2021 Global and Regional Trends in Corporate Governance

Introduction

This year, as in the previous five years, Russell Reynolds Associates interviewed over 40 global institutional and activist investors, pension fund managers, proxy advisors and other corporate governance professionals to identify the corporate governance trends that will impact boards and directors in 2021.

At the time of publishing last year's paper in January 2020, we could not have known just how painfully relevant many of the trends we predicted would turn out to be:

GLOBAL TRENDS PREDICTED FOR 2020

1	2	3	4	5
Greater focus on the E&S of ESG	Increasing importance of corporate purpose	Better board oversight of corporate culture and HCM	More expansive view of board diversity that includes ethnicity and race	Companies facing wider forms of activism

The COVID-19 pandemic and social justice movements have had far-reaching impacts on business and society around the world. In many ways, we are at a turning point. Corporate governance trends vary somewhat across regions, but corporations globally are experiencing a reckoning around their role in society. The expectations of the independent directors who oversee corporations have never been higher.

GLOBAL TRENDS PREDICTED FOR 2021

Contents

1 **Climate Change Risk.** The pandemic forced the "S" of ESG (environmental, social and governance factors) higher up the corporate agenda as companies sought to reassure stakeholders that they took the safety of their workers and communities seriously. In 2021, climate change will be back in focus.

Corporate responsibility for managing climate change as a long-term, material financial risk has gained traction in markets that have previously resisted it. That the Biden administration in the US rejoined the Paris Climate Agreement on its first day in office reinforced that. Commitments to carbon net zero by 2050 are widespread and creating pressure on peers (both companies and governments). In his 2021 letter to CEOs, BlackRock's Larry Fink set expectations for companies to disclose how their business plans incorporate net zero by 2050 and how these plans are reviewed by the board.[1] Boards should also pay close attention to the decisions and outcomes of the 26th United Nations Climate Change Conference (COP26) in the UK in November. We also are keeping an eye on investors (and companies like Unilever) starting to support a new investor "Say on Sustainability" vote.

2 **Diversity, Equity & Inclusion ("DE&I").** Our number one trend for the US this year is also a hot topic in other regions (including the UK and Canada) though not yet in the EU. The murder of George Floyd in the US and the subsequent protests resulted in a collective awakening in many countries around the world, causing social and racial justice issues to gain unprecedented attention. As a search firm active in placing diverse candidates, we are seeing increased demand for racial and ethnic diversity at the board, C-suite and employee levels, as well as increased investor demands for disclosure of key data on diversity, equity and inclusion. Gender diversity remains a priority in all the regions covered in this paper.

3 **Convergence of Sustainability Reporting Standards.** The global effort to identify and report material ESG risks has resulted in a proliferation of reporting standards, with many investors preferring standards such as SASB and GRI. In 2020, the authors of the major sustainability disclosure standards and frameworks announced a statement of intent to work together to create a comprehensive corporate reporting system. Investors will soon be able to gather a complete and comparable view of a company's material risks (including ESG). As with many of the trends this year, we expect private equity firms and other private companies to also increase their focus on ESG. All boards should expect to start being held more accountable for sustainability disclosure by their stakeholders.

4 **Human Capital Management.** The largest institutional investors continue to increase their expectations around board oversight of human capital management (HCM) and corporate culture. As part of the economic fallout from the pandemic and the social justice movements in many regions, demand for disclosure of more HCM data (e.g., gender pay gap, safety incidents, employee turnover) has skyrocketed. This year, many investors and proxy advisory firms plan to support more shareholder proposals on this topic and hold directors more accountable for insufficient disclosures.

5 **Return of Activism & Increased Capital Markets Activity.** Shareholder activism slowed significantly in the first three quarters of 2020 (down 24 percent globally through Q3)[2] but is expected to return this year with more activity already seen in Q4 2020 and January 2021. Activists will be looking for new scenarios to unlock value and will ask boards, "What is your obligation to further drive value creation even when the company is performing well?" There has been a sharp increase in special purpose acquisition companies (SPAC) and subsequent mergers, and private equity is sitting on an estimated $1.5 trillion+ of "dry powder" for future market activity. Boards will have to stay focused on capital allocation and key business metrics given the significant capital available and quest for deals.

