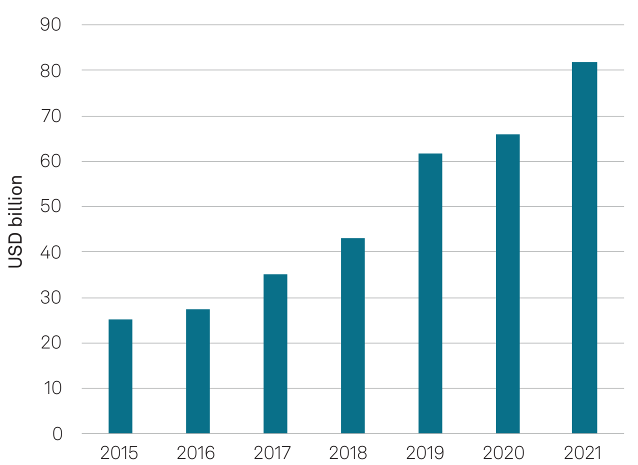
ESG Focus – APAC Season Review

S&P Global
Market Intelligence

Globally speaking, ESG investments experienced a range of setbacks in 2022. Following the Russian invasion of Ukraine in February, some institutional investors loosened their exclusion criteria to allow previous targets of divestment, such as the munitions industry, back into their portfolios. The conflict also sparked the current energy crisis due to the reduction in Russian natural gas supplied to the West. Energy prices, including that of oil, spiked as a result of the restricted supply, positively impacting the performance of energy sector securities. European countries were also forced to temporarily revive coal-fired power plants, slowing the continent's reduction of GHG emissions and further supporting the fossil fuel industry. These factors caused the performance of ESG funds, which typically hold fewer or no energy companies, to be market-lagging. Additionally, anti-ESG movements emerged in countries such as the US; some US states have even excluded ESG investments and certain financial institutions with strong ESG stances from their public holdings. It should therefore come as no surprise that ESG funds saw both decreased in- and outflows during the first half of 2022.

Nevertheless, ESG investing remains firmly in the investor spotlight despite the aforementioned geopolitical setbacks and some debates in the media on "greenwashing." Extreme weather in 2022 underlined the progression of global warming and ensured that climate change adaptation and mitigation would remain key areas of focus going forward. Indeed, climate financing by the world's nine multilateral development banks (NDBs) rose to a record high of US$81.8 Billion in 2021.

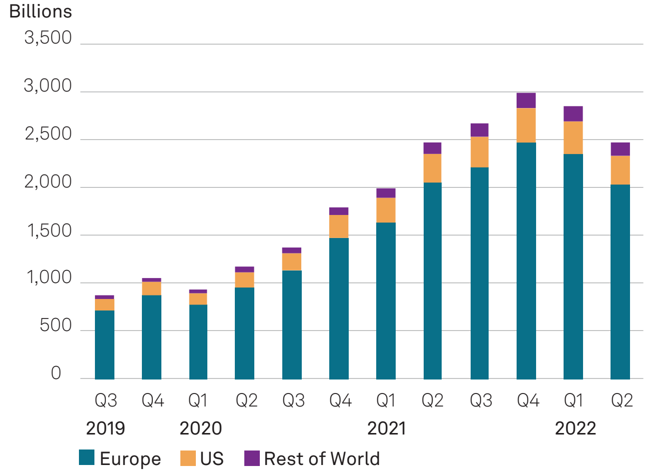
Graph 1: MDBs' climate finance commitments



Source: S&P Global Market Intelligence, created based upon data from the Joint Report on Multilateral Development Banks' Climate Change 2020 & 2021

Furthermore, world economies, lawmakers, companies and investors have not decelerated their efforts towards net zero. According to Morningstar,[1] the assets of open-end and exchange-traded sustainable funds have reached a combined US$ 2,465 billion in Q2 2022.

Graph 2: Quarterly Global Sustainable Fund Assets (USD billion)



Source: S&P Global Market Intelligence, created based upon graph from Global Sustainable Fund Flows: Q2 2022 in Review (Morningstar)

The additional attention has illustrated that it has never been so important to measure climate-related risks. TCFD requirements and the convergence of guidelines on climate-related disclosure from institutions such as the ISSB have alleviated disclosure burdens and improved transparency in climate-related disclosure.

Shareholder meetings were also influenced by ESG investment movements. In the first half of 2022, more than one and a half times as many ESG-related shareholder proposals were submitted to AGMs and EGMs globally than during the same period in 2021.[2] In the major APAC markets, Japan stands out with many active ESG-related shareholder proposals. While S (Social)-related proposals increased globally, E (Environmental) issues were still the primary focus in Japan. On the other hand, in the Korean market, comparatively more focus was placed on S-related proposals, with a relatively high-profile example being submitted at the HDC Hyundai Development Company AGM. Although such shareholder activism was not particularly common in the Greater China area, ESG topics covering low carbon transition, board structure and employee stock option plans had an impact on the markets' proxy seasons. Gender diversity and equity were also significant topics in all APAC regions.

1. https://www.morningstar.com/lp/global-esg-flows
2. Based on Governance Insight data, 324 ESG-related resolutions under management oppositions were submitted to 158 companies' AGMs or EGMs in the first half of 2022, compared to 204 resolutions for 111 companies in the first half of 2021.

APAC Overview

I. Top Five Topics during the 2022 AGM Season

(I). Climate Change

Climate change was one of the most significant ESG issues globally, and the APAC region was not an exception. Listed companies are exposed to requirements from several stakeholders, including regulators and shareholders.

In mainland China, regulators including the China Securities Regulatory Commission (CSRC) jointly issued a new plan for financial standardization to accelerate the establishment of environmental information disclosure standards for listed companies and bond-issuing enterprises, leading to the launch of the "Corporate ESG Disclosure Guidelines." The Hong Kong Stock Exchange (HKEx) published guidance on climate disclosure to help listed companies meet TCFD recommendation requirements; companies from relevant sectors are required to meet these requirements no later than 2025. In Taiwan, the Financial Supervisory Commission (FSC) officially launched the "Sustainable Development Guidemap for the Taiwan Stock Exchange (TWSE) - and the Taipei Exchange (TPEx) - Listed Companies" in March 2022, which requires all listed companies to complete greenhouse gas inventories by 2027 and verify them before 2029.

Japan's Corporate Governance Code, revised in 2021, requires companies listed on the Prime Market of the Tokyo Stock Exchange (TSE) to collect and analyze data on the impact of climate change-related risks and earning opportunities on their business activities and profits. It also mandates businesses to enhance the quality and quantity of their disclosure based on TCFD recommendations or an equivalent framework.

In South Korea, the Financial Services Commission (FSC) announced in 2021 that it planned to require companies listed on Korea Exchange (KRX) to disclose their ESG reports. KOSPI companies with total assets of KRW 2 trillion or more will be compelled to disclose their ESG data from 2025; the requirements will be expanded to all listed companies in 2030.

From the market side, most global institutional investors prioritized climate change among their ESG engagement issues. This will be addressed in depth later. In addition, some institutional investors (as well as some proxy advisors) introduced ESG criteria in their proxy voting guidelines. For example, both Institutional Shareholder Services (ISS)[3] and as well as Glass Lewis[4] published international climate voting guidelines.

Some APAC domestic institutional investors are also adopting climate change and other ESG criteria into their proxy voting guidelines, such was the case with Nikko Asset Management in Japan.

Perhaps linked to the above changes in institutional guidelines, shareholder proposals relating to climate change have become common in Japan. Additional shareholder interest was piqued in South Korea, especially considering the reported concerns of a Dutch pension fund regarding the climate change strategies of major Korean companies. Although the ESG-related active ownership movement is not yet particularly present in the Greater China region, it may continue to win importance into the future.

(II). Gender Diversity

Diversity, Equity and Inclusion (DEI) is another significant ESG issue. In APAC regions, gender diversity is a particular focus. From a proxy voting perspective, shareholder requirements for gender diversity on boards have tightened.

Glass Lewis adopted or strengthened board gender diversity criteria in its proxy voting guidelines for all APAC markets. The criteria were newly added to the guidelines for China, Taiwan and South Korea. For Japan, Glass Lewis expanded the target group of issuers from companies on the first and second sections of TSE to all listed companies. In Hong Kong, it replaced references in its guidelines to female directors with "gender diverse directors."

ISS has already set gender diversity criteria for companies in South Korea (in cases where they are non-compliant with board diversity regulations) and will introduce criteria for Japan starting in 2023.

Many global institutional investors have already set gender diversity requirements in their proxy voting guidelines. For companies, in APAC and beyond, rationales in voting records show that diversity issues were an important driver of institutional dissent.

Furthermore, although most of the current gender diversity criteria require only one female director, the required ratio of diversity will likely soon be raised up to 30%, matching the global trend. Companies would do well to prepare for it.

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3. https://www.issgovernance.com/file/policy/active/specialty/Climate-International-Voting-Guidelines.pdf
4. https://www.glasslewis.com/wp-content/uploads/2021/11/ESG-Initiatives-Voting-Guidelines-GL-2022.pdf?hsCtaTracking=d28a1c26-4a61-4016-9ffc-e8ce41aed566%7C4a19a845-0d06-49ba-8865-ed44c585ab54

(III). Board Structure - Independence

Alongside gender diversity, the percentage and roles of independent directors on boards have become significant governance issues; investors' requirements have become more demanding.

Currently, most proxy voting advisors require at least one-third of directors to be independent for APAC markets, though some thresholds do vary from advisor to advisor and market to market. Examples of diverging independence expectations include:

- ISS requires minimally two "outside" directors to make up at least one-third of the board for Japanese companies.
- Glass Lewis applies a different threshold to Taiwanese companies; it requires at least two board members and one-fifth of all the directors to be independent.
- Based on South Korean regulations, both ISS and Glass Lewis require large companies in South Korea (with assets of greater than KRW 2 trillion) to have majority-independent boards. For small companies, ISS just requires 25% of the board to be independent.
- Glass Lewis's has a majority-independent threshold for companies listed on Tokyo Stock Exchange Prime Market with controlling shareholders.

