THE ASIA REPORT 2016

A COLLECTION OF THE LATEST INSIGHTS, OBSERVATIONS AND TRENDS IMPACTING THE ASIAN BUSINESS AND ECONOMIC LANDSCAPE

EXPERTS WITH IMPACT

FTI CONSULTING

WELCOME

It has been a busy few months on the global stage, with various unprecedented events occurring across borders. This has been a year of surprises — from the results of the U.S. presidential elections to the UK European Union referendum (Brexit) — and these outcomes have undoubtedly altered our norm, making 2017 a challenging year for businesses and their strategic decision makers. For this, we would like to wrap up 2016 sharing the top insights from our colleagues across Asia.

What you will find in this report is a collection our hottest reads revolving around insights, observations and trends which are impacting the Asian businesses and economic landscapes. The articles are written by our leading experts across each segment of the business, and are intended to inform and help our clients. Organisations looking to protect value and capture opportunities in this dynamic environment can look to these articles for practical, workable solutions, and to assist in gaining an understanding on the range of complexities facing businesses today.

As a collective firm of experts, FTI Consulting offers a comprehensive suite of services designed to assist clients across the business cycle. From managing change, mitigating risk and resolving disputes, we help organisations across the globe transform the way they anticipate and respond to events, both at critical moments and for the long haul. Providing expertise on financial, legal, operational, political & regulatory, reputational and transactional matters, individually, each practice is a leader in its specific field, staffed with professionals recognised for the depth of their knowledge and a track record of making an impact.

We hope you find these articles useful and are always keen to hear your thoughts and observations.

Enjoy!

Rod

Rod Sutton
Chairman, FTI Consulting Asia Pacific region

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China

China in the 21st Century: Expectation vs. Reality

China spent much of mankind as the world's most prosperous country. Now it is back on top. But it isn't the China many expected at the turn of the century: one with double-digit growth, a powerful military and dominant corporations. Neither has it supplanted the U.S. in terms of soft power and the cultural beats that help define empires. On this measure it is even further off.

> ***"I can't be sure that 2014 is going to be China's year, or 2015 will be China's year, but I have no doubt that this will be China's century."***[1]
>
> Lloyd Blankfein
>
> CEO, Goldman Sachs

In short, it may have overtaken the U.S. this year as the world's biggest economy in terms of purchasing power parity, but it is not a true 21st Century super-power. Not yet.

Instead, the People's Republic remains focused on shoring up a faltering economy, taming an overheating property bubble and jealously protecting its borders.

Add to this the political battle to eradicate corruption from the upper echelons of government and the emergent picture is of a country fighting itself and others for an identity.

The picture looked a little different at the turn of the century when China's first five-year plan of the 21st Century called for broad reform, foreshadowing the difficulties the country would have in terms of the balance of its economy.

It called for a shake-up of its state-owned enterprises, an end to business monopolies, the development of its own technology expertise and the embracing of foreign investors.

1 Article in *Bloomberg Business* (http://www.bloomberg.com/news/articles/2014-11-05/goldman-s-blankfein-sees-china-s-century-after-growth-transition)

The global financial crisis of 2008 should have hastened this sea change as investors searched for alternatives. The fact that it hasn't, highlights the difficulties China has faced in connecting with the outside world.

Crucially though, it also suggests an economy more in tune with reality than before; one trying to find the middle ground between strong growth and responsibility.

Fifteen years into the new century and SOEs are indeed being reformed, China's technology groups are making huge strides home and abroad and foreign investors are being afforded new opportunities to take part.

The economy is faltering but is still outperforming most other countries. GDP growth reached a giddy 10.4% in 2010 and has fallen steadily since to 7.4% in 2014.

Although this is the lowest level since 1990, it is still way short of the collapse some have predicted.

Those predictions typically focus on China's overheating property market, which has displayed signs of bursting this year with the near-defaults of property developers' bonds.

"Near default" is another issue.

The implicit guarantee offered by the Chinese government has been a major distortionary factor hampering the development of China's markets, clouding investor judgment and fuelling a surge in speculative hot money.

The fact that Beijing is now trying to sever this in many parts of the economy is the surest sign that a maturing government is attempting to meet the world halfway while managing a downturn rather than inviting collapse.

Politically, the government — President Xi Jinping in particular — is rooting out corruption, with civil servants, businesspeople and other high-profile luminaries being punished. It has also investigated companies listed (and listing) on its stock exchanges in an effort to dampen inflated valuations.

Part of the drive is to encourage the world that the country is getting its house in order as it continues to open up parts of its economy to foreigners — slowly of course.

> *The economy is faltering but is still outperforming most other countries. GDP growth reached a giddy 10.4% in 2010 and has fallen steadily since to 7.4% in 2014.*

The Shanghai and Shenzhen free-trade zones, and the Hong Kong-Shanghai (and soon Shenzhen) Stock Connect schemes allow foreign and domestic investors to dip their toe.

Speaking of foreigners; China is relatively new to the foreign relations game and many had expected a dramatic escalation of aggressive tactics from China in the Asia region.

But disputes over islands and fishing waters with the Philippines, Japan and others have largely been peaceful and its "One Belt One Road" strategy will see a reopening of the Silk Road to Central Asia and Europe.

China also continues to fund projects in Vietnam, the Philippines and Indonesia, while its state-owned banks have started lending money to Indian corporates.

Perhaps the greatest sign of its financial and political maturity is the Asia Infrastructure Investment Bank (AIIB), which China is organising.

In spite of some nervousness and opposition from the U.S. and Japan, it is being embraced across the region as an alternative to the U.S.-centric World Bank and ADB.

> *The key issue for China as the century unfolds is to convince the world it has a compelling idea or set of ideals worth adopting. The AIIB is a good start.*

China also continues to build ties with the U.S. business world (Alibaba, Tencent), is building management expertise by buying European assets and continues to play an active role in developing projects in Africa.

China's changing relationship with Australia is another case in point and highlights the Middle Kingdom's efforts to rebalance its economy from low-end manufacturing to consumer goods.

In the early part of the 21st Century — at the height of the commodities boom — Chinese groups made plays for Australian miners, drawing suspicion from Canberra.

The sentiment threatened to spill over into hostility at times but the end to the commodities boom coupled with the rebalancing of China's economy has changed the game.

Australia's dairy and agricultural groups are now perhaps more important as China seeks to secure food supplies for its burgeoning middle class.

The usual opposition exists but there are signs many in Australia are adopting a more common sense approach to the attention.

Furthermore, this year marks the 40th year of diplomatic ties between the two countries and a key free-trade deal was signed at the end of last year after a decade of talks.

This should give Australian companies access to potentially lucrative Chinese industries as well as access for Chinese companies to key investment projects in Australia.

This economic rebalancing is helping to define many of China's moves in the political and business spheres.

In the latest five-year plan, which will take the country up to 2020, the leadership will seek to further develop the central and western regions and its ties with Central Asia and Europe through the re-imagining of the Silk Road.

The success of the plan will help to better define the parametres to Chinese power. And, with the U.S. recovery uncertain, the next five years are crucial for the world.

Perhaps the key question is not one of politics or economics.

The U.S. didn't just become the world's most powerful country through finance; it also exported an idea in the "American Way".

The key issue for China as the century unfolds is to convince the world it has a compelling idea or set of ideals worth adopting. The AIIB is a good start.

In the meantime, in the early days of the century, 7% economic growth will have to do.

Lloyd Blankfein, the CEO of Goldman Sachs, summed things up nicely when he spoke of the China question: "I can't be sure that 2014 is going to be China's year, or 2015 will be China's year, but I have no doubt that this will be China's century."

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East is East and West is West: A Golden Era for UK-China Relations?

A four-day visit with royal fanfare, state banquets and £40 billion worth of trade deals. When Chinese President Xi Jinping visited the UK in October, we saw a glimpse into what will likely be the dominant trade future for Britain in years to come. A nation looking East, Britain's future will likely be intertwined with Chinese economic and political decision making, in a similar way to its liaison with the EU, or the "special relationship" it enjoys with the USA. This FTI Consulting snapshot examines the Sino-British relationship, looking at its current political and economic context, and addresses what may be in store with respect to further cooperation. To offer a comprehensive, bilateral analysis of this important strategic relationship, we offer views from both our Beijing and London office focused on potential opportunities for British and Chinese businesses alike.

> "Some have called it a golden era in relations between Britain and China, an era of stronger economic ties, deeper trade links, closer relations between our peoples and meaningful dialogue on the issues that matter to us both."
>
> *— Rt. Hon. David Cameron MP, October 2015*

The next century is an Asian one, and the last few months have shown a renewed effort from the British Government to shore up ties with China, particularly highlighted by recent remarks from David Cameron reinstating his insistence that Britain become China's "first friend in the West." Recent diplomatic efforts have focused on an idea of "people to people" dialogue and exchange, to enhance understanding and cast away misconceptions between the two nations. This exchange happened at the highest level, with the Chancellor of the Exchequer George Osborne instigating this strategy in August during his visit to China, and Chinese President Xi reciprocating with his stay in October. Both delegations demonstrated a clear commitment to trade and investment, with President Xi's visit alone generating £40 billion worth of deals. On both sides however, it is political motivations driving forward the decision to entrench these bilateral ties.

Facing East: The View from London

As far as the British Government is concerned, enhanced cooperation with China is a domestic political gain. Where the Government is faced with quandaries, turning East provides solutions. Chinese coffers provide new opportunities to bolster Britain's infrastructure and industries which have the potential to either fail or prevail. One recent example of this is China agreeing to invest £6 billion into Hinkley Point C, a flagship nuclear power deal which has significant and far-reaching implications. Both Chinese and British governments have chosen politically-charged slogans to describe their key infrastructure and investment projects. Chancellor Osborne's big legacy will surely be his oft-vaunted "Northern Powerhouse" — a series of strategic political and infrastructure deals with the ultimate aim of boosting investment capital away from London and the South East to a more equitable, regional geographic distribution.

It has been an astute move by the Government to secure a large external funder for part of this regeneration, providing a boost to the Northern economy at a time when the balance sheet isn't quite adding up. Indeed, a key part of President Xi's October State Visit was a day dedicated to exploring opportunities in Manchester and the wider North, including a visit to Manchester Airport and Manchester City Football Club.

The China-Britain Business Council (the Chinese representation of UK Trade & Investment) is making a concerted effort to woo Chinese investors away from London. Indeed it will now be easier for the Chinese to make the journey, a concrete outcome of the Northern visit being the announcement of a direct flight route between Manchester and Beijing. Reciprocally, China is embarking on a largescale pan-Asian investment strategy, which roughly translates to: "One Belt, One Road." These are a series of strategic investments in infrastructure across Asia, passing through the major trading posts of past years, including the old Chinese Silk Road, as well as maritime trade routes via South East Asia, around India and ultimately to Europe from Iraq. Osborne's decision to invest here, albeit more modestly, is motivated by a desire to show cooperative unanimity with China, and to demonstrate that the relationship is well and truly mutual. Of course the Chancellor also sees the potential for an Asian future, and being part of its rise through the "One Belt, One Road" investment project will surely provide long term capital gain.

Across a range of industries, Chinese investments have been flowing into the UK — even before the 2015 deals were announced. In 2014, total Chinese imports to the UK were worth some £36 billion. This trend looks set to continue given increased efforts by China to internationalise its currency, the renminbi (RMB), with a particular aim to increase levels of RMB trading through the City of London. Perhaps the most exciting area of investment between the two nations for the future will be within science and innovation. China wants to move away from being viewed predominantly as the world's producer to the world's innovator. It sees the UK as a leading hub of innovation in growing industries such as life sciences, as well as tapping into the digital boom coming out of Tech City, which provides a pool of partnership talent for Chinese "RedTech."

The cultural economy will be a driving force of economic integration, and 2015 was designated as the year of China-UK Cultural Exchange. The British Council and Confucius Institute have made concerted efforts to enhance Britain's soft power capacities, understanding that with better people-to-people understanding through culture and education, the relationship is likely to succeed for generations to come. As such, we are seeing travelling exhibitions from the British Museum and British Library, as well as travelling productions from the Royal Shakespeare Company which are due to tour Beijing's theatres. Britain, of course, remains a top destination for Chinese students opting for postgraduate study, and the warmth they develop for Britain during these sojourns is said to be vital to future business success. Britain also has a lot to offer China in terms of building up its own cultural industry. As China's middle class burgeons the Chinese government has specifically allocated a proportion of its economy for the "cultural economy" to move away from saving, and encourage consumption and spending. Britain leads the way, and there are opportunities for our cultural institutions, as well as creative industry leaders and SMEs, to capitalize on the growing demand in the China for the cultural economy.

Sinophiles and Sinosceptics

Just as with Britain's relationship with the European Union, we are likely to see a division emerge, between the Sinophiles and the Sinosceptics. The question of trade at the expense of human rights is something which dampened the fanfare of the October state visit. Britain has traditionally held a strong diplomatic stance against human rights abuses and the clampdown on political freedoms in China, specifically with regards to Tibet and Hong Kong. The Prime Minister's decision to meet the Dalai Lama in 2013 was viewed negatively by the Chinese administration, and it is noteworthy the relatively lacklustre levels of trade the Government was able to achieve during that visit, compared to the 2015 delegation which saw a turn in the tide. Cameron's decision to move these difficult conversations "behind closed doors" and focus on the achievable trade wins was therefore criticised in some corners as a jettisoning of national principles advocating free speech and civil liberties. More broadly, the new deal with China marks a new stage of globalisation in Britain. Whilst foreign entities are actively encouraged to invest and trade, unexpected consequences may arise, with the potential to shift public opinion. The import of cheap Chinese produce has already had a knock-on effect on ailing British industries, most notably steel. The recent plight of SSI Redcar, which will see the factories shut, and coke ovens extinguished, is primarily the result of the availability of cheap Chinese materials, which has left the Teesside plant unsustainable. China's own economic slowdown has been the subject of deep analysis in recent months, and it remains to be seen how China's macroeconomic vicissitudes will impact the British economy in the years to come.

How the Labour Party chooses to respond to China is also of particular interest. As with other issues, opposing camps are likely to emerge over the coming years between left and right flanks of the party. On the one hand, the firebrand Shadow Chancellor John McDonnell has repeatedly criticised the Government's strategy, specifically its decision to "sell off state assets" to China (Labour Party Conference, 2015) and has spoken of his scepticism at the Hinkley Point deal. By contrast, perhaps the most steadfast advocate for closer integration with China is the "Blairite" former Treasury Minister Liam Byrne MP, who has long advocated for closer ties with China, and whose recent comments in the *China Daily* praised the "true interdependence" the counties would soon share. In Britain at least, how the Sino-British relationship develops is linked to popular perception and the will of the people, and understanding the political context on all sides will be important for analysts.

Looking West: Analysis from FTI Consulting Beijing

During David Cameron's 2013 visit, the Prime Minister was somewhat derided in both Chinese social and traditional media as a representative of a once powerful nation that now pales in comparison to a revitalised China. The Communist Party-owned *Global Times* even wrote that "the Cameron administration should acknowledge that the UK is not a big power in the eyes of the Chinese. It is just an old European country apt for travel and study."

Fast forward two years and the Chinese fanfare surrounding President Xi's recent visit to Britain bears witness to the extraordinary sea change that has occurred in relations between the two countries. Social media discussions on the virtues of British culture have been trending, Xi himself praised Britain's "visionary and strategic choice" to become China's best friend in the West, and China's state media apparatus was put into overdrive to proclaim a new 'golden era' in bilateral ties. All of these clearly signal rosy times ahead for Chinese and British businesses wanting to expand their trade and investment into the other marketplace.

China's leaders perceive a solid economic rationale in forging much closer ties with the UK. Investment into Britain clearly serves Xi Jinping's policy goal to promote a new wave of external investment away from commodity-rich and developing nations to large Western marketplaces. The UK offers Chinese businesses significant capital-making and excess capacity offloading opportunities at a time when both economic and infrastructure investment growth rates in China are slowing. It also represents a solid testing ground to toughen up state-owned enterprises and large private companies by forcing them to hone their corporate governance and competitiveness in a mature marketplace. However, as such economic opportunities could be found in most developed marketplaces, China's decision to elevate its ties with the UK can best be explained by the broader political opportunities it offers. China sees in the Conservative government a counterpart that is willing to put business above other considerations. The UK's deference gives the Communist Party an internal propaganda win by allowing it to seemingly flaunt its influence over a country that was the last great empire of the world. More importantly, it can be seen as supporting the achievement of several other political goals by way of the Sun Tzu military stratagem to "build your opponent a golden bridge to retreat across."

The UK is a diplomatically influential country, a United Nations Security Council member, a European Union ("EU") member state, cultural powerhouse and close ally of China's primary competitor, the U.S. Acquiring a greater degree of acquiescence or support from Britain on a number of difficult issues that China will face in the future may therefore prove to be invaluable. George Osborne's decision to eschew human rights during his state visit was likely very important in paving the way for the scale of President Xi's visit to Britain a month later. As a more Eurosceptic country, Britain presents further opportunity for China to try to bring its influence to bear. The EU is China's largest trading partner and trade spats between the two are likely to continue to rise in number as the respective economies come closer together. Being able to call upon a close EU member state friend — that is already known to have internally voiced opposition to EU threats — to defend trade cases against China could be very useful. Xi Jinping's remarks to Cameron against a Brexit will not have been lost on many of those walking the halls of the Directorate General for Trade of the European Commission in Brussels.

Conclusion: What's Next for Global Business?