6 **Virtual Board & Shareholder Meetings: Here to Stay.** In the spring of 2020, as companies rushed to convert their annual shareholder meetings into virtual events, boards also shifted from in-person meetings to virtual ones. As they adapted to life in the virtual environment, many began exploring how to permanently leverage the associated efficiencies post-pandemic. Russell Reynolds works with hundreds of public company boards around the world each year and, based on our engagement with them, we see that many boards will develop a hybrid calendar where at least one meeting per year remains virtual and many ad hoc and committee meetings stay online. Many companies—where there is an option—will use some form of combined in-person and virtual shareholder meetings.

1. Fink, Larry. "Larry Fink's 2021 Letter to CEOs." BlackRock. January 2021.
2. Lazard's Shareholder Advisory Group. "Annual Review of Shareholder Activism—2020." Lazard. January 2021.

U.S. & Canada

Diversity, Equity and Inclusion (DE&I): Investors and other stakeholders expect material improvement in and disclosure of a company's diversity data all the way from the boardroom (where directors will be asked to self-disclose their ethnic and racial identity) to the shop floor (in the US using EEO-1 data). Improvement in the ethnic/racial diversity of the board is a top 2021 priority for the three largest institutional investors (BlackRock, Vanguard, State Street), and they are prepared to use their voting power against nominating committee chairs and others if progress is not made.

Other stakeholders are stepping up their expectations as well. California law now requires that by the end of 2021 public companies headquartered in the state have at least one director who is from an underrepresented community. NASDAQ has proposed a similar listing requirement, which is subject to approval by the Securities and Exchange Commission (SEC).[3]

In Canada, 2021 is the first year the Canada Business Corporations Act requires issuers to disclose their diversity policies, targets and representation with respect to members of "designated groups" at the board and executive levels. The Capital Markets Modernization Taskforce recently recommended that Canadian boards reach a 30 percent target for BIPOC, persons with disabilities and LGBTQ+ within seven years. ISS now expects Canadian companies to commit to a 30 percent target for gender diversity as well.

ESG Oversight and Disclosure: Institutional investors have committed to increasing their support for shareholder proposals on "E" and "S" issues and holding directors accountable for oversight of related initiatives. With the shift in proxy fights focusing on ESG issues, proxy advisors are following suit as well. ISS's 2021 voting policy update for the first time includes "whether a board has demonstrated poor risk oversight of environmental and social issues, including climate change," as a failure of oversight and can now lead to an "against" or "withhold" vote on directors.[4] In light of the Biden administration's ambitious climate change and carbon neutrality goals and Larry Fink's demand for net-zero plans, boards will have to ask themselves whether they have the proper oversight in place. Key priorities include having (a) timely ESG data sufficient relative to peers; (b) proper consideration of stakeholder interests beyond shareholders when crafting ESG initiatives; and (c) ESG integrated into business strategy.

Corporate Culture and HCM: Investors continue to increase expectations around the governance of human capital and culture, stating they will actively support more shareholder proposals and hold directors accountable. The COVID-19 pandemic has rapidly accelerated interest in how companies are approaching HCM and corporate culture and managing related risks. In November 2020, the SEC adopted new, principles-based HCM disclosure rules. These rules underscore the notion that employees are key to the value of an organization. The new rules require a description of the company's human capital resources, including any human capital measures or objectives that management focuses on in managing the business. This includes actions that address attraction, retention and development of employees.

Executive Compensation: Investors will enhance scrutiny of executive pay incentives in light of attendant circumstances caused by the pandemic (e.g., company acceptance of government aid, layoffs, worker safety and treatment). Boards will have to consider—even more so than in years past—the reputational risks that accompany executive compensation decisions, particularly when meeting financial targets via extensive layoffs or other measures that hit frontline employees. Inclusion of E&S metrics in compensation decisions will serve as a stand-in for whether a board has truly integrated E&S into its strategy.

