Asian Corporate Governance Association (ACGA)

“CG Watch 2014 – Market Rankings”

Presentation by:
Jamie Allen, Secretary General, ACGA
Overview of 11 Asian markets: 2014 vs 2012

- **Hong Kong and Singapore**: Equal first, but on lower scores.
  - Regulatory conflicts of interest, out-of-date institutional structures, opposition to reform, and many other factors.

- **Middle markets**: More cause for hope -
  - **Thailand**: No fall in score – a big surprise. But drops to equal fourth.
  - **Japan**: Leapt into third (again).
  - **Malaysia**: Continues to improve. Higher score, same ranking.
  - **Taiwan and India**: Higher scores, same ranking.

- **Korea and China**: Same score, same ranking.
  - Some improvements in their CG, but losing ground as regional benchmarks rise, hence scores stay the same.

- **Philippines and Indonesia**: Former falls, latter rises, equal last.
## Market rankings & scores, 2014

### CG Watch market scores: 2010 to 2014

<table>
<thead>
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</tr>
</thead>
<tbody>
<tr>
<td>1. = Hong Kong</td>
<td>65</td>
<td>66</td>
<td>65</td>
<td>(-1)</td>
<td>Weak leadership, tough enforcement</td>
</tr>
<tr>
<td>1. = Singapore</td>
<td>67</td>
<td>69</td>
<td>64</td>
<td>(-5)</td>
<td>International vs local contrast continues</td>
</tr>
<tr>
<td>3. Japan</td>
<td>57</td>
<td>55</td>
<td>60</td>
<td>(+5)</td>
<td>Landmark changes, can they be sustained?</td>
</tr>
<tr>
<td>4. = Thailand</td>
<td>55</td>
<td>58</td>
<td>58</td>
<td>-</td>
<td>Improving, but new legislation needed</td>
</tr>
<tr>
<td>4. = Malaysia</td>
<td>52</td>
<td>55</td>
<td>58</td>
<td>(+3)</td>
<td>Improving, but still too top-down</td>
</tr>
<tr>
<td>6. Taiwan</td>
<td>55</td>
<td>53</td>
<td>56</td>
<td>(+3)</td>
<td>Bold policy moves, can they be sustained?</td>
</tr>
<tr>
<td>7. India</td>
<td>48</td>
<td>51</td>
<td>54</td>
<td>(+3)</td>
<td>Bouncing back, Delhi more supportive</td>
</tr>
<tr>
<td>8. Korea</td>
<td>45</td>
<td>49</td>
<td>49</td>
<td>-</td>
<td>Indifferent leader, more active regulators</td>
</tr>
<tr>
<td>9. China</td>
<td>49</td>
<td>45</td>
<td>45</td>
<td>-</td>
<td>Focus on SOE reform, enforcement</td>
</tr>
<tr>
<td>10. = Philippines</td>
<td>37</td>
<td>41</td>
<td>40</td>
<td>(-1)</td>
<td>Slow reform, improved company reporting</td>
</tr>
<tr>
<td>10. = Indonesia</td>
<td>40</td>
<td>37</td>
<td>39</td>
<td>(+2)</td>
<td>Big ambitions, can they be achieved?</td>
</tr>
</tbody>
</table>

Source: Asian Corporate Governance Association
Hong Kong vs Singapore

We no longer see a substantive difference in overall CG quality.

- Both are struggling to balance “international standards” with “market competitiveness”.

- Each has arrived at the same destination through quite different routes, with 41 of the 94 questions scoring differently.
  
  - Largest number of differences in CG Rules & Practices and Enforcement;
  
  - Fewest in IGAAP (Accounting and Auditing), though the total score quite different due to HK’s weak audit regulatory system.

- Enforcement:
  
  - Hong Kong has much stronger securities enforcement by the SFC vs MAS.
  
  - HK much tougher on insider trading, market manipulation.
  
  - Singapore scores better on some aspects of “market enforcement”, such as nomination of independent directors by minorities and whether retail shareholders participate actively in AGMs.
Hong Kong vs Singapore: CG Rules & Practices

Total score: 61% vs 63%. But 11 of 27 questions scored differently.

<table>
<thead>
<tr>
<th>Hong Kong rated better on:</th>
<th>Singapore rated better on:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disclosure of price-sensitive information</td>
<td>Disclosure of audited accounts within 60 days</td>
</tr>
<tr>
<td>The legal regime governing insider trading and market manipulation</td>
<td>Mandatory quarterly reporting</td>
</tr>
<tr>
<td>Voting by poll at shareholder meetings</td>
<td>Rules and practice on nomination of independent directors</td>
</tr>
<tr>
<td>Disclosure of the exact remuneration of directors and senior executives</td>
<td>Statutory removal of directors for fraud</td>
</tr>
<tr>
<td>Release of annual general meeting (AGM) agendas at least 28 days before AGMs</td>
<td>Protection of the pre-emption rights of minority shareholders</td>
</tr>
</tbody>
</table>

Source: Asian Corporate Governance Association
The rising middle
Japan, Thailand, Malaysia, Taiwan and India

The view from the middle of our survey is considerably more uplifting.