Committee structures also matter. ISS requires chairmen of the audit, remuneration and nomination committees to be independent. It also requires all members of audit committee to be non-executive for companies in Hong Kong. Glass Lewis applies harsher criteria. It principally requires all committee members to be independent, though in practice this means that at least the chairs and a majority of members are required to be independent.

For institutional investors that apply their own criteria, board independence requirements tend to be higher. Some investors, applying their global guidelines, now uniformly require the majority of directors to be independent.

(IV). Equity-Based Compensation

Institutional investors favor equity-based compensation plans because such programs are fundamental drivers of sustainable, long-term value creation. As such, one would expect proposals that introduce or revise such plans to be supported by both institutional investors and proxy advisors.

However, some of these resolutions experienced high rates of dissent. One significant concern for many investors is the possible dilution associated with equity plans. ISS has thresholds of 5% of the issued capital for a mature company and 10% for a growth company. While not all the investors disclose acceptable maximum dilution levels, equity-linked plan proposals with over 10% dilution tended to attract more dissidents.

Another concern relates to how vesting conditions link payout to performance. If the plan's financial, business or ESG targets are unclear, some investors could vote against.

(V). Active Ownership

With strengthened stewardship responsibilities, asset owners and managers in APAC have been encouraged to conduct active ownership activities including engagement with issuers and active proxy voting, resulting in these activities becoming more popular in the region. Such activities are often further promoted and advanced by regulators.

In Japan, the stewardship code (Principles for Responsible Institutional Investors) was introduced by the Financial Services Agency (FSA) in 2014. After two revisions in 2017 and 2020, the 322 signatories,[5] including the Government Pension Investment Fund (GPIF), are now expected to establish solid stewardship policies. These policies including establishing and disclosing proxy voting guidelines as well as publishing the results of their activities as individual voting records.

The Korean stewardship code (Principles on Institutional Investors' Fiduciary Duties) was introduced in 2016. The acceptance of the code by the National Pension Service (NPS) in 2018 contributed to the expansion of its overall acceptance; it has since grown to 193 participants.[6]

The introduction of these codes has boosted active ownership activities in the two markets, leading them to become the second (Japan) and third (South Korea) largest markets for activist campaigns after the US.

Although shareholder activism has not been commonplace in the Greater China region in the past, it does not mean the region is reluctant to further engage in active ownership. Indeed, regulators have promoted the proliferation of such activities. In mainland China, the CSRC issued opinions to encourage institutional investors to actively participate in the corporate governance and stewardship of listed companies in 2022. The Securities and Future Commission (FSC) of Hong Kong also published its stewardship code (Principles of Responsible Ownership) in 2016. In the Taiwanese market, the first Corporate Governance Roadmap was announced by the FSC in 2013 and had the goal of "[encouraging] shareholder activism," which later became "promoting shareholder activism" in the new Corporate Governance Roadmap in 2018. The goal has since evolved to "encourage stewardship and alignment with international norms" in the Corporate Governance 3.0 - Sustainable Development Roadmap (CG 3.0) in 2020. Finally, Taiwan's stewardship code, (Stewardship Principles for Institutional Investors), led by the Corporate Governance Center of TWSE, was launched in 2016 and currently has 153 signatories.

5. As of 31st July 2022
6. As of 31st August 2022

II. Top Institutional Investors in APAC

According to S&P Global's internal data, the top 10 institutional investors active in the APAC region are listed in the table below. The list includes large worldwide passive investors such as Vanguard and Blackrock as well as sovereign asset owners such as the China Investment Corporation and the Korean National Pension Service. Seven out of 10 investors are signatories of the UN PRI, meaning they place emphasis on stewardship priorities in their investment chain.

Table 1: Top 10 Institutional Investors Investing in APAC as of August 2022

Rank	Institution Name	Total Global Equity ($m)	Value (Asia) $m	% Port in Asia	UN PRI	IIGCC	Net-Zero Commitment	ICGN	Dominant Orientation	Country/ Territory
1	The Vanguard Group, Inc.	4,259,049	320,772	7.5	Yes	No	Yes	Yes	Passive	United States
2	Central Huijin Investment Company, LTD	260,415	259,858	99.8	No	No	No	No	Passive	China
3	BlackRock Fund Advisors	2,617,785	234,274	8.9	Yes	Yes	Yes	Yes	Passive	United States
4	Nomura Asset Management Company, LTD	233,507	214,082	91.7	Yes	No	Yes	Yes	Active	Japan
5	Norges Bank Investment Management (Norway)	894,784	150,396	16.8	Yes	Yes(*)	No	Yes	Active	Norway
6	China Investment Corporation, LTD (CIC)	140,189	135,803	96.9	No	No	Yes	No	Active	China
7	Life Insurance Corporation of India	111,819	111,819	100.0	No	No	No	No	Active	India
8	Nikko Asset Management Company, LTD	113,479	99,214	87.4	Yes	No	Yes	Yes	Active	Japan
9	Daiwa Asset Management Company, LTD	112,067	98,104	87.5	Yes	No	Yes	Yes	Active	Japan
10	National Pension Service (Korea)	146,471	95,592	65.3	Yes	No	No	Yes	Active	South Korea

(*) Norges Bank Investment Management is a supporting partner of IIGCC
Source: S&P Global Market Intelligence

The Vanguard Group, Inc.

In general, Vanguard's investment stewardship activities are grounded in four principles of good governance: (I) board composition and effectiveness, (II) oversight of strategy and risk, (III) executive compensation and (IV) shareholder rights. At the same time, Vanguard's expectations of its investees' corporate governance practices take into account legal and regulatory frameworks and prevailing market practices within local jurisdictions.[7]

Vanguard has global investment stewardship principles[8] as well as a market-specific proxy voting policy for Japanese portfolio companies.[9]

BlackRock Fund Advisors

BlackRock encourages companies to adopt the recommendations of the TCFD and the standards put forward by the Sustainability Accounting Standards Board (SASB) as appropriate and complementary frameworks for the disclosure of financially-material and sustainability information. It asks companies to disclose the identification, assessment,

7. https://corporate.vanguard.com/content/dam/corp/research/pdf/Global%20investment%20stewardship%20principles_final_112021.pdf
8. https://corporate.vanguard.com/content/dam/corp/research/pdf/Global%20investment%20stewardship%20principles_final_112021.pdf
9. https://corporate.vanguard.com/content/dam/corp/advocate/investment-stewardship/pdf/policies-and-reports/Japan_Proxy_Voting.pdf

management and oversight of sustainability-related risks in accordance with the four pillars of the TCFD and to publish SASB-aligned reporting with industry-specific, material metrics and rigorous targets.[10]

BlackRock has market-specific proxy voting guidelines for Chinese,[11] Hong Kong[12] and Japanese securities.[13] It also has guidelines for other Asian countries (excluding Japan, Hong Kong and China) with additional market-specific considerations for South Korea and Taiwan.[14]

Nomura Asset Management

Nomura recognizes that corporations must properly manage risks associated with ESG issues. It while views the solutions to these ESG risks as new business opportunities that can be potentially incorporated into management strategies to sustainably improve corporate value, making them essential factors to drive investment returns. These priority ESG issues include (1) climate change, (2) natural capital, (3) human rights, (4) diversity and inclusion, (5) value creation to realize well-being within society and (6) corporate governance.[15]

Nomura has its Global Proxy Voting Policy[16] and more detailed Proxy Voting Standards for Japanese Companies. Referring to recommendations to ISS and a domestic advisor, it makes final voting decisions internally.

Norges Bank Investment Management (Norway)

Norges Bank Investment Management (NBIM) believes "the board should set the company's strategy, oversee management performance and be accountable to shareholders for its decisions," this belief is its starting point when deciding to support a board.[17]

NBIM has global voting guidelines[18] and discloses its voting intentions up to five days before shareholder meetings.[19]

NIkko Asset Management

Nikko released its Engagement and Stewardship Strategy[20] in March 2022. Its prioritized ESG themes are "Commitment to Decarbonized Society," "Human Capital and Productivity" and "Effectiveness of Governance." These will be discussed in more detail later in the Japan section of this report.

According to Nikko's Sustainability Report 2022,[21] it voted on 23,772 resolutions at 2,465 meetings of Japanese companies, with 12% of its votes being against. It voted on 19,510 resolutions at 2,457 meetings of companies of APAC excluding Japan in 2021, also with 12% against votes. Nikko votes based on its proxy voting guideline.

Daiwa Asset Management

Daiwa discloses perspectives emphasized in dialogue with companies in its engagement policy,[22] in which special points on ESG issues include greenhouse gas emissions, responding to climate change risk, environmental pollution, resources conservation, contribution toward the building of a healthy, safe society, supply chain management, effective utilization of human capital, governance frameworks, risk management, improving capital efficiency and engagement.

Daiwa has a voting policy for foreign stocks[23] as well as for domestic stocks.[24] For voting on shareholder meetings of investees outside of Japan it principally follows the recommendations of Glass Lewis unless they are in conflict with Daiwa's own voting policy.

National Pension Service (Korea)

Korea's National Pension Service (NPS) is fully committed to managing and investing the Korean National Pension Fund in line with the mandate from the Minister of Health and Welfare pursuant to six investment principles: profitability, stability, public benefit, liquidity, sustainability and independence.