It's clear that strategic political considerations are foremost in the minds of China and Britain's leaders. The implications for closer relations will bring significant business opportunities for companies from both sides. Chinese companies seeking a more accommodating political environment for M&A deals with British technology and patent-heavy companies stand to gain, as do Chinese companies in infrastructure-related, energy and telecoms sectors. However, while the political environment will likely be more supportive, Chinese companies will still need to adapt their operations to succeed in the highly mature British legal environment. In addition, Chinese companies that are able to develop transparent public engagement programmes to communicate with community stakeholders would stand more chance of success, particularly as Chinese businesses tend to be viewed with a higher degree of scepticism in Britain than most usual investors.

While British companies across a number of sectors will likely already be canvassing their politicians to be included in negotiated deals at the next senior bilateral government meeting with China, a number of British companies already stand to gain from increased investment opportunities. An example would be for companies in the technology and creative industries, which have a large and growing market in China. However, while China is generally liberalising its investment environment as part of a broader reform agenda in the country, protectionism is still commonplace and political risks are growing in tow with increased regulatory enforcement. British companies operating in China need to be able to communicate clearly how their offering stands to benefit China. Understanding and anticipating political and regulatory developments in both countries will be key to the success of companies investing on either side. For it will be through assured preparedness of defensive strategies and crisis protocols that investing entities will have the best chance of international success.

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Learning Enforcement Lessons in China

Much has been written and discussed regarding the structural subordination of an offshore lender and investor. Yes, it is much harder to participate in an onshore restructuring for any investor/lender that has their exposure through an offshore vehicle. That is hardly new news.

What is new however, is the steps that many offshore parties are taking to leave themselves better placed if there is a default, the lessons that can be learned from past strategies employed and what experience shows is the best way to achieve results.

In this article we explore the enforcement environment in China from the angle of the foreign investor or lender and the key lessons that have been learnt.

Gaining Control in China — It Is Getting Better

The bane of the existence of the insolvency practitioner appointed to an offshore company is often getting control of the onshore business following the occurrence of a default. This has often been difficult and problematic where the existing Legal Representative refuses to hand over the chops and business license of the onshore company. Faced with such resistance, the insolvency practitioner is generally forced to apply to the relevant Chinese Court to have resolutions they have passed appointing a new Legal Representative declared valid by the Court and seek to have new chops made.

However, in recent times, the process does seem to be getting better. Why is that? It could be because after all these years, the Chinese Courts have become more accustomed to the types of applications being made by the foreign insolvency practitioner. Or maybe it is because the insolvency practitioner and their PRC legal counsel have become better at making the applications. Or maybe the policy makers often hidden away in the background are finally accepting that the insolvency practitioner is better placed to restructure the debt laden onshore company. Or is it a temporary blip in the application of common sense (and the law)? The truth is we don't really know but it is probably a combination of all these factors — hopefully not too much of the latter.

It certainly is the case that the foreign practitioner and their onshore legal counsel are more experienced in seeking to take control and are working the system better. That is not to say all such applications go smoothly, that they won't be subject to frustrating delays or that they are all successful. But recent experience does show that the tide has turned in favour of the insolvency practitioner. Long may it continue.

Too Many Parties Aren't Paying Attention to Their Exposures in China

It is a difficult environment in which to find good deals to do. Competition for the best deals is tough; parties need to move quickly; they need great connections. Yes, doing the deal is tough but it is often amazing how little attention the deal receives post completion. It isn't good enough simply to receive, or wait quietly for, the annual accounts from the Chinese business partner. Or to ask some questions by email and be mildly accepting of a vaguely informative response to some of the many questions asked.

Investors and lenders must actively monitor their investments. This means if it was agreed to put in place certain governance structures post investment, that these rights are actively and promptly pursued. It means regular meetings with Chinese business partners, ensuring regular access to information and obtaining satisfactory answers to all questions asked.

If there is one lesson above all others we want investors and lenders to heed, it is that doing nothing, gets nothing. If there is a problem, it almost never gets better by doing nothing.

Substantial value can be destroyed by sitting idly, by wanting to believe management will do the right thing and by believing the next promise will be acted on after the previous half dozen broken promises.

If there is one lesson above all others we want investors and lenders to heed, it is that doing nothing, gets nothing. If there is a problem, it almost never gets better by doing nothing. Proactive, assertive action might bring forward a loss, but it will be a smaller loss than the one suffered two or more years later after taking no or very little action.

Fraud — Same, Same But Different

First of all, don't let anyone make you believe there isn't much fraud occurring in Chinese companies. Sadly, the position is probably far worse than you can imagine. A low interest rate environment, companies desperate for access to cash and management needing to show results in a slowing economic environment, creates a perfect platform for fraud. And with there being more corporate debt in the PRC than among even U.S. companies, it is a sure bet that a meaningful enough proportion of that debt is funding fraud or losses connected to that fraud.

So, no change there. But the types of frauds that are occurring are a bit different. The frauds of Moulin Global Eyecare and Peace Mark Holdings are different than the alleged frauds of Sino Forestry and those alleged by short sellers. The fraud seems to be growing in sophistication. Or is it? Maybe there is less "bad fraud" (outright fake businesses) and more "good fraud" (accounting manipulations) although the low interest rate environment is likely helping to hide the extent of bad fraud that is occurring.

One thing is for sure, there are warning signs to fraud if you know where to look. We do. A key starting point is actively monitoring the investment or loan and being proactive if the situation is not going to plan.

The Best Results Will be Consensual

Let's face it, in an enforcement type scenario in relation to offshore exposures and an onshore business, returns can often be poor. This is usually a function of the offshore lender/investor's position in the capital structure, the often alarming levels of onshore debt that have built up and the poor underlying performance of the onshore business.

It will also be a factor of the position of the foreign investor or lender in the capital structure. As such, the best success stories in relation to Chinese restructurings with offshore exposures, are consensual outcomes. This requires compromise by both parties, and whilst onshore litigation might ultimately prove successful for the offshore party or their appointed practitioner, the one to two years it might take to win in a Chinese court could have destroyed a lot of value in the meantime.

Find Some Leverage

If a lender or investor is struggling to achieve that consensual restructuring, it is essential to find some leverage to use to either help find a way to achieve a consensual restructuring or to improve returns. What are the pressure points that each party can bring to bear to help get a result they want, or at least are comfortable with.

And if an offshore party seemingly has limited leverage, how can they identify pressure points they can bring to the table. The use of investigative due diligence to find weak spots in the other side's position can be incredibly valuable and is something we have frequently done using FTI's Global Risk and Investigations Practice.

Having a structure in place that can help swift action to be taken is also essential. For example, ensure a share pledge or offshore security is taken to enable the prompt appointment of a Receiver rather than relying on pursuing an unsecured claim through an offshore court. What offshore assets are there that could prove to be valuable security if things go wrong e.g. security over offshore receivables, requiring cash to be held in offshore bank accounts, pledges over intercompany loan accounts and even personal guarantees can be useful areas of leverage to apply. The existence of offshore assets might also allow for a mareva injunction to be applied for to freeze those assets in the right circumstances.

> *As such, the best success stories in relation to Chinese restructurings with offshore exposures, are consensual outcomes. This requires compromise by both parties.*

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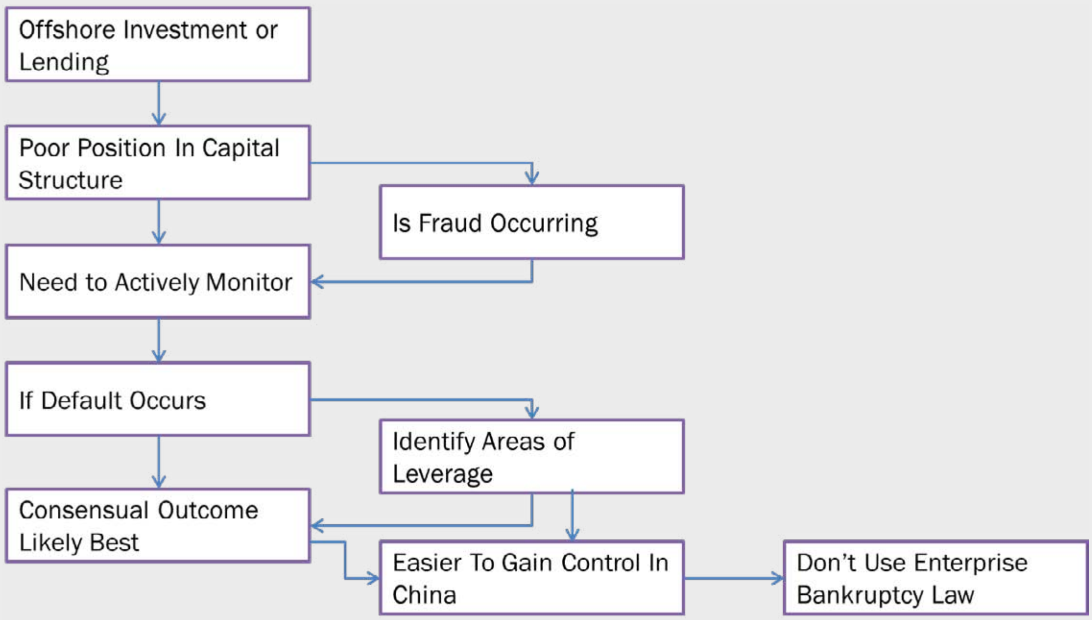
Offshore Investors/Lenders Aren't Using the Enterprise Bankruptcy Law

In 2007, the PRC Government enacted the Enterprise Bankruptcy Law. It was and still is a gleaming example of progressive bankruptcy law. On paper, the application of the law however has been a bumpy ride with inconsistent results, a lack of understanding of its operation and many judges refusing to accept applications on spurious grounds. Whilst there have been some high profile examples of use of the law, it can hardly be said to be a success to date, especially from the perspective of the offshore investor/lender. And the reality is very few offshore lenders or investors will be advised to or be prepared to seek to use the Enterprise Bankruptcy Law.

Tying It All Together



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Xi's Master Five-Year Plan: Adjusting to the New Normal

On the last day of the annual *Lianghui* (Two Session), China's National People's Congress delegates almost unanimously approved the 13th Five-Year Plan (2016-2020). For all intents and purposes, the Plan is Xi Jinping's plan: for the first time in approximately three decades, the original briefing on the draft was given by the President himself at the Party's Fifth Plenum, rather than by the Premier.

Its context is the new normal, a phrase first used by Xi in 2014 to describe China's economic status quo. Positioned as an active economic transition, the new normal denotes three changes in the Chinese economy: a gearing down of China's development speed from high to medium-level growth; a shifting focus from industrial production and manufacturing to services; and a focus on innovation and consumption as drivers of growth rather than investment and exports.

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China's Five-Year Plans are not action plans. They are instead intended as broad sets of overarching social and economic development guidelines to direct policy-making and resource allocation at all levels of government. In doing so, the Plans are also intended to induce companies – state-owned and private alike — to re-orient their strategies and focus their investments in line with promoted industry sectors and priorities.

Xi's 'master plan' is designed with the overarching goal of developing China into a "moderately well-off society" in mind. To do this, the government has again set a hard target for the country's GDP growth. Annual economic growth for the coming five years should average at least 6.5 percent, a goal that would see a doubling of China's GDP and per capita income between 2010 and 2020. While the range underscores an appreciation of the need to sacrifice some of the speed of growth to restructure the economy, discarding hard GDP targets would likely have instilled greater confidence amongst those wanting to see evidence that the reform agenda was to take precedence over growth.

What's New?

Five key development themes are central to the 13th Five-Year Plan. The inclusion of innovation and shared development as two of these themes represents the first time these two concepts have been given such major billing in the State's primary planning document. They sit alongside the more familiar priorities of green growth, coordinated development and opening up.

Together, these are the five major trajectories of China's next five years. The following paper gives an overview of these themes as well as some of the potential opportunities and implications for international investors.

Innovative Development — Creating an Innovation Nation

This 13th Five-Year Plan is the first ever Communist Party of China document in which innovation has been listed first in the ordering. Driven by the pre-existing concepts of *Made in China 2025* and *Internet Plus*, China has vowed to take decisive steps to upgrade its manufacturing capabilities in line with the innovative and smart technologies that are expected to govern future industrial production. The Plan also calls for companies to harness the Internet and big data to improve the daily lives of China's people. However, the Plan still does not provide any greater clarity on how China plans to transition from a country that is already spending a significant portion of its GDP on R&D to one that is generating genuine innovation.

Foreign investors who can help advance China's innovation capabilities stand to benefit. Opportunities exist in areas including energy, environmental protection, biotechnology, IT and high-end manufacturing, though domestic technologies will likely still be promoted in strategic or national security-related areas.

Coordinated Development — Bringing China Closer Together

The coordinated development goals aim at addressing the gulfs in industrial production and consumption between the coastal and inner regions of China. With the march of urbanisation, the Chinese government is encouraging foreign investors to 'go west' from their traditional coastal clusters to mid and western regions. With potential opportunities likely to emerge in lower-tier cities, a geographic readjustment of investment and vertical penetration into lower-tier markets may become critical to maintain high growth in some industries.

Green Development — A Lean and Green Economy

China's reliance upon heavy industry and fixed-asset investment, in addition to lax enforcement of environmental standards, has led to severe environmental and ecological degradation. This directly affects the quality of life and health of China's citizens and is recognised as being a potentially absolute limiting factor on China's economic growth.

The 13th Five-Year Plan period will witness a focus on both sustainable production and consumption, as well as continued changes to China's energy mix and infrastructure to increase the proportion of clean and renewable energy sources. China will also support technology R&D and the further commercialization of carbon emission reduction, energy-saving and efficiency-improvement technologies. While foreign environmental and renewable energy companies have long suffered market access restrictions, the emphasis on green development should lead to increased opportunities as the country encourages the uptake and deployment of globally-leading environmental products and solutions. Also, as sustainability has long informed the lexicon of many multinational companies in China, it is a concept they will be able to leverage not only to benefit their businesses but also to build favourable platforms from which to engage various public and private sector stakeholders.

> The Plan should also be regarded as a communications guide for firms to position themselves in-market.

Open Development — Looking Outside

Many commentators understand China's commitment to opening up to singularly mean a liberalisation of China's marketplace for foreign investment. However, this is only a small part of the story. Opening up also relates to relaxing domestic market restrictions for private Chinese companies. More significantly, it also relates to the loosening of restrictions for — as well as active support to encourage — domestic companies to invest in overseas markets. An understanding of these additional aspects of China's opening up policy explains why many foreign investors have been underwhelmed by the speed and breadth of investment liberalisation since the promulgation of the Third Plenum *Decision*. The 13th Five-Year Plan does little more than reaffirm China's stance on its opening-up policy as iterated in the *Decision*.

The Plan promises a national rollout of the negative list system for foreign investment, which will undoubtedly bring opportunities for companies in many sectors to access China's market. However, foreign companies should not expect China to fully shake off its protectionist tendencies that continue to curtail full market access. Many foreign business leaders will likely be disappointed that the Plan doesn't emphasise the theme of the 'market-led' economy as strongly as the *Decision* did. Further, the Plan reiterates that state-owned enterprises ("SOEs") should continue to be the backbone of China's economy, dominating crucial sectors. While further SOE reform is mooted, additional aspects of the Plan will raise interest amongst foreign companies concerned that reform efforts following the *Decision* are yet to take hold in the area of SOEs. For example, China has committed to position a group of major Chinese multinational corporations to become global leaders in their fields. This point also relates to China's increasing encouragement of outbound investment, which we are already witnessing this year with the spate of global M&A transactions by Chinese firms. Such outbound investment is set to continue to grow throughout the next five years. This will provide opportunities for foreign investors to attract Chinese investment and also for foreign professional service firms to support Chinese companies going global.

Shared Development — A Real Sharing Economy

The concept of shared development relates to the objective to distribute the fruits of China's three decades of reform-based growth to the Chinese people en masse. Key policies include poverty alleviation, universal and fair access to education, a 'healthy China', and an end to the one-child policy. A Chinese baby boom triggered by the "two-child policy" will not be an overnight phenomenon, but it will certainly have far-reaching consequences for consumer-facing businesses as the proportion of children in China's demographic is set to increase. Foreign investors will likely also be able to seize breakthrough opportunities derived from healthcare reform as the 'healthy China' programme is rolled out, with the government encouraging the establishment of wholly foreign-owned healthcare institutions and elderly care facilities.

Adjusting to the New Normal

The 13th Five-Year Plan is not a game-changer. The development themes in the Plan closely reflect those already outlined in the Third Plenum *Decision* nearly two and a half years ago when Xi cemented his vision of how China must respond to the realities of the new normal. While there is nothing new of note in the Plan to indicate marked improvements for foreign industry, this is not to say that it isn't significant or that it doesn't present opportunities.

China's slowing growth during the 13th Five-Year Plan period will certainly pose challenges, but the new normal also presents opportunities. Foreign companies have more experience operating in markets during times of slowing growth and are generally better equipped than their Chinese counterparts with technical expertise and operational excellence to respond to changes. The Plan is an undoubtedly crucial document to understand China's future trajectories during the new normal and to determine opportunities that might impact how companies choose to hone their business plans. This is particularly the case for those companies that foresee possibilities to move into new spaces that could provide significant growth potential or that were not previously accessible. In addition, the Plan should also be regarded as a communications guide for firms to position themselves in-market. In doing so, companies should demonstrate how their businesses are aligned with its tenets and can help the government achieve the country's principal development goals.

Now that it has been rubberstamped by the National People's Congress, the Plan will cascade downwards over the next few months to provincial, local, regulatory and other government entities. These authorities will be tasked with developing their own, more actionable, sectoral, industrial and local Five-Year Plans that will have more direct impacts on companies operating in those areas. As these authorities will themselves need to determine how to mould their own plans in line with the central-level document — which purposely lacks clarity on how the development themes and concepts will be made into reality — there is therefore the possibility for companies to engage with these authorities to shape the lower-level plans. The window of opportunity for this is now.

