

## **2017 ASIA AGM SEASON PREVIEW**

As the 2017 AGM season gets underway, we give an overview of developments across Asian markets and the key issues facing Asian corporations and their investors. This document accompanies our Asia 2017 Proxy Season Preview Podcast (see Appendix).

### **JAPAN**

With the adoption of the Japanese Stewardship Code and Corporate Governance Code, we have seen notable progress on key issues for which Japanese companies have long been criticized, and we expect this progress to continue during the coming season.

#### ***Disclosure Practices***

Japanese proxy season has always been challenging due to the concentration of meeting dates in June. In terms of scheduling, we expect the coming season to be densely packed, as per usual; however, we also expect that investors will see improvements in the timeliness of company disclosures. During this year's March AGM mini-season, we observed meeting materials being released earlier than in the 2016 proxy season. There were a number of companies that released their notice of meeting one month ahead of the meeting date, and on average most companies were releasing it three weeks in advance.

#### ***Linking Pay to Performance***

Unlike their Western counterparts, Japanese companies have long been seen as formulating compensation policies that consist primarily of fixed fees and very little in terms of long-term equity incentives. With the amendments to the Japanese Companies Act and tax reforms, the stage has been set to allow Japanese companies to issue restricted stocks to its directors and executives. Japanese companies will now be able to choose from the adoption of Stock Option Plans, Trust-Type Performance-Linked Equity Plans and Restricted Stock Plans.

Both the Stewardship Code and the Corporate Governance Code are currently under review by the Financial Services Agency. We expect that, along with investor pressure, the two codes will continue to fuel the governance changes taking place in Japan.

#### ***Beyond Board Independence***

Since the Corporate Governance Code became effective in 2015, most companies have already appointed multiple outside directors to their boards and a board composed entirely of insiders is becoming increasingly rare. Now the focus is shifting

from the number of outside directors on a board to the qualification and effectiveness of those outside directors, and the board as a whole.

As recommended under the Corporate Governance Code, many companies have begun conducting annual board evaluations. While it seems many of them are still trying to determine the appropriate manner in which to conduct these evaluations — whether internally or with the assistance of an external party — we expect to see more and more companies beginning to comply with this recommendation.

## **HONG KONG**

Hong Kong has initiated another debate about multiple-class shareholding structures, a concept that was formerly rejected by the Securities and Futures commission in mid-2015. The Hong Kong Stock Exchange (“HKEx”) operator has recently announced that it plans to consult the market on the launch of a third board which will cover the dual-class shareholding structure.

## **CHINA**

China is making a practice of expanding its market by establishing stock connects. For example, the Shenzhen Hong Kong Stock Connect was just launched last December and now China is already moving to a second phase of talks for the establishment of a Shanghai-London stock connect with the United Kingdom. The government is drafting a new version of the Securities Law intended to be more market-friendly, which may come into effect in early 2017. Additionally, we can look forward to an increase in mixed shareholding in 2017; all eyes will be on the restructuring/partial privatization of state owned enterprises.

## **TAIWAN**

The Taiwan Stock Exchange (“TWSE”) announced that a newly-revised 2017 Corporate Governance Evaluation would take effect from Jan. 1, 2017 to Dec. 31, 2017, with the evaluation results to be released by the end of April 2018. The evaluation will help establish a corporate governance benchmark and drive companies to strengthen their corporate governance and corporate social responsibility practices, thus improving the Taiwan's global capital market image and international competitiveness.

Following other Asian markets that have adopted stewardship codes, the TWSE published the Stewardship Principles for Institutional Investors (the “Principles”) with the goal of enhancing long-term value for both institutional investors and capital

providers. The TWSE is encouraging institutional investors to publicly endorse the Principles and apply them on a “comply or explain” basis.

The other highlights of Taiwan’s recent developments in corporate governance include:

- Recent adoption of the director nomination system, which is designed to create a structured and transparent system for nominating directors to board.
- English and timelier disclosure.
- Recent adoption of Corporate Governance Best Practice Principles that encourage electronic voting, add restrictions on public company directorships for independent directors, and encourage board diversity.

We are looking forward to multiple areas of growth for Taiwan’s corporate governance, however investors must be patient as most reforms are still in their infancy and will take time to become established.

## **SOUTHEAST ASIA**

For markets within Southeast Asia, the general expectation for the 2017 proxy season is that there will not be further significant changes following a series of recent regulatory developments. However, companies in the Philippines will be adapting to the country's new code of corporate governance, released in late 2016, while Malaysia may introduce a new code on corporate governance in 2017.

### ***Singapore***

In 2016, companies began to adopt new constitutions to replace articles and memoranda of association following implementation of the Companies (Amendment) Act, 2014. Many of these constitutions include provisions for the creation of dual class share (“DCS”) structures. As the Singapore Stock Exchange (“SGX”) is currently [reviewing potential DCS rules](#) (a public consultation is running through April 17), this issue will take center stage later in the year.

### ***Indonesia***

2016 was supposed to be first year that investors saw the benefits of new regulations from the market regulator, the OJK, which mandated increased disclosure from companies for shareholder meetings. While we are optimistic of improved disclosure during the 2017 season, we recognize that changes to long-held practices may take time.

## **SOUTH ASIA**

Markets within South Asia – India, Pakistan, Bangladesh and Sri Lanka – are gaining increased attention from investors. For the 2017 proxy season, we are not expecting significant regulatory changes within these markets; however, investors should be mindful of certain trends within India and Pakistan.

### ***India***

There were few notable changes to regulations in 2016. However, in 2017, we expect to see an increased emphasis by companies and investors alike on the role of independent directors. This stems from the fallout of Tata Group's debacle, where it dismissed its former chairman and unceremoniously removed an independent director for disagreeing with Tata Sons. Also, as many independent directors were elected in 2014 for three-year terms, 2017 will begin a series of years where independent directors will finish their first term under the Companies Act, 2013. Whether those directors seek an additional term or not may indicate whether Indian companies will begin to usher in a new generation of independent directors compared to often long-serving, tenured independent directors.

### ***Pakistan***

For Pakistan, 2016 saw the implementation of the Companies Ordinance, 2016, new guidelines for stock option plans and the consolidation of Pakistan's two stock exchanges into one. For 2017, we will likely see more proposals to amend articles of association to maintain compliance with the Companies Ordinance. A common change may be electronic voting for shareholders and quorum.



## APPENDIX

The Proxy Season Preview Podcast accompanying this document may be found at <http://www.glasslewis.com/2017-season-preview-asia/>

### *Show Notes*

- 2017 Asia Policy Updates. [4:37]
- Japan Market Updates. [7:04]
- Japan Policy Updates. [11:53]
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### *Further information on Glass Lewis.*

- Glass Lewis 2017 Policy Guidelines  
<http://www.glasslewis.com/guidelines/>
- Glass Lewis engagement policy  
<http://www.glasslewis.com/engagement-policy/>
- Meetyl engagement platform  
<https://meetyl.com/>