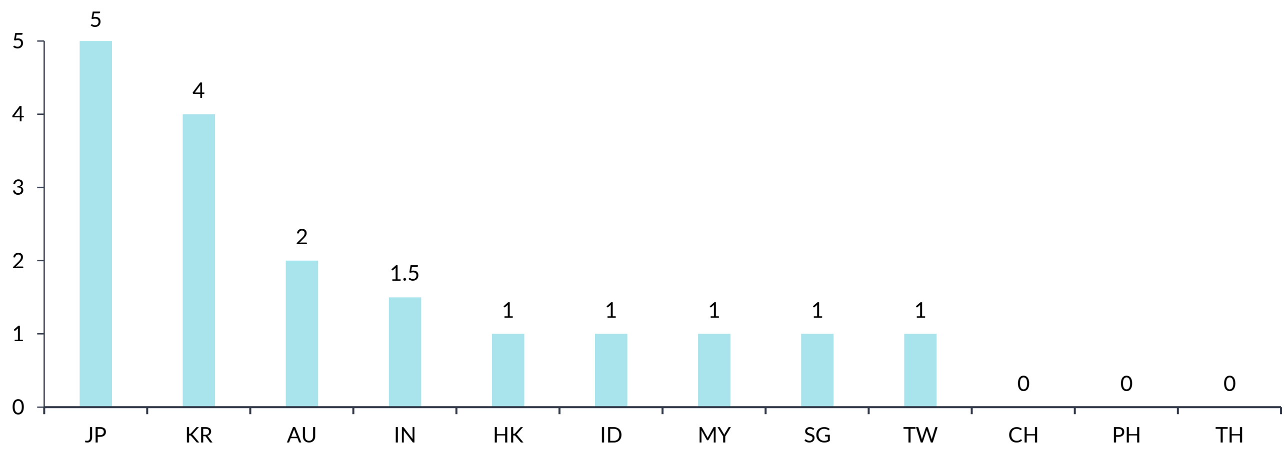
The presence of institutional activist funds who are less encumbered than their mainstream investment peers in being able to take a public stance, force issues on the agenda and delve deeper into individual companies or transactions remains notably limited across the region. The overall score for this question is just 30%, the third lowest in the investor section.

Bucking the trend in Asia are Japan and Korea. Japan has consistently scored top marks since 2018 with the most prolific activist community and Korea is catching up, earning 4 points out of 5 in 2023. Activism is less about raiding cash piles for short-term gains, although this may be how it is often perceived; rather the more durable value is from influencing longer term strategy and valuations through better governance.

Points are earned not just for having activist funds in the market but for attracting ones with a long-term view, a track record of success and whether they are willing to litigate as a matter of last resort. Japan and Korea are the standouts for investor activism within Asia. Three markets scored zero points for this question: China, the Philippines and Indonesia while for most other Asian markets, activists remain scarce.

Figure 29

The presence of activist funds, CG Watch 2023



Funds taking an active role in Japan include Oasis, Elliott Management and ValueAct, all adopting a strategically balanced approach. There has also been an emergence of domestic activists, most notably Effissimo out of Singapore. In Australia, the work of activists is done, at least in the climate change arena, by NGOs such as Market Forces and the Australasian Centre for Corporate Responsibility (ACCR). Elliott Management operates in Australia and has campaigned against BHP Billiton and Grok Ventures against AGL.

