2018 Proxy Season Preview – Asia

As proxy ballots stack up, we present updates on the Taiwan, China, Hong Kong and Japan markets.

TAIWAN

In Taiwan this proxy season, the mandatory adoption of electronic voting systems is expected to change the landscape. Taiwanese regulatory agencies have been slowly ratcheting up adoption of the electronic voting for several years, and this season represents the culmination of that effort. Widespread adoption of electronic voting will create ripple effects increasing foreign shareholder participation and promoting the adoption of the director nomination system.

The nomination system ensures that director bios are released 40 days before the AGM and 20 days for EGM, whereas formerly often times shareholders had to physically attend meetings in order to know who was being nominated. Due to increased emphasis on electronic voting, physical attendance will most likely drop and more companies will be forced to adopt better disclosure practices.

CHINA

In China we expect three prominent developments in the proxy landscape: (i) inclusion of Communist Party related stipulations in the articles of association, (ii) issues regarding suspension of trading and (iii) regulatory updates.

A growing contingent of state-owned companies are founding Communist Party committees and incorporating related work rules into their articles in response to the Communist Party expressing an interest in playing a core political role in the companies. While we do not employ a one-size-fits-all approach, we generally believe that party committees should not be allowed excessive board access rights, nor should they be allowed to limit the board's independent decision-making abilities.

Additionally, prolonged trading suspensions across the A-share market continued to grow moderately in 2017. Glass Lewis will continue to closely review the rationale behind suspensions and may note concern in instances where we believe the board has not provided sufficient disclosure regarding the scope of the transaction and/or the related due diligence processes. In 2018, we will generally recommend that shareholders vote against suspension proposals whose proposed suspension cap exceeds three consecutive months for any asset restructuring-related transactions.

China is also making some notable progress in its imminent Securities Law update, which may come into effect in 2018. The updates will include revisions to disclosure practices and investor protection. Additionally, we note that the Shanghai and London stock exchanges are taking a step closer to setting up a stock connect, conditional on the completion and results of feasibility studies carried out in late 2017. There is a fair chance that the next update will be finalized and released before the end of this year.

HONG KONG

In the Hong Kong market this proxy season shareholders should keep an eye out for the potential adoption of dual class share structures ("DCS"). HKEX is expected to announce new rules regarding dual class shares as early as April. The HKEX has proposed that companies adopting dual class share systems must have corporate governance committees founded to address any potential governance concerns with the new system.

Glass Lewis generally believes that dual-class voting structures are not in the interest of shareholders, and could potentially limit minority shareholders ability to weigh in on various shareholder matters. Although these issues are addressed on a case-by-case basis we will generally recommend against the adoption of such a share structure.

In addition, we note that Hong Kong will be similarly affected by the adoption of the Communist Party article stipulations discussed in relation to China, above.

JAPAN

Following recent legislative and regulatory efforts to strengthen Japan's corporate governance practice, we have observed notable improvements and encouraging trends in the past few years. Since the establishment of the Japan Stewardship Code in 2014 and the Japan Corporate Governance Code in 2015, there has been increased engagement between issuers and investors. It is this increased interchange which is ultimately leading Japanese corporate governance reform in right direction. Currently the revised Corporate Governance Code is under review; the revised version includes principles that promote the disclosure of company plans to reduce cross-shareholding structures, its top-management nomination protocols, and the details of the company's succession plan.

Furthermore, the revised Code promotes the integration of diverse members (in terms of gender and ethnicity) to corporate boards. In regard to board independence, the revised Code continues to require two independent directors on the board. This remained the requirement despite pressure to increase it from non-Japanese investors, who look for at least one-third board independence. Similarly, despite some speculation that the revised Code would include a gender diversity quota of 1/3 female board membership, no such requirement was implemented.

While discussion on board composition over recent years has focused primarily on board independence, we expect board skills and diversity to be the focal point of the upcoming 2018 proxy season. In recent years the investor's gaze has been widening in order to better assess board diversity in the broadest and deepest sense -- taking into account factors such as skills, strategy, experience and independence along with gender. As the revised Corporate Governance Code has a principle regarding gender and ethnicity diversity, we expect to see more diverse boards or at least more disclosures regarding diversity plans by companies in 2018. Furthermore, although there is no change in the Code regarding this issue, we expect to observe more companies appointing multiple independent directors due to pressure from non-Japanese investors who require one-third board independence.

As for shareholder activism, we expect to see more shareholder proposals in the upcoming 2018 proxy season. The 2017 proxy season marked a notable shift in Japan's shareholder activism, with the number of shareholder proposals increasing and proponents taking a more active role in trying to influence management decisions. The recent changes brought about by Japan's governance and stewardship codes, including the gradual unwinding of cross-shareholding structures and decrease of "stable shareholders," seems to have emboldened activist activity, and encouraged other investors to support them.

Although many of the changes noted above are positive, it's important to note that the past year has been rife with corporate scandals -- such as falsified data among high-profile Japanese companies and numerous regulatory violations by poorly managed subsidiaries.

GLASS LEWIS

PODCAST SHOW NOTES

SPEAKERS:

- Zachary Watson - Asia Research Analyst
- Daichi Takahashi - Asia Research Analyst
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- Du Tram - Manager of Asia Research
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SHOW NOTES:

- China (0:55)
- Hong Kong (3:45)
- Taiwan (8:55)
- Japan (11:30)
- Policy guideline changes (22:00)

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