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India

23 JUNE 2016

INDIA DISCLOSURE INDEX

HOW INDIA'S LEADING LISTED COMPANIES FARE ON
MANDATORY & VOLUNTARY DISCLOSURE

EXPERTS WITH IMPACT

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Executive Summary

Introduction

Indian capital market regulations on disclosure and communications by listed Indian corporations has seen significant change in the last 18-24 months. This started with disclosure related provisions in the New Companies Act 2013, the amended Clause 49 of the Equity Listing Agreement introduced by the Indian capital market regulator Securities and Exchange Board of India (SEBI) and the recent SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. This regulatory enthusiasm has prompted Indian corporate boards and directors to document and disclose information that is deemed relevant and valuable to investors. This covers institutional as well as retail, international as well as domestic, giving a much needed boost to the cause of raising corporate governance standards in India

By holding boards of Indian companies accountable for their own performance; the risk management processes within the company; the whistleblowing policy; disclosure of related party transactions (RPT) and conflicts of interest; director compensation; and demonstrating corporate social responsibility by corporations, the Indian regulator has indicated the role that it sees for itself — to craft regulations that help create world class corporate boards in India with best-in-class corporate governance standards. However, the debate on how much information companies should disclose continues. Should it only be to the extent mandated by law or should it be proactive/voluntary disclosure of meaningful information? The debate reveals quite a lot about prevailing standards of corporate transparency.

Recognising that disclosure is a moving target and with the regulator indicating its preference for a 'continuous disclosure' regime, FTI Consulting reviewed publicly available information disclosed by leading publicly-listed companies in India to ascertain current practice and identify trends that would be helpful to boards of such companies. Combining information parameters that are mandated by law with additional information parameters that are offered voluntarily by publicly-listed companies in the interest of greater transparency, FTI Consulting created a weighted, Composite Disclosure scoring system, with seven Mandatory Disclosure parameters and seven Voluntary Disclosure parameters; and applied it to the Bombay Stock Exchange (BSE) Top 100 and the BSE 200 index constituents. The report findings below reveal current disclosure practices amongst India's leading companies (top 200 by market capitalisation).

The India Disclosure Index 2016 is the second edition of the India Disclosure Index report series. The universe of considered companies in the 2016 report has been doubled since the 2015 report (when only BSE 100 companies were studied), and the methodology improved to include Annual Report information. To easily compare with the 2015 report, FTI Consulting has evaluated BSE 100 and the next 100 companies (i.e. BSE 200 without the BSE 100 constituents) separately for the 2016 report.

Report Findings

Composite Disclosure Scores

Overall as a group, the BSE 100 index constituents, have an average Composite Disclosure score of 7.4/10, a significant improvement compared to 6.7/10 from 2015 primarily on the account of improved Mandatory Disclosure scores.

- Almost 45% have Composite Disclosure scores of eight or more which is up from 26% in 2015 - and includes eight companies which stand out for achieving the maximum score of 10 (Axis Bank, Bharti Airtel, Federal Bank, IndusInd Bank, Infosys, Shriram Transport, Sun Pharma & Vedanta).
- Only six companies, compared to 25 in 2015, of the BSE 100 index constituent companies have low Composite Disclosure Scores of five or less.

The next BSE 100 i.e. the BSE 200 without the BSE 100 companies does slightly better than the BSE 100 with an average Composite Disclosure score of 7.4. Six companies in this group have a score of 10/10 (Biocon, Cholamandalam, Jubilant Lifesciences, L&T Finance, SKS Microfinance & Welspun).

Mandatory Disclosure Scores

Overall as a group, the BSE 100 index constituents have an average Mandatory Disclosure score of 3.7/4, significantly up from the average of 3.1/4 in 2015.

- 71 of the 100 companies in the BSE 100 Index had a full 4/4 score for Mandatory Disclosure (up from 41 in 2015), with the remaining 29 falling short on either one or some of the mandatory disclosure parameters. This is a significant improvement within the last year. However, there are still close to a third who fall short of what we have considered to be full mandatory disclosure.
- Only three of all BSE 100 index constituent companies have Mandatory Disclosure scores less than 2.5 (compared to almost half in 2015), reflecting the leap by BSE 100 companies in mandatory disclosure compliance.

- A significant reason for improvement has been the improved individual scores regarding 'analyst engagement information AND earning call transcripts' with 73% providing this information, which is up from 49% in 2015. A little over a quarter of the companies (27%) did not provide this information. Some of them interpreted the revised regulations to disclose details of the analysts they met but not the information they shared or exchanged, in violation of the spirit of Fair Disclosure and Transparency that was the context of the revised regulations.

The Mandatory Disclosure score for the next BSE 100 i.e. the BSE 200 without the BSE 100 companies with 3.4/4, with the weakest performance on Analyst Engagement Information AND earning call transcripts. Only 49% of these companies disclosed this information on their corporate websites.

Voluntary Disclosure Scores

Overall as a group, the BSE 100 index constituents have an average Voluntary Disclosure score of 3.7/6, up from 3.5/6 in 2015, when reviewed against seven voluntary disclosure parameters (see methodology).

- Only eight of the 100 companies in the BSE 100 Index had a full 6/6 score for Voluntary Disclosure, reflecting the low priority placed on providing additional information. Banks account for half of this group with Voluntary Disclosure scores of 6/6 — namely, Axis Bank, Federal Bank, IndusInd Bank and Shriram Transport. Infosys, Bharti Airtel, Sun Pharma and Vedanta were the non-bank players in this list of high Voluntary Disclosure scorers.
- A little over a quarter of all BSE 100 index constituent companies have Voluntary Disclosure scores of three or less (marginally down from a third in 2015) and two companies had the lowest Voluntary Disclosure score of 0.5 /6.
- 37% of the BSE 100 constituents did not provide convenient whistleblowing mechanisms to report fraud or unethical activity through a convenient channel (email/phone), even though all BSE 100 companies have instituted a whistleblowing policy as per mandated norms.
- Lack of risk management metrics or mitigation information was the single largest reason for low Voluntary Disclosure scores, with 68% of Indian companies not providing adequate information in their Annual Reports or their corporate websites. Banks and financial services players accounted for half i.e. 16, of those who did provide this information. Inadequate profitability and margin improvement narrative were other major reasons for low Voluntary Disclosure score with 46% companies not providing this information.
- Interestingly, Voluntary Disclosure on both Debt Information and Business Strategy Articulation saw the biggest jump from 2015 numbers, accounting for 26% and 20% improvement respectively over last year's numbers for companies that provided information on these two parameters.

The Voluntary Disclosure score for the next BSE 100 companies is 4/6, with the weakest performance on Debt Information and Business Strategy Articulation (same as it was with the BSE 100 companies in 2015).

Conclusion

The top 100 listed Indian corporations, by market capitalisation, have made significant progress on following Mandatory Disclosure norms and compliance in 2015. Whilst some might say this has been forced, the improvement has been impressive. Companies have expended significant resources in reviewing disclosure policies and creating the necessary processes to be aligned to the new regulations. Clearly, some Indian companies are leading the way — leveraging disclosure as a strategic signal to investors, employees, business partners and the public — that they are well governed and best-in-class corporations. At the same time, there are Indian companies which have embraced regulatory changes in a strictly legalistic manner — following the letter but not necessarily the spirit of the regulations. Requirements of disclosing information about analyst engagements and presentations made to them have at times been selectively interpreted as information about analyst engagements only without making the information shared with them available to the wider public.

Expectedly, BSE 200 companies (other than the BSE 100 constituents), taken as an aggregate, lag the aggregate BSE 100 constituents' Mandatory Disclosure scores, but beat them (albeit marginally) when it comes to Voluntary Disclosure. Could this be a more ambitious or enlightened perspective for this group, as they seek to attract investment and grow to replace constituents in the top 100 list? Only time will tell.

The greatest progress on Voluntary Disclosure by the BSE 100 constituents has been made on two parameters — better Debt Related Information and Strategy Articulation. These were areas that were identified as weaknesses in the 2015 report. Both show up as weaknesses for the next 100 companies — indicating perhaps the areas to focus on for these companies in 2016.

Superior disclosure practices are a proxy for superior management quality and better corporate governance. The 2016 report makes qualitative comments on good disclosure practices in addition to measuring both, voluntary and mandatory, disclosure standards. The 2016 India Disclosure Index report should serve as a useful tool to help board members in benchmarking disclosure practices and better guide their own companies.

Qualitative Observations: Disclosure Best Practices

The following table sets out some examples of good practices noted during the research undertaken for the India Disclosure Index 2016:

Board/Director Evaluation

- Annual 360 degree feedback for board members.
- Sample evaluation questionnaire completed by directors.
- Third-party has evaluated board performance and shared report.
- Board and director evaluation completed on a five point scale.
- Director rating mechanism explained.

Risk Mitigation Information/Metrics

- Details of risk mitigations by risk category.
- Risks and counter measures detailed.
- Risk report prepared by CFO and submitted to board.

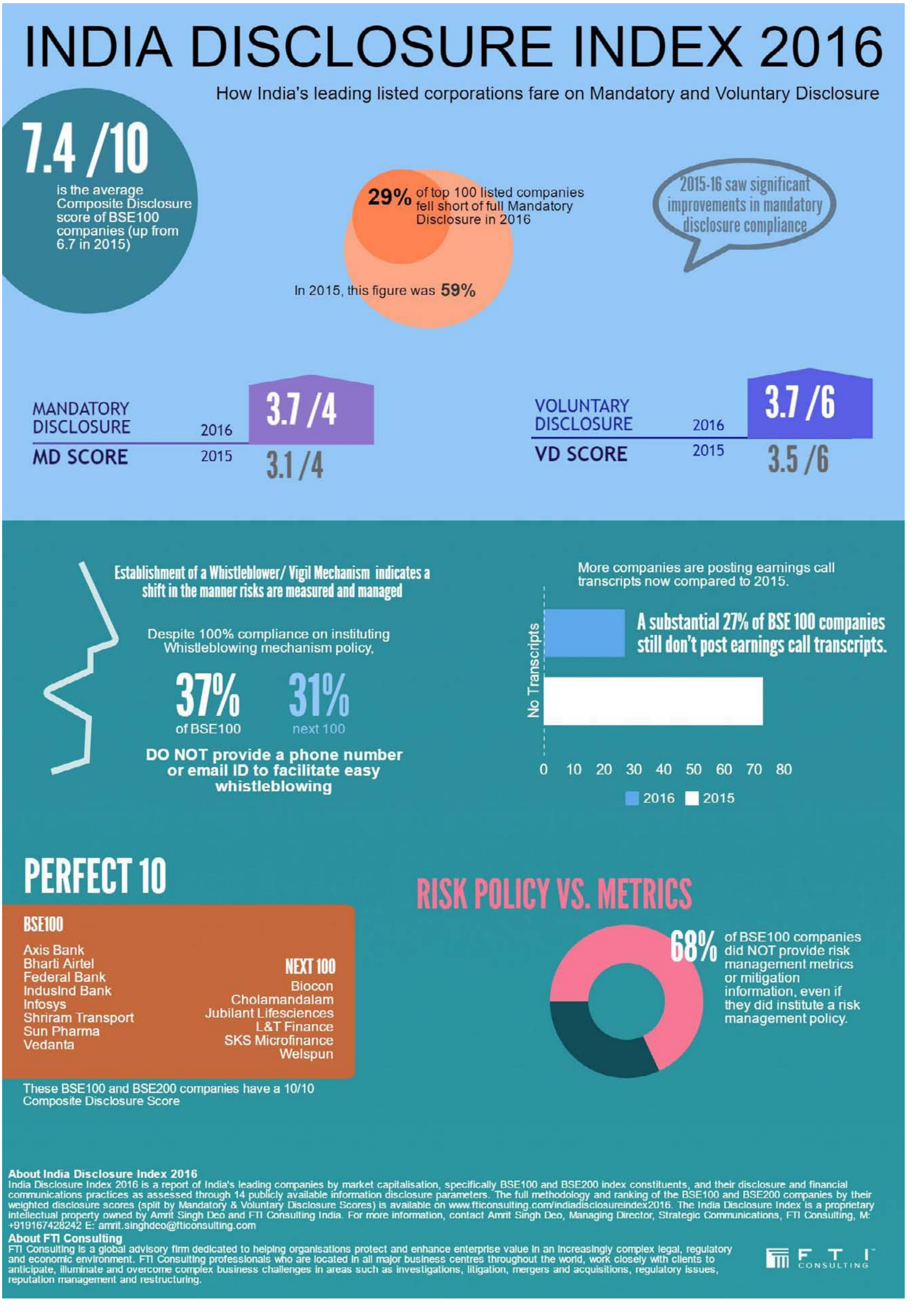
Whistleblower/Vigil Mechanism

- Third-party whistleblowing helpline/email.
- Metric of whistleblowing incidents in the last 12 months.
- Email IDs/phone numbers of audit committee members, in addition to dedicated whistleblowing officer.

DISCLOSED BUT INADEQUATE

- Company has not adopted any mechanism for evaluating performance of non-executive board members.
- Independent directors met to discuss company matters and put forth their views to the board.
- Access to the chairman of the Audit Committee (for whistleblower) has not been denied.
- Whistleblowing complaints cannot be anonymous
- No adverse personnel action shall be taken or recommended against an employee (Whistleblower) in retaliation to lodging a complaint under this policy. However, he shall not be protected for his misconduct, which does not relate to the disclosure made as a whistleblower (confusing verbiage for encouraging whistle blowing and promoting transparency).

India Disclosure Index 2016



Methodology

The Mandatory Disclosure weighted score of each company has been calculated on basis of presence (1) or absence (0) of seven mandatory information disclosure parameters available publicly, either on the company's website (W) or Annual Report (AR). The seven parameters are: Quarterly & Annual Financial Information (W), Shareholding Information (W), Corporate Social Responsibility Policy (AR), Board Evaluation Information (AR), Risk Management Policy (AR), Whistleblower Policy (AR) and Analyst Engagement & Earning Call Transcripts (W). These cover financial and non-financial parameters.

Similarly, the Voluntary Disclosure weighted score has been calculated on basis of presence (1) or absence (0) of seven voluntary disclosure parameters - Profit & Margin Improvement Narrative (W), Operating Metrics (W), Business Strategy Articulation (W), Updated Debt Information (W), Key Corporate Developments (W), Details of Risk Management Actions/Mitigation (AR) and Whistleblowing Mechanism via phone number or email (W). The first two parameters of the Voluntary Disclosure score relate to business performance, while the other five are proxies for management quality and business leadership. The Composite Disclosure Score (Composite Disclosure Score = Mandatory Disclosure + Voluntary Disclosure) has been calculated for each company in the BSE 100 and BSE 200 Index, with a weight of 40% for Mandatory Disclosure and 60% for Voluntary Disclosure, as observed during period 10 May – 10 June 2016.

All 14 parameters are combined for a weighted Composite Disclosure score between 0–10, with a 10 score indicating that all 14 mandatory and voluntary disclosures are publicly and readily available, with diminishing values for companies that score low on overall disclosure.

A separation of Mandatory Disclosure and Voluntary Disclosure scores helps gauge preferred disclosure philosophies followed by leading Indian companies. Technically, all companies should fully adhere to Mandatory Disclosure standards and have varying levels of adherence to Voluntary Disclosure. All parameters are weighted as below, to reflect desirability for more Voluntary Disclosure and transparency. These parameters and the weights assigned to them will be reviewed every year.

NOTE: For BSE 200 companies (other than BSE 100 constituents), the Risk Management Policy is taken as a Voluntary, not Mandatory, Disclosure parameter (see BSE 200 methodology on the following pages), in line with regulations that mandate Risk Management Policy for the top 100 companies (by market capitalisation) only. This group is assessed on 13 Disclosure Parameters and weights have been re-adjusted accordingly.

DISCLOSURE PARAMETERS (BSE100 COMPANIES)	VALUE	WEIGHT	SCORE	SCORE x10 - NORMALISED
MANDATORY DISCLOSURE (SEVEN)	Y (1)/N (0)	40%	0.4	4
FINANCIAL				
Quarterly & Annual Financial Information (W)	1	5%	0.05	0.5
NON-FINANCIAL				
Shareholding Information (W)	1	5%	0.05	0.5
Board Governance – Board Evaluation (AR)*	1	5%	0.05	0.5
Risk Management Policy (AR)*	1	5%	0.05	0.5
CSR Policy & Info (AR)	1	5%	0.05	0.5
Vigil-WB Policy (AR)	1	5%	0.05	0.5
Analyst Engagement AND Earning Call Transcripts (W)	1	10%	0.1	0.1
VOLUNTARY DISCLOSURE (SEVEN)		60%	0.6	6
PERFORMANCE-RELATED				
Profitability AND margin improvement information (W)	1	7.5%	0.075	0.75
Operating Metrics (W)	1	10%	0.1	1
MANAGEMENT QUALITY-RELATED				
Business Strategy Information/Presentation (W)	1	10%	0.1	1
Debt related Info/Update (W)	1	7.5%	0.075	0.75
Key Corporate Developments (W)	1	5%	0.05	0.05
Risk Management – Key Highlights (AR)*	1	10%	0.1	1
Whistleblowing/ Vigil Mechanism (AR)*	1	10%	0.1	1
TOTAL PARAMETERS/SCORE	**14**	**100%**	**1**	**10**

Mandatory Disclosure Parameters: Definitions

- **Quarterly & Annual Financial Information:** Updated financial information from the previous two quarters, i.e. Q3, Q4 FY 2015-16 and Annual Report for FY2015 or FY2016.
- **Shareholding Information:** Updated share ownership structure from previous two quarters, i.e. Q3, Q4 FY 2015-16.
- **Board Evaluation Information:** Information about evaluation of the board and independent directors from the AR (FY2015 or FY2016)
- **Risk Management Policy:** Information about risk management policy in the Annual Report (FY2015 or FY2016).
- **Whistleblower/Vigil Mechanism Policy:** Information on establishment of Whistleblower/Vigil Mechanism in last Annual Report (FY 2015 or FY 2016).
- **Analyst Engagement AND Earning Call Transcripts:** Details of engagement with analysts AND earnings call transcripts from last two quarters, i.e. for Q3 or Q4 FY 2015-16.