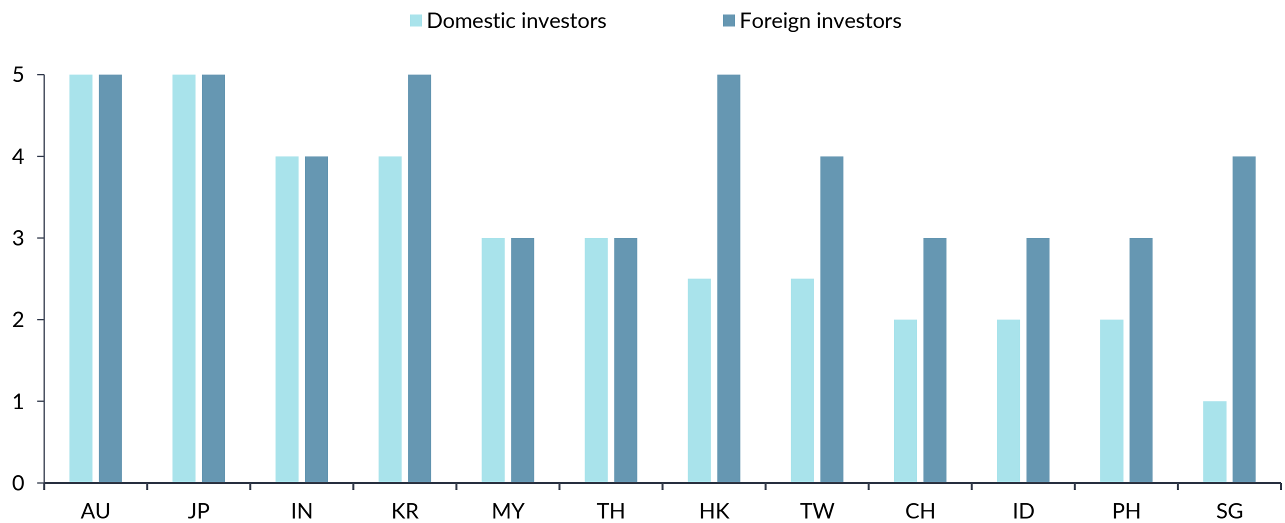
In Korea, domestic funds such as Align Partners have entered the spotlight, along with ANDA Asset Management (which pressed for reform of SK Chemical's management structure and dividend policy in 2022), while City of London Investment Management, publicly supported by Palliser Capital and other activists, presented a shareholder proposal at Samsung C&T's 2024 AGM calling for increased share buybacks and higher dividends.

Voting

Voting has long been a central element of investor involvement in corporate governance and here we assess not only the extent of voting but whether investors are prepared to vote against board resolutions with which they disagree. Broadly, scores are higher for foreign investors, although domestic funds rate well in Australia, Japan, India and Korea; and we are seeing improvements in China, Hong Kong and Taiwan.

Figure 30

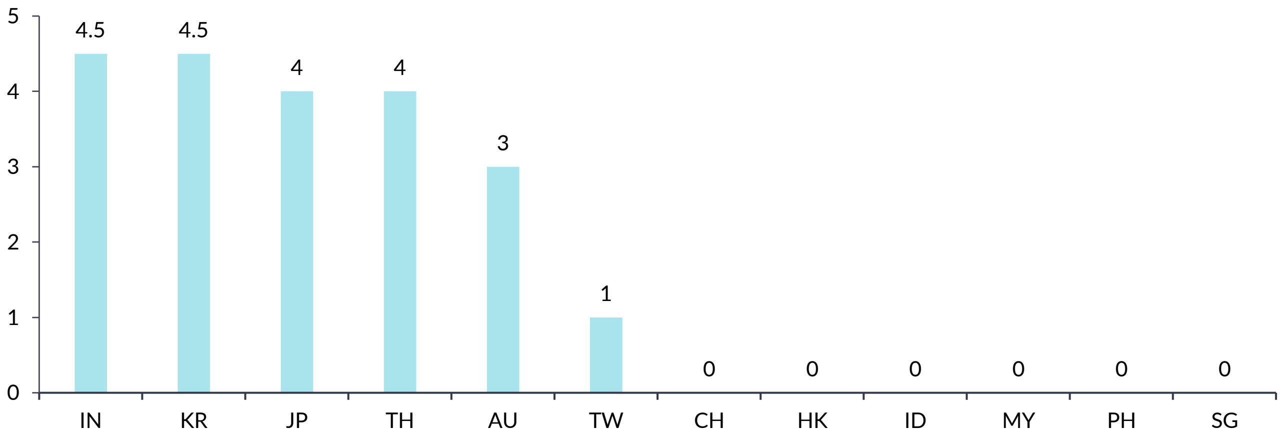
Voting by domestic and foreign investors, CG Watch 2023



Another feature of modern stewardship is a requirement to disclose voting not just in aggregate during the year (ie, total votes for, against or abstain across all company meetings), but down to the individual company and resolution level. The best performers among domestic investors on our scoring are India and Korea, followed by Japan, Thailand and Australia. A differentiating factor is whether investors are required to disclose why they voted against resolutions and whether these explanations are meaningful. Half of the markets we rated—China, Hong Kong, Indonesia, Malaysia, the Philippines and Singapore—scored a zero on this question as we did not find rationales provided for the voting of many of their asset managers.