In Canada, we expect investors to increase their scrutiny of say-on-pay from last year, given the COVID-19 environment. Environmental and social measures were included in performance criteria in 56 percent of incentive plans in Canada last year, a four percentage point increase over the prior year.[5] We expect this to trend to continue.

3. Russell Reynolds has one of the leading global board search practices and our experience supports this trend. In the US, the percentage of our board director appointments that were racially diverse grew rapidly from 22 percent in 2017 to 30 percent in 2020. We expect this to continue steadily in 2021 and beyond.
4. ISS. "ISS Benchmark Policy Updates 2021." November 2020.
5. Glass Lewis. "2020 Proxy Season Review—Canada." September 2020.

Technology and Cybersecurity: With an estimated 60 percent of global GDP enabled by or supported by technology[6] and with frequent cybersecurity breaches across the S&P 500 (including the recent SolarWinds hack), investors will place increased scrutiny on board oversight and disclosure around this risk. In a PwC survey of business and technology executives, 96 percent of respondents said that they will shift their cybersecurity strategy due to COVID-19, and 50 percent said that they will consider cybersecurity in every business decision (up from 25 percent last year).[7]

Political Contributions: Following the January 6, 2021, insurrection at the US Capitol, many companies have decided to reduce, pause or eliminate political campaign contributions. From Amazon to American Express to Marriott International, the list of companies rethinking their approach this year continues to grow. Many companies that have not yet made a change are under pressure from employees, customers and other stakeholder groups to do so. Time will tell as to whether these changes in corporate policy will be temporary or more permanent.

Return of Activism and Increased Capital Markets Activity: As noted in the global trends, we expect shareholder activism to continue its return in 2021 as the world begins to look toward a post-pandemic future. SPACs have recently skyrocketed in popularity in the US, with 230 new SPACs formed in the US last year, some 50 percent more than the total of the past four years combined.[8] Although it will be important to pay attention to any new regulation initiated by a new Biden-appointed SEC chair, we expect the SPAC popularity from last year to continue.

Virtual Shareholder Meetings (VSMs): While investors were forgiving about the lack of functionality of many VSMs that were hastily put together in the face of the pandemic in 2020, they will be much less patient in 2021. Best practices have been codified in the *Report of the 2020 Multi-Stakeholder Working Group on Practices for Virtual Shareholder Meetings,* and boards should ensure that this year's VSMs take those into account.[9] Best practices cover issues such as submission of questions, treatment of shareholder proposal proponents and the use of audio versus video.

6. World Economic Forum. "Our Shared Digital Future: Responsible Digital Transformation—Board Briefing." February 2019.
7. PwC. "Cybersecurity Coming of Age." May 2020.
8. SPAC Alpha. "US SPAC Monitor." December 2020.
9. Rutgers Center for Corporate Law and Governance Council of Institutional Investors Society for Corporate Governance. "Report of the 2020 Multi-Stakeholder Working Group on Practices for Virtual Shareholder Meetings." December 2020.

Brazil

Impacts of the Past Year on Short-Term Priorities: 2020 was a particularly challenging year for Brazil given the COVID-19 epidemic, the wildfires in the Amazon and government challenges, all of which combined to impact corporate governance.

Foreign and global institutional investors are reducing their investments into Brazil in part due to a negative outlook on environmental issues. With domestic investors replacing them, we anticipate a short-term prioritization of business growth and productivity over the global trend toward ESG.

Emergence of the ESG Agenda: In Brazil, ESG is in its infancy. ESG-related topics are demanding more time from boards and are not yet fully integrated into how a company does business. The global focus on ESG is now impacting business in Brazil, with international investors being very vocal. In the wake of Brazil's three largest banks signing an open letter on ESG, we expect increased pressure to address environmental concerns. Social and cultural issues are also garnering more attention as the pandemic highlights the vast disparities in Brazil.