Voluntary Disclosure Parameters: Definitions

- **Profitability and Margin Improvement Information:** Specific and detailed information pertaining to the profitability of the company or impact on profit margins in the previous three quarters, i.e. Q2/Q3/Q4 of FY 2015-16.
- **Operating Metrics:** Specific non-financial information pertaining to the operations of the company in the previous two quarters, i.e. Q3, Q4 FY 2015-16.
- **Business Strategy Information:** Specific and detailed information on business strategy and how the management intends to deliver growth over the next 12 months at least once in the previous three quarters, i.e. Q2/Q3/Q4 of FY 2015-16.
- **Debt-related Information:** Updates about debt re-ratings or credit ratings in previous three quarters, i.e. Q2/Q3/Q4 of FY 2015-16.
- **Key Corporate Developments:** Significant or material developments pertaining to the company that may have occurred in the last three quarters, i.e. Q2/Q3/Q4 of FY 2015-16.
- **Risk Management Metrics:** Details of risk mitigation or risk metrics in the Annual Report (FY2015 or FY2016).
- **Whistle-Blower/Vigil Mechanism:** A specific phone number or email ID that facilitates easy whistleblowing.

Assumptions about Analyst Engagement, Corporate Developments & Whistleblowing Mechanisms

- It is assumed that BSE 100 & BSE 200 constituent companies would have interacted with at least one analyst in the previous four quarters and that there should be at least one public disclosure pertaining to discussions with an analyst or a group of analysts. Failure to record any analyst engagement or earnings call transcript in the previous 12 months earns a company an individual score of '0' for the parameter of Earnings Call Transcripts under Mandatory Disclosure.
- It has been assumed that all BSE 100 & BSE 200 constituent companies provided full and timely disclosure about key corporate developments within the prescribed time limits defined by SEBI. For this purpose, an individual score of '1' has been assumed for all companies across the board on the parameter of 'Key Corporate Developments' under Voluntary Disclosure.
- It has been assumed that the Whistleblower/Vigil Mechanism should be a convenient, electronic channel, i.e. a phone number or email that potential whistleblowers have easy access to. Snail-mail channels have existed de-facto in the past, prior to recent regulations pertaining to whistleblowing policy and may be interpreted as compliance to the letter, but not the spirit, of recent regulations. For this reason, companies that have snail-mail whistleblowing channels only earn the company an individual score of '1' for the parameter of Whistleblowing/Vigil Mechanism under Voluntary Disclosure.
- It has been assumed that mention of Board Evaluation in the Annual Report is backed by a robust evaluation process and metrics, and this earns companies a score of '1' for the parameter of 'Board Evaluation' under Mandatory Disclosure.
- Additions to BSE 100 (Bajaj Finance) and BSE 200 (Aditya Birla Fashion & Retail, IDFC Bank, Jet Airways, Max Financial, Sanofi India, Welspun India) w.e.f June 20 2016 have been assumed effected for this report.

Adjusted Methodology: For BSE 200 Companies (other than BSE 100 Constituents)

The Methodology for BSE 200 companies (other than BSE 100 constituents) has been tweaked to move Risk Management Policy from Mandatory Disclosure parameters to Voluntary Disclosure parameters, in line with regulations which mandate only the top 100 companies to report Risk Management policy. Weights have been adjusted accordingly.

DISCLOSURE PARAMETERS (BSE200 COMPANIES)	VALUE	WEIGHT	SCORE	SCORE x10 - NORMALISED
MANDATORY DISCLOSURE (SIX)	Y (1)/N (0)	40%	0.4	4
FINANCIAL				
Quarterly & Annual Financial Information (W)	1	5%	0.05	0.5
NON-FINANCIAL				
Shareholding Information (W)	1	5%	0.05	0.5
Board Governance – Board Evaluation (AR)*	1	7.5%	0.075	7.5
CSR Policy & Info (AR)	1	5%	0.05	0.5
Vigil-Whistleblowing Policy (AR)	1	7.5%	0.075	7.5
Analyst Engagement AND Earnings Call Transcripts (W)	1	10%	0.1	0.1
VOLUNTARY DISCLOSURE (SEVEN)		60%	0.6	6
PERFORMANCE-RELATED				
Profitability AND margin improvement information (W)	1	7.5%	0.075	0.75
Operating Metrics (W)	1	10%	0.1	1
MANAGEMENT QUALITY-RELATED				
Business Strategy Information/Presentation (W)	1	10%	0.1	1
Debt related Info/Update (W)	1	7.5%	0.075	0.75
Key Corporate Developments (W)	1	5%	0.05	0.05
Risk Management Policy (AR)*	1	10%	0.1	1
Whistle Blower/Vigil Mechanism (AR)*	1	10%	0.1	1
TOTAL PARAMETERS/SCORE	**13**	**100%**	**1**	**10**

EXHIBIT A: Composite Disclosure Scores by BSE 100 Index Constituents

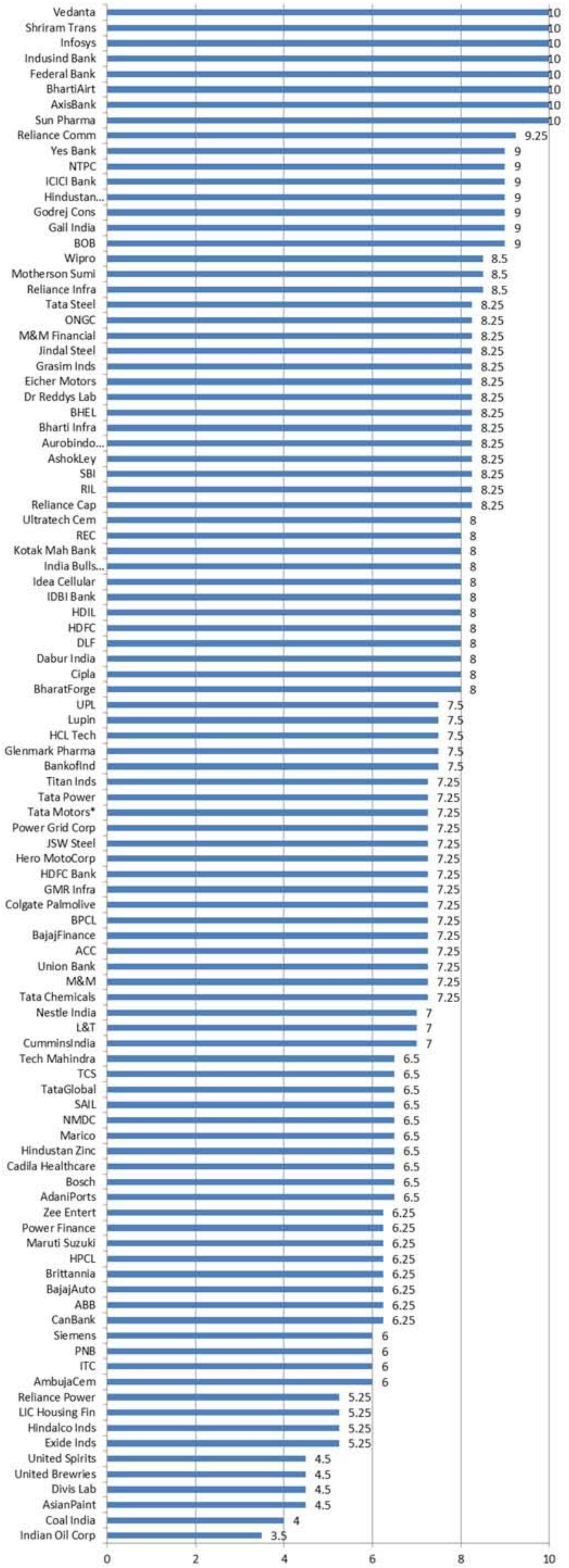


EXHIBIT B: Mandatory & Voluntary Disclosure Scores by BSE 100 Index Constituents

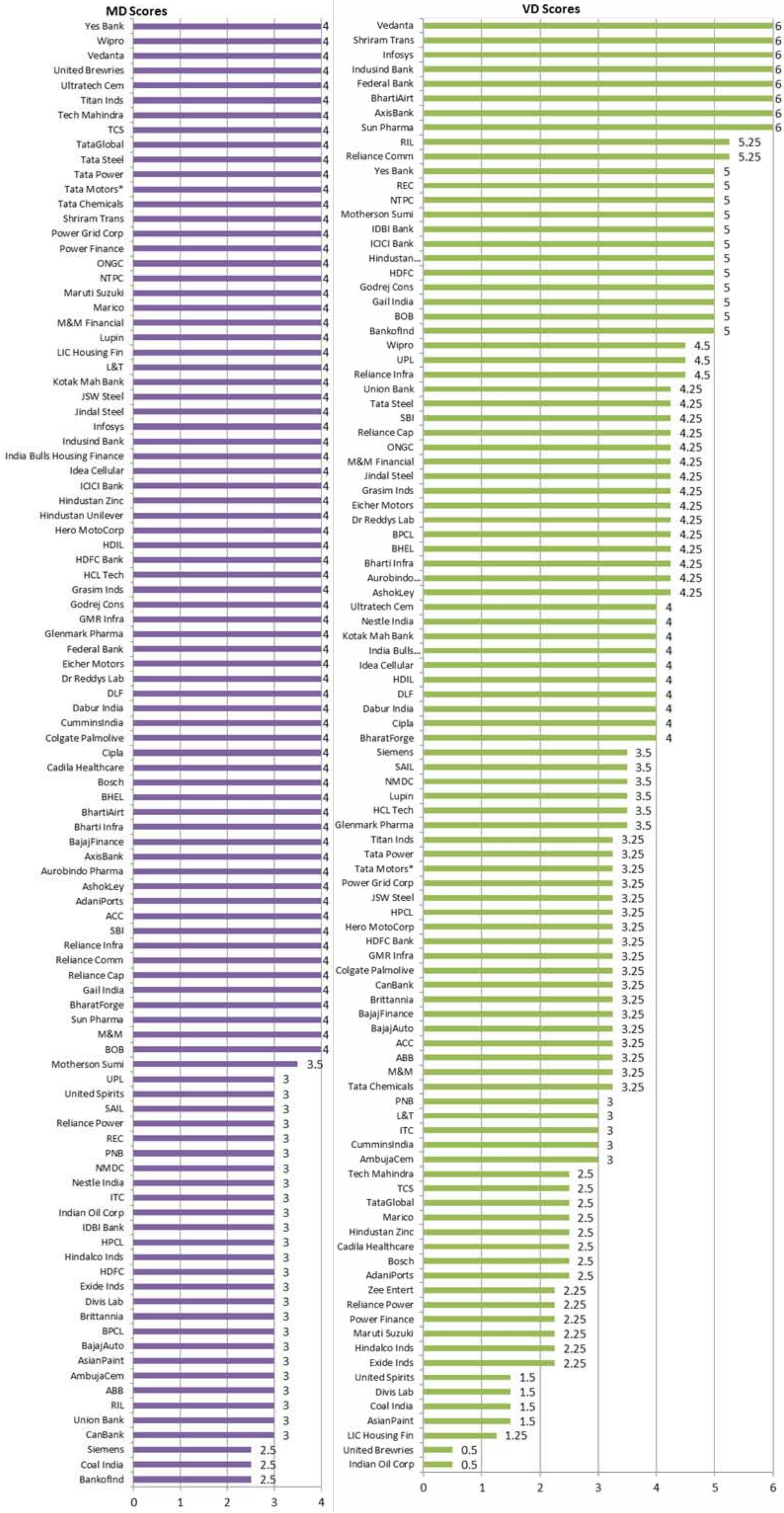


EXHIBIT C: Categorisation of BSE 100 by Composite, Mandatory & Voluntary Score

Co.	CD score
AxisBank	10
BhartiAirt	10
Federal Bank	10
Indusind Bank	10
Infosys	10
Shriram Trans	10
Vedanta	10
Sun Pharma	10
Reliance Comm	9.25
ICICI Bank	9
NTPC	9
Yes Bank	9
Godrej Cons	9
Hindustan Unilever	9
Gail India	9
BOB	9
Motherson Sumi	8.5
Wipro	8.5
Reliance Infra	8.5
Aurobindo Pharma	8.25
Bharti Infra	8.25
BHEL	8.25
Dr Reddys Lab	8.25
Eicher Motors	8.25
Grasim Inds	8.25
Jindal Steel	8.25
M&M Financial	8.25
ONGC	8.25
Tata Steel	8.25
Reliance Cap	8.25
RIL	8.25
SBI	8.25
AshokLey	8.25
HDFC	8
HDIL	8
IDBI Bank	8
Idea Cellular	8
IndiaBulls Housing Fin	8
Kotak Mah Bank	8
REC	8
Ultratech Cem	8
Cipla	8
Dabur India	8
DLF	8
BharatForge	8
Glenmark Pharma	7.5
HCL Tech	7.5
Lupin	7.5
UPL	7.5
BankofInd	7.5
BajajFinance	7.25
BPCL	7.25
Colgate Palmolive	7.25
GMR Infra	7.25
HDFC Bank	7.25
Hero MotoCorp	7.25
JSW Steel	7.25
Power Grid Corp	7.25
Tata Motors*	7.25
Tata Power	7.25
Titan Inds	7.25
M&M	7.25
Union Bank	7.25
ACC	7.25
Tata Chemicals	7.25
Nestle India	7
L&T	7
CumminsIndia	7
Cadila Healthcare	6.5
Hindustan Zinc	6.5
Marico	6.5
NMDC	6.5
SAIL	6.5
TataGlobal	6.5
TCS	6.5
Tech Mahindra	6.5
Bosch	6.5
AdaniPorts	6.5
Brittannia	6.25
HPCL	6.25
Maruti Suzuki	6.25
Power Finance	6.25
Zee Entert	6.25
ABB	6.25
BajajAuto	6.25
CanBank	6.25
Siemens	6
PNB	6
ITC	6
AmbujaCem	6
Hindalco Inds	5.25
LIC Housing Fin	5.25
Reliance Power	5.25
Exide Inds	5.25
AsianPaint	4.5
Divis Lab	4.5
United Brewries	4.5
United Spirits	4.5
Coal India	4
Indian Oil Corp	3.5

Co.	MD score
ACC	4
AdaniPorts	4
AshokLey	4
Aurobindo Pharma	4
AxisBank	4
BajajFinance	4
Bharti Infra	4
BhartiAirt	4
BHEL	4
Bosch	4
Cadila Healthcare	4
Cipla	4
Colgate Palmolive	4
CumminsIndia	4
Dabur India	4
DLF	4
Dr Reddys Lab	4
Eicher Motors	4
Federal Bank	4
Glenmark Pharma	4
GMR Infra	4
Godrej Cons	4
Grasim Inds	4
HCL Tech	4
HDFC Bank	4
HDIL	4
Hero MotoCorp	4
Hindustan Unilever	4
Hindustan Zinc	4
ICICI Bank	4
Idea Cellular	4
IndiaBulls Housing Fin	4
Indusind Bank	4
Infosys	4
Jindal Steel	4
JSW Steel	4
Kotak Mah Bank	4
L&T	4
LIC Housing Fin	4
Lupin	4
M&M Financial	4
Marico	4
Maruti Suzuki	4
NTPC	4
ONGC	4
Power Finance	4
Power Grid Corp	4
Shriram Trans	4
Tata Chemicals	4
Tata Motors*	4
Tata Power	4
Tata Steel	4
TataGlobal	4
TCS	4
Tech Mahindra	4
Titan Inds	4
Ultratech Cem	4
United Brewries	4
Vedanta	4
Wipro	4
Yes Bank	4
Zee Entert	4
BharatForge	4
Gail India	4
Reliance Cap	4
Reliance Comm	4
Reliance Infra	4
SBI	4
BOB	4
M&M	4
Sun Pharma	4
Motherson Sumi	3.5
ABB	3
AmbujaCem	3
AsianPaint	3
BajajAuto	3
BPCL	3
Brittannia	3
Divis Lab	3
Exide Inds	3
HDFC	3
Hindalco Inds	3
HPCL	3
IDBI Bank	3
Indian Oil Corp	3
ITC	3
Nestle India	3
NMDC	3
PNB	3
REC	3
Reliance Power	3
SAIL	3
United Spirits	3
UPL	3
RIL	3
CanBank	3
Union Bank	3
Coal India	2.5
Siemens	2.5
BankofInd	2.5