- These five markets are the most motivated to achieve higher scores.
- Concerted effort to strengthen CG policies and regulations
  - **Japan and Taiwan** - major new CG policy initiatives, better enforcement. Some basic rules still weak, though, in disclosure and shareholder rights.
  - **Thailand and Malaysia** - moving ahead with pre-existing national CG policies and plans. Enforcement also better. But Political / Regulatory falls in Thailand. And Malaysia still reluctant to make some obvious rule changes (eg, poll voting).
  - **India** – a landmark new company law, improved listing rules, better enforcement.
- Higher enforcement scores mostly due to the efforts of regulators.
- "Market enforcement" gradually building, but still nascent and not well organised. Retail activism is quite strong in Thailand and Malaysia. Japan and Malaysia now have the first “stewardship codes” in Asia. Thailand has a proxy voting guideline being promoted by domestic pension funds. And India has some real institutional investor engagement for the first time.
The bottom four
Korea, China, Philippines and Indonesia

- **Korea** held back by a lack of leadership on CG policy from Park administration, a failure to progress with legislative amendments, weak CG culture among the *chaebol*, and constant rotation of officials responsible for financial regulation. Enforcement better.

- **China** saw marginal falls in CG rules, political/regulatory, and IGAAP (accounting and auditing). Relative to other markets, China’s CG standards are slipping. But enforcement on the rise. SOE reform has potential.

- **Philippines** gains points in CG rules and CG culture (improved IR and new retail shareholder group, SharePhil). Held back by poor scores in enforcement and accounting/auditing.

- **Indonesia** has a new “CG Roadmap” that envisages widespread rule changes. New super regulator, the OJK, should be a catalyst for sustained reform. Some progress also apparent in audit regulation. But can it succeed? Much depends on political will, increasing regulatory resources and ensuring the right people are in place.
## Market category scores: CG Watch 2014

<table>
<thead>
<tr>
<th>(%)</th>
<th>Total</th>
<th>CG Rules &amp; Practices</th>
<th>Enforcement</th>
<th>Political &amp; Regulatory</th>
<th>IGAAP</th>
<th>CG Culture</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. = Hong Kong</td>
<td>65</td>
<td>61</td>
<td>71</td>
<td>69</td>
<td>72</td>
<td>51</td>
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<tr>
<td>1. = Singapore</td>
<td>64</td>
<td>63</td>
<td>56</td>
<td>64</td>
<td>85</td>
<td>54</td>
</tr>
<tr>
<td>3. Japan</td>
<td>60</td>
<td>48</td>
<td>62</td>
<td>61</td>
<td>72</td>
<td>55</td>
</tr>
<tr>
<td>4. = Thailand</td>
<td>58</td>
<td>62</td>
<td>51</td>
<td>48</td>
<td>80</td>
<td>50</td>
</tr>
<tr>
<td>4. = Malaysia</td>
<td>58</td>
<td>55</td>
<td>47</td>
<td>59</td>
<td>85</td>
<td>43</td>
</tr>
<tr>
<td>6. Taiwan</td>
<td>56</td>
<td>48</td>
<td>47</td>
<td>63</td>
<td>75</td>
<td>47</td>
</tr>
<tr>
<td>7. India</td>
<td>54</td>
<td>57</td>
<td>46</td>
<td>58</td>
<td>57</td>
<td>51</td>
</tr>
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<td>45</td>
<td>72</td>
<td>34</td>
</tr>
<tr>
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<td>45</td>
<td>42</td>
<td>40</td>
<td>44</td>
<td>67</td>
<td>34</td>
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<tr>
<td>10. = Philippines</td>
<td>40</td>
<td>40</td>
<td>18</td>
<td>42</td>
<td>65</td>
<td>33</td>
</tr>
<tr>
<td>10. = Indonesia</td>
<td>39</td>
<td>34</td>
<td>24</td>
<td>44</td>
<td>62</td>
<td>32</td>
</tr>
</tbody>
</table>

Source: Asian Corporate Governance Association
Rising scores in nine of the 11 markets show regulators see the value of good enforcement to investor confidence and market credibility.

Improved scores in Japan, Malaysia and, to a lesser degree, Thailand, also take into account efforts by governments and/or institutional investors to develop “stewardship codes”.

Taiwan’s higher score is partly the result of more engaged foreign institutional shareholders, while India’s has risen with more active participation by domestic institutions.
• Scores weaken as we get tougher on assessing audit regulation.

• Hong Kong, India and the Philippines all lack a proper independent audit regulator.

• Singapore has an effective audit regulator, but its lower score represents the fact it still lacks disciplinary powers against CPA firms.

• Malaysia’s score has risen due to an active audit regulator, which does have a full suite of powers against both firms and individual auditors.
Malaysia stands out due to its new institutional investor code, some voluntary voting by poll and improved communication by companies.

India’s score jumps up because voting by poll is now effectively mandatory and domestic institutions more active.

China does a bit better because its larger state enterprises are showing more interest in CG as a result of renewed SOE reform.

Philippines gets a bump due to better communication by companies and the new shareholder group, SharePhil.
How are we doing 15 years after the Asian Financial Crisis?

- The region has a very different financial regulatory philosophy, a large body of new laws, regulations, CG codes and guidelines. Progress good in relative terms, but judged against “world class” standards is less impressive.

- Amending regulation is a tougher process than people realise: it gets caught up in local politics and depends on strong governmental support, which is not always forthcoming and vacillates. More consistency would be good.

- Securities commissions are taking enforcement seriously, but disclosure of these efforts leaves a lot to be desired. Stock exchanges mostly less interested.

- What should investors be worried about?
  - Account preparation, especially among state enterprises and small issuers.
  - Conflicts of interest in the role of stock exchanges.
  - Weak shareholder rights in different markets, especially relating to takeovers and major or related-party transactions.
  - Audit quality, fees and audit industry capacity, the three are linked.
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