The proposed reform of the Brazilian Securities and Exchange Commission (CVM) Instruction 480 embodies the ESG trend. The main objective is to reduce the cost of regulatory compliance by securities issuers and to improve the provision of information related to ESG. The changes include a greater emphasis on the disclosure of social, environmental and climate risk factors and a requirement for issuers to position themselves on relevant sustainability goals in the context of the business. Boards will need to think about broader social commitments, cultural matters impacting the health and safety of employees and how it all aligns with their risk management framework.

Gender Diversity: With women comprising only 11 percent of corporate directors in Brazil, the push for gender diversity continues to grow. Next year, investors will put more pressure on boards to address any lack of gender diversity, and there may be an uptick in gender diversity mandates by proxy season. By February 2022, ISS will recommend negative votes if a board does not have a female director. While the mobilization to improve diversity is focused on gender, there is a recognition slowly building around the need for increased racial/ethnic representation both on boards and in management.

Public Company Governance: Post-COVID, Brazilian companies will need to raise capital, which has led to an increase in companies planning to go public. As more companies consider this path, boards will need to prepare to rapidly evolve their corporate governance. Expect investors to push beyond ISS minimums and talk to companies about majority-independent boards, as well as focus more scrutiny on audit committee independence and conflicts of interest. In independent director elections, ISS has pushed for Novo Mercado and Nivel 2 issuers to have at least 50 percent independent directors. Additionally, boards also should be aware of their heightened duties and responsibilities in governance, as directors could potentially be held liable for corporate actions. ISS will also potentially recommend voting against the board, committee or directors where material governance failures occur and where directors are over-boarded (sitting on more than five public company boards or more than two outside boards if a CEO). There will also be a shift toward hybrid in-person and virtual annual shareholder meetings. The chaotic VSMs of 2020 left investors dissatisfied with the quality of dialogue but did allow for greater attendance and observation.

Preferred Voting Rights: Several technology companies are arguing for preferred voting rights in order to retain control. While this trend is popular among founders and controllers, concerns around minority shareholder protections have yielded new sunset provisions on these enhanced rights. Asset managers are continuing to defend the use of sunset provisions. We expect investors to continue emphasizing minority shareholder protections as this tension continues.

European Union

Climate Change and Other Environmental Priorities: At the end of 2019, the EU presented the "Green Deal," and 2020 saw the proposal of a new climate law to reach net-zero carbon emissions by 2050. These goals are accompanied by an investment plan, an industrial strategy, a circular economy action plan and a 2030 climate target plan. For EU companies (arguably the most advanced in integrating sustainability into strategic plans and decision-making), this has accelerated setting their own environmental targets. Consequently, in the EU the "E" in ESG currently overshadows the "S" and the "G."

For some countries and investors (particularly in the Nordics), safeguarding biodiversity is emerging as a high priority in tandem with carbon reduction. While most boards are not appointing climate scientists or sustainability experts, they do have a need to appoint directors who know how to oversee the transition to a low-carbon economy. Shareholders are becoming more insistent that companies show the ways in which they are taking climate change risk into account, and they are increasingly prepared to vote against directors where there has been a collective failure to do this.

Common Standards in ESG/Sustainability Reporting: A sharp focus on sustainability brings with it an urgent need to harmonize the large number of alternative reporting methodologies. In Q1 2021, the EU Financial Reporting Advisory Group (EFRAG) is set to release a report on revising the Non-Financial Reporting Directive (NFRD), mandating the use of a common set of standards. These standards would facilitate assurance, enforcement and digitization using a taxonomy and structured data standard. Yet the EU Green Deal also has implications for financial as well as non-financial reporting. The International Financial Reporting Standards Foundation (IFRS) will need to incorporate guidance around climate risk materiality and the ways in which it should be reflected in financial statements. The request from investors is for "numbers, not words" to aid comparability across time and sectors and independent verification of ESG data. There is also increasing interest in seeing executives' remuneration tied to achieving ESG targets (broadly defined). Meanwhile, the European Commission has also launched a consultation aimed at identifying better ways to embed sustainability into the corporate governance framework, noting that "whilst the NFRD is based on incentives 'to report,' the sustainable corporate governance initiative aims to introduce duties 'to do.'"

