Singapore tops regional CG rankings but may not do so next time

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The much anticipated *CG Watch 2016: Ecosystems Matter* was released by the Asian Corporate Governance Association (ACGA) and CLSA in September 2016. The biennial report analysed 1,047 Asian companies using a proprietary CLSA survey and rated 12 key Asia Pacific markets utilising an ACGA survey that assessed their performance in corporate governance across five categories (CG rules and practices, enforcement, political and regulatory environment, accounting and auditing and CG culture).

Key Findings

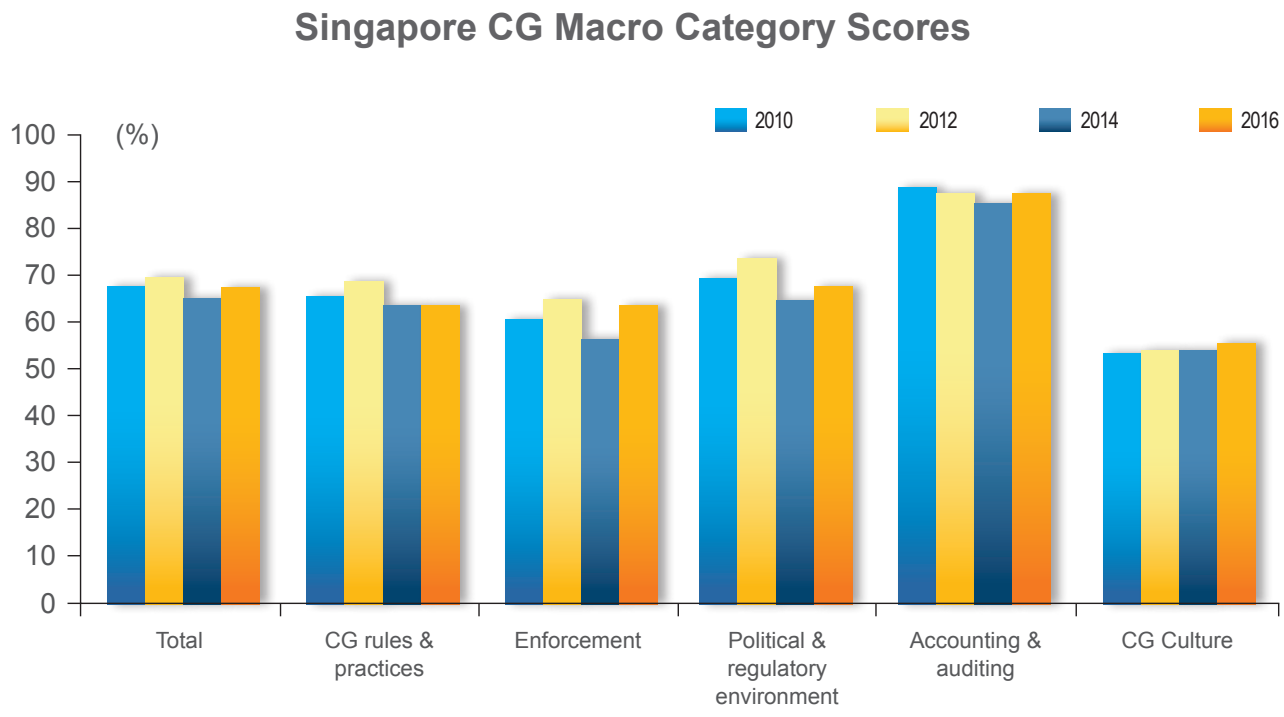
- If there is a single message from the survey, it is that corporate governance ecosystems in a market are the differentiating factor between long-term system success and failure. Hong Kong and Singapore do not consistently top their survey by accident, they have the best institutions. This survey's inclusion of regional leader, Australia brought that into sharper focus.
- Reforms matter, but how companies respond and deliver them is crucial. Investor engagement makes persistent improvement more likely. Asia is getting better and will continue to do so if stakeholders, including activist and mainstream investors, remain engaged. Even the friction adds value.
- We still cannot confidently link corporate governance and share prices but we can for proprietary metrics of governance and fundamental factors. The bottom line is better corporate governance leads to better fundamental outcomes but is distinct from share-price action.
- Finally, environmental, social and governance (ESG) has moved into the investing mainstream over the past two years. Drivers include tightening regulations, improving data, the Paris climate deal and mounting evidence ESG can help investment returns.