Co.	VD score
AxisBank	6
BhartiAirt	6
Federal Bank	6
Indusind Bank	6
Infosys	6
Shriram Trans	6
Vedanta	6
Sun Pharma	6
Reliance Comm	5.25
RIL	5.25
BankofInd	5
BOB	5
Gail India	5
Godrej Cons	5
HDFC	5
Hindustan Unilever	5
ICICI Bank	5
IDBI Bank	5
Motherson Sumi	5
NTPC	5
REC	5
Yes Bank	5
Reliance Infra	4.5
UPL	4.5
Wipro	4.5
AshokLey	4.25
Aurobindo Pharma	4.25
Bharti Infra	4.25
BHEL	4.25
BPCL	4.25
Dr Reddys Lab	4.25
Eicher Motors	4.25
Grasim Inds	4.25
Jindal Steel	4.25
M&M Financial	4.25
ONGC	4.25
Reliance Cap	4.25
SBI	4.25
Tata Steel	4.25
Union Bank	4.25
BharatForge	4
Cipla	4
Dabur India	4
DLF	4
HDIL	4
Idea Cellular	4
IndiaBulls Housing Fin	4
Kotak Mah Bank	4
Nestle India	4
Ultratech Cem	4
Glenmark Pharma	3.5
HCL Tech	3.5
Lupin	3.5
NMDC	3.5
SAIL	3.5
Siemens	3.5
ABB	3.25
ACC	3.25
BajajAuto	3.25
BajajFinance	3.25
Brittannia	3.25
CanBank	3.25
Colgate Palmolive	3.25
GMR Infra	3.25
HDFC Bank	3.25
Hero MotoCorp	3.25
HPCL	3.25
JSW Steel	3.25
Power Grid Corp	3.25
Tata Motors*	3.25
Tata Power	3.25
Titan Inds	3.25
M&M	3.25
Tata Chemicals	3.25
ITC	3
L&T	3
PNB	3
CumminsIndia	3
AmbujaCem	3
Cadila Healthcare	2.5
Hindustan Zinc	2.5
Marico	2.5
TataGlobal	2.5
TCS	2.5
Tech Mahindra	2.5
Bosch	2.5
AdaniPorts	2.5
Maruti Suzuki	2.25
Power Finance	2.25
Reliance Power	2.25
Zee Entert	2.25
Hindalco Inds	2.25
Exide Inds	2.25
Coal India	1.5
Divis Lab	1.5
United Spirits	1.5
AsianPaint	1.5
LIC Housing Fin	1.25
Indian Oil Corp	0.5
United Brewries	0.5

EXHIBIT D: Composite Disclosure Scores of BSE 200 (other than BSE 100 Constituents)

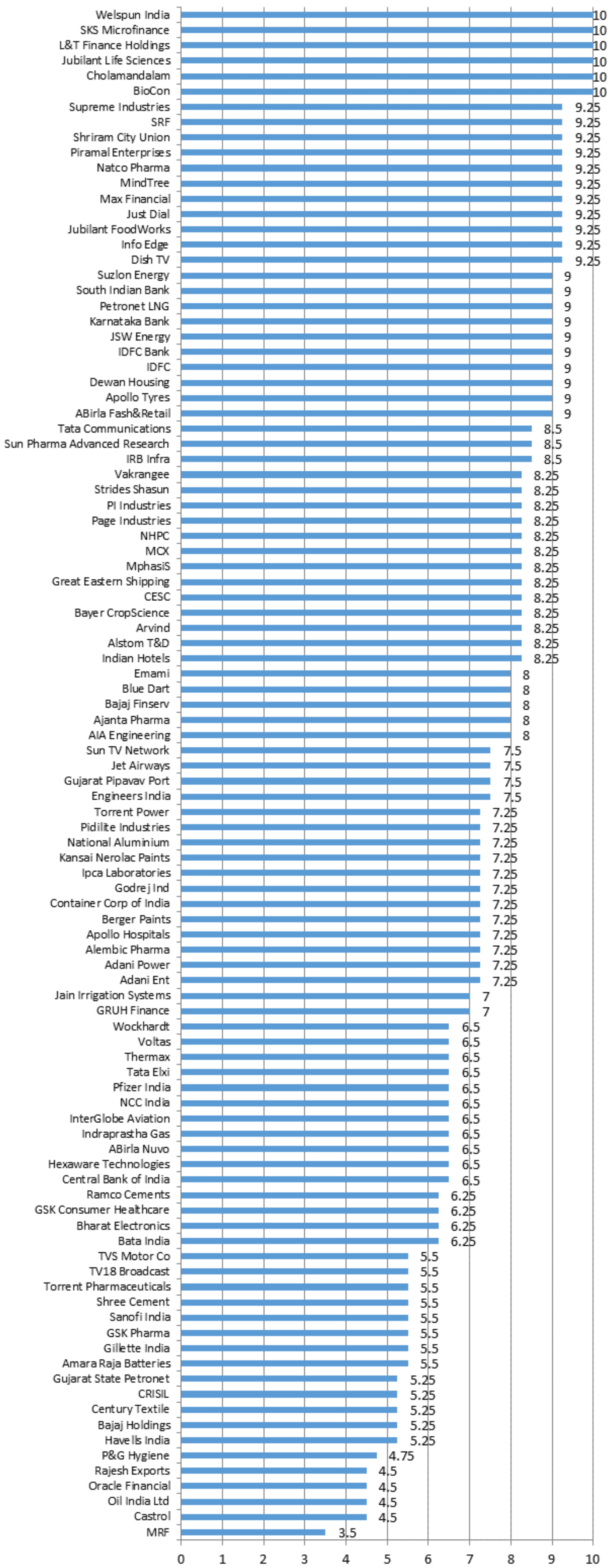
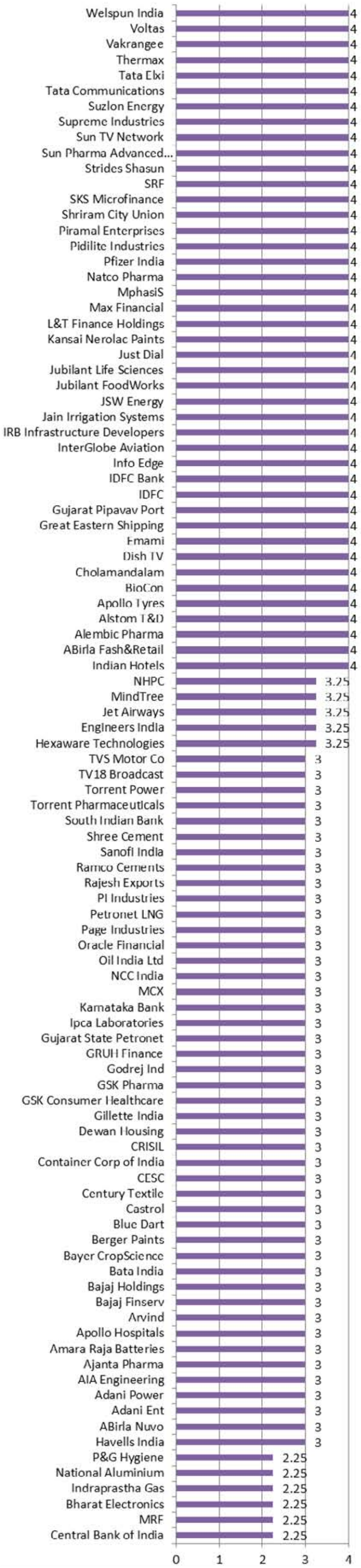


EXHIBIT E: Mandatory & Voluntary Disclosure Scores of BSE 200 Constituents (other than BSE 100 Constituents)



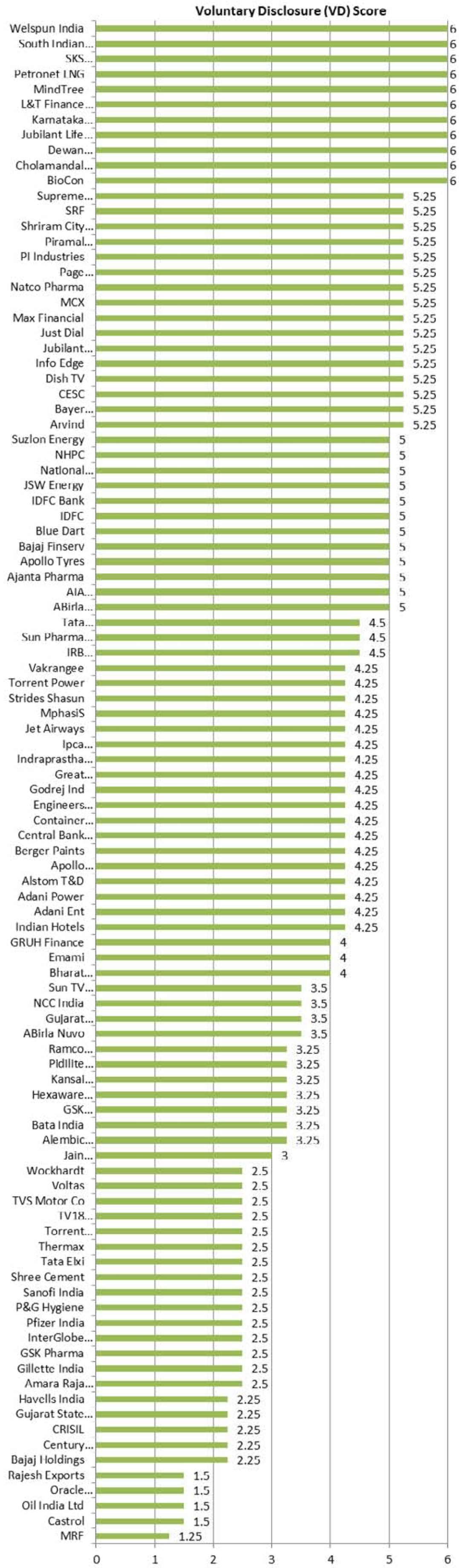


EXHIBIT F: BSE 200 Companies (other than BSE 100 cos.) by Composite, Mandatory & Voluntary Scores

Co.	CD score
BioCon	10
Cholamandalam	10
Jubilant Life Sciences	10
L&T Finance Holdings	10
SKS Microfinance	10
Welspun India	10
Dish TV	9.25
Info Edge	9.25
Jubilant FoodWorks	9.25
Just Dial	9.25
Max Financial	9.25
MindTree	9.25
Natco Pharma	9.25
Piramal Enterprises	9.25
Shriram City Union	9.25
SRF	9.25
Supreme Industries	9.25
ABirla Fash&Retail	9
Apollo Tyres	9
Dewan Housing	9
IDFC	9
IDFC Bank	9
JSW Energy	9
Karnataka Bank	9
Petronet LNG	9
South Indian Bank	9
Suzlon Energy	9
IRB Infra	8.5
Sun Pharma Adv Research	8.5
Tata Communications	8.5
Alstom T&D	8.25
Arvind	8.25
Bayer CropScience	8.25
CESC	8.25
Great Eastern Shipping	8.25
MphasiS	8.25
MCX	8.25
NHPC	8.25
Page Industries	8.25
PI Industries	8.25
Strides Shasun	8.25
Vakrangee	8.25
Indian Hotels	8.25
Ajanta Pharma	8
Bajaj Finserv	8
Blue Dart	8
Emami	8
AIA Engineering	8
Gujarat Pipavav Port	7.5
Jet Airways	7.5
Sun TV Network	7.5
Engineers India	7.5
Adani Power	7.25
Alembic Pharma	7.25
Apollo Hospitals	7.25
Berger Paints	7.25
Container Corp of India	7.25
Godrej Ind	7.25
Ipca Laboratories	7.25
Kansai Nerolac Paints	7.25
National Aluminium	7.25
Pidilite Industries	7.25
Torrent Power	7.25
Adani Ent	7.25
Jain Irrigation	7
GRUH Finance	7
ABirla Nuvo	6.5
Indraprastha Gas	6.5
InterGlobe Aviation	6.5
NCC India	6.5
Pfizer India	6.5
Tata Elxi	6.5
Thermax	6.5
Voltas	6.5
Wockhardt	6.5
Central Bank of India	6.5
Hexaware Tech	6.5
Ramco Cements	6.25
GSK Consumer Health	6.25
Bata India	6.25
Bharat Electronics	6.25
Amara Raja Batteries	5.5
Gillette India	5.5
GSK Pharma	5.5
Sanofi India	5.5
Shree Cement	5.5
Torrent Pharma	5.5
TV18 Broadcast	5.5
TVS Motor Co	5.5
Bajaj Holdings	5.25
Century Textile	5.25
CRISIL	5.25
Gujarat State Petronet	5.25
Havells India	5.25
P&G Hygiene	4.75
Castrol	4.5
Oil India Ltd	4.5
Oracle Financial	4.5
Rajesh Exports	4.5
MRF	3.5

Co.	MD score
ABirla Fash&Retail	4
Alembic Pharma	4
Alstom T&D	4
Apollo Tyres	4
BioCon	4
Cholamandalam	4
Dish TV	4
Emami	4
Great Eastern Shipping	4
Gujarat Pipavav Port	4
IDFC	4
IDFC Bank	4
Info Edge	4
InterGlobe Aviation	4
IRB Infra	4
Jain Irrigation	4
JSW Energy	4
Jubilant FoodWorks	4
Jubilant Life Sciences	4
Just Dial	4
Kansai Nerolac Paints	4
L&T Finance Holdings	4
Max Financial	4
MphasiS	4
Natco Pharma	4
Pfizer India	4
Pidilite Industries	4
Piramal Enterprises	4
Shriram City Union	4
SKS Microfinance	4
SRF	4
Strides Shasun	4
Sun Pharma Adv Research	4
Sun TV Network	4
Supreme Industries	4
Suzlon Energy	4
Tata Communications	4
Tata Elxi	4
Thermax	4
Vakrangee	4
Voltas	4
Welspun India	4
Wockhardt	4
Indian Hotels	4
Jet Airways	3.25
MindTree	3.25
NHPC	3.25
Engineers India	3.25
Hexaware Tech	3.25
Adani Power	3
AIA Engineering	3
Ajanta Pharma	3
Amara Raja Batteries	3
Apollo Hospitals	3
Arvind	3
Bajaj Finserv	3
Bajaj Holdings	3
Bata India	3
Bayer CropScience	3
Berger Paints	3
Blue Dart	3
Castrol	3
Century Textile	3
CESC	3
Container Corp of India	3
CRISIL	3
Dewan Housing	3
Gillette India	3
GSK Consumer Health	3
GSK Pharma	3
Godrej Ind	3
GRUH Finance	3
Gujarat State Petronet	3
Ipca Laboratories	3
Karnataka Bank	3
MCX	3
NCC India	3
Oil India Ltd	3
Oracle Financial	3
Page Industries	3
Petronet LNG	3
PI Industries	3
Rajesh Exports	3
Ramco Cements	3
Sanofi India	3
Shree Cement	3
South Indian Bank	3
Torrent Pharma	3
Torrent Power	3
TV18 Broadcast	3
TVS Motor Co	3
Adani Ent	3
ABirla Nuvo	3
Havells India	3
Bharat Electronics	2.25
Indraprastha Gas	2.25
National Aluminium	2.25
P&G Hygiene	2.25
MRF	2.25
Central Bank of India	2.25

Co.	VD score
BioCon	6
Cholamandalam	6
Dewan Housing	6
Jubilant Life Sciences	6
Karnataka Bank	6
L&T Finance Holdings	6
MindTree	6
Petronet LNG	6
SKS Microfinance	6
South Indian Bank	6
Welspun India	6
Arvind	5.25
Bayer CropScience	5.25
CESC	5.25
Dish TV	5.25
Info Edge	5.25
Jubilant FoodWorks	5.25
Just Dial	5.25
Max Financial	5.25
MCX	5.25
Natco Pharma	5.25
Page Industries	5.25
PI Industries	5.25
Piramal Enterprises	5.25
Shriram City Union	5.25
SRF	5.25
Supreme Industries	5.25
ABirla Fash&Retail	5
AIA Engineering	5
Ajanta Pharma	5
Apollo Tyres	5
Bajaj Finserv	5
Blue Dart	5
IDFC	5
IDFC Bank	5
JSW Energy	5
National Aluminium	5
NHPC	5
Suzlon Energy	5
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Sun Pharma Adv Research	4.5
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Bajaj Holdings	2.25
Century Textile	2.25
CRISIL	2.25
Gujarat State Petronet	2.25
Havells India	2.25
Castrol	1.5
Oil India Ltd	1.5
Oracle Financial	1.5
Rajesh Exports	1.5
MRF	1.25

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ADDITIONAL & VOLUNTARY DISCLOSURES

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FTI Consulting has provided consulting services to ICICI Bank and Tata Motors in the last one year. None of these companies have received advance copies of this report before its public release.

Amrit Singh Deo, the preparer of this report, does not hold nor has he traded in any shares of the BSE100 or BSE200 constituent companies in the last 12 months.

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EXPERTS WITH IMPACT

About FTI Consulting

FTI Consulting, Inc. is a global business advisory firm dedicated to helping organisations protect and enhance enterprise value in an increasingly complex legal, regulatory and economic environment. FTI Consulting professionals, who are located in all major business centres throughout the world, work closely with clients to anticipate, illuminate and overcome complex business challenges in areas such as investigations, litigation, mergers and acquisitions, regulatory issues, reputation management and restructuring.

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FTI CONSULTING

INDIA-UK PARTNERSHIP:

A pocket of growth amidst global uncertainty

Dual pillars of contextual understanding and localised partnerships can prove unbeatable when it comes to the UK tapping into a country widely seen as the best economic bet in the world.

According to the UN's World Economic Prospects 2016 Report, India is set to be the fastest growing large economy with an average, annual projected growth of 7.3% across 2015-17, more than doubling its anticipated global growth of 3.4%. Given this backdrop, UK investors can ill-afford to neglect or deprioritise the Indian market. A stable government with a pro-business prime minister elected with the biggest voter mandate in three decades is overseeing a landmark era in the Indian economy.

Anuj Bugga in Mumbai and Philippa Symington in London, explore the current strength of the India-UK relationship and the investment opportunities this could bring for both countries.

Meanwhile the West muddles through political cycles, socio-economic crises, and proxy wars; the Middle East contends with regional turmoil and depressed oil prices; and China's stock market freefall and capital flight carnage only serves to reinforce the constant threat of an economic 'hard landing'. India is well-placed to fill the leadership vacuum in economic growth. In contrast to much of the rest of the world, India is not presently grappling with any grave or immediate threats. This enables it to enact its liberalisation, globalisation, and reform agenda while continuing to leverage demographic and economic fundamentals that are nearly unmatched by any other country or region. These advantages are not just theoretical but are resulting in impressive real numbers. For example, UNCTAD's latest report on global investment flows cited a near 100% year-on-year increase in FDI inflow into India totalling $59 billion in 2015.