NPS conducts shareholder engagement on five focus areas: dividend policy, remuneration cap for directors, violation of rules and regulations, repetitive vote against and ESG rating downgrade. Moreover, it actively participates in shareholder activities concerning ESG-related unexpected concerns that may harm shareholder or corporate value and holds dialogues with companies to help enhance their long-term value.

NPS exercises voting rights in investee companies when its shareholding ratio is more than 1% of the total

10. https://www.blackrock.com/corporate/literature/fact-sheet/blk-responsible-investment-guidelines-asiaxjapan.pdf
11. https://www.blackrock.com/corporate/literature/publication/blk-corporate-governance-and-proxy-voting-guidelines-for-chinese-securities.pdf
12. https://www.blackrock.com/corporate/literature/fact-sheet/blk-investment-stewardship-guidelines-hong-kong.pdf
13. https://www.blackrock.com/corporate/literature/fact-sheet/blk-responsible-investment-guidelines-japan.pdf
14. https://www.blackrock.com/corporate/literature/fact-sheet/blk-responsible-investment-guidelines-asiaxjapan.pdf
15. https://global.nomura-am.co.jp/responsibility-investment/pdf/esg_statement.pdf
16. https://global.nomura-am.co.jp/responsibility-investment/pdf/vote_policy_g.pdf
17. https://www.nbim.no/contentassets/1059e60479784796bac26e0cee596613/global-voting-guidelines-2022.pdf
18. https://www.nbim.no/en/the-fund/responsible-investment/our-voting-records/voting-guidelines/
19. https://www.nbim.no/en/the-fund/responsible-investment/our-voting-records/
20. https://www.nikkoam.com.sg/sustainability#esg-in-investment
21. https://en.nikkoam.com/files/pdf/esg/sustainability-report-2022-en.pdf
22. https://www.daiwa-am.co.jp/english/stewardship/engagement_policy.html
23. https://www.daiwa-am.co.jp/english/stewardship/votingpolicy_foreign.html
24. https://www.daiwa-am.co.jp/english/stewardship/votingpolicy_domestic.html

shares of a company and the holding of a company is more than 0.5% and 0.3% in its domestic and global equity portfolio, respectively. Major changes in its proxy voting guidelines will be discussed later in the South Korea section of this report.

III. 2023 AGM Trends at a Glance

While the actual conditions are not same among APAC regions, institutional shareholders have increasingly and actively engaged with companies, including with proxy voting. As mentioned before, regulators tend to support and promote such stewardship activities. The trend is expected to continue.

The following topics will likely be focused on into the next year; companies will be expected to adequately prepare beforehand.

1. **ESG disclosure –** Investors want to ensure proper disclosure of relevant information in alignment with globally accepted standards, promotion of better management through better disclosure.
2. **Climate change and green energy –** Investors focus on climate risk mitigation and the low carbon transition. Establishment of strategies towards net-zero targets.
3. **Diversity, equity and inclusion –** There is a particular focus on the gender diversity of board as well as employees and supply chains. Fair treatment is expected for these diversified human resources.
4. **Board structure and skillset –** Boards are increasingly expected to have a majority-independent structure with adequate diversity of gender and skillsets. The board and the audit, nomination and compensation committees should all be led by independent directors.
5. **Dividends and buybacks –** There is focus on ensuring that there shareholder returns are high enough to satisfy investors; also highlighted is the possible receipt of shareholder proposals for higher dividends and/or buybacks.

Requirements from shareholders are expected to be demanding as they desire to reach global best practice standards. Companies in the APAC region will be required to continuously improve their activities in the coming several years. The following part of this article will review the developments in key markets in APAC, including Greater China, Japan and Korea.

Greater China Market Review

This chapter gives a comprehensive review of the dynamics and trends related to ESG and proxy voting in the Greater China region. Although mainland China, Hong Kong SAR and Taiwan adopt different regulatory policies regarding sustainability and corporate governance, these three regions still share common characteristics and showcase the broader trend of ESG's increasing importance when analyzing proxy voting agendas.

I. Background and Introduction

China's stock market is playing an increasingly important role in its economy. Compared with Hong Kong and other, more-developed markets, oversea investors do not own much of China's A share market. This is not surprising considering the market's historic characteristics of ownership concentration and domestic investor domination. However, the past few years have seen cross-border capital flowing into China due to the inclusion of A-share companies in global indices and China's top-down reforms to open a variety of access channels. Domestic listed companies are motivated to collaborate with international asset managers to better mitigate risks and capitalize on related opportunities in stewardship and ESG fields.

In Hong Kong, changes have been made following the consultation on corporate governance practices last year. With the new listing rules, listed companies will be under pressure to improve board gender diversity in the next three years.

Taiwan's capital market is also striving to keep up with international trends and best practice standards in sustainable development. Therefore, Taiwan-based regulatory agencies, investors and issuers have begun a joint effort to reinforce ESG information disclosure standards and formalize corporate governance mechanism for listed companies.

This article reviews key regulatory and policy updates in mainland China, Hong Kong and Taiwan. It also discusses investors' expectations of issuers' corporate governance and ESG performance in the region. Finally, it highlights some controversial agenda items proposed during the 2022 proxy season by examining selected investor voting rationales in various jurisdictions.

II. Regulatory Policy Updates

In April 2022 the CSRC issued opinions for mainland China on accelerating the high-quality development of the public fund industry to strengthen the supervisory responsibilities of independent directors, supervisors and senior executives. In addition to supervisory oversight within the companies themselves, the CSRC also sought to encourage institutional public funds to actively participate in the corporate governance and stewardship of listed companies. This top-down approach will encourage domestic asset managers in China normally reticent to disagree with issuers' proposals to act more aggressively in their stewardship practices. In addition, China's "14th Five-Year Plan for Financial Standardization" accelerated the establishment of environmental information disclosure standards for listed companies and bond-issuing enterprises. This was done to promote carbon emission accounting standards for financial institutions and to establish a standard system for ESG evaluation. In this context, the China Enterprise Reform and Development Research Association, the Capital University of Economics and Business and multiple corporations jointly launched the "Corporate ESG Disclosure Guidelines" (T/CERDS 2-2022), which is the first corporate standard for ESG information disclosure in China and consists of a total of 118 indicators.

As for the Hong Kong SAR, the HKEx revised the Corporate Governance Code ("CG Code") for listed companies following a consultation process in December 2021. The revised CG code took effect on 1 January 2022.[25] The key changes cover the following areas: board diversity, nomination committees, INEDs rotation, board independence, culture expectations, anticorruption/whistleblowing policies, communication with shareholders and ESG reporting timelines. Additionally, the government of Hong Kong announced its Climate Action Plan 2050 last year, which set out the vision to achieve zero carbon emission and sustainable development; clear targets and strategies were laid out accordingly. Key local regulators also released regulatory updates for banks, listed companies and asset managers in response to the action plan.

The HKEx published guidance on climate disclosures to help listed companies meet TCFD recommendation requirements. Listed companies from relevant sectors are required to meet the requirements no later than 2025. The Hong Kong Monetary Authority (HKMA) also released a circular regarding a two-year plan to integrate climate risks in banking supervision in light of the recent review of their existing processes. Moreover, the Securities & Futures Commission (FSC) published its Agenda for Green and Sustainable Finance, continuing to focus their effort on three key areas including corporate sustainability disclosures, monitoring implementation of sustainable finance measures and regulatory frameworks for carbon markets.

Since the last proxy season in 2021, Taiwan has also been accelerating the adoption of ESG principles in its capital

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25. "Exchange publishes conclusion on review of corporate governance code. (https://www.hkex.com.hk/News/Regulatory-Announcements/2021/211210news?sc_lang=en). December2021

market and is attempting to align it with international best practices in sustainable development. With the intention to implement the "Corporate Governance 3.0 - Sustainable Development Roadmap" (2021-2023) and the "Green Finance Action Plan 2.0" proposed in 2020, Taiwan's FSC amended its regulations governing information to be published in annual reports of public companies in November 2021. The wording "CSR" (Corporate Social Responsibility) was revised into "Sustainability Development," which requires enhanced disclosure of ESG information including GHG emissions, waste management, female employee proportion and other topics. Accordingly, the TWSE and TPEx converted the wording "CSR reports" into "Sustainability Reports" in their disclosure regulations, added new filing items and expanded the sustainability report coverage scopes to include more listed companies. For instance, the TWSE expanded the scope to listed companies whose share capital has achieved no less than NT$2 billion and no more than NT$5 billion, making it compulsory for them to file a sustainability report from 2023.[26] In addition, the FSC officially launched its "Sustainable Development Guidemap for TWSE- and TPEx-Listed Companies" on 3 March 2022, requiring all listed companies to complete greenhouse gas inventories by 2027 and verify them before 2029.

III. Proxy Advisors Dynamics

Major revisions of 2022 voting policies by the proxy advisors ISS and Glass Lewis focused on topics including board diversity, ESG topics, remuneration committee performance, nomination committee performance, initial public offerings, amendments to procedural rules, virtual meetings, equity-based compensation plans, cumulative voting and more.

For mainland China in 2022, ISS mainly added social and environmental issues in its proxy voting guidelines. It will recommended on a case-by-case basis on topics including but not limited to consumer and product safety, environment and energy concerns, labor standards and human rights.

Updates in the ISS guidelines for Hong Kong primarily dealt with dividend distributions, A-share private placement issuances and article amendments. Firstly, ISS removed its minimum 30% payout ratio requirement for distribution items, aligning the policy to its effective current practices. Additionally, ISS revised the policy of A-share private placement issuance requests to align with the language used in the CSRC's latest revision of the related requirements. Lastly, ISS will now recommend against proposed article amendments if companies failed to provide either a full change comparison table or, minimally, a summary of the proposed amendments.