Shareholder Rights and Proposed Solutions: The Shareholder Rights Directive II (SRD II) went live across most of the EEA member states on September 30, 2020. The aims of SRD II are to increase the level and quality of engagement of asset owners and asset managers with their investee companies, strengthen shareholder rights (including scrutiny of remuneration and related party transactions) and facilitate cross-border investment chain information (e.g., voting). However, the backdrop of the pandemic has led EU companies to move unevenly, and 2021 may see more progress toward implementation.

Board Chair Independence: We expect to see greater challenge over the independence of EU boards in 2021. In France, Legal & General Investment Management (LGIM) announced that it would vote against individuals holding a combined chairman and CEO role on the grounds that this arrangement causes a fundamental weakness in risk oversight. In Germany, this year will be characterized by significant board renewals under a revised Corporate Governance Code that lays out new standards for board independence, including criteria around board chair independence.

Brexit: Although a deal between the UK and EU is in place, 2021 will likely see continued disruption and uncertainty for any company trading goods and services between the UK and the EEA. Notably for boards, companies with EEA resident director requirements can no longer count UK resident directors toward that quota.

United Kingdom

Climate Change and Other Environmental Priorities: Recognizing the current absence of global standards on non-financial reporting, the Financial Reporting Council (FRC) has encouraged UK companies to report against both the TCFD and SASB metrics as an interim step. Companies have until 2022 to comply on a voluntary basis and until 2025 to comply with the TCFD's climate risk disclosure recommendations on a mandatory basis. Companies will be expected to incorporate climate change as a key long-term risk in accounting statements and financial reporting. For investors, engagement on climate change is still the preferred approach, but if this does not bear fruit in 2021, then expect to see an escalation to voting in 2022. Current campaigns for investors to have a "say on climate" vote may gain traction more quickly. As the UK hosts COP26 in the fall and works to keep pace with the EU's Green Deal, we also expect particularly keen political interest in what UK companies do.

Diversity on Boards: In 2017 the Parker Review set a target for each FTSE 100 and FTSE 250 board to have at least one director of color by 2020 and by 2024, respectively. An update published in February 2020 showed progress has been slow, but the rate of appointment of directors of color has increased dramatically since the social justice protests in the UK and around the world.

Investors have also set their own voting policies in line with Parker. LGIM wrote to each FTSE 100 company without an ethnically diverse director outlining its intention to vote against the nominating committee chair (usually the board chair in the UK system) in 2022 if the Parker target is not met.

Better progress has been made on gender diversity. The Hampton-Alexander target for the FTSE 350 (33 percent women) was achieved in November 2019, one year early. Attention has now turned to the FTSE 100 achieving 33 percent female board and senior management representation. BlackRock also has made clear that it expects companies to adopt the recommendations of both the Parker and the Hampton-Alexander reviews.

Social Justice, Equity and Inclusion: The "S" of ESG is currently the most important focus in the UK context. Companies, particularly those that received support via the government's furlough schemes, are facing heightened expectations around social responsibility. Investors are keen to see how companies treated their employees, suppliers and customers through the COVID-19 crisis. Boards will also be expected to demonstrate how they have considered employee interests in decision-making. Disclosing data around employee engagement, pay ratios, employee turnover and workforce composition over time will be the new standard. There is also strong appetite for ethnic diversity statistics, but in the absence of a UK equivalent to US EEO-1 data, companies will need to devise mechanisms for employees to self-report.

Remuneration Scrutiny: The key question that UK companies will need to answer in the 2021 reporting season is: Where there was a change in the outcome of the remuneration process as a result of COVID-19, what was the decision-making process behind it? If stock price has become dislocated from operational outcomes, how is this communicated and accounted for in compensation metrics? Remuneration committees will face continuing pressure to include ESG and HCM metrics in targets.