A natural partner of the UK

With its history and institutions steeped in commonwealth heritage and culture, India is naturally positioned as an enduring partner of the UK. Both countries have been fundamentally impacted by one another and continue to welcome significant diasporas from the other. While the UK is both the leading G20 and European investor in India (accounting for 9% of all FDI since 2000), India in turn is the third largest investor in the UK, behind only the US and France. It is no surprise that the prime ministers of both countries emphatically celebrated the nations' shared interests during the Indian prime minister's visit to the UK in November 2015, translating into commercial deals worth $14 billion. The association was further cemented by the prolific agreements resulting from the meeting of the countries' finance ministers in London two months later in January 2016. By all indications, the India-UK relationship is currently the most buoyant it has ever been. Indeed, the potential for the India-UK partnership is still larger, with India well positioned as the platform for Britain's access to Asia and Britain acting as India's window on Europe.

Key opportunities

As a substantial and diversified economy on an upward trajectory, India offers countless opportunities to investors seeking high returns in many industries. However, there are particular sectors where UK investors would find the most pertinent opportunities:

- **Defence manufacturing and aviation –** The potential for synergy is obvious, with India positioned as the world's largest arms importer while the UK's aerospace & defence industry is considered amongst the top three globally.
- **Pharmaceuticals and biotechnology –** India is a critical player in the global supply-value chains for pharmaceuticals, not only for manufacturing but also on the consumption side. Several well-known British names are already entrenched in the Indian pharmaceutical sector and enjoy enviable brand recall with the Indian consumer. This is the ideal foundation for a greater British presence in the Indian pharmaceuticals and healthcare sector.
- **Automobiles and automobile components –** India is the seventh largest auto producer in the world and the third largest automotive market by volume. The Indian consumer has embraced foreign carmakers, with no shortage of British, German, American, and Asian brands on Indian roads. Though the Indian auto sector is expected to continue its surge, it remains to be seen whether British car makers can successfully make further inroads into the expanding market.
- **Infrastructure: construction, railways, and roads and highways –** The World Bank has estimated India's infrastructure investment requirement through 2020 as $1.7 trillion. UK's world-class infrastructure firms can undoubtedly become the prime player in the great Indian infrastructure investment story. This follows a strong historic tailwind. It is widely recognised that an appreciable portion of India's public works infrastructure, including its 150+ year old sprawling rail network, was constructed by the British. More recently, they developed the PPP model which has by now been embraced by governments across the globe, including India to no small extent.

The way forward

To seize the opportunities available and emerge triumphant in the Indian market, FTI Consulting recommends that investors design their India strategies on the dual pillars of thorough contextual understanding and partnerships with credible Indian partners. Investors are likely to reap generous returns, provided they employ a long-term view and adopt suitable approaches to prevent, mitigate, and contain the specific risks of the Indian market.

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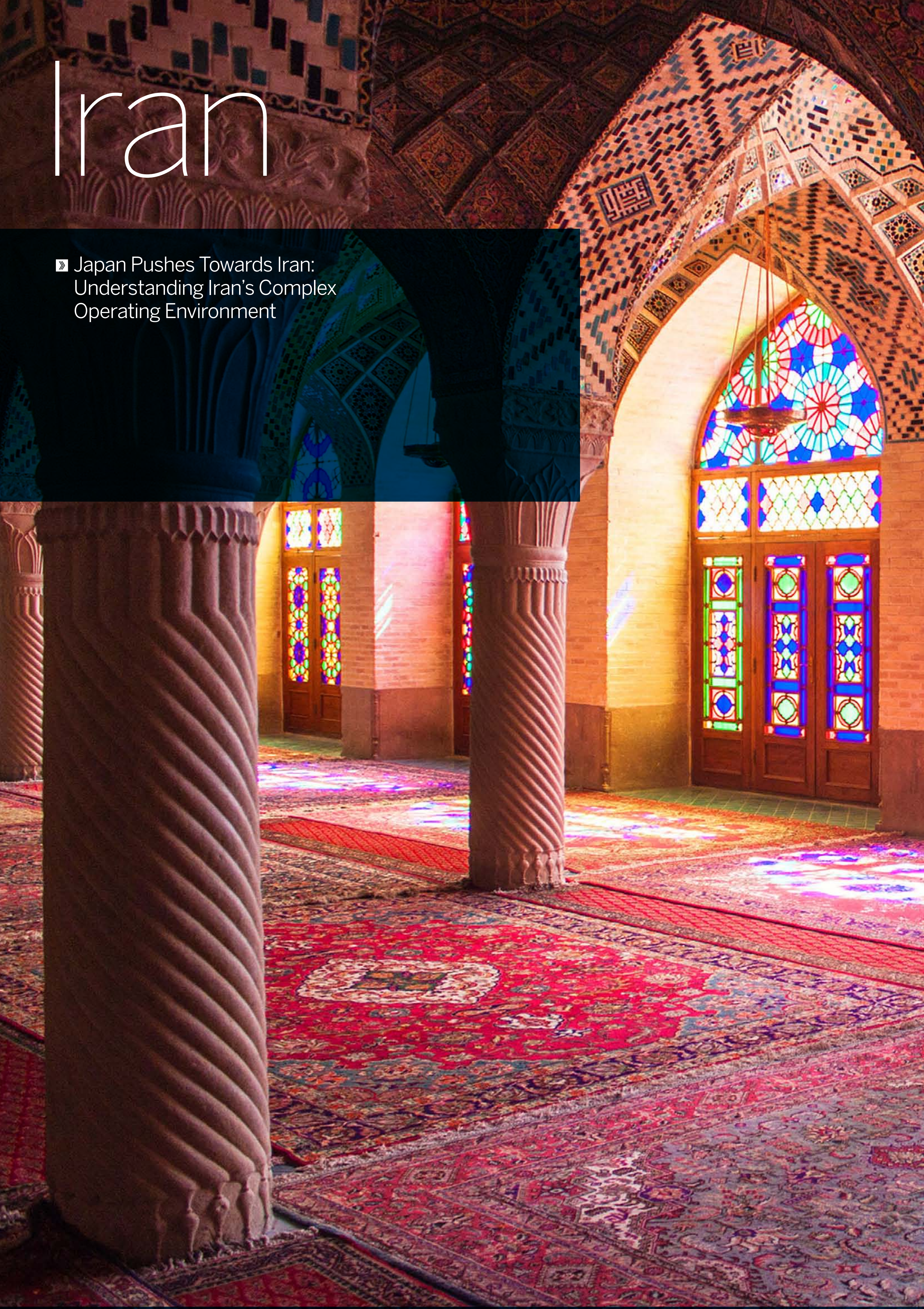
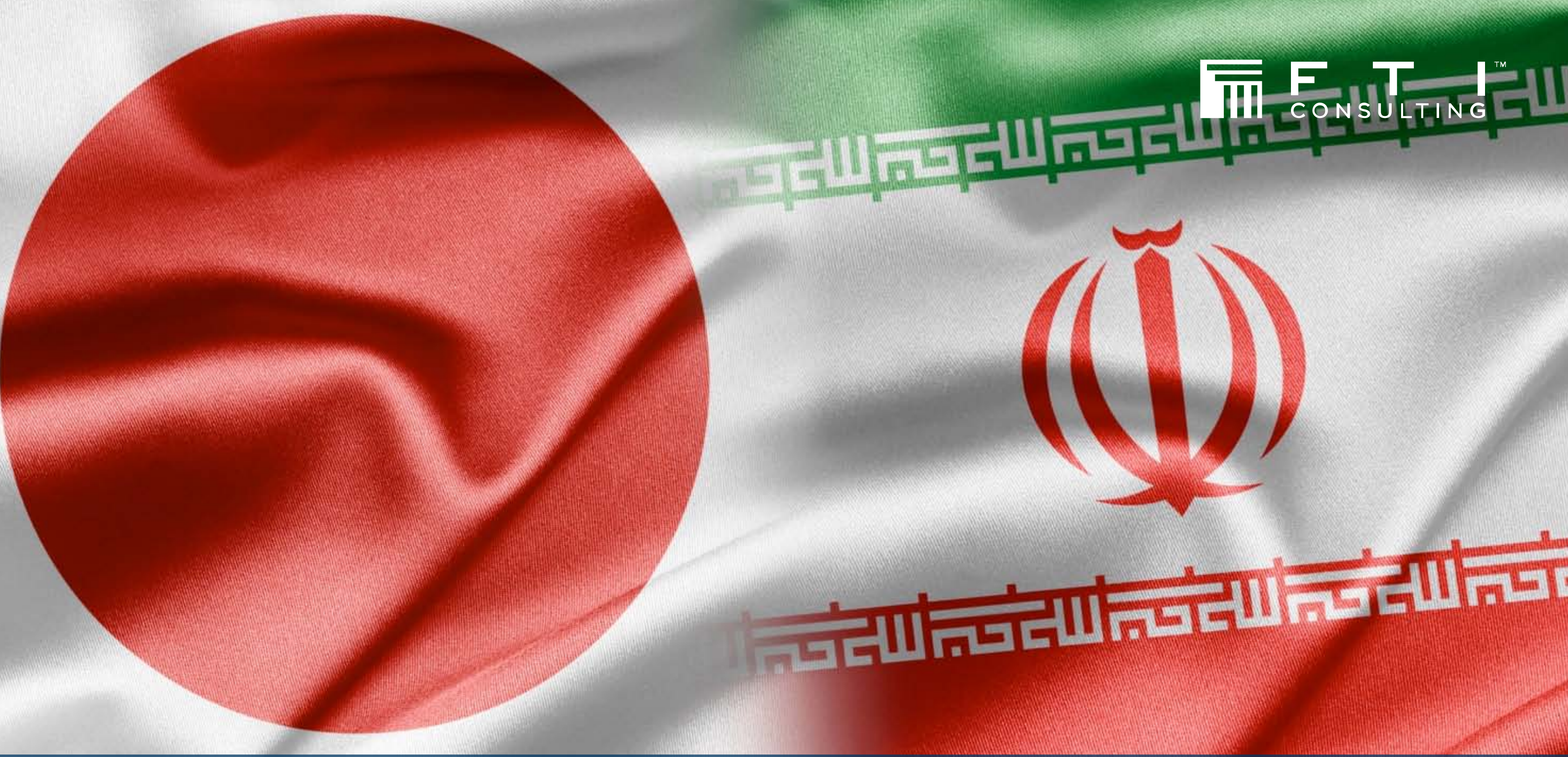
Iran





Japan Pushes Towards Iran: Understanding Iran's Complex Operating Environment

Japanese Prime Minister Shinzō Abe has publicly announced that he intends to visit Iran in August 2016. This is a significant statement for burgeoning Japan/Iran relations and is the first trip by a Japanese leader since the late Takeo Fukuda's visit in September 1978. This mission follows Tehran's guarantee of up to US$10 billion of Iranian investments by Japanese companies in conjunction with a bilateral investment treaty between the two countries in February 2016. In the official press release for this agreement Japan's Ministry of Economy, Trade and Industry emphasised the "great potential" of Iran for Japanese investment.

The Attraction of Iran

Iran is the second largest economy in the Middle East and North Africa, after Saudi Arabia, and recent World Bank forecasts predict Iran's economy will grow at a rate of 6% a year by 2018, which is almost twice the projected annual aggregate rate of developing countries.

With a population of approximately 78 million, Iran also has the second largest proven gas reserves in the world, as well as the fourth largest oil reserves and significant other natural resources. Urbanisation, modernisation and the country's young demographic are creating burgeoning consumer demand, especially focusing on technological products.

Japan is especially well placed to capitalise on attractive investment opportunities in Iran given the history of positive relations between the two countries, even throughout the sanctions era. In contrast to the anti-western attitudes often expressed by Iranian politicians, Japan is viewed as a partner with whom Iran can easily do business with. In February 2016, Iran's Economic and Finance Minister Ali Tayebnia commented that there have been no 'black points' in Iranian-Japanese relations.

Activities of Japanese Companies in Iran

Following the lifting of sanctions by the U.S. and the EU in January 2016, Japan lifted key sanctions against Iran which included bans on new investments in the oil and gas sector using export credits. Japanese companies have responded by exploring the Iranian market and seeking out Iranian partners, particularly in the energy sector. Moreover, corporations that had greatly downsized their Iranian operations or pulled out completely due to the sanctions are now expected to resume investment and exports.

Japanese corporates have been encouraged in these endeavours by the Iranian state. In early June 2016, Amir Hossein Zamani Nia, Iran's Petroleum Minister for International Affairs, met with a major Japanese trading firm's senior management in Tehran and urged the company to invest in Iranian upstream, downstream and petrochemical projects. Earlier this year, an Iranian energy official at Iran's National Petrochemical Company stated that a major Japanese conglomerate, in conjunction with Germany's industrial gases company Linde, was planning to invest US$4 billion in Iranian petrochemical products.

Risk Factors and Mitigation

Alongside the extensive opportunities which both the Japanese government and private Japanese companies are seeking to capitalise on, the risks of doing business in and with Iran remain significant.

Iran's Islamic Revolutionary Guard Corp Ties

For companies considering investment in Iran, one of the most prominent risk factors is the need to avoid accidental engagement with front companies of Iran's Islamic Revolutionary Guard Corps ("IRGC"). This military body which reports directly to the Supreme Leader Ali Khamenei, has extensive business interests and remains under sanctions related to its alleged support of terrorism. In the sanctions era, the IRGC and its engineering company Khatam al-Anbia became the only domestic entity with the capabilities to conduct large strategic projects such as expansion of the South Pars gas field. From 2005-2011, the Iranian government granted it more than US$25 billion worth of projects. The IRGC is unlikely to surrender its market dominance easily, and while Iran's President Hassan Rouhani aspires to liberalise the Iranian economy, he will probably be forced to protect the IRGC's involvement in the most strategic sectors including ports, airports, telecommunications, national infrastructure projects and defence. *Targeted due diligence, including discreet interviews with knowledgeable sources, is one way to mitigate the risk of partnering with IRGC-related entities*.

Opacity of Corporate Ownership Structures

Companies not listed on the Tehran Stock Exchange are not required to declare their shareholders, though corporate registry checks on their boards of directors can sometimes give an indication of ownership. Further muddying the waters is the fact that privatisation since 2006 in Iran has often involved sale of assets to other quasi-state bodies. Some of which are connected to sanctioned entities, rather than truly private investors. *On-the-ground source enquiries can help identify any concealed shareholders and establish an understanding of the true ownership of private companies*.

Political Risk

Lastly, the current pro-integration political climate in Iran may change. At present, some politicians who are most supportive of Rouhani's liberalisation programme are those, like former President Akbar Hashemi Rafsanjani or Speaker Ali Larijani, whose personal business interests mean they stand to gain the most. However, investors should watch for indications of a shift in the political climate. For instance, if Rouhani fails to be re-elected as President next year, or if a change in the U.S. political leadership prompts more hardline attitudes on both sides. This could lead to Rouhani allies falling out of favour and even becoming subject to politically-motivated corruption investigations under a future Iranian administration. *A thorough understanding of the business and political context, and an awareness of political and business rivalries between different camps, will therefore be key for new entrants into the Iranian market*.

FTI Consulting's Capabilities and Experience

FTI Consulting's Global Risk and Investigation practice works with clients to manage political, reputational and regulatory issues, conducting investigations throughout the world, including in Iran. We regularly undertake counterparty due diligence for a range of clients looking to invest in Iran, including from the oil and gas, finance, manufacturing and construction sectors. We also provide bespoke market entry analysis which includes client-specific and intelligence-led reports, focusing on a specific range of risks and priorities. Our in-house language capabilities (including Arabic and Farsi) and extensive network of resources, combined with the experience of our team members who have lived in the Middle East, enables us to understand Iran's complex and opaque operating environment.

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Japan

- Five Things to Know to Avoid Doing Business with the Yakuza
- Japan's Corporate Governance Code: A UK Perspective

Five Things to Know to Avoid Doing Business with the Yakuza

Japan's legendary crime syndicate is deeply embedded within Japanese society and is regulated by the government. Still, foreign executives looking to do business in Japan should take care: The Yakuza are as dangerous in the back alley as they are in the boardroom.

Organized crime syndicates in Japan, collectively known as the Yakuza, operate differently than in most countries. The government regulates their activities in a quasi-legal arrangement that's seen as a necessary evil for preserving order and stability — two highly prized attributes within Japanese society. Because of that, many Yakuza gangs appear to operate as legitimate businesses; they maintain brick-and-mortar offices, carry business cards, and some even offer pension plans to their members.

But make no mistake: The Yakuza are dangerous and deceitful and foreign professionals looking to do business in Japan should be highly aware of their presence and proceed with caution. Those who ignore the reality of the Yakuza can find themselves at grave risk to reputation as well as vulnerable to fraud and even extortion.

The following are five key things to know to avoid doing business with the Yakuza.

The Yakuza Hold Mythical Status in Japan

Dating back more than a century, the current estimate of 53,000 active Yakuza members is spread among a vast array of criminal organizations. Each operates by its own code of ethics. Some are more violent than others, but all Yakuza members view themselves as part of Japan's traditional feudal order and follow Bushido, otherwise known as the Samurai code. As such the Yakuza consider payments they receive part of a feudal tax. Still, violent crime levels are very low in Japan compared to other developed countries and the public imagination in part credits the Yakuza for the relative absence of petty crime — even as they engage in widespread corruption and graft.