Figure 31

Disclosure of voting to company level & reasons against, CG Watch 2023



Proxy voting advisors

Our CG Watch survey on investors also tracks whether proxy voting advisors are based in a market and whether any of them are local. While Institutional Shareholder Services (ISS) and Glass Lewis provide voting advice to global investors, we are looking for evidence of a local outfit capable of giving more specific in-depth knowledge.

The highest scorers are Australia and India, who both attained 5 marks out of 5 followed by Japan and Korea, with scores of 4 and 3.5 respectively. China deserves a mention too for having a homegrown advisor that continues to grow its business and build credibility, ZD Proxy Shareholder Services. It scored 2.5 points for this reason. Other markets generally scored zero given the lack of any local proxy advisor.

Retail investors

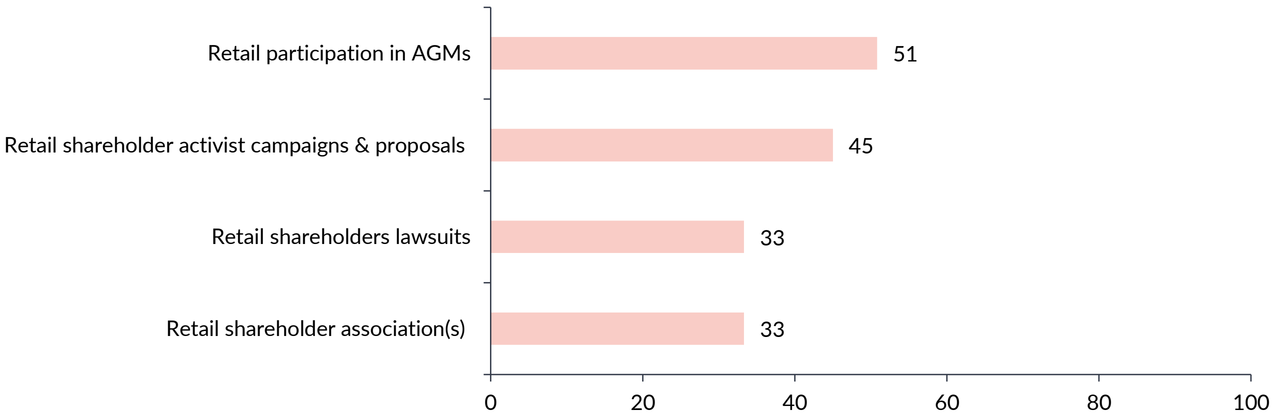
In our CG Watch research we ask four questions related to retail investors: whether they vote at AGMs (considered above in the general investor voting section); have they formed self-funded shareholder associations to promote improved CG; do they launch public activist campaigns against errant directors or companies; and do they (or do government agencies acting on their behalf) undertake lawsuits against directors and companies for infringed rights?

Participation in AGMs comes out on top, followed by activist campaigns by retail shareholders, as well as the depth and breadth of proposals they put forward at general meetings. The net effect of these four questions is where things got interesting in 2023. Korea more than doubled its score on the retail questions, boosting its overall investors category tally to 56%. The influence of retail investors in Korea has emerged as a compelling catalyst for change.

Confined to their homes during Covid, many in Korea turned to the equity market to invest their savings and the number of retail investors surged from 5.02 million in 2018 to 14.24 million by the end of December 2022. Retail investors by 2022 accounted for 64% of the annual transaction amount in Korea's equity market, the highest ratio globally. This has rendered them a sizeable force to be contended with and their support has been sought by both activists and political parties.

Figure 32

Average scores of retail investor questions in %, CG Watch 2023



Australia rates highest with a vibrant retail environment bolstered by the efforts of the Australian Shareholders' Association (ASA). Singapore meanwhile benefits from the efforts of the Securities Investors Association Singapore (SIAS) in promoting retail agendas and challenging companies on particular issues, as well as Professor Mak Yuen-teen's advocacy through Governance for Stakeholders. While its investor score remained steady at 39%, the retail investor category buoyed the market: these investors are more visible at AGMs and in their voting. SIAS has been around for 25 years and its work championing investor rights sets a high bar in the region.