ISS did not emphasize any updates specifically applicable to Taiwan. However, the general changes and APAC-applicable changes in other ISS guidelines will still apply in Taiwan. This includes, for example, ISS' updated guidelines on Say On Climate (SoC) proposals.

Another influential proxy advisor, Glass Lewis, made a range of adjustments to its voting guidelines for Chinese securities. Firstly, Glass Lewis believes that there should be at least one female director serving on the board at all mainland Chinese companies. Independence is another topic that Glass Lewis heavily valued in 2022. The new guidelines stipulate against recommendations for chairs and members of audit, remuneration, and nomination committees if these committees are chaired by non-independent directors or if their respective independence levels fail to meet Glass Lewis requirements. With an increasing focus on ESG issues, Glass Lewis has included a separate section on its overall approach to ESG and will examine companies' direct environmental and social risks, risks due to legislation and regulation, legal and reputational risks and governance risks.

In Hong Kong, Glass Lewis implemented five key changes:

- For board gender diversity, Glass Lewis replaced references in their polices to female directors with "gender diverse directors," here defined as women and directors that identify with a gender other than male or female.
- For independent director tenure, Glass Lewis will no longer consider directors that have served 12 or more years on board as independent.
- Glass Lewis updated how they evaluate equity-based compensation plans, including a broader explanation of their overarching principles used in their evaluation.
- For the appointment/ratification of an auditor, Glass Lewis enhanced its disclosure requirements. They will oppose proposals if companies fail to provide sufficient information going forward.
- For local environmental and social disclosure practices, Glass Lewis added disclosure requirements for companies on ESG reports in line with HKEx's Listing Rules and CG code.

In Taiwan, Glass Lewis implemented the following key changes:

- Glass Lewis explained their updated guidelines for the Taiwanese method for electing board directors: cumulative voting. Under cumulative voting, the number of voting shares of each shareholder is multiplied by the number of persons to be elected and shareholders have the right to cast all votes for one candidate or divide the votes among two or more candidates as they see fit.
- Glass Lewis has undertaken a policy to facilitate board gender diversity by recommending investors to vote against the nomination committee chair should all members of the board be the same gender.
- For equity-based compensation plan, Glass Lewis provided a broader explanation of their over-arching principles. For instance, Glass Lewis is

26. Taiwan Stock Exchange Regulation Directory. (https://twse-regulation.twse.com.tw/m/EN/LawContent.aspx?FID=FL075209) . December2021

against granting performance-linked compensation to supervisory boards to ensure independence and that non-executive directors hold the same type of securities as ordinary shareholders.

- Glass Lewis also emphasized additional clarifications of its expectations for the composition and performance of audit, remuneration and nomination committees. For instance, it may recommend voting against chair or members of those committees due to, for instance, excessive ownership of company stock by audit members, lack of establishment of the remuneration committee, lack of majority independence on nomination committee, etc.

IV. Voting Trends in the 2022 Proxy Season

For further analysis on voting trends at the most influential companies in the Greater China Region, S&P Global gathered voting results for shareholder meetings held by constituent companies of the FTSE China 50, Hang Seng Index and the FTSE TWSE 50 as of 15 July this year. The resolutions were classified into five categories. Ranked by the average dissent rate, corporate structure-related items received the most investor resistance (6.98%), followed by (re-)election resolutions (3.80%), remuneration proposals (2.73%), committees and reporting resolutions (0.65%) and Environmental & Social (mainly related to charitable contributions) items (0.05%). The overall trends for the 2022 AGM Proxy Season are listed below.

(i). High Dissent Rate for Equity-Based Plan Proposals

During China's 2022 proxy season, dissent rates of share option schemes and restricted share awards were 23.74% and 22.78%, respectively. Although the percentage of dissent was substantial, it should be noted that there were only 12 cases regarding the two types of resolutions in these indices, making up 1.71% percent of all voting items. In Hong Kong, up until July 31st, there were five AGM resolutions under Equity Base Plan category, not a statistically significant sample size. However, the dissent rate of this category is noteworthy at 21.28%. The number is driven up by an HKEx-listed pharmaceutical group headquartered in China and its "Approve Grant of Options Under the Share Option Scheme," proposal, which garnered 46.54% dissent.

Issuances of restricted share awards and share option schemes both refer to some form of compensation plan with vesting requirements. They are used by companies to recognize employees' past contributions, retain employees, incentivize employees for their contribution in the long run and to align the interests of employees with those of shareholders. Share option schemes provide employees with the opportunity to purchase shares at a fixed price for a set period, while restricted shares awards give the employees the right to receive shares after meeting certain requirements such as working for a specific period of time or hitting specific performance targets.

When investors decide whether to support share schemes, it is important to link vesting conditions to the performance of the company and to be clear about the financial, business and ESG targets. The exercise price of the stock options and/or grant price of the performance shares need to be reasonable compared with the current market price and the dilution resulting from the issued capital should be fair and acceptable to existing investors; usually acceptable dilution is considered 5% for a mature company and up to 10% or even higher for a growth company. Investors are also becoming increasingly critical of companies that grant options or restricted shares to directors who participate in the administration of the scheme, which they assess as a potential conflict of interest.

The following table provides a summary of guidelines on the two types of compensation plans from major institutional investors that have significant influence on markets in the Greater China region. Additional reference can also be made to Case Study 1 at the end of this chapter, which concerns equity-based compensation plans.

Table 2: Summary of institutional investors' guidelines of compensation plans

Combine	Share option scheme / Restricted share award
Allianz Global Investors Asia Pacific, LTD	– Allianz GI favors share-based incentive schemes over stock options due to concerns over potentially disproportionate incentive for executives to drive shorter-term share price performance at the expense of the longer-term health of the business, as well as excessive shareholder dilution. – Allianz GI is generally willing to accept small-scale share awards that are not conditional on performance (e.g., restricted shares or time-vested shares) up to a limit of 100% salary.
The Vanguard Group, Inc.	– We believe that performance-linked executive pay (compensation or remuneration) policies and practices are fundamental drivers of sustainable, long-term value. – Boards should consider the following best practices when setting compensation: Relative pay for performance (pay-for-performance alignment, absolute and relative performance); Long term incentive plan with at least three-year measurement and holding periods, and at-risk pay that exceeds fixed pay; Plan structure including rigorous goal setting, relative plan metrics, target pay in line with market levels, claw-back policy implementation.
J.P. Morgan Asset Management (Asia Pacific), LTD	– For the long-term component of variable compensation schemes, share-based Long-Term Incentive Plans (LTIPs) and Share Option Schemes (SOSs) should be designed to give executives an incentive to perform at the highest levels; grants under such schemes should be subject to appropriate performance criteria. – At a senior executive level, remuneration should contain both a fixed element - set by reference to the external market - and a variable element, which fully aligns the executive with shareholder interests, and where superior awards can only be achieved by achieving superior performance against well-defined metrics.
BlackRock Fund Advisors	– Companies are required to disclose the full list of plan participants, number of stock options/restricted stocks to be issued to each participant, exercise price of the stock option, issue price of the restricted stocks, grant schedule, and company performance measures and hurdles. Independent directors and non-employee representative supervisors are excluded from these plans.
Norges Bank Investment Management (Norway)	We will not support a remuneration policy or report where: – the vesting or holding period fails to meet local-market best practice – the accelerated vesting arrangement fails to meet local-market best practice – we have significant concerns over the structure of the remuneration – there is clear misalignment between remuneration and long-term value creation outcomes could be unusually costly and the incentive structure does not clearly align with shareholders' interests

(ii). Capital Resolutions Meet with Frequent Shareholder Concerns About Dilution

Capital resolutions had the lowest approval rate in Hong Kong during the 2022 season. This dissent was especially prevalent on resolutions to "Authorize [the] Reissuance of Repurchased Shares." The sample contained 15 proposals that received significant dissent, together with an overall average of 19.15%. Among the 15 proposals, a leading meat and food processing company received the highest dissent (41.51%) for its repurchase resolution.[27] In the Taiwanese market, among FTSE TWSE 50 component issuers, the average dissent rate for eight sampled "Approve Capital Increase" proposals was 12.41% (with 4.06% Against vote and 8.35% Abstain vote), and the average dissenting rate for 18 instances of "Capital Change"/ "Capital Increase"/ "Capital Reduction" proposals was 12.40%. In the case of China, the situation is similar; the average dissent for "Capital Change" was 12.94%, while "Capital Increase" was 13.25%.

Reasons for dissent include dilution to existing shareholders being greater than 10%, a lack of a specified discount limit, aggregate share issuance limits being greater than 10 percent of the relevant class of shares, among others. Please refer to Case Study 2 for additional information regarding these trends.

27. WH Group Ltd. 2022 AGM Proposal 8. (https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0601/2022060103502.pdf)

(iii). ESG Factors Are Incorporated in the Rationale of Dissenting Director Votes

As of July 2022, there were 129 management proposals for Hang Seng component issuers regarding the (re-) election of directors during the 2022 AGM season. The average approval rates for those proposals were 94.25% with an average dissent rate of 5.74%; 0.06% of the capital presence abstained on average. Among all these 129 (re-)election of directors resolutions, 10 resolutions at nine companies received approval rates lower than 80%. If we look at the whole Hong Kong market, there were 40 resolutions at 31 HKEx-listed companies that received approval rate lower than 80%.

There are some common rationales of these dissent votes:

- There were gender diversity concerns. Investors including RobecoSAM, Wellington Management, UBS Asset Management, Schroders would vote against when the board shows a lack of gender diversity, fails to incorporate basic considerations for gender diversity or has not put in place policies to increase gender diversity on the board, among other concerns.
- There were board Independence concerns. Institutional investors may have different standards for recognizing board independence due to diverse proxy voting guidelines or subscription to different proxy advisors, but in general they expect board to be at least one-third independent.
- Some investors targeted overboarded director or poor time commitments (e.g., poor attendance rate at board meetings).