Businesses beware: The Organized Crime Exclusion Ordinance — a 2012 update to a 1997 law adopted across Japan — makes it illegal to knowingly do business with the Yakuza or facilitate operations that profit them. However, the ordinance is loosely applied in contrast to similar efforts in other countries and relies more on the threat of public exposure to shame companies into compliance. This does little to deter the Yakuza from continuing its illegal activities.

The Yakuza Have Long Tentacles that Reach Deep

The Yakuza exert strong influence in real estate, entertainment, and construction. Within construction, a rapidly aging population has led to labor shortages on site, leaving networks of subcontractors to fill vacancies, which in turn opens the door for Yakuza exploitation throughout the chain. The 2020 Summer Olympics in Japan are expected to provide similar openings for criminal elements to profit off of legitimate industries including construction, real estate, and entertainment.

Businesses beware: Almost any business relationship in Japan — whether private or public including education and sport — is vulnerable to Yakuza involvement. Thoroughly screening potential employees, as well as verifying accuracy and legitimacy of corporate affiliations, is recommended.

The Yakuza Will Use Your Secrets against You

Knowledge is power, and the Yakuza will do what it takes to gain that power over their targets. One practice they engage in with larger companies is a form of racketeering known as Sokaiya. It involves gathering embarrassing personal information about executives and company's undisclosed illegal activities that can later be used for blackmail purposes by threatening to reveal such information at shareholder meetings. Japanese law has increasingly attempted to curb this practice by limiting meeting attendance to those with major stock holdings, however.

Businesses beware: A well-developed communications response plan for dealing with scandal or unwanted disclosure of embarrassing information is a must.

The Yakuza Are Good at Posing as Legitimate Businesses

Using sophisticated fronts and members posing as business professionals, the Yakuza have deceived numerous corporations, both large and small, out of sizable sums. In 2008, for instance, one Yakuza gang duped a number of investment firms, including global giant Lehman Brothers, through an elaborate ruse. By exploiting company insiders, the gang was able to acquire authentic stationery and business cards, and use company meeting rooms to fool investors into thinking they were representatives of a legitimate biotech firm and defrauded them out of as much as $350 million.

Businesses beware: While not all corruption in Japan is tied to the Yakuza, the Cold War adage of "trust, but verify" is advisable for professionals looking to do business in Japan. The risk is great enough, in fact, that professionals should establish multiple points of contact within a prospective business and investigate all potential partners thoroughly.

The Yakuza Will Outsmart You

Though there have been crackdowns against the Yakuza, the syndicates have become more adept and sophisticated in their ability to work around regulations. For instance, physical brutality is subcontracted out to freelancers with no past criminal records or ties; the Yakuza are moving more deeply into cybercrime to gather personal and financial information to be used for extortion. Companies buying land in Japan often find themselves negotiating with Yakuza syndicates that have already purchased key parcels within a development area through inside information and demand extortionate payments for release.

Businesses beware: Unintentional involvement with the Yakuza is a real concern. Though they rarely target foreigners, companies should ensure business can continue to operate even if a partner is targeted by the Yakuza. Fortunately, contracts between companies now are required to include anti-Yakuza clauses.

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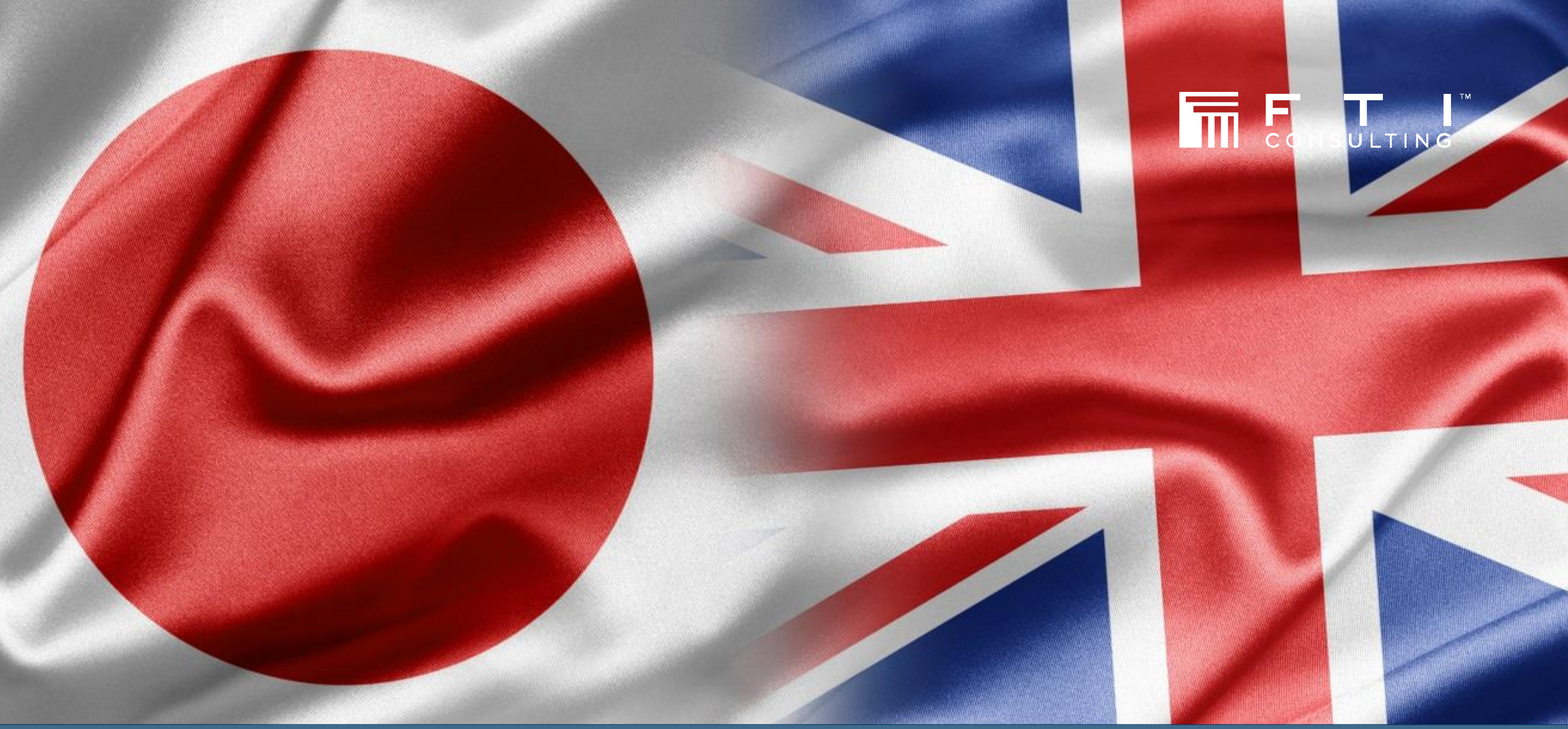

Japan’s Corporate Governance Code: A UK Perspective

The importance of good corporate governance has been highlighted by corporate scandals across various industries in most major economies. This has led to significant effort being devoted to the development of global standards and guidance around corporate governance. In this context, the Japanese Financial Services Agency (“FSA”) released the final version of its Corporate Governance Code (“Japanese Code”) on 5 March 2015, which was implemented by the Tokyo Stock Exchange (“TSE”) and entered into force on 1 June 2015.

In the UK, the Corporate Governance Code (“UK Code”) is set by the Financial Reporting Council (“FRC”) which is responsible for promoting high quality corporate governance and reporting to foster investment. Whilst the principles of good corporate governance may appear self-evident, the UK experience shows that their actual implementation is often challenging. FTI Consulting has made a comparison of the UK and Japanese Codes and outlined a number of areas where the UK experience might provide valuable lessons.

At the international level, the Organisation for Economic Cooperation and Development (OECD), an international body with the objective to promote policies that will improve the economic and social well-being of people around the world, has developed Principles for Corporate Governance.

The Japanese Code reflects OECD Principles and elements of the UK Code. Most notably, the Japanese Code adopted the ‘comply or explain’ principle established by the UK Code which requires firms to either adhere to its principles or explain why it would be disproportionate to do so given a firm’s particular circumstances.

There are a number of key themes that are similar in the Japanese and UK Codes.

Responsibilities of the Board

It is critically important that Boards are composed of a group of people that collectively have the experience, knowledge and authority to fulfil its obligations. The Board is responsible for setting the firm’s strategy and corresponding risk appetite. The Board must also carry out competent oversight over the executives, ensuring they are executing the business strategy within the risk appetite.

Independence of the Board

Firms are required to appoint at least two Independent Non-executive Directors (“INEDs”) with the aim of providing an independent perspective and challenge to the Board and executives. INEDs have specific roles that place them at crucial decision-making positions. They are expected to bring knowledge of the external market to the processes of formulating strategy and mitigating risks.

Internal Risk and Control Framework

Boards must ensure that the firm's systems and controls are set up in a way to provide effective and proactive risk management. This includes the establishment of appropriate systems and controls and management information that demonstrates the monitoring of the same. This must be overseen and reviewed by the Board on a regular basis which needs to be evidenced in disclosures about risk management systems.

Engagement with Stakeholders

Honest and fair dialogue with a firm's stakeholders, in particular its shareholders, is seen as vital to good governance and to ensure accountability of the Board and executive management. This should consider the needs and rights of minority shareholders and ensure their views are taken into account when setting company strategy.

Lessons from the UK Experience

Implementing corporate governance in a practical and invulnerable way is often much more challenging than outlining the guiding principles. Below, we take a look at the areas where the UK experience may provide valuable lessons.

Board Composition and Challenge

For a Board to be effective at overseeing the firm and challenging management, there are three key areas that firms must get right. Firstly, a Board must consist of directors who have the right mix of technical understanding, strategic vision and financial and regulatory knowledge. Firms should invest considerable time in getting this mix right, identifying candidates with specific expertise in one or two of these areas rather than cursory knowledge of all. Secondly, a Board is strongest when it is led by a strong, independent chair who encourages discussion and challenge. Whilst separation of the roles of chair and CEO is not a requirement in the Japanese Code, it has been shown that firms with such arrangements outperform those which combine both roles.

Thirdly, a Board is only as effective as the Management Information (MI) it receives and reviews. The Board should play an active role in defining and requesting such MI rather than relying solely on executives to provide them with the information they deem necessary.

Making Good Use of INEDs

INEDs are often perceived as the guarantor of proper challenge and the rights of minority shareholders and other stakeholders. This is only true where they have been empowered by firms to play this role. The group of INEDs, just as the Board as a whole, should possess the right mix of knowledge and understanding of the firm's key business and risk areas. In the UK, the case of the Co-operative Group is an illustration of how independent directors may be ineffective at holding the executive to account.[1]

Further, to understand and oversee the business, INEDs must be placed at key decision-making positions. This means they should lead key Board committees. In the UK with its unitary Board structure, this typically means that INEDs chair the Nomination, Audit and Remuneration Committees. Whilst the structure in Japanese firms may be different, as required by regulation, the UK experience shows that effective challenge from INEDs can only occur where they occupy such key positions.

> “A Board is strongest when it is led by a strong, independent chair who encourages discussion and challenge.”

Board Education

A big part of a Board's ability to challenge the executive is the level of the Board members' understanding the business and its operating environment. To be able to do so, Board members need to be kept abreast with developments in technology, business strategy and regulation. Firms need to invest in ongoing education programmes and Board members should actively request education for themselves within the firm and also beyond.

Risk Management Frameworks

The multitude of corporate scandals from Olympus in Japan to Volkswagen in the U.S. and Europe has highlighted the importance of having proper internal controls in place that can identify risks early and mitigate them effectively. Whilst risks might differ, the process of risk identification and management/mitigation is similar across industries.

Typically, firms are organised into lines of defence (most industries operate two lines, others three lines). Each line carries responsibility for identifying risks, mitigating or managing them and actively monitoring them. The frontline business is typically referred to as the first line. Whilst it is mainly occupied with generating revenue for the firm, it must also understand, evaluate and manage the risks it brings into the firm. This is vital and probably the area where most firms fail as short-term revenue generation is prioritised over the consideration of medium to long-term risks.

The second line is manifested in the Risk or Compliance functions which must be independent of the business. The second line should have separate reporting lines from the business and be represented at key committees within the firm. This will ensure that Risk and Compliance staff are empowered to raise concerns and challenge the first line.

Culture

Corporate culture describes the shared values and attitudes held by the employees of a firm. Recent failings, in particular in the financial services industry, have highlighted the importance of culture for how well a firm will deal with issues such as conflicts of interest. Policies and procedures can set out rules for appropriate behaviour. However, such rules might not cover

1 http://www.co-operative.coop/Corporate/PDFs/Myners/Report_of_the_Independent_Governance_Review.pdf

> A positive culture encourages employees to speak up and challenge behaviour where they believe it might harm the firm or its clients. To achieve this, firms should make honesty and integrity an essential part of hiring decisions.

all circumstances and even where they do, a corporate culture that prioritises revenue generation over the interests of customers or shareholders will lead employees to seek ways to circumvent the existing framework.

The UK experience has shown that corporate culture is hard to change but has also identified a number of key enablers. Firm Boards and senior management are required to clearly set out what is acceptable and desired behaviour — and what is not. They are also expected to demonstrate these in performing their roles. This is referred to as getting the 'tone from the top' right.

This needs to be supported by an incentive structure that rewards desired behaviour. For example, bonus schemes should seek to take into account the fair treatment of customers and compliance with internal policies.

A positive culture encourages employees to speak up and challenge behaviour where they believe it might harm the firm or its clients. To achieve this, firms should make honesty and integrity an essential part of hiring decisions. Managers should adopt an open-door policy where they are accessible to all staff. Firms should support this with a formal whistle-blowing policy that allows employees to raise concerns confidentially and outside their line management.

Conclusion

Standards for corporate governance are important for establishing a level-playing field among firms and guiding boards and senior managers on what good looks like. However, such standards rarely provide practical advice on how to deal with the specific circumstances of the firm and the operating environment it finds itself in.

That is where the lessons from other countries and industries can be helpful. FTI Consulting has extensive experience in working with firms across a number of industries, helping them with setting up the right structures, recruiting the right people and keeping abreast with the developments relevant to the industry and the individual firm.

We would be delighted to discuss the challenges of your individual firm with you and explore how we could help you.

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Myanmar

Investing in Myanmar: Opportunities & Pitfalls

On 7 September 2016, FTI Consulting in Singapore organised a seminar on the opportunities and pitfalls of investing in Myanmar. The panelists included a Myanmar-based investor, the founder of an investment firm with interests in Myanmar, and a lawyer who has been closely involved with legal reform in the country. The discussion is summarised in this article. The event was held under Chatham House rules therefore, comments will not be attributed.

Myanmar in 2016: A New Government Faces Familiar Challenges

In April 2016, the National League for Democracy ("NLD") took over the reins of government from the Thein Sein-led administration in a smooth and successful manner. Since this transition — from the quasi-military government to a civilian-led administration — we have started to see great changes in numerous areas, however in others there has been little, if any change at all.

Some of the panelists commented that under the NLD-led government, the actual pace of business and economic reforms, and indeed the pace of business activity in general, has decelerated greatly. In a number of sectors, such as real estate or timber for example, approvals issued by the previous government are now under review. Companies affected by such reviews have been unable to proceed with their projects, making everything lag more than it should. In the meantime, we are still waiting for the new government to present concrete plans for both the economy and businesses, making uncertainties linger.

The reasons behind the slowdown in economic activity are varied. By prioritising domestic political reforms and putting an end to Myanmar's internal armed conflicts, the country's new leader Aung San Suu Kyi aims to first address internal issues before Myanmar can be fully reintegrated into the global economy.

One of the internal issues, is the general downturn in the jade trade which has affected domestic businesses. Many of Myanmar's large conglomerates are involved in jade, and the drop in Chinese demand for such a commodity can be viewed as affecting the amount of liquid cash available in the Myanmar economy. These conglomerates have subsequently reduced their business activities which, in turn, has had a knock-on effect on the larger economy. This is then compounded by the looming suspension of jade mining licenses, as the new administration attempts to reform this sector which has been plagued by tax evasion, smuggling, and dire environmental and social impacts.

Cultural and historical traditions which are entrenched in Myanmar's society have also played a part in this slowdown. After decades of military rule, there is a tendency within the administration to relay decisions to the most senior official. This inertia can be summarised by the Myanmar proverb, "don't do; don't move; don't get fired." Therefore, not making important decisions preserves the status quo. Ministers in the new administration are slowly beginning to grasp this challenge.

Currently at the Myanmar Investment Commission, there is a backlog of investment proposals awaiting approval as the investment commission has only just be reconstituted in June of this year. This is further compounded by the hefty workload that sits with the commission's Chairman, who is also the country's Minister of Planning and Finance.

One panelist highlighted that these issues should be put into perspective, and that the NLD and Aung San Kyi's achievements to date should not be diminished. Six months into the new government's five-year term is too early to come to a definitive decision about its performance and success. The peaceful transition to a civilian-led government in the wake of the November 2015 elections was no small feat for a country that has been under military rule for nearly six decades. Potential as well as existing investors have been advised to remain patient as the new government continues to settle and adjust to different realities.

Although progress on economic and business reforms may have slowed down, the NLD has initiated tactics to groom the next generation of political leadership, by appointing dynamic chief ministers at a provincial level. These individuals who, by contrast, are younger than ministers at the central level, are demonstrating a willingness to drive change in their constituencies, including making changes to business and investment matters.

U.S. sanctions on certain entities and individuals remain in place, and these will unlikely change in the near future. Aung San Suu Kyi, who will visit the U.S. in mid-September after a visit to Beijing in August, has made it clear that she is not opposed to these sanctions. Meanwhile, the U.S. remains concerned about the continued role of the military in politics, the sustained religious tensions and the persecution of the Rohingya people — a Muslim ethnic minority group. In addition, unravelling complex sanctions imposed for over almost two decades is a process that will take its time.