Shareholder Rights and Proposed Solutions: The 2018 UK Corporate Governance Code took effect only for companies with a fiscal year starting after January 2019, making this year's reporting season the first real test of adherence. To date, Glass Lewis has noted a relatively high level of non-compliance with several of the more controversial new provisions (e.g., the nine-year tenure limit for independent chairs) despite generally improved reporting and disclosure.

Asia Pacific

Australia

ESG Inclusion and Board Accountability: While the 2019 Australian wildfires may seem a distant memory to some, 2020 saw an increase (albeit small) in support for environmental shareholder proposals at several of the larger mining and energy companies. Support has generally been tepid because of the important role mining companies play in the Australian economy.

Leading Australian Securities Exchange (ASX) companies have moved a long way very quickly on environmental issues, particularly climate change. There is arguably business consensus on carbon neutrality by 2050. This is also the position of the state governments, but not the federal government. Effectively, business is putting measures into place to deliver these outcomes in spite of a lack of legislative clarity. Many banks are deciding not to fund coal developments and are under increased pressure to put out public statements on fossil fuels. Some insurers are stepping away from companies that do not have climate change–mitigation strategies. Boards will have to sort through these goals and mandates to develop clear policies around ESG.

Shareholders may also see an increase in socially focused proposals as a result of the pandemic and a range of social issues that have come to the fore in 2020.

Relationship with China: Australian supply chain exposure to China will be a top risk on board agendas in the coming year. About 16 value chains from minerals to tourism to education services have been impacted by various embargoes, ranging from directives to not buy Australian or to not travel to Australia to informal stoppages in ports. Boards will have to consider how to deal with these trade complexities and hostilities between the two nations.

Remuneration: Some of the S&P/ASX300 companies that were hardest hit by the pandemic have announced restructuring, including reductions in fixed and variable remuneration and director fees. Other companies have performed well and will likely continue to pay high bonuses. Investor scrutiny of the judgment boards use this year will be under especially high scrutiny, especially if the company accepted money from the JobKeeper support program.

Ethnic and Racial Diversity on Boards: Australian companies should expect increasing criticism around the lack of ethnic and racial diversity on their boards from some domestic and international investors. Few Australian boards have representation from diverse groups, including indigenous populations. Ninety-three percent of CEOs and 70 percent of board members are from Anglo-Celtic heritage.[10] Relatedly, many Australian firms have gone global but do not have non-executive directors with relevant experience in other geographies, in particular Asia and Latin America.

Japan

Climate Change: The largest institutional investors, as well as some activists around the world, will be placing an emphasis on climate change in 2021. Japanese companies are ahead of the curve here, as they have higher than average rates of TCFD disclosure. Along with its neighbors in China and South Korea, Japan has also set net-zero carbon emissions targets for the coming decades.

Cross-Shareholdings: Cross-holdings in Japan may eventually become a practice of the past. The practice—often criticized for protecting underperforming companies—has been under significant scrutiny for many years. The Tokyo Stock Exchange (TSE) has intentionally restructured to force directors at top companies involved in these networks to sell down. Proxy advisors are implementing new strict voting guidelines against them. Although it will take time to eliminate cross-holdings completely, TSE, ISS and Glass Lewis are stepping up efforts to force them out of existence.

Independence: Board independence levels continue to be an area of increasing importance in Japan. Independent directors witnessed a sizable increase in their overall proportion among all directors in Japan, growing from 27 percent in 2019 to 36 percent in 2020.[11] Due to scrutiny around related-party transactions, investors have been increasing their focus and interest on the value of appointing lead independent directors.

10. CGLytics. "Avoiding A First Strike During the Pandemic, An ASX Executive Remuneration Study." August 2020.
11. Glass Lewis. "2020 Proxy Season Review—Japan." September 2020.

Gender Diversity: Japanese companies without a single female director or female officer shrank from 55 percent in 2019 to 50 percent in 2020.[12] In 2021, there will be a targeted approach in certain industries to continue this trend. Fifty-six percent of female board members are in one of just three sectors: industrials, consumer discretionary or consumer staples. Meanwhile, female representation in industries such as energy and utilities continues to lag behind.