ESG factors were also cited by investors when casting a dissent vote. While explaining its rationale of voting against on several board director Re/Election proposals, AllianzGI explained that it "encourages the Board to establish an effective oversight of ESG matters that are material to the company's performance and long-term development, and to ensure that the company provides meaningful and comprehensive ESG-related disclosures to investors." DWS also explained their rationale of voting against a director of an Oil & Gas company: "the candidate is not sufficiently qualified or unsuitable for the position because the company is involved in severe ESG controversies or fails to take climate action: - The company is on the DWS ESG Rating watchlist."

In the Taiwanese market, due to the mechanism of cumulative voting, a nominee's election is not determined by the overall proportion of approval voting. There would not be any dissenting votes against a given director nominee in most circumstances.

According to S&P Global Market Intelligence, most of the dissenting votes related to board directors fell within the category of "Non-compete Restrictions for Directors" proposals—the average dissent was 10.57%, most of which were "abstain" votes (with an 8.89% abstain rate on average). For such proposals, Taiwan issuers seek the release of restrictions on competitive activities of directors, usually when these directors' service on wholly owned or non-wholly owned subsidiaries triggers non-compete restrictions of the Taiwan Company Act. However, some institutional investors may cast dissenting votes, worrying about potential abuse once restrictions have been released, i.e., they believe that it may create a conflict of interest by allowing some directors to concurrently serve on the boards of the company's competitors without sufficient disclosure. For instance, during the 2022 AGM of a Taiwan-based mobile company (Taiwan Mobile Co., Ltd.), the proposal "Non-compete Restrictions for Directors," garnered an against rate of 0.07% and an abstain rate of 22.79%.

(iv). Less Common Shareholder Activism than in Other Parts of Asia

Activism has historically been perceived in APAC regions as a foreign market issue, although more activism has been observed in Asia over the past few years; a part of this is certainly because more activist investors have acquired shares in some of the high-profile companies in Asia.

Shareholder activism in the Greater China region is not a common topic in comparison to other APAC regions such as Japan, South Korea and Singapore. Despite foreign investment being less inhibited than in China proper, many listed companies are controlled by founders or their families (or at least dominated by key shareholders), which makes an activist's job difficult. Up until July 31st, 2022, only two companies in Hong Kong experienced shareholder activism at their AGMs, there were 43 shareholder proposals in total. All 43 of the shareholder proposals concerned director (re-)elections. In Taiwan, until July 31st, only one company among all FTSE TWSE 50 components experienced shareholder activism, and all four shareholder proposals at this AGM were about electing certain shareholder representative as directors. Case Study 3 is one of the recent examples of activism in Hong Kong.[28]

Several case studies have been included in reference to the trends mentioned above. They are listed in the paragraphs below.

[Case Study 1]: HK-Listed Biotechnology Firm

A HKEx-listed Chinese biotechnology firm proposed to grant 3.06 million restricted shares to selected directors and subsidiary directors at its AGM on June 10, 2022. Glass Lewis recommended voting for the resolution although it had concerns regarding the insufficient link between pay and performance. The grant of restricted shares was to independent non-executive directors and the vesting period of one year met Glass Lewis's requirements. On the contrary, ISS' requirements were not satisfied; it recommended voting against the resolution and the plan received 23.3% dissent. As per ISS' calculation methodology, the issue and allotment

28. "Shareholder Activism in Asia 2022", Insightia

of the aggregate of 22.01 million restricted shares combined with the 3.06 million connected restricted shares that could be issued would make the dilution level exceed 5%, a cutoff point under its policy.

The major concerns of investors such as AXA Investment Managers highlight perceived inconsistencies between the remuneration policy and long-term shareholder interests besides the major opposing points from ISS. The remuneration policy includes base salary, discretionary bonuses and other benefits such as restricted shares and options. AXA claimed that such grants fail to further encourage shareholders to align their interests with the remuneration policy or devote their efforts to the group's development.

[Case Study 2] Taiwan-Listed Company in Analog Integrated Circuit Industry

A Taiwan-listed leading corporation in the analog IC industry put forward its management proposal to approve the issuance of new employee restricted shares during its 2022 annual shareholder meeting. The purpose of the proposal was to attract and retain professionals needed by the company, incentivize employees and augment employee loyalty. The percentage of for votes on this proposal only amounted to 61.05%, while the percentages of against and abstain votes were 25.48% and 13.47%, respectively. Out of 68 institutional investors who disclosed their voting behavior at this resolution, 47 investors casted an against vote. Common rationales for dissenting included:

- There was a lack of a reasonable vesting period for Type A restricted stocks (where the vesting of awards can take place less than three years from the grant date).
- The cumulative equity issuances without subscription rights (historical and across instruments) exceeded the maximum level specified in a respective country's best practices for corporate governance or 10% of the company's nominal capital.
- Variable compensation was not geared to medium- and long-term success criteria and a relevant sector comparison over an appropriate medium timescale (i.e. three years).

[Case Study 3]: Global Bank in Hong Kong

One of the largest global banks that is dual listed on the HKEx and London Stock Exchange was subjected to activist demands.

In April 2022, the bank's largest shareholder, the largest insurer in China, called on the bank to spin off their Asian operations. Some shareholders supported the proposal as they were unimpressed by the cancelled dividend payout of the bank in 2020.

However, not all shareholders supported the spin-off. The bank believed that the breakup would result in a potential long-term hit to the bank's operation costs, tax efficiency and credit rating. The bank rejected the spin-off proposal but promised that they would restore dividend payouts to pre-Covid-19 levels.

V. Conclusion:

Sustainability concerns and ESG issues were increasingly reflected in issuers' 2022 AGM proxy voting season in the Greater China Area, although there was a disparity between Greater China and the other APAC countries regarding the frequency of shareholder activism as well as the numbers of Environmental & Social-related AGM proposals. Issuers should pay careful attention to institutional investors' voting behavior and rationales, especially regarding capital issuances, equity-based plans, board diversity, among other concerns. Also advantageous would be strengthening engagement with investors, leveraging appropriate resources such as proxy agents.

ESG and carbon portfolio sensitivity are ever increasing in importance for the top institutional investors with holdings in Greater China. At the same time, regulators in mainland China, Hong Kong and Taiwan have (and will likely continue to) enact top-down ESG-related policy. With this in mind, it is reasonable to predict that ESG topics and voting rationales will play an even more significant role in issuers' investor relations and proxy agendas going forward.

Appendix

Table 3: Voting records with relatively high dissenting rate in 2022 AGM Season in Greater China Region

China

Proposal Category	Sub-category	Proposal Type	Count of proposals	For (avg. %)	Against (avg. %)	Abstain (avg. %)
Board of Directors	Director Re/ Elections	Approve Re/Election of Directors	186	95.20	4.36	0.52
Corporate Structure	Articles/By Laws	General Changes	29	94.13	5.64	0.43
	Capital Change	Authorise Reissuance of Repurchased Shares	19	82.38	17.62	0.03
	Capital Increase	Approve Capital Increase	17	91.40	8.27	0.71
		Approve Issuance WITH OR WITHOUT Pre-emptive Rights	1	89.13	10.87	
		Approve Issuance WITHOUT Pre-emptive Rights	21	80.40	19.58	0.04
		Approve Issue of Restricted Stock	8	77.22	22.78	
	Debt	Approve/Amend Provision of Loan Guarantee	14	93.42	7.01	0.12
Remuneration	Equity Based Plans	Approve/Amend Stock Option Plan	4	76.26	23.74	

Hong Kong

Proposal Category	Sub-category	Proposal Type	Count of proposals	For (avg. %)	Against (avg. %)	Abstain (avg. %)
Corporate Structure	Capital Change	Authorise Reissuance of Repurchased Shares	15	80.88	19.11	0.04
	Capital Increase	Approve Capital Increase	11	89.35	10.65	0.03
		Approve Issuance WITHOUT Pre-emptive Rights	19	89.52	10.48	
Remuneration	Equity Based Plans	Approve/Amend Equity Plan	1	53.46	46.54	
		Approve/Amend Stock Option Plan	4	85.04	14.96	

Taiwan

Proposal Category	Sub-category	Proposal Type	Count of proposals	For (avg. %)	Against (avg. %)	Abstain (avg. %)
Corporate Structure	Equity Based Plans	Amendments to Trading Procedures Governing Derivatives Products	1	83.37	0.05	16.58
		General Changes	40	87.28	4.46	8.26
	Capital Change	Approve Capitalisation of Reserves	7	91.47	0.04	8.49
		Approve Listing Location for Capital Increase	1	77.26	2.13	20.61
	Capital Increase	Approve Capital Increase	8	87.59	4.06	8.35
	Capital Reduction	Approve Capital Cancellation/ Reduction	2	85.51	6.03	8.46
	Debt	Accept Loan	1	61.69	25.38	12.93
Remuneration	Bonus	Approve/Amend Bonus Plan	1	83.35	0.07	16.58
	Equity Based Plans	Approve/Amend LTIP	1	89.74	1.64	8.62
		Approve/Amend Restricted Stock Plan	2	81.08	6.75	12.17

Japan Market Review

The Japanese market in 2022 saw a marked increase in activist activity. Perhaps one of the reasons for this was the impact of the 2021 revision of the Corporate Governance Code. As a result, we saw a significant increase in the number of shareholder proposals during this year's AGM season. This is the highest number ever of general shareholder meetings held in June.