Taiwan was also a market gaining ground in the retail investor category as more evidence emerged of shareholders launching campaigns, challenging management openly at AGMs and even running for board positions: one of the more colourful examples saw a shareholder going by the nickname of "Old Naughty Boy" managing to get elected to the board of Grand Pacific Petrochemical because he disagreed with the company's dividend policy. Taiwan's score in the retail sub-category helped improve its investor performance by two percentage points to 40%, enabling it to move up by one place to rank sixth.

Figure 33

Retail investor scores in % by market, CG Watch 2023 vs 2020

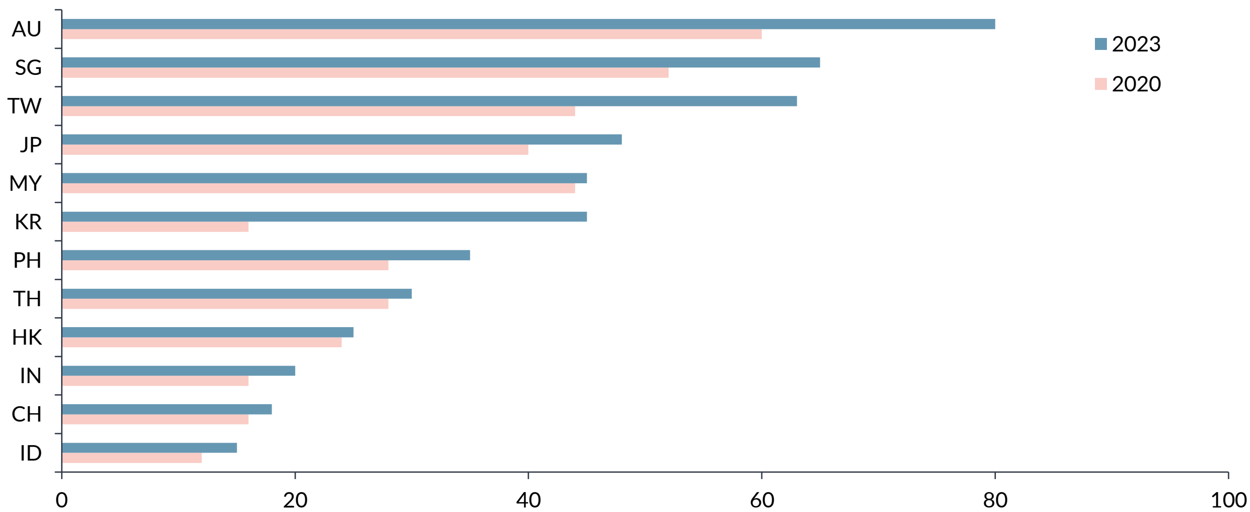
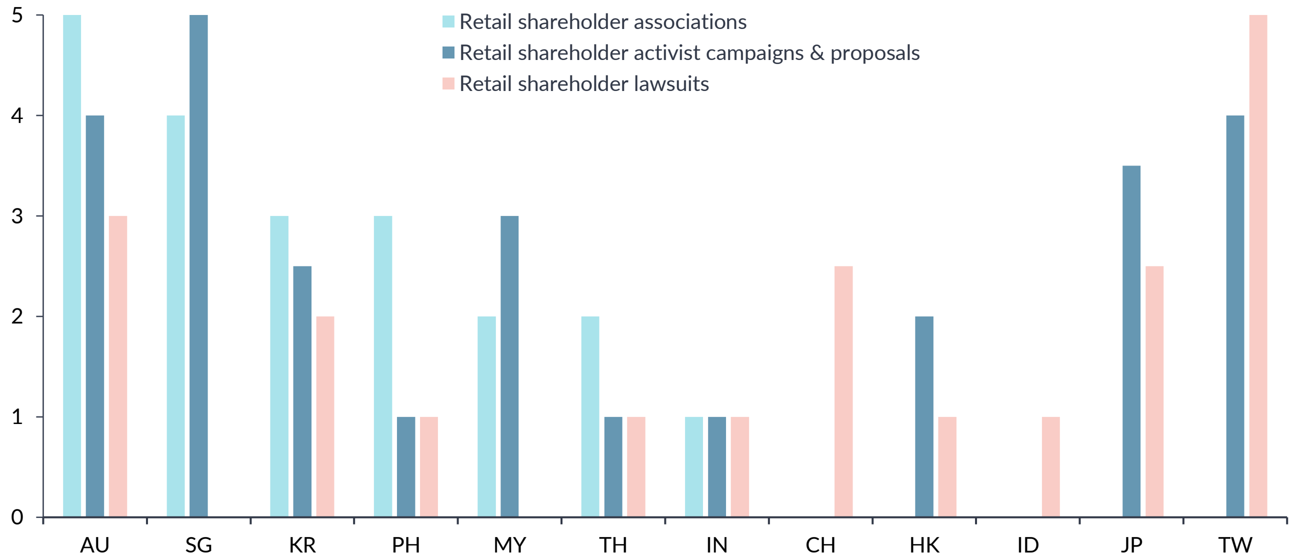