Compensation: In the absence of say-on-pay proposals in Japan, investors have been reaching out to Japanese companies to encourage the adoption of compensation plans linked to performance (instead of fixed cash), as the Corporate Governance Code recommends.

ESG Shareholder Activism: Shareholder proposals in Japan will continue to rise, along with support for E&S-specific proposals. The revised Stewardship Code released in 2020 maintains the comply-or-explain approach but introduces an increased focus on ESG matters, including improving disclosure.

Singapore

Improving Transparency and Disclosure, Especially for Sustainability: Despite challenges posed by the pandemic, Singapore-listed companies saw improvements when it came to governance and transparency in 2020. The standard and quality of governance disclosures have continued to see a positive trend, as evidenced by the latest results from the Singapore Governance and Transparency Index. Singapore's listed companies improved the quality of corporate announcements and made progress in disclosing sustainable practices beyond just those related to the environment (e.g., employee health, safety and welfare policies). We expect the improvements here to continue.

Strengthening Board and Director Independence: Listed boards in Singapore will be preparing for a change in regulations relating to independence. Beginning in 2022, the Singapore Exchange (SGX) listing rules will require boards to be comprised of at least one-third independent directors. In addition, directors who have served on the same board for more than nine years will be subject to a two-tier vote by shareholders (one by all shareholders and one excluding directors, the CEO and their associates) on their independence. By the time the rule comes into effect, 25 percent of independent directors serving on SGX100 boards will exceed the nine-year limit. SGX-listed companies will have to decide whether to subject these directors to the two-tier vote or redesignate them as non-independent directors.

Stricter Audit/Auditor Regulations: In February 2021, companies listed on the main board of the SGX will need to appoint a local auditor approved by the Accounting and Corporate Regulatory Authority. In addition, the regulatory arm of SGX (RegCo) will see its powers expanded to include the ability to require listed companies to appoint a second auditor should the need arise. This can happen in circumstances where it believes that possible misstatements in the financial statements are pervasive and yet not evidenced by the incumbent auditor's opinion, and where such concerns cannot be addressed by a special auditor.

Gender Diversity: The 2018 revised Singapore Code of Corporate Governance highlighted the need for boards to be sufficiently diverse. Singapore's Ministry of Social and Family Development set a target of having women represent 20 percent of directors by 2020. The top 100 companies listed on SGX are closer to this target, with 30 companies having 20 percent or more board seats filled by women. When including the remaining listed companies, the proportion falls to 15 percent, indicating a continuing challenge for small-cap companies.

Independence and Sustainability in Other Countries in Asia

In **Hong Kong,** exchange listing rules went into effect after July 1, 2020, requiring boards to state what they are doing regarding oversight on ESG issues. Boards will be challenged to ask the right questions on sustainability risks and strategy.

In **Korea**, there is a focus on sustainability and a "no coal" policy, which has led to many banks and energy companies declining to finance coal-related power projects in Asia.

Several global investors noted that director independence remains important throughout the region, in particular in **India**.

12. Glass Lewis. "2020 Proxy Season Review, Japan." September 2020.

AUTHORS

RUSTY O'KELLEY co-leads the firm's Board & CEO Advisory Partners in the Americas and is the Global Leader of the Board Advisory and Effectiveness Practice. He is based in New York.

ANTHONY GOODMAN is a senior member of Russell Reynolds Associates' Board and CEO Advisory Partners. He is based in Boston.

LAURA SANDERSON co-leads Russell Reynolds Associates' Board and CEO Advisory Partners in Europe. She is based in London.

ANDREW DROSTE is a member of Russell Reynolds Associates' Board and CEO Advisory Partners. He is based in Boston.

SARAH EADES OLIVA is a member of Russell Reynolds Associates' Board and CEO Advisory Partners. She is based in New York.

MELISSA MARTIN is a member of Russell Reynolds Associates' Board and CEO Advisory Partners. She is based in Washington, DC.

ALVIN CHIANG is a member of Russell Reynolds Associates' Board and CEO Advisory Partners. He is based in Singapore.

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