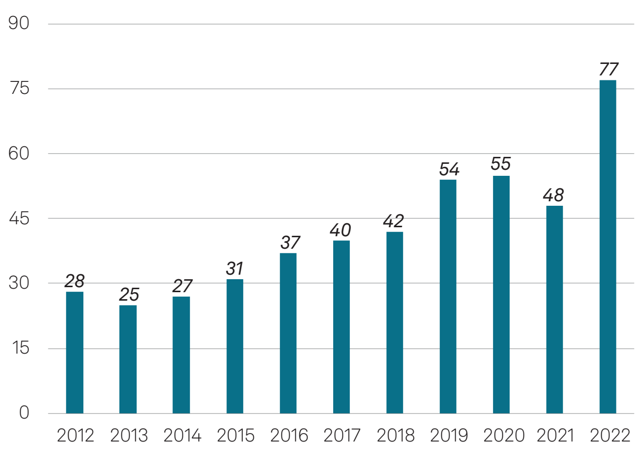
Other campaigns that did not result in shareholder proposals include those opposing the reappointment of directors and those calling for the renewal of the board of directors to push for business selection and concentration to enhance long-term corporate value.

I. Increasing Shareholder Activism in Japan

Shareholder proposals were submitted to 77 companies at AGMs held in June 2022 (Graph 3). This is significantly higher than the historical record during 2020, which was 55. The number of shareholder proposals submitted by activists was particularly high. Some reports indicated that more than 40 companies received activist shareholder proposals.

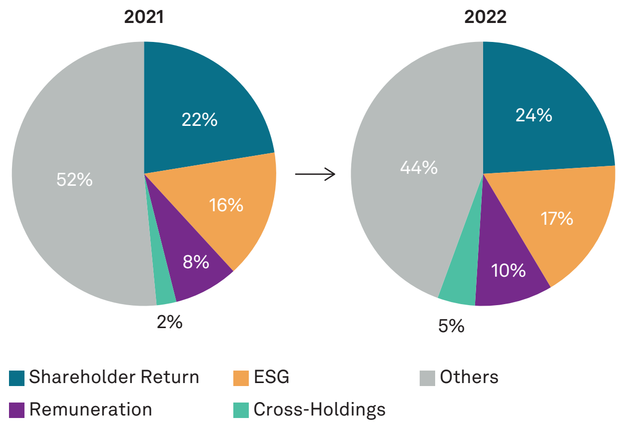
The most frequent types of shareholder proposals (Graph 4) concerned shareholder returns, followed by ESG-related proposals such as those requesting disclosure of climate change-related information. Compared to global peers, Japanese companies are regarded as cash-rich, inducing shareholders, mainly activists, to submit proposals calling for additional shareholder returns. Furthermore, shareholder proposals related to climate change have become a prominent trend in the Japanese market. Shareholder proposals submitted to the Electric Power Development Co., Ltd. (J-Power) by four investors, including those considered to be long-term investors such as Amundi, attracted particular attention.

Graph 3: Number of companies that received shareholder proposals



Source: S&P Global Market Intelligence

Graph 4: Types of shareholder proposals



Source: S&P Global Market Intelligence

II. ESG Policy Updates

ISS Policy Updates

There were no significant changes in ISS' Japan policy except for board diversity and virtual shareholder meeting-related criteria.

Gender diversity remains an important topic in Japan. In response to the positive feedbacks from investors on factoring in female director representation into their policy, ISS will recommend voting against the election of directors if a company with a statutory auditor board structure fails to have at least one female director on the board starting on 1 February 2023.

Virtual-only shareholder meetings are becoming increasingly common in Japan. However, global investors prefer the hybrid meeting format, as they are concerned that virtual-only meetings could prevent meaningful engagement with companies. Therefore, ISS supports article amendments that allow virtual-only meetings only if they are responses to situations such as the spread of an infectious disease or the occurrence of a natural disaster.

As “Say On Climate” shareholder and management proposals are increasing, ISS is currently in the process of developing new policies for climate action plans and climate transition plans that are put up for shareholder approval.

Glass Lewis Policy Updates

One of the key policy updates of Glass Lewis concerns board gender diversity. Since early February 2022, it has extended its application of the policy on board diversity from companies listed on the first and second sections of TSE to all listed companies on Japanese stock exchanges. The proxy advisor will change the board gender diversity criteria from a fixed numerical approach to percentage-based approach, where it will recommend voting against the nomination committee chair if the board is not at least 10% gender diverse.

Domestic Investor ESG Updates

Many investors believe that addressing ESG issues is important for companies to transition into a sustainable future. A growing number of investors have incorporated ESG guidelines into their stewardship codes and voting policies.

Nikko Asset Management (Nikko AM) is an example of a domestic investor that has been actively integrating ESG topics into its voting policy and engagement themes. According to its 2022 Sustainability Report, Nikko AM has established key ESG themes that they believe are applicable to all companies.

From an environmental perspective, Nikko AM's key theme is to take action for a decarbonized society. Nikko AM will engage with companies to urge them to address decarbonization-related matters, e.g., asking companies to examine how they are allocating business resources to related fields and engaging in risk preparation.

From a social perspective, Nikko AM's key theme concerns human capital and productivity. Nikko AM believes that companies should reconsider working styles for the post-pandemic era. Companies' personnel strategies and labor-productivity-related topics will be some of the areas that the investor will analyze and engage with companies on.

Nikko AM will also encourage effective governance. Nikko AM continuously urges companies to increase corporate value through sustainable development and the enhancement of their governance frameworks.

Nikko AM believes that the focus on the above themes for its assessments and engagements with companies will drive growth in medium and long-term investment returns.

III. Other Major Changes in Voting Guidelines for Institutional Investors

Another non-ESG-related revision of the voting guidelines of proxy advisors was the introduction of the cross-shareholding criteria for the election of directors at ISS. Glass Lewis took the lead with regard to this criterion, as it has been applying it since the 2021 AGM season. It recommends voting against the reappointment of top management if the company holds cross-shareholdings valued 10% or more of its net assets. While ISS set a more lenient threshold of 20% of net assets, the introduction of this guideline by the more influential proxy advisor drew the renewed attention of overseas institutional investors to the nature of cross-shareholdings.

Revisions to gender diversity criteria are also noticeable. In addition to ISS's announcement that it will introduce these criteria starting from the 2023 AGM season, some foreign investors who have already adopted gender diversity criteria have raised their thresholds for Japanese companies. Many domestic institutional investors have also introduced the requirement of having at least one female director on the board. This movement has presumably been influenced by the revision of the Corporate Governance Code in 2021. In addition, some Japanese institutional investors have reinstated ROE criteria for director appointments as the COVID-19 disaster has abated.

Table 4 shows the trend of dissent on management proposals by institutional investors based in Japan.

	2020	2021	2022
Asset Management One	14.7%	14.3%	12.4%
Sumitomo Mitsui Trust Asset Management	20.1%	16.9%	19.9%
Mitsubishi UFJ Trust and Banking	28.3%	23.2%	13.7%
Resona Asset Management	9.8%	11.7%	10.4%
Nomura Asset Management	7.7%	8.1%	8.5%
Daiwa Asset Management	10.6%	7.8%	6.9%
Nikko Asset Management	12.0%	12.4%	14.0%
Mitsubishi UFJ Kokusai Asset Management	17.4%	15.4%	18.2%
Nissay Asset Management	9.7%	11.2%	12.7%
Sumitomo Mitsui DS Asset Management	24.8%	22.3%	22.0%
BlackRock Japan	6.1%	6.4%	7.7%
J.P. Morgan Asset Management	21.8%	18.8%	21.9%
Fidelity Investment Limited	7.9%	6.2%	7.4%

Source: S&P Global Market Intelligence

IV. Company Proposals with the Highest Dissent

At the 2022 AGM, Kikkoman Corp's takeover defense proposal (poison pill) received the highest dissent of any item, with 44.7% of votes against. The proposals of Sumitomo Realty & Development Co. Ltd. and Keio Corp. also received similarly high dissent. More companies have abolished the poison pill, which has led to an even harsher view on those who would renew or introduce it. Compared to the previous year, proposals for the election of directors at companies with high cross-shareholdings and companies with weak ROEs have been ranked higher on the table, affected by the revised guidelines described in the previous section. Dissent on the reappointment proposals of directors that have been involved in controversies was also very prominent.

Table 5: 2022 AGM, Ranking of Against ratio

	Company	Agenda	Against	Note
1	Kikkoman Corp.	Renewal of Takeover Defense Plan	44.7%	-
2	Sumitomo Realty & Development Co. Ltd.	Approve Takeover Defense Plan	44.1%	-
3	Keio Corp	Renewal of Takeover Defense Plan	42.8%	-
4	Mitsubishi Electric Corp.	Elect Kei Uruma	41.4%	Corporate Scandal
5	Shin-Etsu Chemical Co. Ltd.	Elect Tsuyoshi Miyazaki	41.4%	Long tenure
6	Konica Minolta Holdings Inc.	Elect Shoei Yamana	38.8%	ROE criteria
7	JTEKT Corp.	Elect Yasushi Matsui	38.7%	Lack of independence
8	Nitto Denko Corp.	Elect Yoichiro Furuse	38.6%	Long tenure
9	Sumitomo Mitsui Financial Group Inc	Elect Jun Ota	38.3%	cross-shareholdings and so on
10	Toray Industries Inc.	Elect Akihiro Nikkaku	36.3%	Corporate Scandal

Source: S&P Global Market Intelligence

Table 6: 2021 AGM, Ranking of Against ratio

	Company	Agenda	Against	Note
1	Takara Holdings Inc.	Elect Satoshi Matsunaga	41.3%	Lack of independence
2	Tobu Railway Co. Ltd.	Renewal of Takeover Defense Plan	38.6%	-
3	Trend Micro Inc.	Elect Fumio Hasegawa	38.2%	Lack of independence
4	Nisshin Seifun Group Inc.	Renewal of Shareholder Rights Plan	38.0%	-
5	NEC Corp.	Elect Jun Ota	35.3%	Lack of independence
6	Aeon Co. Ltd.	Renewal of Takeover Defense Plan	35.2%	-
7	Eisai Co. Ltd.	Elect Haruo Naito	33.8%	Renewal of Poison pill by the board
8	MS&AD Insurance Group Holdings	Condolence Payment	32.5%	Concerns over retirement bonuses
9	KDDI Corporation	Elect Keiji Yamamoto	32.1%	Lack of independence
10	Nexon Co.,Ltd.	Equity Compensation Plan for Audit Committee Directors	31.0%	Compensation recipient

Source: S&P Global Market Intelligence

V. Shareholder Proposal on Climate to J-Power by Traditional Investor Group (Amundi, HSBC, MAN and Another)

Three large European asset managers (Amundi, Man Group and HSBC Asset Management), together with an Australian NPO, jointly submitted a climate-related resolution to J-Power, a Japanese electricity generator, in May 2022. The company is Japan's largest coal power operator. This climate proposal was the first ever made by a traditional investor group to a Japanese company. The group called on the company to set meaningful emission reduction targets and joined other investors in listing concerns regarding the company's decarbonization strategy.