Figure 34

Activities of retail investors, CG Watch 2023



Japan gained points for retail participation in AGMs, activist campaigns and for shareholder lawsuits in 2023: retail shareholders are prepared to initiate litigation, particularly against failed companies.

Unfortunately, retail shareholder lawsuits largely remain elusive in other markets, with Malaysia and Singapore both scoring zero in this question. Taiwan scores top marks courtesy of the Securities and Futures Investors Protection Center (SFIPC) which undertakes lawsuits on behalf of investors. In Hong Kong the Securities and Futures Commission (SFC) does to a lesser extent file suits seeking compensation for shareholders where company behaviour has been particularly egregious.

The existence of shareholder associations is an area where markets could make easy wins. China, Hong Kong, Indonesia, Japan and Taiwan score zero points for this question. Hong Kong has no shareholder association despite the efforts of long-term shareholder activist David Webb, editor of webb-site.com, who back in 2001 campaigned for a Hongkong Association of Minority Shareholders (HAMS) funded by a stock market levy. Japan similarly has no shareholder associations but there are a few retail and other minority shareholders who put forward AGM proposals.

Still, a more organised retail sector in markets such as Korea has been a significant catalyst to progress, underscoring the role investors can play in advancing CG both at policy and company level. Improved stewardship efforts from their institutional peers could also help nudge companies further through reinforcing the significance of these issues for their shareholders. The hope ultimately is that corporates would elevate their disclosure and behaviour beyond regulatory minimums.

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Appendix 1: Listed companies scores by market and criteria

Questions and scores in the listed companies category, CG Watch 2023

	AU	CH	HK	IN	ID	JP	KR	MY	PH	SG	TW	TH
1. Does the company's board governance reporting compare favourably against international best practice?	2	2.5	2	2.5	1	2	2	2	2.5	2	2	1
2. How would you rate the quality of the company's ESG/sustainability reporting?	3.5	1	3	3	1.5	3	4	2.5	3	3	4.5	1.5
3. Does the company provide comprehensive, timely and quick access to information for investors?	4	2	2.5	4	3.5	3	2.5	4	3.5	3	4	4
4. Does the company undertake annual board evaluations, either internally or using external consultants?	2	0	1	2.5	2	2.5	1	3	2	2.5	3.5	1.5
5. Does the company disclose and implement a credible board diversity policy?	3.5	0.5	1	1.5	0.5	1.5	1	2	1.5	1.5	3	1
6. Does the company provide induction and/or ongoing training to all directors?	3.5	1	2	4	2.5	1.5	1.5	4	3	2	3	2
7. Does the company have an independent chairman and/or a lead or senior independent director?	5	0	1.5	2	1.5	0.5	3	3.5	0	4	0	1
8. Does the company disclose total remuneration of each member of the board of directors?	5	4	4.5	4.5	0.5	2.5	1	5	1	3	2.5	4.5
9. Are the independent directors paid partly or wholly in stock options or restricted share awards?	5	5	4.5	1.5	1.5	5	4	2.5	4.5	4.5	4	5
10. Are audit committees (or an equivalent) independently led and competent in financial reporting/ accounting matters?	5	3.5	4.5	4	4.5	2.5	3.5	4.5	3.5	4.5	4	4
11. Does the company have an internal audit department that reports to the audit committee?	3	3	3	4	1.5	2.5	3.5	3.5	3.5	3.5	4	3.5
12. Does the company provide a detailed explanation of its executive remuneration policies?	5	0.5	2	2.5	1	3.5	2	2	1.5	2.5	2	2
13. Does the company have a nomination committee and is it independently led?	4.5	3.5	3	4.5	2.5	3	3.5	4.5	2	3	1.5	3.5
14. Does the nomination committee have a female chair or at least one female director?	2.5	0.5	2.5	1.5	1	1.5	1.5	3	2	1.5	0.5	1.5
2023 category score (out of 70)	53.5	27	37	42	25	34.5	34	46	33.5	40.5	38.5	36
%	**76**	**39**	**53**	**60**	**36**	**49**	**49**	**66**	**48**	**58**	**55**	**51**
Rank	1	11	6	3	12	8	9	2	10	4	5	7

