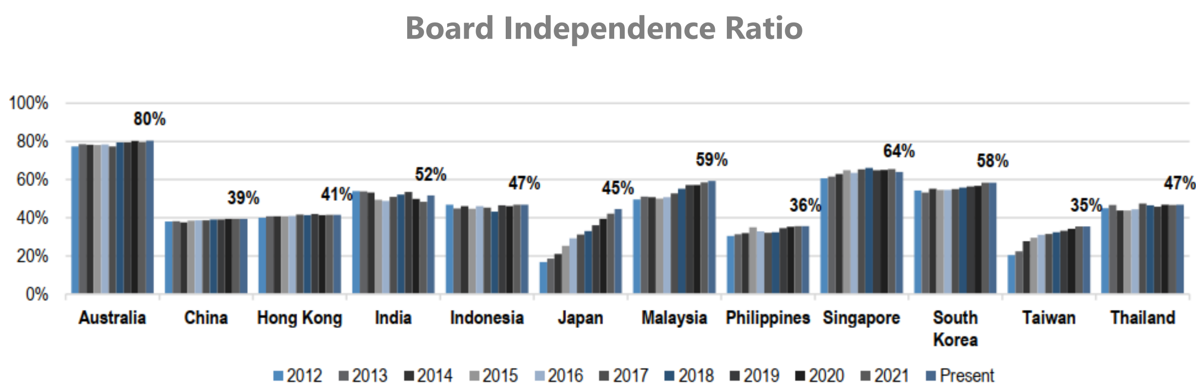
27th February 2023

Board independence and board diversity across Asia – An update

Corporate governance has always been an issue for investors in emerging markets. After recent events relating to the Adani group of companies lit a spotlight on Indian corporate governance, we decided to highlight some efforts and progress made across Asia over the recent years, and more specifically in terms of enhancing board independence and board diversity.

Over the past decade, most Asian markets have seen their board independence ratio (defined as the number of independent directors over the total number of directors for listed companies) improve moderately, as can be seen in the graph below.

While Australia, Singapore and South Korea continued to lead their Asian peers in terms of board independence, Japanese companies on average have made the most progress, more than doubling their board independence ratio from 17% in 2012 to 45% in 2021.



Source: JP Morgan

Such a substantial improvement in Japan was largely regulatory driven. Back in 2014, the Tokyo Stock Exchange (TSE) revised its listing rules to request that all listed companies elect at least one independent director, also called INED. Subsequently in 2015, the TSE revised its Corporate Governance Code to raise the minimum number of independent

directors to 2. In June 2021, the Code was further revised to raise the requirement to at least one-third of the board.

Similar regulatory tightening was also observed in China's onshore and offshore markets. In 2021, the Stock Exchange of Hong Kong (HKEX) revised its Corporate Governance Code to impose strict rules on tenure limits and gender diversity for independent directors. In early 2022, the China Securities Regulatory Commission (CSRC) issued Rules for Independent Directors of Listed Companies to unify and combine different rules and guidelines that had been issued over the years.

As part of the new regulation, rules were set on cross-boarding, on tenure limit, on the number of independent directors and on board committees.

Comparison of Board of Directors requirements in China and Hong Kong

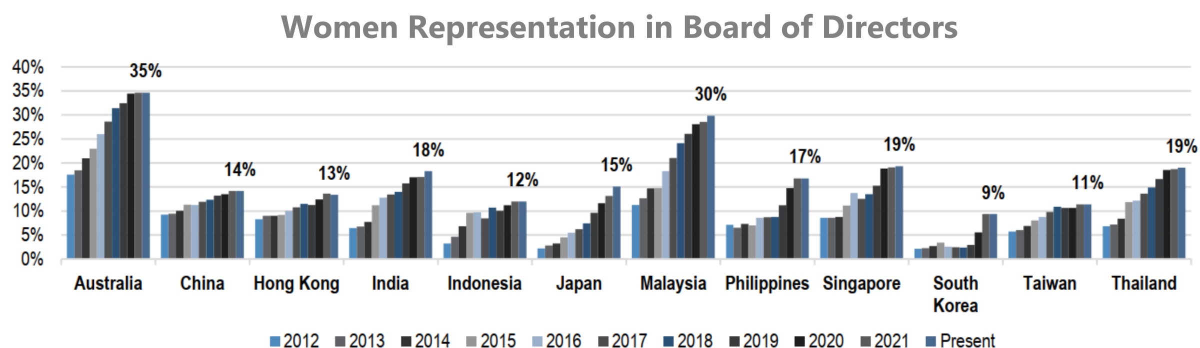
	China	Hong Kong SAR
Number of INEDs	At least one-third of the board	At least three INEDs, and one-third of the board
Tenure limit	Cannot exceed six years	Need to appoint a new INED if all INEDs served more than nine years
Cross-boarding	Maximum of five listed company directorships	Maximum of seven listed company directorships
Gender	NA	Single-gender boards will be illegal starting from 2024

Source: JK Capital

More advanced Asian peers Singapore and South Korea did not slow down regulatory tightening either. In 2022, the Singapore Exchange (SGX) announced proposals to hard-code the nine-year limit for independent directors and mandate companies to disclose

remuneration information of directors and CEOs, which are now being applied on a "comply-or-explain" basis. Korean regulators, on the other hand, released Revised Guidelines on Corporate Governance Disclosure to strengthen shareholder protection. Under the revised regulation, Korean companies are required to strengthen information disclosure on ownership structure, opinions from minority shareholders, CEO succession plan and most importantly related party transactions.

On the topic of gender diversity, considerable improvements were made by Asian companies. On average, constituents of the MSCI AC Asia Pacific Index improved their board female ratio (defined as the number of women directors over the total number of directors) from 7% to 16% over the past decade, with the biggest improvements seen in Malaysia, Australia and Japan.



Source: JP Morgan

In addition to the abovementioned Corporate Governance Code that aims to make illegal single-gender boards in Hong Kong by 2024, similar efforts were seen in other Asian markets, including Singapore and Malaysia. Starting from 2022, listed companies in Singapore are required to disclose their targets to achieve diversity on their boards, alongside their plans, timelines and progress already made to achieve such targets.

At the beginning of 2022, the Malaysian security regulator also announced new listing rules to mandate all companies with a market capitalisation greater than RM2bn (US$430mn) to appoint at least one female director by September 2022. As a result of this

new regulation, the percentage of single-gender boards in Malaysia dropped to nearly 0%.

Nevertheless, Asian markets are still lagging behind when compared to their US and European peers as 20% of Asian listed companies still have a single-gender board. It compares with essentially 0% in Europe and the United States. Particularly in markets such as Indonesia and South Korea, roughly 40% of listed companies' boardroom are seated by only male directors.

We believe that these two indicators, namely the board independence ratio and the board female ratio are important gauges of transparency and inclusiveness. They are important features of our corporate governance due diligence and engagement checklist.

We expect more guidelines to be issued by Asian regulators, prompting companies to enhance their board independence and diversity ratios. Regulators will keep on raising awareness of such issues across the region and create opportunities for Asian companies to further align with global peers. But quite clearly, there is still a long way to go before western standards are met.

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