Not all investors supported the proposal. For example, Blackrock believed that the company already provided sufficiently enhanced disclosures on their climate action plans. It further evaluated the proposal as risky and too restrictive of management's ability to make business decisions.

The company's board of directors released a notice of opposition to the proposal. Although the proposal ultimately was not passed, it received support from more than half of institutional investors, which is significant considering that approximately 50% of the share capital is held by institutional investors. This indicates that companies in Japan are under more investor pressure than ever on climate actions.

VI. Conclusion

Through the revision of the Corporate Governance Code in 2021 and other measures, the corporate governance systems of Japanese companies are rapidly taking shape. At the same time, shareholders demand systems that compel management to make fairer decisions, with board diversity requirements being an excellent example. They also require corporate efforts to address environmental issues and strengthen information disclosure. In addition to improving their systems, companies are expected to achieve long-term improvements in corporate values through constructive dialogue with their shareholders.

South Korea Market Review

South Korea is home to highly competitive, multinational, diversified conglomerates such as Samsung, LG, SK and the Hyundai Group. However, the market has faced skepticism on conglomerates' corporate governance structure and practices for some time. The *chaebol* structure, in which a family controls a business conglomerate group through a holding company or circular shareholding, has been criticized for creating agency problems and decreasing shareholder value in the long-term. The so-called "Korea discount," which closely relates to the transparency and governance issues, has been an ongoing point of issue for market participants through the years.

Both the government and the National Assembly have been driving changes to resolve this issue. From the market side, active ownership has become more popular, making South Korea the second largest activist campaign market in the APAC region next to Japan.

This article reviews key regulatory and policy updates in South Korea and investors' expectation on issuers' corporate governance and ESG performance in the region.

I. Regulatory Policy Updates

Following the introduction of the Korean Stewardship Code in 2016, which has been accepted by NPS and other domestic institutional investors, demand for improvements in corporate governance (including management transparency, board diversity and the expertise of outside directors) has been growing. The demand has only sharpened with the increased importance of proxy advisors in the South Korean market. Against this shifting backdrop, several regulations have been set.

On board structure, the Korean Commercial Code (KCC) requires at least a quarter of the total number of directors of listed companies to be outside directors. Listed companies holding total assets of KRW 2 trillion or more (hereafter referred to as "LargeCos"), are required to have at least three outside directors who must constitute a majority of the total number of directors. Furthermore, the amended Financial Investment Services and Capital Markets Act (FSCMA) of 2020 also requires that the boards of directors of such companies not consist entirely of a single gender starting in August 2022.

Regarding management transparency, the Financial Services Commission (FSC) introduced guidelines on corporate governance disclosures for listed companies in 2017. These corporate governance disclosure filings were voluntary when first introduced but have since become mandatory as of 2019 for LargeCos. Starting in 2022, the mandatory filing was expanded to those with total asset of KRW 1 trillion or more and the total number of companies subject to the mandatory filing is expected to increase by 90 to 265 entities. The FSC also revised its guidelines in May 2022,[29] which included the establishment of a rule on shareholder protection in the event of a business split-off, strengthened the duty to provide more information on internal transactions with affiliated firms and increased disclosure on succession policies & audit committees.

Two major regulatory changes have been made effective from January 2022: the Monopoly Regulation and Fair Trade Act and the Serious Accidents Punishment Act. In December 2021, the revised Monopoly Regulation and Fair Trade Act increased regulatory targets regarding the exploitation of private interests.

The newly enacted Serious Accidents Punishment Act is another important regulation aimed at preventing serious workplace accidents and man-made disasters, which spurred a high level of attention from investors and corporations.

II. Policy Changes of Proxy Advisors and NPS

As described in the previous section, LargeCos in South Korea will not be permitted to have single-gender boards. Before this regulation, on January 1st 2022, Glass Lewis introduced its board gender diversity criteria to the market. The proxy advisor will generally recommend voting against the nomination committee chair (or the board chair in the absence of a nomination committee) if a LargeCo board consists of a single gender, although it will refrain from recommending against anyone in particular in the case that board gender diversity is its only board-related concern. The introduction was discussed in its 2021 guidelines.

On the other hand, ISS did not change its Korean market guidelines. The proxy advisor had already introduced board gender diversity criteria in 2021, where it generally voted against the chair of the nomination committee (or other senior members of the nomination committee on a case-by-case basis) if the company was non-compliant with the board gender diversity regulations.

Apart from the board gender diversity regulation to be effective in 2022, two major regulatory changes in the 'Monopoly Regulation and Fair Trade Act' and the 'Serious Accidents Punishment Act' could potentially influence the policy of local proxy advisors (KCGS, DERI, Sustinvest).

Overall, no significant policy changes were made officially among all three local proxy advisors compared to their previous voting guidelines.

Though details have not publicly disclosed, DERI (Daeshin Economic Research Institute) is said to have made a few minor changes to its

29. https://www.fsc.go.kr/eng/pr010101/77477

internal methodology to reflect the new law.

In the meantime, NPS, the biggest asset owner in South Korea, made a couple of significant changes to its voting guidelines this year. The major changes concerned board-related resolutions and voting rights. They were based on the revised Guidelines for National Pension Fund Management and Guidelines for Stewardship Activities and Management.

The details can be found in the appendix.[30]

III. Voting Trends in the 2022 Proxy Season

South Korea's Annual General Meeting (AGM) season occurs primarily between the last week of February and the last week of March; it is particularly concentrated during the last few days of March. This so-called "super AGM season" can affect how investors monitor their investee companies. Limited time and resources during the busy season can lead to stronger reliance on company disclosures rather than direct communication. Furthermore, South Korea's deadline for audit report disclosure is just one week before annual shareholder meetings. Unless companies voluntarily publish earlier, investors voting by proxy are frequently forced to rely on unaudited financial statements when casting their ballots. These situations can deter foreign investors from casting their votes in a timely manner and tend to encourage reliance on proxy advisors' vote recommendations rather than facilitate direct engagement between corporations and investors.

For further analysis on voting trends at the most influential Korean companies, S&P Global gathered voting results of latest shareholder meetings (from the 14th to the 31st of March 2022) held by constituent companies of KOPSI 50. Data of AGM results as assent and dissent rates of 26 companies were collected through their websites or other sources. The resolutions were classified into four categories. Ranked by average against rate, they are: (1) committees and reporting resolutions (8.12%), (2) board of directors-related items (7.38%), (3) remuneration proposals (7.54%) and (4) corporate structure resolutions (1.95%).

(i). Approve (Re-)Election of Directors or Audit Committee Members

Although resolutions on the (re-)election of directors and audit committee members received high assent rates of 92.93% and 89.06% on average, respectively, the approval rates of 16 resolutions out of 112 were less than 80%

Most of these cases relate to company controversies. For example, four board candidates of the Hana Financial Group received just around 60% support. One of them was proposed as an audit committee member as well, with just a 59.1% approval rate for that resolution. According to Governance Insight data, many global investors voted against the candidate who was sanctioned by the Financial Supervisory Service for the failure to protect investors from their investments in risky derivative products sold by Hana Bank, as well as the nomination committee members who nominated the candidate.

Another interesting case was SK Telecom's proposal to elect an outside director to serve as an audit committee member, with 75.4% support. According to Governance Insight data, many global investors voted against due to diversity issues (as fewer than two women served on the board) as well as issues concerning unaudited financial statements. Considering adoptions of gender diversity criteria by both regulators and proxy advisors, board diversity is slated to become a significantly larger issue for South Korean listed companies.

(ii). Unaudited Financial Statements

As stated above, the deadline for the audit report disclosure is right before AGMs in South Korea. As a result, global investors are frequently faced with the prospect of exercising votes based on unaudited financial statements.

Some of the proposals on the allocation of profits/dividends received high dissent. The approval rates of five resolutions of this type (out of 25) were less than 90%.

According to Governance Insight data, concerns of global shareholders primarily were connected to the lack of audited financial statements. Glass Lewis also stated that the absence of audited financial statements was its top concern for the market. Korean companies could be expected to voluntarily disclose the audited financial statements much earlier than the legal deadline.

(iii). ESG to Improve Corporate Governance and Workplace Safety

As predicted, institutional investors, as well as minority investors who look at ESG investments, paid increasing attention to shareholder rights and actively exercised their voting rights. Recent concerns surrounding spin-offs and split-offs have once again raised discussion on the 'Korea discount,' triggering investor dialogue and action.