Source: ACGA

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Appendix 2: Investors scores by market and criteria

Questions and scores in the investors category, CG Watch 2023

	AU	CH	HK	IN	ID	JP	KR	MY	PH	SG	TW	TH
1. Are domestic institutional investors (asset owners and managers) working to promote better CG through publicly announced policies?	4.5	1	1.5	4.5	0	3.5	3	2	1	1	3	3
2. Are foreign institutional investors (asset owners and managers) working to promote better CG through publicly announced policies?	3	2	4	2	1	4.5	3	2	1	4	3	3
3. Do a majority of domestic institutional investors exercise their voting rights, including voting against resolutions with which they disagree?	5	2	2.5	4	2	5	4	3	2	1	2.5	3
4. Do a majority of foreign institutional investors exercise their voting rights, including voting against resolutions with which they disagree?	5	3	5	4	3	5	5	3	3	4	4	3
5. Do domestic institutional investors attend AGMs?	0.5	1	1	1	1	1	1.5	2	2	1	2	1
6. Do foreign institutional investors attend AGMs?	0	0	1	0.5	1	1.5	1.5	1	1	1	0	1
7. Do activist funds exist that seek to address specific company issues or transactions?	2	0	1	1.5	1	5	4	1	0	1	1	0
8. Do domestic asset owners (in particular state pension and investment funds) play a leadership role in prompting responsible investment and investor stewardship?	5	1	1	1	0	3.5	3	3	0	1	0	1
9. To what extent do domestic institutional investors engage in regular individual or collective engagement with listed companies?	4.5	1	1	3	1	2.5	2.5	3	1	1	2.5	2
10. To what extent do foreign institutional investors engage in regular individual or collective engagement with listed companies?	2.5	1.5	3	2.5	2	3	3	2	2	3	1.5	1
11. Are domestic investors effectively disclosing how they manage institutional conflicts of interest?	3	0	2	2	2	3.5	0	2	1	1	1	2
12. Do domestic institutional investors disclose voting down to the company level, and give substantive reasons for voting against?	3	0	0	4.5	0	4	4.5	0	0	0	1	4
13. Do any proxy advisory services operate locally?	5	2.5	0	5	0	4	3.5	3	0	1.5	0	0
14. Do retail shareholders see the AGM as an opportunity to engage with companies and ask substantive questions?	4	1	2	1	2	3.5	1.5	4	2	4	3.5	2
15. Have retail shareholders formed their own (ie self funded) associations to promote improved CG?	5	0	0	1	0	0	3	2	3	4	0	2
16. Do retail shareholders or individuals launch public activist campaigns against errant directors or companies?	4	0	2	1	0	3.5	2.5	3	1	5	4	1
17. Do retail shareholders (or government agencies acting on their behalf) undertake lawsuits against errant directors or companies?	3	2.5	1	1	1	2.5	2	0	1	0	5	1
2023 category score (out of 85)	59	18.5	28	39.5	17	55.5	47.5	36	21	33.5	34	30
%	**69**	**22**	**33**	**46**	**20**	**65**	**56**	**42**	**25**	**39**	**40**	**35**
Rank	1	11	9	4	12	2	3	5	10	7	6	8

Source: ACGA