CG Watch market scores 2010 to 2016

(%)	2010	2012	2014	2016	Change 2014 vs 2016 (ppt)	Direction of CG reform
Australia	-	-	-	78	-	
1. Singapore	67	69	64	67	(+3)	Mostly sunny, but storms ahead?
2. Hong Kong	65	66	65	65	-	Action, reaction: the cycle of Hong Kong life
3. Japan	57	55	60	63	(+3)	Cultural change occurring, but rules still weak
4. Taiwan	55	53	56	60	(+4)	The form is in, now need the substance
5. Thailand	55	58	58	58	-	Could be on the verge of something great, if...
6. Malaysia	52	55	58	56	(-2)	Regulation improving, public governance failing
7. India	49	51	54	55	(+1)	Forward movement impeded by vested interests
8. Korea	45	49	49	52	(+3)	Forward movement impeded by vested interests
9. China	49	45	45	43	(-2)	Falling further behind, but enforcement better
10. Philippines	37	41	40	38	(-2)	New policy initiatives, but regulatory ennui
11. Indonesia	40	37	39	36	(-3)	Losing momentum after progress of recent years

Source: ACGA

Singapore's Performance



Source: ACGA

- Singapore beat close competitor Hong Kong to top the rankings for the region.
- Singapore's pluses:
  - o A reinvigorated MAS and new regulatory leadership at SGX has brought significant tightening in regulation and enforcement, and a renewed sense of direction. MAS has substantially rethought its approach to tackling securities crime, working more closely with the Commercial Affairs Department. SGX has a new regulatory chief and recently moved its regulatory arm into a separate company, much like what the ASX did in Australia in 2010. And regulators are providing greater disclosure of their actions.
  - o Regulation is generally (but not always) heading in the right direction. SGX mandated voting by poll and introduced a new *Sustainability Reporting Guide* on a "comply or explain" basis. MAS amended its takeover code, closing a few loopholes and tightening oversight.
  - o Singapore generally sets good standards (in regional terms) on corporate reporting, although practices among local companies are more variable with a clear difference in disclosure between large caps (generally of a decent standard) and small caps (much more spotty). The enhanced Financial Reporting Surveillance Programme initiated by ACRA, and the subsequent guidance it gave in late 2015, provided interesting insight into the status of financial reporting in Singapore and proved to be a useful tool for companies.
  - o ACRA's Practice Monitoring Programme of audit firms is among the best in the region. It issued an initial set of eight Audit Quality Indicators for enhanced oversight of the audit profession. It also undertook a survey to seek views from investors on financial reporting, audit and corporate governance in Singapore.
  - o Singapore has pressed ahead with ESG disclosure. SGX upgraded its sustainability

reporting requirement to comply or explain in June 2016, to be phased in from December 2017.

- Singapore's minuses:
  - o Non-financial disclosure among most companies tends to be formulaic. Singapore companies seem to have a blindspot when it comes to making full disclosure of director remuneration.
  - o SGX is clearly under pressure to attract more listings after a barren 2015. This has led to some concerns as to what SGX might do to attract more listings.
  - o One area of concern is reopening of the idea of scrapping quarterly reporting from a recent review of its listing manual.
  - o Another is the possible introduction of dual-class shares for listed companies, which will raise both investment and regulatory risk. Any such move is likely to be interpreted as an opportunistic and short-term one on Singapore's part following Hong Kong's rejection of the idea in 2015.
  - o Singapore has also raised eyebrows by proposing to scrap its own Minimum Trade Price regime.
  - o The vast majority of companies (94%) do not meet our minimum 28 days' notice standard for publishing their AGM notice, with most meeting the local standard of 21 days.
  - o Independence qualifications for board appointments could be stronger (a one-year cooling off is not enough) and this has a potential knock-on effect on board committees, especially the audit committee, where there are some question marks over the genuine independence of some independent directors.
  - o The SingPost debacle was an embarrassment.

Hong Kong's Performance

- Hong Kong lost to Singapore for the top spot, but in a sense, Singapore was a beneficiary of Hong Kong's perennial underperformance and inability to address some key issues.
- Despite some courageous regulatory decisions, Hong Kong lost points (yet again) because it still lacks any sort of overarching government strategy on CG. It remains one of the few markets in Asia without an independent audit regulator.
- The culture of governance in companies, while improving, is moving forward glacially.

Entry of Australia

- Australia was included for the first time in this survey to respond to the many requests to benchmark Asia against a developed market outside the region.
- But Australia was excluded from the rankings this round, so as not to skew past results. It will, however, be included in the 2018 rankings – and, given that its score currently far surpasses the scores of Singapore and Hong Kong, it is almost certain that Australia will top the rankings in two years.
- Quite clearly, governance in Australia is robust. The system supports development of richer, deeper and more balanced corporate governance outcomes. It is not just a matter of more or better regulation (in some areas Asia has better rules), a more shareholder-friendly legal system, a more accountable government, a freer media, a diverse community of business associations and nonprofit organisations – although all these things certainly help. Nor is it because Australia has been at the corporate governance game for a longer duration (in some areas it has not). It is a combination of all these factors and something less easily defined – an apparent willingness on the part of diverse players in government, the business community, and the financial and NGO sectors to work together, an acceptance that they need to talk to each other, and a broader consensus about accountability.
- There is, thus, a big difference in corporate governance culture between Australia and the rest of the region. In Australia, companies talk to investors, investors are very active owners, and there is a lot of director training, accountant training, strong investor bodies, and a strong civil society. ■