In addition, shareholder engagement to enhance the diversity of the board of directors has increased. It is reported that 78 women from 72 companies (out of 167 companies subject to the standard law) were nominated for directors, and all 78 were appointed. The number of female executive candidates increased by 50% compared to the previous year according to the results of the 2022 AGM season.[31]

In addition, the newly enacted Serious Accidents Punishment Act places emphasis on the roles and responsibilities of management and boards regarding workplace safety and prevention of industrial disasters. Particularly in the case of industries with greater safety risks/concerns, this legislation could potentially

30. Revision of guidelines on fiduciary responsibility activities, National Pension Service (NPS), 2021.12.24
31. https://www.esgeconomy.com/news/articleView.html?idxno=2108

promote risk management practices leading to questionable re-composition of the board in the event of accidents.[32]

Finally, shareholder proposals related to environmental and social topics appeared during this season. The Dutch pension investment company, APG, commissioned Solidarity for Economic Reform to promote a shareholder proposal related to the change of the articles of incorporation of HDC Hyundai Development Company, including the 'Introduction of Advisory Shareholder Proposals on ESG.'

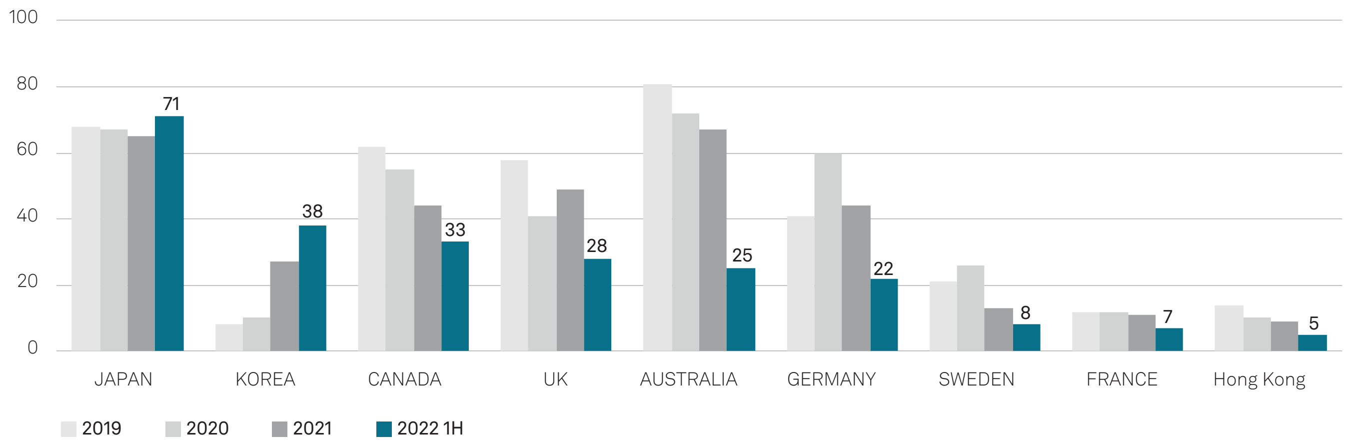
IV. Shareholder Activism

More than two years ago, when KB Asset Management's shareholder actions against SM Entertainment and KCGI's attack on Hanjin KAL subsided without much success, disappointment spread in the market. It was suggested that shareholder activism resulting in increased returns may be premature in the South Korean market.

However, there has been a noticeable increase in shareholder activism in South Korea; both activist funds and individual shareholders actively have been exercising their votes to affect the management of the enterprise in efforts to increase its value.

As a result, in the first half of 2022, South Korea was the third most activist market following the US and Japan.

Graph 5: Number of Activist Campaigns (except US)



Source: S&P Global Market Intelligence, created based upon data from Activist Insight

What are the driving factors for noticeably increasing shareholder activism in South Korea?

First and foremost, the increased participation in shareholder activism among institutional investors is one of major force. During this year's AGM season, many institutions delegated voting rights to activist funds and agreed to appoint an auditor on their side to protect the equity value of existing shareholders, mainly caused by radically increased corporate restructuring aimed at increasing financing options.

Increased numbers of individual investors and high-conviction minority shareholder positions on related agenda items have contributed to influencing public opinion during the season. According to the "Status of Shareholders of Listed Corporations in 2021" announced by the Korea Securities Depository, the number of individual investors last year reached about 14 million,[33] an increase of over 50% compared to 2020.

Lastly, activist funds continue to perform, offering high returns. For example, Alliance Partners' No. 1 fund, which includes SM Entertainment (one successful activist campaign), has been earning an additional 42.8 percentage points over the KOSPI index as of April 2022 since its establishment on September 15 in 2021.[34]

Activist Campaign Cases

HDC Hyundai Development Company, SM entertainment and Sajo Oyang are the major cases to watch from this past season regarding activist campaigns. At the regular shareholders' meeting of the latter two companies, despite the opposition on the part of management, the audit put forward by the shareholders was approved, and the activist fund achieved considerable results in 2022.

32. 2022 AGM Preview, KCGS, 2022.2.10
33. https://news.mtn.co.kr/news-detail/2022040114380142296
34. https://www.hankyung.com/finance/article/202204067875i

[Investor in Shareholder Activism – APG]

APG (a Dutch pension fund) intended to submit shareholder proposals at the AGM of HDC Hyundai Development Company, requesting amendments to the articles of incorporation to introduce health and safety regulations, the right for shareholders to make ESG proposals and recommendations, the establishment of a health and safety committee within the board of directors and the introduction of sustainability disclosures. The action was spurred by a serious accident in one of HDC's construction sites in Gwangju. Except for the proposal dealing with shareholder rights to submit future ESG proposals, the company accepted the proposals, submitting them as the agenda proposed by the management. These proposals were approved at the AGM on 29 March. APG submitted the remaining shareholder rights ESG proposal as a shareholder proposal. Although ISS and Sustinvest recommended shareholders to vote for it, it was ultimately rejected.

On the environmental issue, APG announced[35] that it sent letters to 10 large South Korean companies calling for the evaluation of their existing climate change strategies and carbon reduction targets that are "sufficiently ambitious" in February. The selected companies were: Hyundai Steel, LG Chem, LG Display, LG Uplus, Lotte Chemical, POSCO Chemical, Samsung Electronics, SK Inc., SK Hynix and SK Telecom.

A report[36] says APG "will push for improvements in ESG practices of its portfolio companies in South Korea and Japan with active engagement, including lobbying the government and the media and using its voting rights."

The activity of APG as well as other investors would urge South Korean companies to diligently take ESG issues into consideration. Like in Japan, ESG-related shareholder proposals could be more common in South Korea going forward.

VI. Conclusion

At the beginning of 2022, global asset managers (BlackRock, Vanguard, SSGA) and voting advisors (ISS, Glass Lewis) announced that ESG issues would be focused on at shareholder meetings.[37] Perhaps as a result of this, agenda items they highlighted such as 'the board's ESG risk management monitoring' and 'diversity of board composition' achieved certain positive results.

It was a season that illustrated the ongoing concerns to resolve the Korea discount and positive results from shareholder activism to improve governance. Despite the high assent rates on the resolutions on approval of (re-)election of directors and audit committee members this season, some of the controversies-associated cases received less than 80% support. Meanwhile, increased interest in corporate governance has resulted in more minority shareholders participating in the exercise of shareholder rights by asset management company and activist funds.

As ESG management issues continue to expand backed up by increased minority investor support, shareholder engagement activities are also expected to increase further to secure gender diversity on boards, limit the appointment and remuneration of directors and increase minority shareholder protection.

35. https://apg.nl/en/publication/apg-urges-korean-companies-to-take-strong-climate-action/
36. https://www.asianinvestor.net/article/apg-ready-to-confront-asian-companies-on-esg/477775
37. https://www.kimchang.com/ko/insights/detail.kc?sch_section=4&idx=24724

Appendix

Table 7. Summary of major changes in NPS proxy voting guidelines

Goals	Changes
Restriction on long-term tenure of outside directors and auditors (committee)	– Non-executive directors whose term of office exceeds 6 years for the company and 9 years including affiliated companies - Opposition to appointment when exercising voting rights – Removal of regulations limiting long-term tenure of auditors and auditors who are not outside directors
Disclosure on board attendance rate of executive directors and other non-executive directors	– Changed to apply the same attendance standards (if the attendance rate of the board of directors during the immediately preceding term is less than 75%, Opposition to appointment) to inside directors and other non-executive directors as outside directors
Adjustment of the target of exercising voting rights in overseas stocks	– Lowered the requirement for the proportion of holdings subject to voting in overseas stocks to 0.3% – Introduced new cases in which voting rights may not be exercised
Improvement of detailed criteria for exercising voting rights in domestic stocks	– Deleted 'competitive relationship' criteria among the reasons for objection to the appointment of outside directors (significant shares, transactions, and competition) – Deleted 'company size' among quantitative evaluation criteria (company size, actual amount paid, Compensation limit level, business performance, etc) when determining the limit of remuneration for directors – When the limit level of Auditor's remuneration is too low to undermine the auditor's incentive to faithfully perform his/her duties, Opposition to appointment
Improvement of detailed criteria for exercising voting rights in overseas stocks	– Easing the minimum share requirement for shareholders to support the proposal for convening a general meeting of shareholders and opposing the strengthening proposal – Deleted 'company size' among quantitative evaluation criteria (company size, actual amount paid, Compensation limit level, business performance, etc) when determining the limit of remuneration for directors
Establishment of detailed standards for the exercise of voting rights in domestic and overseas stocks	– Establishing principle-based criteria for judging shareholder proposals – Establishment of detailed standards for shareholder proposals so that they can approve the relevant agenda to enhance long-term shareholder value, in case that the board of directors' proposal and the shareholder's proposal are in competition

Revision of guidelines on fiduciary responsibility activities, National Pension Service (NPS), 2021.12.24

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