Building Infrastructure, Institutions and Skills

Our panelists highlighted critical areas that the government and private sector will need to focus on. These include remodeling the educational system, strengthening the administration, developing critical systems such as the banking and tax sector, as well as improving physical infrastructure

By way of example, Myanmar lacks a stable and comprehensive electricity grid. Even in Yangon, electricity supplies can be intermittent. This has become a major challenge for the industry as it continues to grow. The infrastructure needed for transport such as roads, ports, and railways also requires extensive investment before goods and people can move with ease around the country.

Other challenges are more complicated. As mentioned, Myanmar's bureaucracy needs to be overhauled and transformed into an effective and capable civil service. However, as long as public sector wages remain low, the incentive to solicit and accept bribes will remain. This is despite the new administration's notification warning officials against such behaviour. However, there has been no punishment for infringers and it remains to be seen to what extent declarations of intent will translate into clear and systematic enforcement.

In order for the government to invest in public infrastructure as well as the civil service, more revenue is required but the government lacks the resources needed to collect such taxes. One panelist commented that tax payments previously involved actual negotiations with tax officials but with the new government's "no bribery policy", tax officials are now faced with a dilemma and are unsure of how to move things forward. In order to efficiently increase tax revenues, the government will have to simplify the existing tax system and build up its internal resources.

Panelists also expressed their frustration with the unpredictable nature of the domestic banking sector where local banks have changed their internal policies regarding clearing foreign currency cheques without notifying customers. The absence of stability combined with a lack of trust in the banks has contributed towards the reliance on cash in Myanmar.

Another area which was highlighted as being in desperate need of investment and improvement was human resources. General literacy rates are high however, adult literacy alone is not sufficient to meet the needs of a modern economy. Much remains to be done to bring local professionals up to international standards in areas such as accounting and legal. Moreover, practical and technical skills are also desperately needed.

A Long-Term Play

While panelists had conflicting views on certain subjects, they were all in agreement that Myanmar is a country that rewards patience, and this of course, extends to investments. Myanmar is said to be a country for the long-term investor.

Over the past few years, the country has undergone rapid changes. One panelist shared that there used to be only three restaurants in Yangon where he could have a good meal with friends. However, these establishments are now in the dozens. Another panelist mentioned that whilst there used to be a military roadblock in front of Aung San Suu Kyi's residence downtown Yangon, traffic now clogs up that part of town — a development which is down to political reform and economic liberalisation.

Myanmar's overall trajectory is positive but growth and setbacks are not mutually exclusive. The country will almost certainly experience road bumps over the coming years, however it is a place that will reward patient and committed investors.

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Singapore

Singapore’s Approach to Cyber Security

Cyber Security is the Flip Side of the Coin of Being a Smart Nation

“Cyber security is absolutely essential if we are to become a smart nation. You can’t have electronic medical records, you can’t have financial technology, you can’t have large databases with information that could be abused or misused, you can’t afford a breach of privacy. So the way I look at it, cyber security is the flip side of the coin of being a smart nation.”

— Vivian Balakrishnan

Foreign Affairs Minister and Minister-In-Charge of the Smart Nation Initiative

When announcing the Smart Nation initiative last September, Singapore Prime Minister Lee Hsien Loong stressed the importance of cyber security being a central part of Singapore’s smart nation ecosystem which incorporates cyber security into nascent areas such as the Internet of Things (“IoT”) underpinning Singapore’s Smart Nation ambition. The fact that the Singapore government is taking cyber security seriously shows in their recent move to stop all civil/government computers (about 100,000) from having Internet access in order to keep work e-mail and shared documents safe (Web surfing will still be allowed but only on employees’ personal mobile devices and dedicated Internet terminals) .

Key government cyber security efforts that impact industries and companies active in Singapore include:

- Singapore’s investment in cyber security as part of SG$ 2.82 billion worth of ICT tenders
- New cyber security bill to be tabled in 2017 as part of the updated national cyber security strategy stakeholder consultation which is expected to be released in the second half of 2016
- PM Lee Hsien Loong launching the National Cybersecurity Strategy document in October 2016
- Publication of the MAS Outsourcing Guidelines with a guiding principle for banks to manage outsourcing arrangements as if the services were conducted in-house

Strategy: National Cyber Security Masterplan 2018

In 2013, Singapore launched the five-year National Cyber Security Masterplan 2018 to further secure Singapore’s cyber environment. The Masterplan was developed through a multi-agency effort led by the Infocomm Development Authority of Singapore (“IDA”) under the guidance of the National Infocomm Security Committee.

In April 2015, the Cyber Security Agency (“CSA”) was formed to develop a national strategy to tackle cyber threats. The strategy is aimed at coordinating public and private sector efforts to protect national systems in 10 critical sectors including power, transport, telecommunications and banking from increasing cyber threats.

Singapore has been partnering with like-minded nations to spur international collaboration on this front. Last year, the CSA signed a number of bilateral Memos of Understanding ("MoUs") with France, the U.K. and India. Singapore will support the regional Computer Emergency Response Team or CERT cooperation through the annual ASEAN CERT Incident Drill exercises. Furthermore, the Monetary Authority of Singapore ("MAS") co-chairs the CPMI-IOSCO Working Group, which works on strengthening the cyber resilience of financial market infrastructures.

> With the regulatory, commercial and reputation risk of cyber security issues in Singapore continuing to grow, organisations must implement a robust cyber security framework consisting of policies, procedures and practices to ensure identification, protection and detection of cyber security threats and adequately respond and recover from cyber security incidents.

New Cyber Security Bill

On 21 January 2016, the Minister for Communications and Information ("MCI") and Minister-in-charge of cyber security Dr. Yaacob Ibrahim announced that a new cyber security bill would be introduced as part of Singapore's national cyber security strategy.[1] The bill is scheduled to be tabled in Parliament at the beginning of 2017. The CSA is expected to consult with stakeholders on the scope of the new law in the second half of 2016. The establishment of the CSA and the upcoming cyber security bill are part of the National Cyber Security Masterplan 2018.[2]

In regards to the new bill, Dr. Yaacob said the MCI will review the policy and legislative framework for cyber security and "broadly speaking, the bill will ensure that operators take proactive steps to secure our critical information infrastructure and report incidents." It will empower the CSA to manage cyber incidents and raise the standards of cyber security providers in Singapore. Minister Balakrishnan recently added that a "significant part of the legislation really is to just make sure providers of essential services at least take basic precautions to protect the data, protect the privacy and do not abuse the access to the information. The legislation would ensure that the data companies collect was safe from hackers."

Furthermore, the bill will:

- **Strengthen CSA's power*:*** It is understood that according to the new cyber security law, CSA's mandate is to assess the adequacy of Singapore's current cyber security laws and add "greater powers to secure our critical information infrastructure ("CII")" to prevent and cope with cyber security threats. The new bill is expected to include a mandatory requirement to report cyber security breaches, currently not required under CMCA. The requirement is likely to include a stipulated time frame;
- **Identify critical sectors:** Priority will be given to Singapore's critical sectors of energy, water, transport, health, government, infocomm, media, security and emergency services, and banking and finance (this largely mirrors the present scope of the CMCA, although it remains to be seen what these wider powers will entail);
- **Grow talent and manpower:** There will be a strong focus on growing cyber security talent and manpower. Singapore is seeking international cooperation and is currently working with the private sector to raise public awareness of the importance of cyber security.

What is Expected from the Financial Sector?

Within the financial sector, MAS has set minimum expectations and guidance for financial institutions to manage technology and cyber risks in the Technology Risk Management Guidelines[3] as well as through circulars and advisories issued to financial institutions. The MAS exercises its supervisory oversight of cyber security risks through onsite inspections and offsite supervision of financial institutions.

In his speech at the Asia Cyber Risk Summit on 16 May 2016[4], Mr. Bernard Wee, Executive Director, MAS, stated that the MAS expects financial institutions to implement strong controls in their IT systems, as set out in the MAS Technology Risk Management Guidelines. Furthermore, MAS Deputy Chairman and Minister for Trade and Industry, Mr. Lim Hng Kiang recently stated that banks need to take a holistic approach to address cyber risk given cyber criminals and hackers often probe for and target the weakest links in the system. A system of cyber intelligence exchange to identify potential vulnerabilities and frequent testing of the robustness of cyber defences are key to this effort.[5]

Cyber Risk Management Project

At the Asia Cyber Risk Summit, the MAS also announced the Cyber Risk Management Project ("CRMP"). The CRMP facilitates the systematic collection and modelling of cyber risks data, bringing together government bodies (in the form of the MAS and the Singapore Cyber Security Agency), public institutions (including the Nanyang Technological University) and a number of private organisations. The focus of the initiative is on fostering research and development into cyber threat assessment tools and encouraging the uptake of cyber risk insurance.

[1] MCI addendum to President Tan's annual address
[2] https://www.ida.gov.sg/Programmes-Partnership/Store/National-Cyber-Security-Masterplan-2018

[3] MAS Technology Risk Management Guidelines - June 2013 - http://www.mas.gov.sg/News-and-Publications/Speeches-and-Monetary-Policy-Statements/Speeches/2016/A-Bold-Approach-to-Cyber-Risk-Management.aspx
[4] http://www.mas.gov.sg/News-and-Publications/Speeches-and-Monetary-Policy-Statements/Speeches/2016/A-Bold-Approach-to-Cyber-Risk-Management.aspx
[5] http://www.mas.gov.sg/News-and-Publications/Speeches-and-Monetary-Policy-Statements/Speeches/2016/Sharpening-Risk-Management-Capabilities.aspx

The MAS' CRMP does not include any call for specific new cyber security compliance measures. However, at the time of the announcement MAS officials responded to questions about the recent cyber-attacks directed at banks in the region using the SWIFT financial messaging system, reportedly causing losses of US$ 81 million to a Bangladesh bank. MAS spokespeople explained that they would continue to monitor the landscape of cyber security threats and provide additional guidance where necessary.

MAS Outsourcing Guidelines

A concrete step in securing sound cyber management for financial institutions in Singapore will be through transparent management of outsourced services, with a guiding principle for banks to manage outsourcing arrangements as if the services were conducted in-house. This follows last year's MAS review on guidelines associated with cloud services, customer information and risk management frameworks.

The MAS Outsourcing Guidelines, expected to be published shortly, will include MAS' expectations on the use of cloud computing services by financial institutions and a greater emphasis on safeguarding customer information. Also, the revised guidelines will no longer require financial institutions to pre-notify MAS of any outsourcing arrangements on a case-by-case basis. Instead, they are expected to be responsible for ensuring the safety of all of their outsourcing arrangements on an ongoing basis.

Minister Lim said the guidelines were not intended to be exhaustive, with MAS recognising that the diverse range of outsourcing arrangements and rapid pace of progress in digital technology preclude a prescriptive approach to risk management practices for outsourcing, or a one-size-fits-all set of rules. MAS will adopt a risk-based approach in implementing the guidelines.

New Government Technology Organisation

The MCI will restructure the Infocomm Development Authority of Singapore ("IDA") and the Media Development Authority of Singapore ("MDA") to form the Government Technology Organisation ("GTO") and the Info-Communications Media Development Authority of Singapore ("IMDA").[6]

While IMDA's main focus will be to implement Singapore's Infocomm Media Masterplan, the GTO will continue to prioritise the cyber security needs of Singapore's government infrastructure and help government agencies capitalise on innovation through new technology trends such as robotics, artificial intelligence, IoT and Big Data. The new organisation will also play a central role in supporting Singapore's Smart Nation vision, especially in delivering the Smart Nation Platform and Smart Nation application.

Singapore International Cyber Week

On 10-12 October 2016, the CSA will hold the inaugural Singapore International Cyber Week ("SICW"), where Prime Minister Lee will launch the National Cybersecurity Strategy document. During the SICW, the annual GovernmentWare ("GovWare") Cyber Security conference will take place, as well as the inaugural ASEAN Ministerial Conference on Cybersecurity ("AMCC") and ASEAN Cybercrime Prosecutors' Roundtable meeting ("CPRM") hosted by CSA in collaboration with Attorney General's Chambers, Ministry of Foreign Affairs and Ministry of Home Affairs.[7]

GovWare regularly attracts top level representation from government, industry, thought leaders and C-level executives from the user community for in-depth discussions on technology, applications and user perspectives.

ASEAN Cooperation

During the SICW, ASEAN ministers will meet to discuss the various cyber security cooperation initiatives by the various ASEAN countries and dialogue partners, and provide a platform for discussion on what could be done to strengthen cyber security in the region.

SICW will also host the ASEAN Cybercrime Prosecutors' Roundtable Meeting which will serve as a platform for the sharing of knowledge and expertise between prosecutors on fighting cybercrime regionally. It also aims to promote the development of effective legislative frameworks within ASEAN for combating cybercrime.

> "Notification of, and engagement with, consumers, employees, affected parties and regulators are also critical factors in mitigating commercial, legal and reputational risk from cyber breaches. It is also critical that organisations prepare a cyber security breach response and have a communications program in place to ensure that both regulatory requirements and stakeholder expectations are met."

[6] Formation of Infocomm Media Development Authority and Government Technology Organisation

[7] Singapore International Cyber Week official webpage

Conclusion

The recent initiatives to strengthen cyber security are part of the government's ongoing efforts to reach out to individuals, the private sector and universities to raise security awareness and create the right skills and mindset to become a Smart Nation. With the regulatory, commercial and reputation risk of cyber security issues in Singapore continuing to grow, organisations must implement a robust cyber security framework consisting of policies, procedures and practices to ensure identification, protection and detection of cyber security threats and adequately respond and recover from cyber security incidents.

Notification of, and engagement with, consumers, employees, affected parties and regulators are also critical factors in mitigating commercial, legal and reputational risk from cyber breaches. It is also critical that organisations prepare a cyber security breach response and have a communications program in place to ensure that both regulatory requirements and stakeholder expectations are met.

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Vietnam

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Let’s Make a Deal

President Obama’s historic three-day trip to Vietnam in May — a visit some likened to that of a touring rock star rather than a head of state — brought renewed attention to the nation’s emergence on the world economic stage. Add to that a strong GDP, and pending ratification of the TPP, and it’s no wonder investors are eagerly eyeing Southeast Asia’s new power player. But, buyer beware: there’s still that little matter of a Communist party to contend with...

It’s no secret the Vietnam’s economy is red hot. Compared to its regional and emerging market peers, Southeast Asia’s second most populous country is being touted as a “standout” for its above average GDP growth rate. Add in the upside that it’s also poised to become the biggest beneficiary from the Trans Pacific Partnership (TPP), and things really start to get interesting.

How interesting?

Of the twelve TPP member countries, Vietnam is expected to gain the most and could see its exports grow by as much as 28% over the next ten years.

However, those gains will not be fully realized without first dealing with significant challenges, including ratification of the pact. (For the record, TPP cleared Vietnam’s Central Committee in January and preparations are underway for the National Assembly to ratify the agreement.)

Once passed, the partnership will also require Vietnam to re-up its commitment to continued reform, which in turn, will further raise its profile as an investment destination.

Connections, Culture & Corruption

As appealing as the Vietnamese economy is, foreign investors still must tread cautiously and should fully understand the country’s macro- and micro-environments, particularly as they pertain to three key areas: connections, culture and corruption.

One cautionary tale comes from a foreign company that was looking to buy a medium-sized family-owned manufacturing business. The business, a pioneer in its sector and also the first to receive an internationally recognized license from the Vietnamese government, was highly attractive. But while researching the deal, the investing company discovered that the family that owned the business had several important relationships (connections) with a number of government departments that had granted it key licenses and business contracts.

The questions that followed were obvious: Did the business deserve the licenses? And would it be able to maintain them after the well-connected family sold the business?

Other areas of risk include the more common developing market dilemma of widespread corruption, as well as the degree of diligence and training needed to address such an ethical problem that is both deep rooted and often culturally accepted. It's worth noting that Vietnam ranked lowest among the 12 TPP nations on Transparency International's Corruption Perceptions Index, with land administration, customs, construction, mining and minerals, taxation, transport, and traffic police cited as the most corrupt sectors.

Vietnam is Open for Business

For its part, the ruling Communist Party of Vietnam (CPV) and its leadership have emphasized combatting corruption. Whether this will translate into concrete and substantial action to clean up the CPV and by extension, the state, however, is an uncertainty.

To be fair, the leaders of one of the last Communist countries on Earth have been working towards creating a socialist-oriented market economy for the past 30 years, starting with the so-called Doi Moi Reforms in 1986 and the commitment to a number of free trade pacts and diplomatic de-frostings along the way. Other notable gains more recently include the removal of foreign ownership limits on most listed companies and, of course, the current push to pass the TPP.

By all accounts, their work isn't going unnoticed as the country's ever improving pro-business environment is gaining momentum and winning converts. For example, the latest foreign direct investment (FDI) figures show a 600% increase over the past ten years, while M&A activity surged 23% last year alone to $5.3 billion.

Peaceful Prosperity

Unpredictability and unforeseen risks always complicate emerging market investing, but investors and other outsiders are clearly already taking note of the change in Vietnam, marking its progress and calculating the opportunity.

President Obama called attention to this fact when, in a highly symbolic move, he announced the repeal of a long-standing ban on the sale of weapons to the country. This diplomatic gesture not only underscored the trust and strategic partnership with the U.S. that is emerging but also offered Vietnam a degree of leverage in its sometimes tense dealings with neighboring China.

"Like my two daughters, many of you have lived your whole lives knowing only one thing [about Vietnam]," President Obama told a crowd gathered in Hanoi. "And that is peace and normalized relations between Vietnam and the United States. So I come here mindful of the past, mindful of our difficult history, but focused on the future."

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